



# Western Digital

1996

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Summary Annual Report

## The Company

Western Digital Corporation is a leader in information storage products. The Company's hard drives form the foundations on which individuals and businesses build their information environments.

Western Digital makes hard drives for the world's leading makers of personal computers, and serves consumer markets for replacement and add-on data storage under its top-selling Western Digital brand. The Company recently introduced a line of high-end hard drives for use in workstations, servers and other enterprise applications.

Established in 1970, Western Digital is the first U.S.-headquartered, multinational company to have been awarded company-wide ISO 9001 registration, linking all WD organizations with a consistent global standard for quality processes.

# Financial Highlights

Western Digital Corporation

(in millions, except per share and employee data)	Years Ended				
	June 30, 1992	June 30, 1993	June 30, 1994	July 1, 1995	June 29, 1996
Revenues, net	\$938.3	\$1,225.2	\$1,539.7	\$2,130.9	\$2,865.2
Gross profit	110.6	182.0	317.9	394.1	382.1
Operating income (loss)	(67.0)	(10.0)	91.9	133.0	77.5
Net income (loss)	(72.9)	(25.1)	73.1	123.3	96.9
Fully diluted earnings (loss) per share	\$ (2.49)	\$ (.79)	\$ 1.70	\$ 2.47	\$ 2.01
Working capital	\$138.9	\$ 111.5	\$ 261.7	\$ 360.5	\$ 280.2
Total assets	\$532.5	\$ 531.2	\$ 640.5	\$ 858.8	\$ 984.1
Long-term debt	\$243.0	\$ 182.6	\$ 58.6	—	—
Shareholders' equity	\$112.3	\$ 131.0	\$ 288.2	\$ 473.4	\$ 453.9
Number of employees	6,906	7,322	6,593	7,647	9,628

## To Our Shareholders:

Western Digital had an excellent year in fiscal 1996, our best by far in revenues and our second-best in net income in the history of the Company. We gained significant market share, strengthened our already strong balance sheet, solidified our total focus on the hard drive business and made substantial investments to lay the groundwork for the future. Our people made further strides in improving the quality and reliability of our products, the efficiency of Western Digital's operations and the level of their professional skills. All this was accomplished while the Company operated in the highly competitive desktop segment of the hard drive industry.

We continued our high-velocity turnover of assets in fiscal 1996, with the result that Western Digital returned 11.8 percent of operating income to operating assets, and 10.7 percent and 21.3 percent of net income to total assets and shareholders' equity, respectively. The Company produced \$26 in sales per dollar of investment in property, plant and equipment, more than twice the average for our industry.

Western Digital set records in unit shipments and revenues for the ninth consecutive year. We produced 15.3 million hard drives, including our first in 2.1- and 2.5-gigabyte capacities. Manufacturing capacity for desktop drives has been increased substantially by more than doubling the capacity of our facility in Malaysia and by productivity improvements in our Chai Chee Singapore plant, as well as through additions and improvements in our California media-production facility.

We announced our first enterprise products shortly after the fiscal year's end—products designed for networks, servers and large systems. This step is designed to broaden our market coverage of present and prospective customers and enhance the Company's long-term earning potential. We are confident that this step will prove as strategically important to Western Digital as our decision to enter the hard drive business in 1988.

Our first enterprise products are SCSI drives in 2.1- and 4.3-gigabyte capacities. The high-performance SCSI hard drive segment aimed at servers, workstations and network applications is forecast to grow 18 percent in 1997. Applications like these are expected to account for about a fourth of the drive industry's projected \$33 billion in revenue in 1997 and a much larger share of its operating earnings.

By the time of their public introduction, our high-end enterprise units were undergoing analysis in many customer applications. A new Singapore manufacturing facility dedicated to enterprise products began operations in April, assembling desktop hard drives. The new plant is now fully debugged and is providing useful experience in production methods and quality assurance for its workers. This also enables both of our operating groups to balance workflows during the introduction of WD Enterprise products.



We enter the high-end enterprise drive business with new products that have deep roots in Western Digital's long-time technological leadership. They share our traditional desktop products' proven manufacturing, test and quality-assurance disciplines. We will continue our focus on outstanding execution with planned rapid but controlled growth in this, the most profitable sector of the drive business, and we expect to see substantial sales results beginning in the current fiscal year.

