

# Quantum 1983

Quantum Corporation Annual Report 1983



# Quantum

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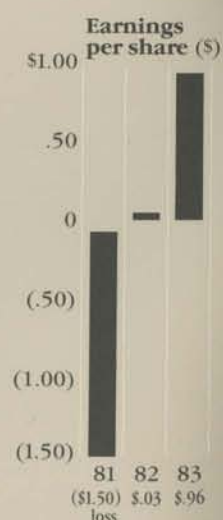
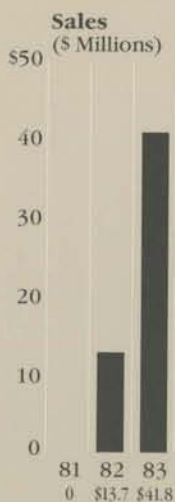
### Corporate Profile

Quantum Corporation develops, manufactures and markets rigid disk drives for computer systems. The Company's products, 8-inch and 5¼-inch Winchester-type drives, are manufactured for purchase primarily by Original Equipment Manufacturers producing microprocessor-based, multi-user business computers, word processing systems, and personal computers. Quantum has refined and simplified proven technology to produce high capacity, high quality disk drives in large volumes.

### Financial Highlights

For the fiscal years ended March 31  
(Thousands except per share amounts)

	1983	1982
Sales	\$41,779	\$13,656
Net Income	7,838	186
Income per share:		
Income before extraordinary credit	.86	.03
Net income	.96	.03
Number of employees	291	262
Working capital	25,599	1,785
Total assets	56,630	12,121
Shareholders' equity	48,489	4,167



## To Our Shareholders

Quantum showed excellent growth in revenue, profits, and earnings per share in fiscal 1983, which ended March 31, 1983. Net revenue rose 206%, from \$13,656,000 in '82 to \$41,779,000 in '83. Profits were even more impressive, climbing from \$186,000 to \$7,838,000. And earnings per share went from \$.03 in '82 to \$.96 in '83.

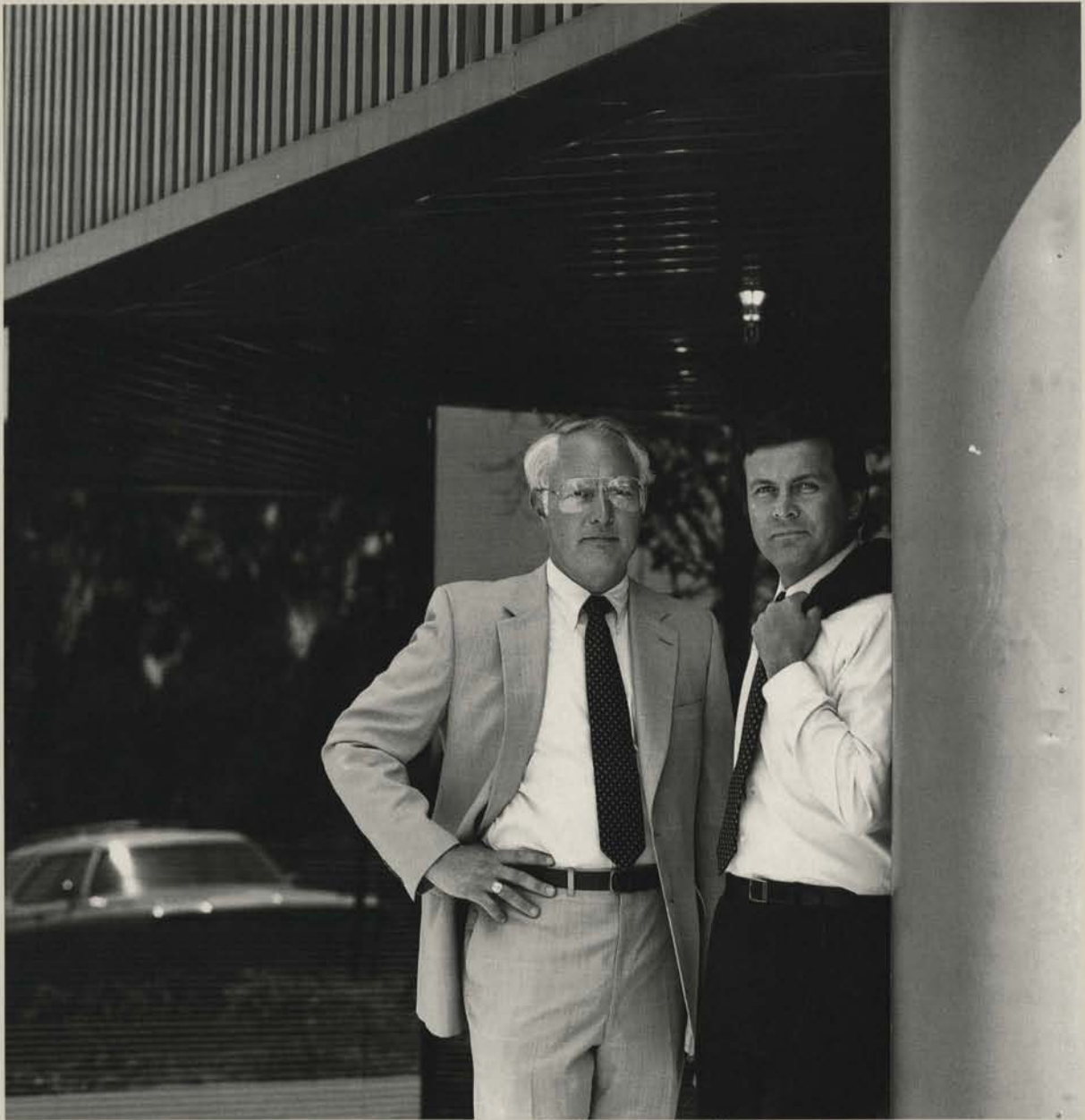
All this growth was achieved with the Q2000 line of 8-inch disk drives which we began to manufacture at full capacity in the final quarter of fiscal '82, increasing the number of drives shipped from 7,863 in 1982 to 27,511 in 1983.

The domestic market for these 8-inch drives is still solid, and we're making good progress penetrating overseas markets. As software and graphics become increasingly sophisticated, utilizing more and more of the capacity of today's microcomputer systems, the demand promises to remain strong for our market-proven, higher capacity Winchester.

In response to this growing need for higher capacities, during the past year we added the 85-megabyte Q2080 to our 8-inch line, doubling the storage capacity of preceding Q2000 products.

