

Quantum

Quantum Corporation Annual Report 1984

Corporate Profile

Quantum Corporation develops, manufactures and markets rigid disk drives for computer systems.

The Company's products, 8-inch and 5 1/4-inch Winchester-type drives, are sold to Original Equipment Manufacturers (OEMs) producing microprocessor-based, multi-user business computers, word processing systems, personal computers, and add-on subsystems. Quantum has refined and simplified proven technology to produce high-capacity, highly reliable disk drives in large volumes for use in virtually every industry.

Established in 1980, the Company employs over 600 people. Headquarters are located in Milpitas, California, with manufacturing facilities in Milpitas and Ponce, Puerto Rico.

Financial Highlights

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

	1984	1983	1982
Sales	\$67,069	\$41,779	\$13,656
Net income	10,673	7,838	186
Income per share:			
Income before extraordinary credit	1.12	.86	.03
Net income	1.12	.96	.03
Number of employees	628	291	262
Working capital	32,697	25,599	1,785
Total assets	74,816	56,630	12,121
Shareholders' equity	60,311	48,489	4,167

Sales (\$ millions)

	0	25	50	75	
1982					13.7
1983					41.8
1984					67.1

Net income (\$ millions)

	0	5	10	15	
1982					.2
1983					7.8
1984					10.7

Earnings per share (\$)

	0	.25	.50	.75	1.0	1.25	
1982							.03
1983							.96
1984							1.12

To Our Shareholders

Fiscal 1984 clearly was a year in which Quantum continued to surpass its previous performance, maintaining our leadership position as we started deliveries of a new product family, and showed significant increases in revenue, profits, and earnings per share.

Revenue grew 61%, from \$41,779,000 in 1983 to \$67,069,000 in 1984. Net income advanced from \$7,838,000 to \$10,673,000, with earnings per share rising from \$.96 in 1983 to \$1.12 this year.

We accomplished this strong performance in our first full year as a public corporation by focusing on two main goals. Quantum concentrated on maintaining the momentum of our Q2000 Series[®] product line, deriving maximum benefit from the continued strength of the 8-inch disk drive market. And, we achieved volume production of the Q500 Series[®] of 5¼-inch drives that we brought to market in late fiscal 1983. Today, we are recognized as the leading manufacturer of 5¼-inch disk drives for the higher-capacity market, the same distinction we won for our 8-inch products.

During fiscal 1984, our Q2000 8-inch drive manufacturing operation was transferred to Ponce, Puerto Rico. By the end of the fiscal year, we had completely outfitted Quantum Caribe, Inc., trained a workforce, and ramped up to full production levels.

The first part of fiscal 1985, in particular, presents an excellent opportunity to expand our 5 1/4-inch market share.



Jim Patterson, president

Establishing Quantum Caribe represented a significant first step in carrying out Quantum's long-range manufacturing plans. Our Milpitas facility will remain the center of technology and development for new products and manufacturing processes. New product lines initially will be manufactured here. Then, when we consider a production process to be mature, we will move the manufacturing offshore. We believe that Quantum, as an international company, must continue to have a very competitive manufacturing posture in the worldwide market. The advantages of offshore production are significant. Puerto Rico, for example, offers an outstanding group of highly trained and motivated people, as well as attractive tax benefits for the Company.

Near the end of fiscal 1984, we incorporated a new subsidiary, Qew Corporation. This venture is a technology effort focused on developing a low-cost mass storage subsystem for the personal computer market. The strong management team we developed at Quantum gave us the opportunity to reassign some of our key management people to this new business. We set up Qew as a separate organization for three reasons. First, Qew's efforts represent a significant opportunity to diversify and expand Quantum's potential beyond our existing OEM sales channel into distribution through computer stores, systems integrators and other computer outlets. Its autonomy encourages con-

centration and focus on this new business. Also, Qew's entrepreneurial structure will help us continue to attract outstanding people by providing them with significant financial incentives based on the success of the new business.

Fiscal 1985 will be a year of transition for Quantum, as we move from a predominantly 8-inch disk drive company to a balance between 8-inch and 5¼-inch products. The continued strength of the 8-inch market creates a healthy environment for this transition. The 8-inch market, despite forecasts that it would start falling off, has remained strong. We are now anticipating its continued strength in the first half of fiscal 1985, later declining but still leaving our 8-inch line a significant contributor to Quantum's 1985 financial results. We will be making good use of this time to execute even further improvements in our 5¼-inch operation. Thus, the first part of the year, in particular, presents an excellent opportunity for us to expand our marketshare by surpassing our competitors' production and shipments. In our industry, the faster we bring up production, the larger share of the market we gain.

In the coming years, our new products will apply the same basic technologies and economic philosophies that we developed in our 8-inch and 5¼-inch lines. We will

continue to drive down costs as the industry moves toward smaller drives and higher-capacity products.

Quantum can do this because we have created a company that regards the manufacturability of a product as a key to successful product design. We look at manufacturing as the ability to produce a consistently reliable product on time, economically, and in quantity. The job is challenging and we consider it both important and satisfying. We put equal emphasis on the manufacturing process and on the design, because no matter how advanced a design may be, it is of little value unless the product can be manufactured in accordance with our goals. It is because of this philosophy that Quantum is able to produce reliable, quality products that are truly of value to our customers.