Operations of Western Digital's Microcomputer Products Group were sold in three transactions last year, resulting in gains totaling \$17.3 million. These dispositions will enable us to focus on the hard drive business that we know best, and where we see the greatest opportunity.

The Company invested \$259 million in capital and product development last year. Despite these significant investments, Western Digital remains 100 percent debt-free. We generated \$58 million in cash flow from operations, the balance sheet is superb, and we have ample cash and credit resources for foreseeable needs.

To date, Western Digital has repurchased 8.8 million of its common shares for \$149 million, or an average cost of \$17 a share. Depending on market conditions, an additional 2.3 million shares can be acquired under our Board of Directors authorization, for a total of up to 11.1 million shares.

The Western Digital brand continues to earn customer loyalty because of its reputation and performance, both in our products and in the organization that stands behind them. As a brand is a promise to deliver certain attributes of a product or a company, we aim to provide those attributes that our customers need, expect and deserve. We will not fail in our determination to maintain the highest quality in the industry, which will continue to build customer satisfaction and customer loyalty and preserve the great value in the Western Digital brand.

The opportunity going forward is huge. Demand is strong for both our Personal Storage and Enterprise Storage Groups' products. Industry analysts expect hard drive unit growth to continue at more than 20 percent through the remainder of this decade. Our plants are among the industry's most efficient, our financial condition is excellent and our people are motivated. Western Digital is ready to keep on growing.

Sincerely,

A handwritten signature in black ink, appearing to read "Charles A. Haggerty". The signature is fluid and cursive, written over a white background.

Charles A. Haggerty  
Chairman, President and Chief Executive Officer  
September 30, 1996

## The Western Digital Brand

→  
*A safe, reliable hard drive helps enable the user to be effective in a variety of activities, bringing to hand instantly the information needed to organize, plan, select, assemble, work, play and entertain to the limits of his or her imagination and creativity.*

Western Digital recognizes that most business and personal computer users want to create their own information environments—special collections of facts, files, software and resources gathered from a world of choices. The ability to make and save these selections enables people to be better equipped for effectiveness at work and enjoyment at leisure. Users worldwide want to erect their information structures confidently on a safe, durable and reliable foundation, close at hand and secure from loss.

Hard drives from Western Digital provide the ideal high-quality foundations users seek as they build their information environments. Western Digital hard drives have a tradition of technological leadership, with innovative features and significant performance advantages. Most important, they are unsurpassed in quality and reliability. It is for these reasons that when informed users have a choice, the brand they ask for is Western Digital. And when computer professionals are asked, the brand they recommend most is Western Digital.

When the future of your unique information environment is at stake, the brand name on the hard drive does make a difference.

*Western Digital's new SCSI drives are for servers, workstations and network applications.*



*Western Digital is a leader in Enhanced IDE drives for desktop personal computers.*





Reasoning

Communicate

Games

Organizing

Writing

time

entertain  
Play

onal

Budget

creating

Connection

Work  
Planning

enterprise

time

Financial

information

reasoning

writing

communicate

Records

Enterprise

games

ork

creating

Leisure

Time

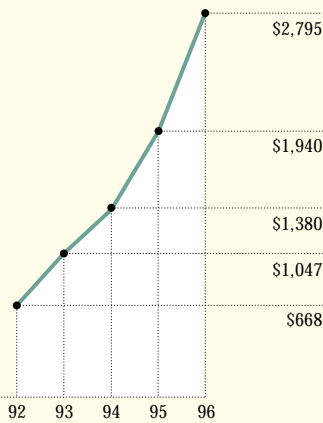
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unicate

Personal

Play

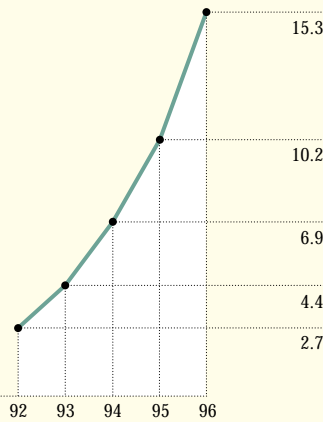
## Growth



*Hard Drive Revenues*

(in millions)

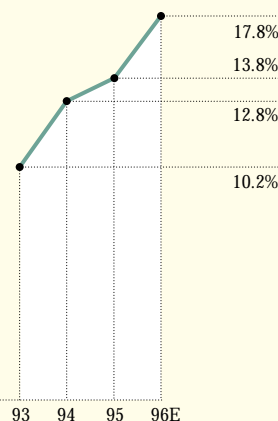
Net hard drive revenues grew 44 percent in fiscal year 1996, and at a compounded annual rate of 43 percent over the past four years.