Building on technology honed through two years of experience with 8-inch Winchester, we were also able to bring the new 5¼-inch Q500 series to market, offering 20, 30 and 40 megabyte capacities in a smaller package, at a lower price than 8-inch drives with similar capacities.

*Quality people working together create an exciting, highly productive environment. When you believe the people working with you are the best, as we do, the mutual confidence and respect pay off in tangible results.*



Jim Patterson, President  
Joe Rodgers, Vice President, finance



Our success with the new products will be based on the same principles that have brought us this far, this quickly. From the start, we've been a customer-oriented company, driven by what the market needs. We've always focused only on those products we know we can produce in great quantity with excellence. And we've always emphasized simplicity and 'manufacturability' throughout the design process.

Most important of all to our continuing success is the conviction we've shared from the beginning that the quality of our products is a direct result of the quality of our people. We've assembled an extraordinary group. Their skill, determination, and dedication to excellence are clearly reflected in everything we've achieved in such a short period of time. Everyone at Quantum, without exception, has made a very direct, personal contribution to the results we're reporting here.

Most significant as we enter our fourth year is that we have been able to continue to attract outstanding people to every area of our operation.

In the following pages, you'll meet some of the people who make our company what it is. It's our hope this will serve as an expression of how highly we value their individual efforts and their commitment to excellence. And we hope it will serve as a personal welcome from all of us to the many new investors who now share in our future.



Jim Patterson,  
President

*We listen to our assemblers. No one knows more about the quality of our finished disk drives than they do. Their experience and professionalism are rich resources for us, and will continue to be vital to our success.*



*"When you ask for help,  
the engineers help right  
away, whatever the  
problem."*

*Carosen Ramos, production*

Quality people produce quality products.

Quantum has made hiring exceptional people at every level its first priority. Beyond that, we've given priority to fostering an atmosphere where exceptional people can contribute everything within their abilities.

"I've seen a lot of product improvements since I started here. We asked and the engineers responded. Everybody is always listening and trying to make it easier for us. The quality of the drives is high because of the people on the line.

"We're number one at Quantum, and they let us know it." Luis Torres-Bauza, assembler.

"We have very high standards for bringing people in. We want outstanding people with potential for growth who can work in a team. And once we hire them, we don't stifle their skills. At another place I worked, I realized that after several years they had found I could do a couple of things really well, so I never had a chance to try anything else.

"Well, that doesn't happen here. I get a chance to try my hand at a bunch of different things—I'm not relegated to some small slot. I look for challenges and I can always find them. There just aren't that many walls you can bang up against at Quantum." Paul Heft, engineering manager.

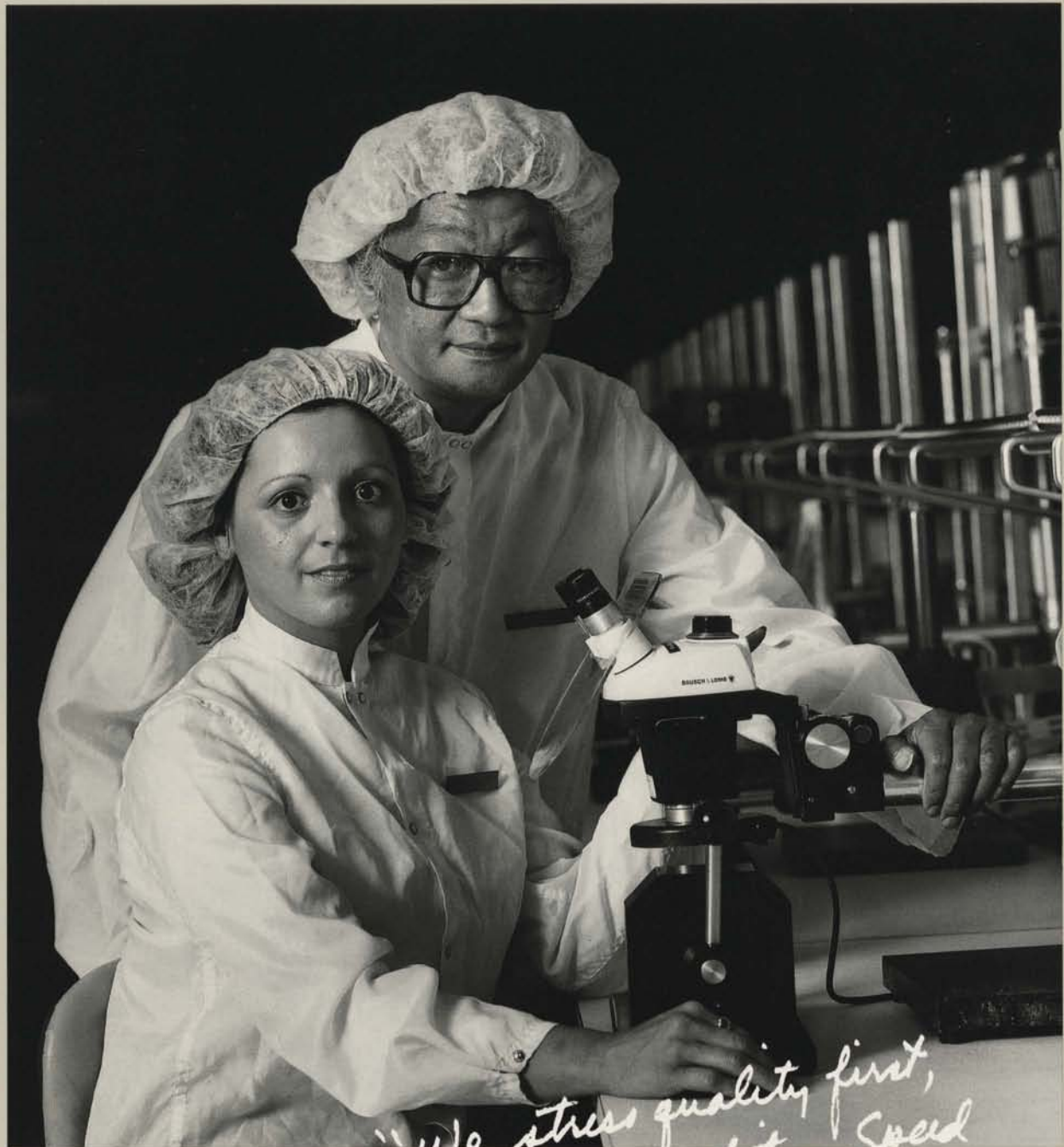
At Quantum, success belongs to everyone. But it's no sin to fail. The sin is not to ask for help.