*Hard Drive Units Shipped*

(in millions)

Hard drive unit volume grew 50 percent in fiscal year 1996. Analysts foresee a compounded annual growth rate of more than 20 percent for the industry in the remaining years of this decade.



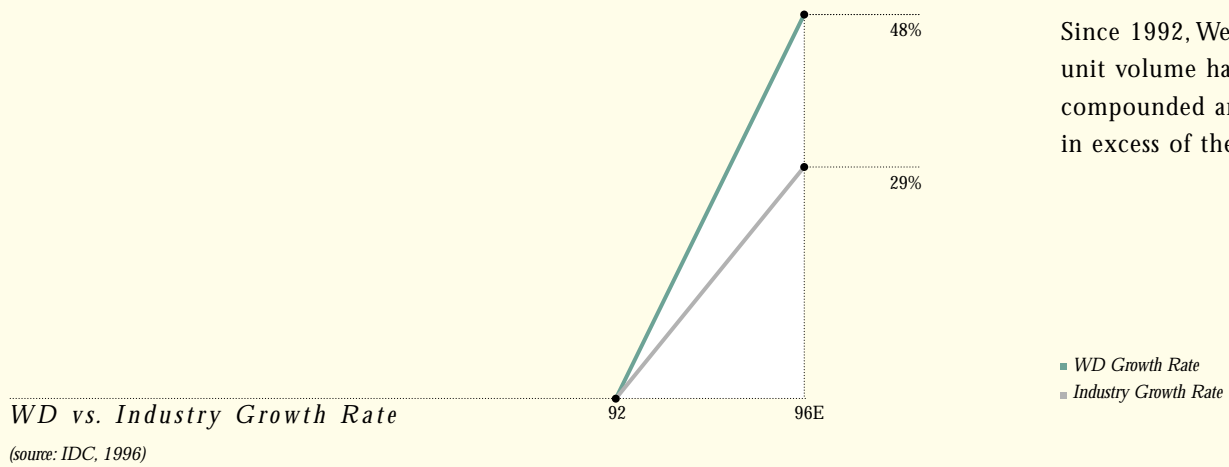
*Worldwide Market Share*

(source: IDC, September 1996)

Western Digital has consistently gained market share in a very competitive environment by growing customer relationships, introducing new products early, producing quality products, deploying technology, executing manufacturing efficiently, and improving time to market.

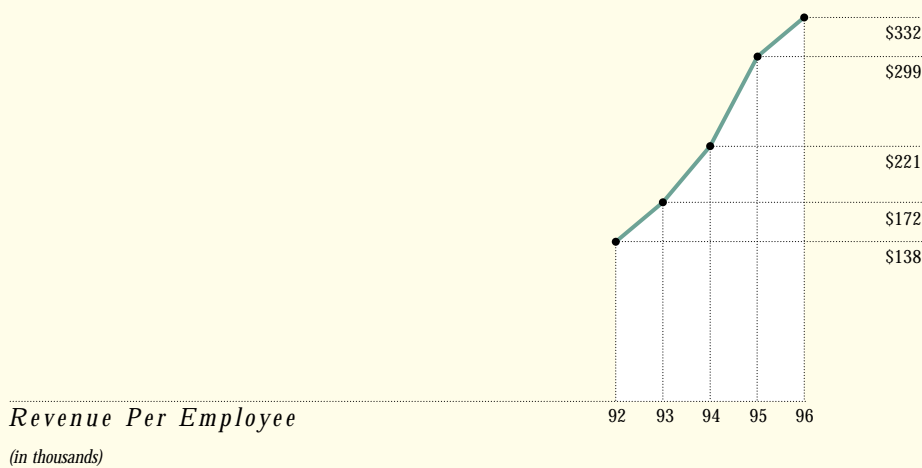


Since 1992, Western Digital's unit volume has grown at a compounded annual rate far in excess of the industry.

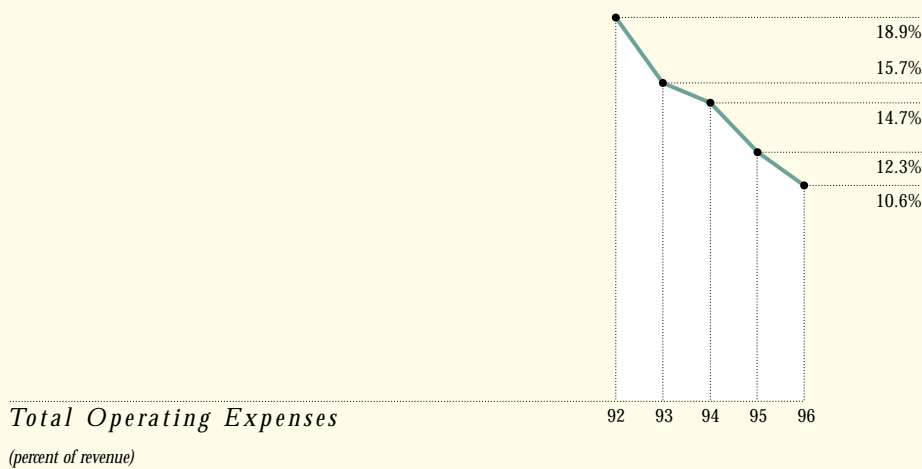


### Efficient Use of Resources

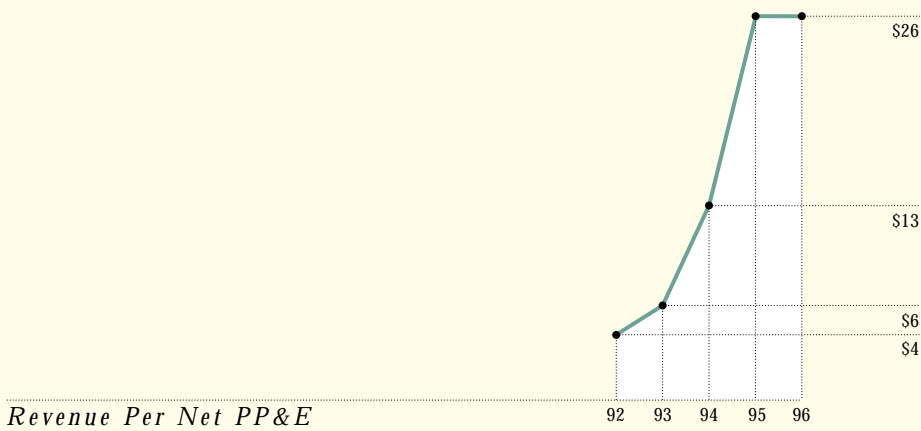
Employee productivity as measured in revenues has grown at a compounded annual rate of 25 percent over the past four years.



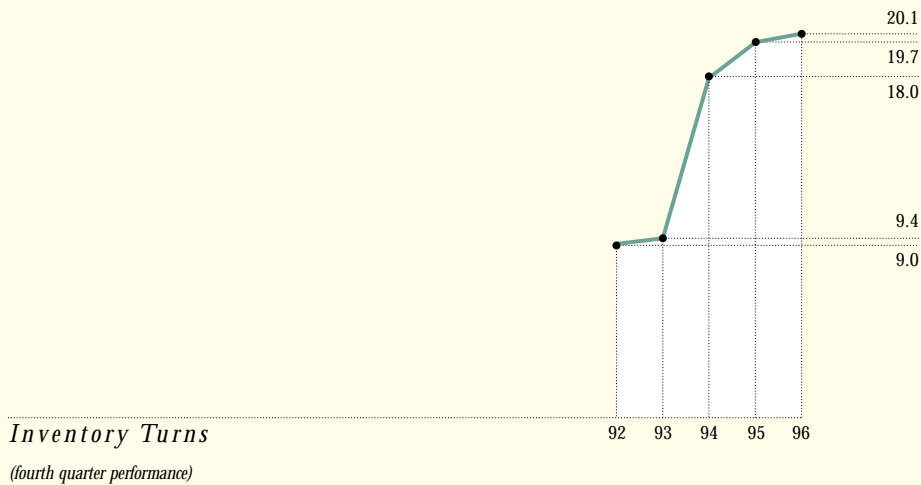
Western Digital employs aggressive cost controls that result in an expense structure regarded as the most competitive in the hard drive industry.