"If product engineering needs someone with a specific talent from my group, well, previously my tendency would have been to figure out ways to prove there was no way my guy could go and work on that problem. But at Quantum we work together. And if it makes sense for him to work somewhere else, off he goes.

"In my first few weeks here it was pointed out to me that I didn't have to cover myself with paper to protect my group. There was a lot of give and take. Everyone pitched in to solve a problem. We have tried to totally eliminate the traditional concept of 'their problem/our problem.'" Bob Peterson, engineering manager.



*Trust and enthusiasm are fundamental at Quantum. Everyone takes part in setting production goals, and then we let the work be done. And it gets done with the kind of intensity that only comes with personal commitment.*



*"We stress quality first,  
not quantity. Speed  
will follow later."*

Harvey Tom, production  
Helen Negrette, production



From the beginning, our strategy has been to produce reliable Winchester disk drives in large quantities.

Every decision has been made from that perspective. Every choice is a careful synthesis of engineering and manufacturing. As a result of this clear focus on maintaining high quality at high volumes, our disk drives are characterized by extraordinary refinement and simplicity of design, low part counts, and technology that's proven viable both in the field and on the production line.

At Quantum, every engineer is a manufacturing engineer. From product design to final test, every available resource is dedicated to improving the quality of the drives that come off the assembly line.



*Mike Hassel, engineering*

"We trade off high performance to be able to manufacture simpler products with more technical margin. We're a manufacturing company. But it's clever design that makes a product easy for manufacturing to build. Simpler, cleaner design, combined with intelligent use of assembly tools and fixtures are what enable us to deliver well-built products in such large volumes." David Brown, vice president, engineering.

"We've always gone with proven technology. If we are on the forefront of anything, it's high volume manufacturing processes. The engineers we hire are those who really get turned on by putting design into production. There's immense satisfaction seeing the results of your work realized in huge numbers.

"There aren't a lot of bells and whistles on our disk drives. They just do what they're supposed to do, over and over. Our OEM customers want dependable, risk-free drives they can stake their systems on. And that's exactly what we're making." Pat Weiher, engineering manager.

Quantum's clear product focus, simplicity of design, and volume concentration influence every aspect of the assembly process.

The company has purposely limited its in-house sub-assembly operations to the most critical components, using subcontractors for less critical elements. This strategy allows us maximum control where it's most important, with the additional benefit of providing a richer work experience for employees.

"One of our fundamental goals is to keep assembly jobs challenging, to keep the work as interesting as possible.

"We do a lot of cross-training, so no one has to stick to one task day after day. We rotate responsibilities to avoid jobs being repetitive. The attitude of all support groups is to make sure our assemblers have everything they need to do a good job—the right parts, and professional tools and equipment.



*Claire Vinson, production*

"Our assembly line is as advanced as any in the industry." Ed Prijatel, manufacturing manager.

Quantum has pioneered the "clean tunnel" approach to manufacturing. Within these modular tunnel areas, clean conditions equal or exceed those of more costly, less flexible clean rooms. But our tunnel sections can be rapidly expanded, duplicated or rearranged to satisfy changing production needs. This capability, with cross-trained assemblers, a seasoned drive manufacturing team, and a substantial inventory of components, allows us to go from design to full volume production with speed and precision unrivalled in the industry.

*Flexibility is an integral part of our approach. By sharing jobs and cross-training assemblers, we improve both the work environment and the quality of our product. This is a benefit that makes sense for all of us.*



*"Doing different jobs  
allows us to contribute  
to various parts of  
the process."*

Clara Jones, production



Our testing and diagnostic equipment is state-of-the-art. Before leaving the assembly floor, every drive we build is exercised, scanned, and documented. 'Quality in quantity' is our commitment to the marketplace.



"I like the  
challenge of  
diagnosing a problem,  
then fixing it."

Dave Chong, production  
Rose Duong, production



*Geoff Bone, engineering  
David Summers, production*

This flexibility also lets us respond quickly to accommodate sudden, unforeseen needs of OEM customers.

At Quantum, engineering and manufacturing share in creating an inherently reliable product design, and a production process that consistently yields high quality drives. Just as assemblers move from station to station, engineers spend substantial time on both development and manufacturing, removing traditional boundaries between engineering disciplines. The result is a group of well-rounded engineers who can bring first-hand knowledge and respect for the volume manufacturing process to any design problem.

From the beginning of new product development, a test equipment engineer is also an integral member of the design team. This way, we know from the



*Don Westwood, engineering  
Stephen Stewart, engineering  
Terry Aultman, engineering*

start that any product we make can be thoroughly and effectively tested at each stage of the assembly process. And this way, we've achieved an acceptance rate above 97% from demanding OEM customers.

"The assemblers are the essential part of all this. You can put all kinds of things on paper, but it's what happens when they get out there on the floor that counts. Getting finished drives out the door to customers is what we're all here for." David Loader, engineer.

Customer-driven design, service and technical support are essential to Quantum's success.

With a market composed of large and highly sophisticated computer manufacturers, the company designs products in close communication with its customers. Equipped with technical skills honed by the installation of more than 40,000 disk drives since 1980, Quantum can provide the kind of engineering support for new system designs that comes only from experience.

"In the OEM market the requirements aren't firm until you're delivering products into the customers' hands. You can't sit in an ivory tower, design a product, and expect it to meet the customer's need without having him participate in the process.

"We've always been a customer-driven company, as opposed to a technology-driven company." Joel Harrison, engineering manager.

Solving problems is an overriding priority at Quantum, whether the source is our product or the customer's system. Typically, our units in the field demonstrate at least twice the Mean Time Between Failure originally specified. But when something does go wrong, we bring the resources necessary to the customer to solve any drive-associated problem, no matter what the cause.

"What we're trying to do is resolve customer problems as well as improve our own product. It may not be our disk drive that's at fault, but the customer can't use our unit unless we resolve the application problem. We don't go out to isolate whether it's his problem or our problem, and then convince him to solve it himself.

"We'll work with the customer until we reach a mutually satisfactory solution, whether it's in his circuitry or our drive. We get in there with a scope, voltage regulator, and voltmeter, get our hands dirty and find a solution. We're out to get the system working." Bill Harper, technical support manager.



*Raul Sabino, production*



*It takes a special kind of creativity to solve an engineering problem within the confines of a unit already in production. This continuing involvement with the production process sets our engineering team apart.*



*"I solve problems that have a direct impact on the daily operations of the line."*

Pam Kenady, engineering

Quantum has always worked to produce the disk drives the market wants. But users' needs change, and the only marketplace constant is change. We've listened to our customers and responded with the products they need now.



*"I'm as concerned with the future needs of our customers as I am with their satisfaction today."*

Dennis Raquet, sales;  
Thor Lund, Data Systems Design, Inc.



Quantum moves into the future with a well-developed organization and substantial financial resources.

Buttressed by a dependable manufacturing process and mature, market-tested products, the company has an exceptional ability to absorb short-term fluctuations in demand. Supported by a sound operations staff and experienced marketing and financial teams, Quantum's management is well positioned for the next stage in the company's growth.



*Sueki Woodward, marketing*

The OEM disk drive market is moving toward higher capacities, with new applications software demanding more and more data storage capacity. We're prepared to meet these demands, now, with dependable, higher capacity Winchester in 8-inch and 5¼-inch packages.



*Isaac & Ida Shostak, production*

Our new products are similar in design and technology to our mature, production-tested Q2000 line. The new Q2080 offers 85 megabytes—twice the capacity previously available. And the new, lower cost Q500 line of 20, 30 and 40 megabyte 5¼-inch drives allows us to broaden our customer base, and service the rapidly expanding desktop and small business market for the same customers that brought us immediate success with our 8-inch products.





*Q500 design team*



*Jim Kudenov, production*

"The new 5 1/4-inch Q500 series uses the same technology we've been refining for three years. We started with a blank sheet of paper and set out to design the perfect 5 1/4-inch drive, and it ended up looking very similar to our 8-inch products—the design, the technology, the processes.

"That was very impressive to me. It speaks a lot for both products."  
Mike Hassel, engineer.

As Quantum enters the new fiscal year, prospects look excellent. There will be no major departures from the approach that's been so successful to date.

The two new products are beginning volume production, and by year's end should comprise a significant portion of sales, while the mature line continues to generate substantial revenue.

Given a rapidly shifting systems marketplace, Quantum must stay close to the OEM customer to anticipate changes in requirements. Our product development efforts will continue to reflect a focus on high-volume opportunities where Quantum's manufacturing and technology strengths represent a competitive advantage. This strategy will assure us a prominent place in the data storage marketplace for years to come.

We've tried to create an environment where people are encouraged to work cooperatively; where problems are resolved quickly through open, candid discussion; where different points of view are always actively explored.



"We all work together. We don't have any ego problems here at Quantum."

Ron Sanford, production



# Management's Discussion and Analysis of Results of Operations and Financial Condition

## Results of Operations

Quantum was founded in February 1980 and was engaged principally in product development and organizational activities during its first fiscal year ended March 31, 1981. The Company commenced significant shipments of its Q2000 product line of 8-inch rigid disk drives to OEM customers in June 1981. Sales for the 1983 fiscal year were \$41.8 million, an increase of 206% over fiscal 1982 sales of \$13.7 million.

The Company's sales growth has been attributable to increased unit sales of its Q2000 products and the rapid expansion of the small business computer market which the Company's products serve. Quantum expects that future sales increases will reflect the growth of the small business computer market and market acceptance of the Company's current and future products.

Marketing and general and administrative costs all increased significantly in the 1982 fiscal year compared with the 1981 fiscal year as a result of the Company's transition from a development stage company to an operating company. The Company experienced further significant increases in these costs during fiscal 1983 as compared to fiscal 1982 reflecting the overall expansion in the Company's business.

During fiscal 1981, costs associated with the design and development of the Q2000 were allocated to research and development. As the Company achieved significant production levels in fiscal 1982, certain of these costs were classified as costs of sales. During the 1983 fiscal year, research and development costs increased significantly as a result of new product development associated with the Company's new 8-inch 85 megabyte product and line of 5¼-inch products.

Provision for income taxes for the 1983 fiscal year was \$5.8 million. There was no provision for taxes in prior periods because the Company was in a loss position or had only nominal profits, taxes on which were offset by the utilization of investment tax credits. Because of an operating loss carryforward from its 1981 fiscal year, the Company realized an extraordinary credit of \$.8 million for the 1983 fiscal year. As of March 31, 1983 the Company had no remaining loss carryforward for financial reporting purposes.

The following table sets forth certain items in the Consolidated Financial Statements as a percentage of sales for the 1983 and 1982 fiscal years:

## Percentage of Net Sales

	Fiscal Year Ended March 31	
	1983	1982
Sales	100.0%	100.0%
Costs and expenses		
Cost of sales	56.2	75.8
Research and development	5.8	3.1
Marketing	6.4	13.2
General and administrative	3.2	6.3
Total costs and expenses	71.6	98.4
Income from operations	28.4	1.6
Interest, net	2.4	(.2)
Income before income taxes	30.8	1.4
Provision for income taxes	14.0	—
Income before extraordinary credit	16.8	1.4
Extraordinary credit	2.0	—
Net income	18.8%	1.4%



## Financial Condition

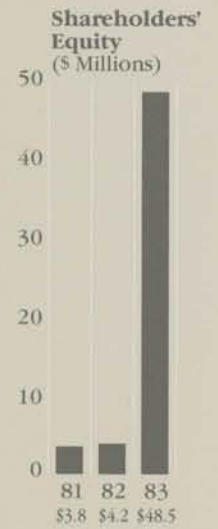
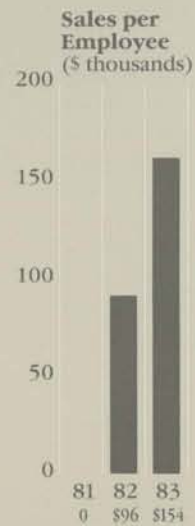
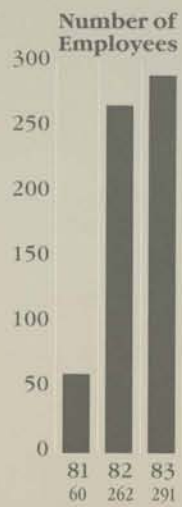
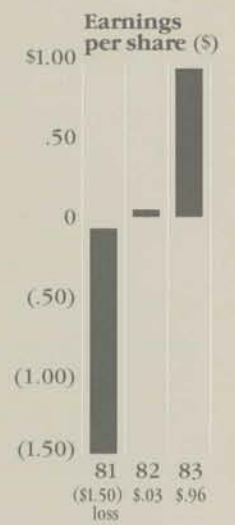
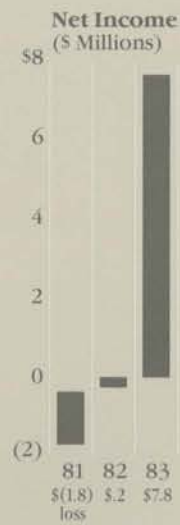
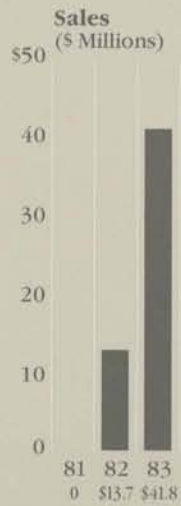
The Company has generated cash ("liquidity") to meet its needs from the initial public stock offering on December 10, 1982, the private sales of Common and Preferred Stock, cash flow from operations and bank borrowings.