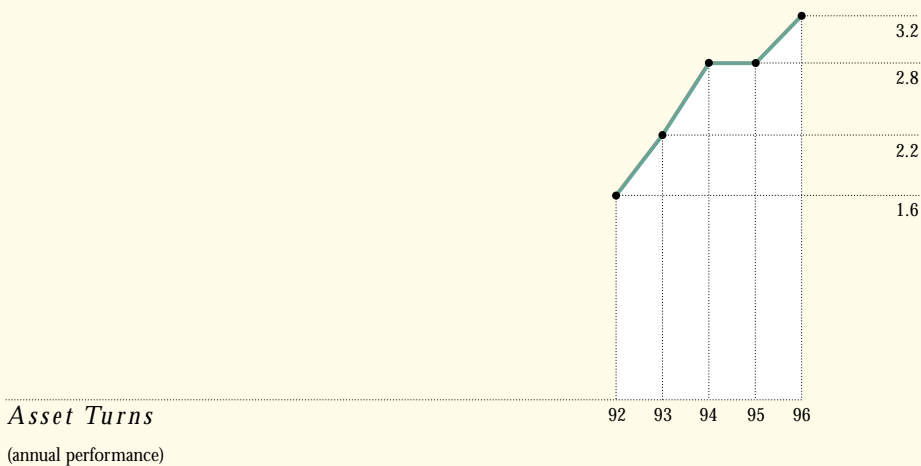
## Superior Balance Sheet Management



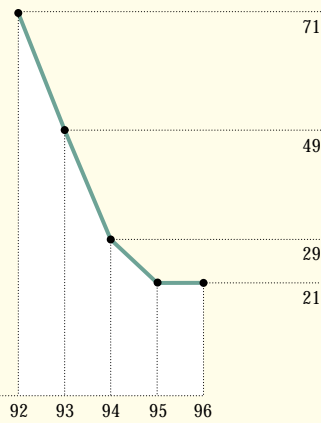
Western Digital is the hard drive industry's leader in revenues per dollar of net property, plant and equipment.



The fastest inventory turns in its industry reduce Western Digital's inventory risk and minimize working capital outlays. Western Digital's inventory management system meets customers' exacting standards for on-time delivery and warehousing.

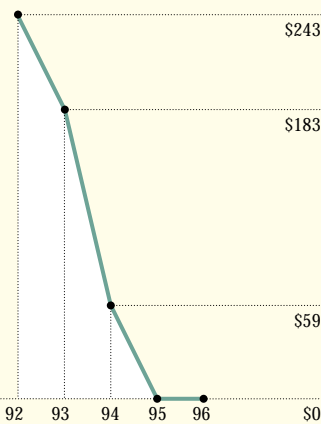


Western Digital has become a leader in asset management.



*Conversion Cycle*  
(average quarterly performance)

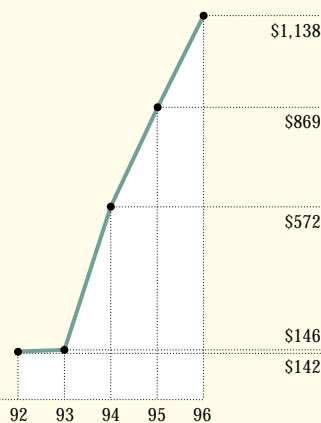
Western Digital's 21 day conversion cycle is the best in the hard drive industry. Conversion cycle measures how quickly the Company is able to turn its net investments in inventory, accounts receivable and accounts payable into cash.



*Long-Term Debt*  
(in millions)

Superior asset management and sustained profitability have led to the elimination of the company's debt.