During the 1982 fiscal year, Quantum's liquidity needs increased rapidly as the Company progressed from the product development stage to volume production of its Q2000 product line. Capital equipment purchases were \$2.1 million as the Company established manufacturing capacity. Inventories grew as the volume of production increased and accounts receivable reflected the growth in sales. The Company met those working capital requirements and startup expenditures principally through private placements of equity and bank borrowings.

Fiscal 1983 was a year during which the Company obtained the financial resources necessary to build operations for long-term success. The Company had a positive cash flow from operations in fiscal 1983 of \$6.9 million and received net proceeds of approximately \$31.5 million from the sale of approximately 1.7 million shares of common stock in its initial public offering. As a result, total shareholders' equity increased to \$48.5 million from \$4.2 million. At March 31, 1983, the Company's material unused sources of liquidity consisted primarily of \$39.6 million of cash and marketable securities and \$4.0 million of available borrowings under its bank line of credit. See Note 6 of Notes to Consolidated Financial Statements.

In the fourth quarter of fiscal 1983, the Company invested \$19.9 million in adjustable rate preferred stocks, which are classified as non-current assets. For federal income tax purposes, 85% of the dividends received on these securities are exempt from tax. As a result, the after-tax yields on these investments are believed to be significantly higher than alternative investments. As of March 31, 1983, the Company established a valuation reserve of \$1.2 million, which has been charged against shareholders' equity, to provide for the market value decline of these securities.

The Company's capital resource commitments at March 31, 1983 principally consisted of lease obligations for its present facilities. See Note 11 of Notes to Consolidated Financial Statements. The Company intends to finance these commitments from working capital generated by operations.



# Consolidated Statements of Operations

	Year ended March 31, 1983	Year ended March 31, 1982*	Inception to March 31, 1981*
Sales	\$41,779,000	\$13,656,000	
Costs and expenses:			
Cost of sales	23,498,000	10,350,000	
Research and development	2,420,000	427,000	\$1,440,000
Marketing	2,694,000	1,804,000	330,000
General and administrative	1,314,000	853,000	242,000
	29,926,000	13,434,000	2,012,000
Income (loss) from operations	11,853,000	222,000	(2,012,000)
Interest income (expense), net	909,000	(36,000)	243,000
Net realization on marketable investment securities (Note 5)	90,000		
Income (loss) before income taxes	12,852,000	186,000	(1,769,000)
Provision for income taxes (Note 10)	5,828,000		
Income (loss) before extraordinary credit	7,024,000	186,000	(1,769,000)
Extraordinary credit—reduction of income taxes from utilization of tax loss carryforward	814,000		
Net Income (loss)	\$ 7,838,000	\$ 186,000	\$(1,769,000)
Income (loss) per common share (Note 1):			
Income (loss) before extraordinary credit	\$ .86	\$ .03	\$(1.50)
Extraordinary credit	.10		
Net Income (loss)	\$ .96	\$ .03	\$(1.50)
Common and common equivalents used in computing per share amounts	8,172,090	6,595,098	1,175,517

See accompanying notes to consolidated financial statements.

\*Reclassified for comparative purposes.



# Consolidated Balance Sheets

	March 31, 1983	March 31, 1982
<b>Assets</b>		
Current assets:		
Cash, including certificates of deposit and time deposits of \$20,428,000 and \$185,000	\$20,836,000	\$ 258,000
Accounts receivable, net of allowance for doubtful accounts of \$235,000 and \$201,000	5,859,000	4,643,000
Interest and dividends receivable	479,000	
Inventories (Notes 1 and 3)	6,017,000	4,696,000
Prepaid expenses	201,000	84,000
Prepaid income taxes (Note 10)		22,000
Other current assets	19,000	36,000
Total current assets	33,411,000	9,739,000
Property and equipment at cost, less accumulated depreciation (Note 4)	4,190,000	2,140,000
Long-term marketable investment securities, less valuation allowance of \$1,175,000 (Note 5)	18,726,000	
Other assets	303,000	242,000
	\$56,630,000	\$12,121,000
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Notes payable to bank	\$	\$ 4,385,000
Accounts payable	2,172,000	2,939,000
Accrued compensation	499,000	499,000
Income taxes payable	3,813,000	
Deferred income taxes (Note 10)	888,000	
Other accrued liabilities	440,000	131,000
Total current liabilities	7,812,000	7,954,000
Deferred income taxes (Note 10)	329,000	
Commitments (Note 11)		
Shareholders' equity (Notes 7, 8, 9, and 12):		
Preferred Stock, no par value, 4,000,000 shares authorized:		
Series A convertible, 1,013,333 shares authorized and outstanding		3,040,000
Series B convertible, 212,000 shares authorized and outstanding		2,650,000
Common stock, no par value, 30,000,000 shares authorized, 9,151,839 and 1,790,446 shares outstanding	43,409,000	135,000
Notes receivable from employees secured by stock		(75,000)
Valuation allowance for long-term marketable investment securities	(1,175,000)	
Retained earnings (deficit)	6,255,000	(1,583,000)
Total shareholders' equity	48,489,000	4,167,000
	\$56,630,000	\$12,121,000

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Changes in Financial Position

	Year Ended March 31, 1983	Year Ended March 31, 1982	Inception to March 31, 1981
<b>Financial resources were provided by:</b>			
Operations:			
Net income (loss) before extraordinary credit	\$ 7,024,000	\$ 186,000	\$(1,769,000)
Charges not affecting working capital—depreciation	555,000	180,000	24,000
—deferred taxes	329,000		
—unrealized loss on marketable investment securities	141,000		
Resources provided by operations	8,049,000	366,000	(1,745,000)
Extraordinary credit	814,000		
Sale of Convertible preferred stock, series A			3,040,000
Sale of convertible preferred stock, series B		150,000	2,500,000
Sale of convertible preferred stock, series C	6,107,000		
Proceeds from notes receivable from employees	75,000		
Common stock transactions	31,477,000	59,000	76,000
	46,522,000	575,000	3,871,000
<b>Financial resources were used for:</b>			
Purchase of marketable investment securities	20,042,000		
Acquisition of property and equipment, net of retirements	2,605,000	2,035,000	309,000
Notes receivable from employees		16,000	59,000
Other assets	61,000	185,000	57,000
	22,708,000	2,236,000	425,000
Increase (decrease) in working capital	\$23,814,000	\$(1,661,000)	\$3,446,000
<b>Increase (decrease) in components of working capital:</b>			
Cash	\$20,578,000	\$(3,264,000)	\$3,522,000
Accounts receivable	1,215,000	4,643,000	
Interest and dividends receivable	479,000		
Inventories	1,321,000	4,413,000	283,000
Prepaid income taxes	(22,000)		
Prepaid expenses	117,000	39,000	67,000
Other current assets	(16,000)	(16,000)	52,000
Notes payable to bank	4,385,000	(4,385,000)	
Accounts payable	767,000	(2,572,000)	
Accrued compensation		(418,000)	(367,000)
Income taxes payable	(3,813,000)		(81,000)
Deferred income taxes	(888,000)		
Other accrued liabilities	(309,000)	(101,000)	(30,000)
Increase (decrease) in working capital	\$23,814,000	\$(1,661,000)	\$3,446,000

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Shareholders' Equity

	Series A	
	Shares	Amount
Shares issued during June 1980 through January 1981 for cash under employee stock purchase agreements net of repurchase (Note 8)		
Shares issued during June 1980 through January 1981 in lieu of compensation for services of non-employees		
Shares issued during June 1980 (Note 7)	1,013,333	\$ 3,040,000
Shares issued during February 1981 (Note 7)		
Loss from inception through March 31, 1981		
Balance at March 31, 1981	1,013,333	3,040,000
Shares repurchased under employee stock purchase agreements (Note 8)		
Shares issued under employee stock purchase agreements (Note 8)		
Shares issued as an employee stock bonus		
Shares issued as compensation for the services of a director (Note 8)		
Shares issued in January 1982 (Note 7)		
Net income for year ended March 31, 1982		
Balance at March 31, 1982	1,013,333	3,040,000
Shares issued during April 1982 (Note 7)		
Shares repurchased under employee stock purchase agreements (Note 8)		
Conversion of all preferred stock into common stock (Note 7)	(1,013,333)	(3,040,000)
Public Offering on common stock in December 10, 1982 (Note 7)		
Shares issued under employee stock option plan		
Valuation allowance for marketable investment securities at March 31, 1983		
Net income for year ended March 31, 1983		
Balance at March 31, 1983		

See accompanying notes to consolidated financial statements.



# Convertible Preferred Stock

Series B		Series C		Common stock (Notes 7, 8, 9 and 12)		Valuation allowance for marketable investment securities	Retained earnings (deficit)
Shares	Amount	Shares	Amount	Shares	Amount		
				1,753,532	\$ 74,000		
				40,000	2,000		
200,000	\$ 2,500,000						\$(1,769,000)
200,000	2,500,000			1,793,532	76,000		(1,769,000)
				(370,466)	(16,000)		
				340,000	64,000		
				3,400	2,000		
				24,000	9,000		
12,000	150,000						186,000
212,000	2,650,000	410,667	\$ 6,107,000	1,790,466	135,000		(1,583,000)
				(49,133)	(4,000)		
(212,000)	(2,650,000)	(410,667)	(6,107,000)	5,722,666	11,797,000		
				1,673,000	31,474,000		
				14,840	7,000		
						(1,175,000)	
							7,838,000
				9,151,839	\$43,409,000	\$(1,175,000)	\$ 6,255,000

## Notes to Consolidated Financial Statements

### Note 1—The Company and its significant accounting policies

The Company was incorporated in California on February 20, 1980 to engage in the manufacture and sale of electronic equipment. During the period from inception to June 1, 1981, the Company was in the development stage and had relatively minor amounts of revenue. Development stage operations principally involved planning, product development, market development and acquisitions of equipment and other operating assets. Subsequent to June 1, 1981, the Company entered into its initial production stage. Accordingly, the accompanying financial statements for the periods through March 31, 1982, which reflect both developmental and initial production stages, should not be viewed as being representative of a normal period of operations.

The Company has adopted accounting practices which are generally accepted in the industry in which it operates. The following are the Company's significant accounting policies.

#### *Principles of consolidation*

The accompanying consolidated financial statements include the accounts of Quantum Corporation (the Company) and its wholly owned subsidiaries, Quantum International, Inc. and Quantum International DISC Inc., both domestic international sales corporations. All significant transactions and accounts between the Company and these subsidiaries have been eliminated in consolidation.

#### *Inventories*

Inventories are stated at the lower of standard cost (which approximates actual cost on a first-in, first-out basis) or market.

#### *Warranty expenses*

The Company generally warrants its products against defect for one year. A provision for estimated future costs relating to warranty expenses is recorded when products are shipped.

#### *Property and equipment and depreciation*

Property and equipment are stated at cost. Depreciation is computed for financial reporting purposes using the straight-line method and the estimated useful lives which range from three to ten years. Amortization of leasehold improvements is computed over the shorter of the useful life of the improvement or the life of the lease. Depreciation for income tax purposes is computed using accelerated methods.

#### *Marketable investment securities*

Marketable investment securities consist of various adjustable rate preferred stocks held for investment. These securities are carried at the lower of cost or market. To the extent an excess of cost over market is considered a temporary decline in value, a valuation allowance is included in shareholders' equity. Any permanent impairment of value is charged to income. Dividends are accrued as earned. Gains and losses on securities sold are determined on the specific identification basis.

#### *Income taxes*

Investment and research and development tax credits are recognized as a reduction of income tax expense in the year the related assets are placed in service or the qualified research and development expenditures are incurred to the extent of the statutory limits applied to pre-tax accounting income and net deferred tax credits reversing during the carryover period of the credits.

#### *Net income (loss) per common share*

Primary net income (loss) per common and common equivalent share is computed on the weighted average number of common shares outstanding, after giving retroactive effect to the stock split described in Note 6, during the respective periods, and including dilutive convertible preferred stock and stock



options, using the treasury stock method. For the period inception to March 31, 1981 there were 3,013,067 common stock equivalents which were anti-dilutive and therefore excluded from the loss per share computations.