### Shareholder Value



*Market Capitalization as of Year End*  
(in millions)

Western Digital's total market value has grown as the Company improved its product quality, manufacturing efficiency and asset management.

## Condensed Consolidated Statements of Income

(in thousands, except per share data)

Western Digital Corporation

	Years ended		
	June 30, 1994	July 1, 1995	June 29, 1996
Revenues, net	\$1,539,680	\$2,130,867	\$2,865,219
Cost of revenues	1,221,749	1,736,761	2,483,155
Research and development expense	112,827	130,789	150,112
Selling, general and administrative expense	113,224	130,286	154,497
Operating income	91,880	133,031	77,455
Net interest and other income (expense)	(5,838)	12,002	30,409*
Income before income taxes	86,042	145,033	107,864
Provision for income taxes	12,906	21,731	10,970
Net income	\$ 73,136	\$ 123,302	\$ 96,894
Fully diluted earnings per common and common equivalent share	\$ 0.00 1.70	\$ 0.00 2.47	\$ 0.00 2.01

\*Includes \$17.3 million gain on sale of multimedia business

## Condensed Consolidated Statements of Cash Flows

(in thousands)

	Years ended		
	June 30, 1994	July 1, 1995	June 29, 1996
Net income	\$ 73,136	\$123,302	\$ 96,894
Adjustments to net income	105,702	(1,985)	(38,613)
Cash flows from operating activities	178,838	121,317	58,281
Cash flows from investing activities:			
Capital expenditures, net	(16,282)	(54,774)	(108,696)
Proceeds from sale of facility and businesses	110,677	—	85,486
Change in short-term investments and other assets	—	(96,464)	46,391
	94,395	(151,238)	23,181
Cash flows from financing activities:			
Common stock transactions, net	82,760	4,495	(116,428)
Repayment of long-term debt	(146,346)	(527)	—
	(63,586)	3,968	(116,428)
Net increase (decrease) in cash and cash equivalents	209,647	(25,953)	(34,966)
Cash and cash equivalents at beginning of year	33,837	243,484	217,531
Cash and cash equivalents at end of year	\$243,484	\$217,531	\$182,565

# Condensed Consolidated Balance Sheets

(in thousands)

Western Digital Corporation

	July 1, 1995	June 29, 1996
<i>Assets</i>		
Current assets:		
Cash and cash equivalents	\$217,531	\$182,565
Short-term investments	90,177	36,598
Accounts receivable, net	303,841	409,473
Inventories	98,925	142,622
Prepaid expenses	19,663	23,006
Total current assets	730,137	794,264
Property and equipment at cost, net	88,576	148,258
Intangible and other assets, net	40,127	41,621
Total assets	<u>\$858,840</u>	<u>\$984,143</u>
 <i>Liabilities and Shareholders' Equity</i>		
Current liabilities	\$369,602	\$514,022
Deferred income taxes	15,812	16,229
Shareholders' equity:		
Common stock and paid-in capital, net of treasury stock	349,850	233,422
Retained earnings	123,576	220,470
Total shareholders' equity	<u>473,426</u>	<u>453,892</u>
Total liabilities and shareholders' equity	<u>\$858,840</u>	<u>\$984,143</u>

## Independent Auditors' Report

The Board of Directors  
Western Digital Corporation:

We have audited, in accordance with generally accepted auditing standards, the consolidated balance sheets of Western Digital Corporation and subsidiaries as of July 1, 1995 and June 29, 1996, and the related consolidated statements of income, shareholders equity and cash flows for the three years ended June 29, 1996; and in our report dated July 24, 1996, we expressed an unqualified opinion on those consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated financial statements is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

*KPMG Peat Marwick LLP*

Orange County, California  
September 16, 1996

## Corporate Information

### *Board of Directors*

Charles A. Haggerty  
Chairman, President and  
Chief Executive Officer

James A. Abrahamson  
Chairman and Chief Executive Officer  
International Air Safety, L.L.C.  
Air Traffic Control Products and Services

Peter D. Behrendt  
Chairman, President and  
Chief Executive Officer  
Exabyte Corporation  
Computer Tape Storage Products

I.M. Booth  
Retired. Former Chairman, President  
and Chief Executive Officer  
Polaroid Corporation  
Photographic Equipment