#### Note 2—Business segment

The Company is engaged in a single business segment consisting of the design, manufacture and marketing of disk drives based on Winchester technology. Quantum sells its products to Original Equipment Manufacturers (OEMs) in the United States and in foreign countries through its own sales organization and through distributors. Foreign sales in fiscal 1983 account for 11% of total sales. In the prior year, foreign sales were minor.

Major customers (those accounting for more than 10% of sales) accounted for 18%, 15% and 12% of revenues during the year ended March 31, 1983 and 21%, 13% and 13% of revenues for the year ended March 31, 1982.

#### Note 3—Inventories

Inventories were composed of:

	March 31, 1983	March 31, 1982	March 31, 1981
Materials and purchased parts	\$1,930,000	\$1,523,000	\$106,000
Work in process	2,144,000	2,761,000	177,000
Finished goods	1,943,000	412,000	
	\$6,017,000	\$4,696,000	\$283,000

#### Note 4—Property and equipment

Property and equipment consisted of:

Machinery and equipment	\$2,444,000	\$1,414,000	\$ 96,000
Furniture and fixtures	578,000	308,000	15,000
Tooling	941,000	358,000	193,000
Leasehold improvements	780,000	170,000	5,000
Construction in progress	183,000	71,000	
	4,926,000	2,321,000	309,000
Less—accumulated depreciation	(736,000)	(181,000)	(24,000)
	\$4,190,000	\$2,140,000	\$285,000

#### Note 5—Marketable Investment Securities

During fiscal 1983 the Company invested approximately \$20 million dollars in adjustable rate preferred stock purchased at a premium of \$2,784,000 above par value. The dividend rates on adjustable rate preferred stocks are revised each quarter based on changes in various money market rates. For federal income tax purposes, 85% of the dividends received on these securities are exempt from tax. The issues held by the Company are callable at various dates commencing in 1986.

In February 1983 the market prices for adjustable rate preferred stock dropped below the Company's cost. The holdings at March 31, 1983 were:

Adjustable rate preferred stock, at cost	\$19,901,000
Less valuation allowance charged against shareholders' equity	1,175,000
	\$18,726,000

#### Note 6—Line of credit

In September 1982, the Company entered into an agreement with a bank which provides an unsecured \$4,000,000 revolving line of credit. The agreement requires a commitment fee of 0.5% per annum of the total commitment in lieu of compensating balances and, among other things, that the Company maintain certain financial covenants, including specified minimum current ratio, restrictions on payment of dividends, working capital and tangible net worth and a maximum debt to tangible net worth ratio. Under the line of credit, which expires on July 31, 1983, borrowings bear interest at the bank's prime rate plus 0.5%.



#### Note 7-Preferred and common stock, initial public offering and stock split

On December 10, 1982, the Company sold 1,673,000 shares of common stock at \$20.50 per share in connection with an initial public offering. Proceeds to the Company were \$31,474,000 after deducting related costs. Coincident with the initial public offering, all outstanding preferred stock was converted to common stock.

The previously outstanding preferred stock was issued in three separate series of non-cumulative convertible stock. Series A and Series B shares were convertible into four shares of common stock and Series C shares were convertible into two shares of common stock.

On October 27, 1982, the Board of Directors approved a two-for-one split of the Company's common stock. All references in the consolidated financial statements and related notes to number of common shares and per share amounts for periods prior to the split have been retroactively adjusted for the split.

#### Note 8-Stock purchase agreements

Under the terms of stock purchase agreements, shares were sold to employees at prices determined by the Board of Directors. Shares acquired under terms of these agreements vest on a graduated basis over five years. During this period, the employee may not sell or dispose of the unvested stock. If employment is terminated for any reason other than death or disability during this period, the Company retains the right to repurchase the unvested shares at the original purchase price. In addition, the Company has the first right to repurchase all shares acquired under the plan at a price determined by the terms set forth in the plan.

In January 1982, under a common stock purchase agreement, the Company sold 24,000 common shares to a non-employee director at \$.375 per share, in consideration for his participation on the Board. Shares issued under this agreement vest on a graduated basis during the four years following issuance. During this period the director may not sell or otherwise dispose of unvested stock. If the director should cease to serve on the Board, the Company has the right to repurchase the unvested shares at the original sales price. In addition, during this period, the Company has the first right to repurchase the shares issued to the director at a price determined in accordance with the agreement.

During the year ended March 31, 1982 and the period from February 20, 1980 (inception) through March 31, 1981, 340,000 and 1,761,000 shares of common stock, respectively, were sold to employees under the agreements. During fiscal 1983, 1982 and 1981, 49,000, 370,466, and 7,468 shares, respectively, were reacquired by the Company.

#### Note 9-Stock option plan

In September 1981, the Company adopted the 1981 Incentive Stock Option Plan. Under this plan, 850,000 shares of common stock were reserved for issuance to eligible employees. Options under the plan are granted at prices determined by the Board of Directors, but not less than the fair market value, as determined by the Board, on the date of grant and expire five years after the date of grant. One-fifth of the grant becomes exercisable after the first year following the grant, and at one-sixtieth per month thereafter.

A summary of transactions relating to outstanding stock options follows:

	Year ended		Year ended	
	March 31, 1983		March 31, 1982	
	Shares	Option Price	Shares	Option Price
Options outstanding beginning of period	113,500	\$ .1875-.375		
Options granted	331,500	1.50-26.75	117,500	\$ .1875-.375
Options cancelled	(14,000)	.1875-3.00	(4,000)	.375
Options exercised	(16,000)	.19-1.50		
Options outstanding end of period	415,000	\$ .1875-26.75	113,500	\$ .1875-.375

At March 31, 1983, options to purchase 28,322 shares of stock were exercisable.

## Note 10—Income taxes

The components for the provision for income taxes for the year ended March 31, 1983 are presented below. During the period all available net operating loss carryforwards were recognized.

Charge in lieu of federal income taxes which would have been required in the absence of loss carryforwards from prior periods	\$ 814,000
Current—Federal	2,787,000
—State	990,000
Deferred —Federal	998,000
—State	239,000
Total provision for income taxes	\$5,828,000

Deferred (prepaid) income taxes represent the tax effect of transactions which are reported in different periods for financial and tax reporting purposes.

The sources of deferred (prepaid) income taxes and the income tax effect of each are as follows:

Installment sales receivable	\$ 879,000
Excess of tax over book depreciation	329,000
Taxable portion of DISC income not currently deductible	131,000
Accrued warranty expense	(148,000)
Other	26,000
	\$ 1,217,000

The aggregate undistributed earnings of the Company's DISC subsidiaries, which are considered to be indefinitely reinvested in foreign operations or qualified export activities and for which no federal income taxes have been provided, were approximately \$285,000 through March 31, 1983.