Irwin Federman  
General Partner  
U.S. Venture Partners  
Venture Capital Investments

André R. Horn  
Retired. Chairman Emeritus, Needham & Co.,  
Investment Banking  
Former Chairman of the Board  
Joy Manufacturing Company  
Capital Equipment for the Energy Industry

Dr. Anne O. Krueger  
Professor of Economics  
Department of Economics  
Stanford University

Thomas E. Pardun  
President and Chief Executive Officer  
U S WEST International, Asia-Pacific,  
Subsidiary of U S WEST, Inc.  
Diversified Communications

### *Corporate Officers*

Charles A. Haggerty  
Chairman, President and  
Chief Executive Officer

Kathryn A. Braun  
Executive Vice President,  
Personal Storage Group

David W. Schafer  
Senior Vice President, Worldwide Sales

Duston M. Williams  
Senior Vice President and  
Chief Financial Officer

Marc H. Nussbaum  
Senior Vice President, Engineering,  
Personal Storage Group

Michael A. Cornelius  
Vice President, Law & Administration  
and Secretary

Scott T. Hughes  
Vice President, Human Resources

Steven M. Slavin  
Vice President, Taxes and Treasurer

*Research and Development Centers*

Irvine, California  
San Jose, California  
Rochester, Minnesota

*Manufacturing Facilities*

Santa Clara, California  
Malaysia  
Singapore

*Domestic Sales Offices*

Irvine, California  
San Jose, California  
Hingham, Massachusetts  
Chicago, Illinois  
Baltimore, Maryland  
Burlington, Massachusetts  
Wayzata, Minnesota  
Princeton, New Jersey  
Raleigh, North Carolina  
Sioux City, South Dakota  
Austin, Texas  
Dallas, Texas  
Houston, Texas

*International Sales Offices*

Western Digital Canada Corporation  
Mississauga, Ontario, Canada

Western Digital Deutschland GmbH  
Munich, Germany  
Muenster, Germany

Western Digital (France) SARL  
Orsay, France

Western Digital Hong Kong Limited  
Tsimshatsui, Kowloon, Hong Kong

Western Digital (I.S.) Limited  
Dublin, Ireland

Western Digital Japan Ltd.  
Tokyo, Japan

Western Digital (S.E. Asia) Pte Ltd  
Singapore

Western Digital Taiwan Co., Ltd.  
Taipei, Taiwan R.O.C.

Western Digital (U.K.) Limited  
Leatherhead, Surrey, England  
Glasgow, Scotland

*Transfer Agent and Registrar*

American Stock Transfer & Trust Company  
40 Wall Street, 46th Floor  
New York, NY 10005  
Telephone: (718) 921-8200

*Certified Public Accountants*

KPMG Peat Marwick LLP

*Certain Forward-Looking Statements*

This Summary Annual Report contains forward-looking statements, including statements concerning projected growth in the markets in which the Company competes, its planned entrance and growth in the high-end enterprise market, expected future cash needs, and future product quality. Actual results could differ materially as a result of several factors, including: business conditions and growth in the personal and enterprise computing market; the success of the Company's entrance into the enterprise computing market segment; changes in customer order patterns; competitive factors; credit risk; continued success in the design and manufacturing ramp; and other factors listed in the Company's Form 10-K for the year ended June 29, 1996 and its other SEC filings. The Company undertakes no obligation to update forward-looking statements to reflect events or circumstances occurring after the date hereof.

A copy of the Company's Form 10-K, without exhibits, is available to shareholders without charge upon request to Mr. Michael A. Cornelius, Vice President, Law & Administration and Secretary, at the Company's headquarters located at 8105 Irvine Center Drive, Irvine, California 92618. Copies of the Company's Form 10-Q will be furnished without charge to any shareholder upon written request to the same address. For additional information about the Company, contact Investor Relations at (800) 695-6399.

*Stock Exchange Listing*

Western Digital common stock is listed on the New York Stock Exchange and trades under the symbol WDC.

*Worldwide Web Site*

For current information on Western Digital Corporation, visit its worldwide web site at [www.wdc.com](http://www.wdc.com).

Western Digital is a registered trademark of Western Digital Corporation. Other marks may be mentioned herein that belong to other companies.