The Company's effective income tax rate for the year ended March 31, 1983 varies from the 46% statutory federal rate for the following reasons:

Taxes computed at the statutory rate	\$5,912,000	46.0%
State income tax, net of federal benefit	664,000	5.1
Non-taxable portion of income from Domestic International Sales Corporation	(131,000)	(1.0)
Investment tax credits	(290,000)	(2.3)
Research and development tax credits	(310,000)	(2.4)
Other	(17,000)	(0.1)
Provision for income taxes	\$5,828,000	45.3%

The above provision includes the benefit of \$75,000 of investment tax credits carrying over from prior periods for financial reporting purposes. The previously unused investment tax credits for federal income tax purposes of \$161,000 was also utilized during the year ended March 31, 1983.

The Company recorded no provision in lieu of federal income taxes for the year ended March 31, 1982 as such taxes, computed by applying the statutory rate to pretax income, were offset by recognizing for financial reporting purposes \$86,000 of investment tax credits generated in that year.

## Note 11—Commitments

The Company leases its present facilities and certain equipment under non-cancellable operating lease agreements. The lease on one building expires in July 1991, at which time the Company has the option to extend the lease term for an additional five-year period. The terms of the lease provide for minimum monthly payments of approximately \$29,000 over the lease term. Subsequent to July 1986, the monthly rental is subject to escalation based on changes in the Consumer Price Index. The other facility lease covers land, three buildings and certain related improvements for a five year term with an option by the Company to extend the lease term for an additional five-year period commencing April 1, 1987. The terms of the lease provide for minimum monthly payments of approximately \$93,000 over the initial lease term. The Company has occupied two of the buildings and intends to sublease the third building during the entire initial term of the lease. Monthly rent on the third building is approximately \$23,000.



Equipment is leased through a bank for a five-year term expiring in 1986. This lease agreement requires, among other things, the Company to maintain certain financial covenants including specified minimum current ratio, working capital, tangible net worth and cash position levels and a maximum debt to tangible net worth ratio.

The Company's minimum rental commitments under the non-cancellable operating leases at March 31, 1983 are as follows:

Year Ended	
March 31	
1984	\$1,546,000
1985	1,546,000
1986	1,538,000
1987	1,486,000
1988	649,000
Thereafter	1,124,000
	\$7,889,000

Total rental expenses under all long-term operating leases were \$1,232,000, \$274,000 and \$22,000 for the years ended March 31, 1983, 1982 and 1981, respectively.

#### Note 12—Employee Stock Purchase Plan

In November 1982, the Board of Directors approved the adoption of an Employee Stock Purchase Plan (the "Purchase Plan") and reserved 100,000 shares of common stock for purchase by eligible employees at the lower of 85% of the fair market value of the common stock as determined by the Board of Directors at the beginning or at the end of each six month offering period. The Purchase Plan permits eligible employees to purchase common stock through payroll deductions, which may not exceed 10% of an employee's compensation.



## Report of Independent Accountants

To the Shareholders and  
Board of Directors of  
Quantum Corporation

We have examined the accompanying consolidated balance sheets of Quantum Corporation and subsidiaries as of March 31, 1983, 1982, and 1981 and the related consolidated statements of operations, of shareholders' equity, and of changes in financial position for the years ended March 31, 1983 and 1982 and the period from February 20, 1980 (date of inception) to March 31, 1981. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Note 1 to the consolidated financial statements, the Company was in the development stage during the period February 20, 1980 (date of inception) to June 1, 1981 and had a minor amount of revenue during that period.

In our opinion, the consolidated financial statements examined by us present fairly the financial position of Quantum Corporation and subsidiaries at March 31, 1983, 1982 and 1981, and the results of their operations and changes in their financial position for the years ended March 31, 1983 and 1982 and for the period from February 20, 1980 (date of inception) to March 31, 1981, in conformity with generally accepted accounting principles consistently applied.

PRICE WATERHOUSE

San Jose, California  
May 16, 1983

## Board of Directors

Frank J. Caufield  
General Partner, Kleiner,  
Perkins, Caufield & Byers  
(Venture capital  
investments)

Glenn M. Mueller  
General Partner,  
Mayfield III and IV  
(Venture capital  
investments)

James L. Patterson  
President and Chief  
Executive Officer,  
Quantum Corporation

Robert E. Schroeder  
President and Chief  
Executive Officer,  
International Power  
Technology  
(Supplier of gas turbine  
based co-generation  
systems)

## Officers

James L. Patterson  
President and  
Chief Executive Officer

Stephen M. Berkley  
Vice President, Marketing

David A. Brown  
Vice President,  
Engineering

A. Dale Hiatt, Jr.  
Vice President,  
Manufacturing

Joseph T. Rodgers, Jr.  
Vice President, Finance  
Secretary and Treasurer

Richard P. Taylor  
Vice President, Quality

## Sales Offices

2 Industrial Way  
Salem, NH 03079  
Telephone: (603) 893-2672

125 Gaither Drive  
Suite #H  
Mount Laurel, NJ 08054  
Telephone: (609) 778-9046

3300 University Drive  
Suite #615  
Coral Springs, FL 33065  
Telephone: (305) 753-1041

2328 "B" Walsh Avenue  
Santa Clara, CA 95051  
Telephone: (408) 980-8555

200 North Tustin Avenue  
Suite #100  
Santa Ana, CA 92705  
Telephone: (714) 541-5279

2525 Wallingwood Drive  
Suite #109  
Austin, TX 78746  
Telephone: (512) 327-9322

A copy of the Company's  
Annual Report on Form  
10-K, as filed with the  
Securities and Exchange  
Commission, is available  
on request. Please direct  
your request to:

Joseph T. Rodgers, Jr.  
Vice President, Finance  
Secretary and Treasurer  
Quantum Corporation  
1804 McCarthy Blvd.  
Milpitas, CA 95035

Legal Counsel  
Wilson, Sonsini, Goodrich  
& Rosati  
Two Palo Alto Square  
Palo Alto, CA 94304

Transfer Agent  
Bank of America  
555 California Street  
San Francisco, CA 94104

The Annual Meeting  
of Shareholders of  
Quantum Corporation  
will be held at 2:30 p.m.  
on August 25, 1983  
at the Le Baron Hotel,  
1350 N. First Street,  
San Jose, CA.

# QUANTUM

Quantum Corporation  
1804 McCarthy Blvd.  
Milpitas, CA 95035

**Jim Patterson**