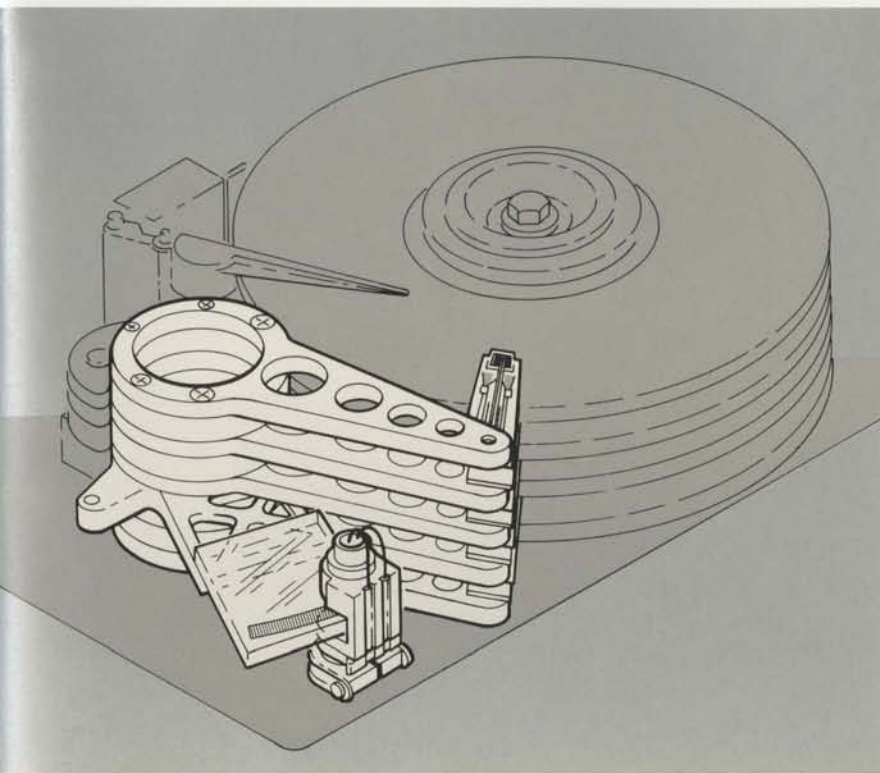
Quantum also can do this because of our one unique asset—our people. Beginning with product design, continuing through

production and ending with timely delivery to our customers, the people at Quantum make it work. They are responsible for our product technology, our manufacturing processes, and indeed, our company. Quantum's many successes in 1984, and all prior years, is the result of the remarkable work of this team of people.

Quantum has a growing reputation for meeting commitments. We never have announced a product that we didn't deliver in volume soon afterward. This is the commitment we make to our customers, to meet their needs quickly and with a product that will serve them well.



Jim Patterson,
President



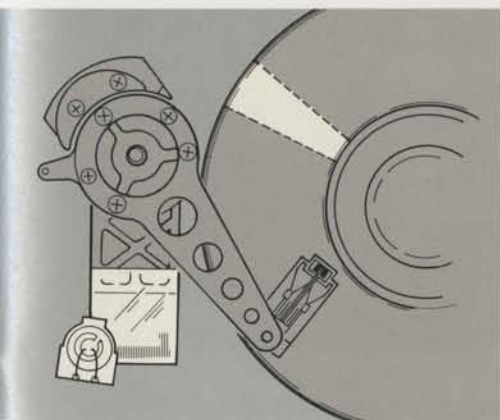
Quantum Innovation

One of the key elements of a Winchester disk drive is the positioning of a drive's read/write head. The ability to precisely position the heads is a major factor in the amount of data that can be stored reliably.

When Quantum was founded, there were two approaches to designing Winchester disk drives. One approach, using basic elements of floppy disk drive technology, is low-cost and easy to manufacture. The design is based on a stepper motor actuator and open-loop control system with limited positioning capabilities, and therefore, lower storage capacities. The second approach is to "miniaturize" sophisticated, high-performance, high-capacity 14-inch Winchester technology. These drives have precision actuators and closed-loop control systems that provide accurate head positioning, but they are expensive to manufacture.

Quantum chose neither approach.

Instead, we chose to design a position control system that combined the best of



Above: Quantum's unique head positioning system combines the elements of high-capacity, high-performance technology with low cost, simplicity, reliability, and manufacturability.

Left: Our positioning control system uses an optical encoder and a recorded "wedge" of information to provide accuracy in accessing data.

Quantum's combination of quality people and innovative thinking gives us a distinct advantage in the marketplace.



(left to right)
Samuel Morales, QA Engineering
Brenda Santiago, Material Control
Antonio López, QA
Rosalina Pomales, QA
Quantum Caribe

both technologies. Our disk drives are low-cost and easy to manufacture, like stepper motor drives. But our drives also have capacities and performance capabilities approaching those of conventional closed-loop control systems. Quantum disk drives were designed using a modified closed-loop system to achieve higher capacities at low cost. First, an optical encoder roughly positions the head over the desired track of information, somewhat like positioning a stylus over a record track. Then, a "wedge" of information recorded on the bottom disk in each drive provides data to center the head over the track and maintain precise positioning. Our application of this simplified approach is a key to our low-cost, highly reliable products.

Our innovative approach to product design has given us a distinct advantage in the marketplace. However, it represents only one example of the kind of thinking that makes Quantum unique.

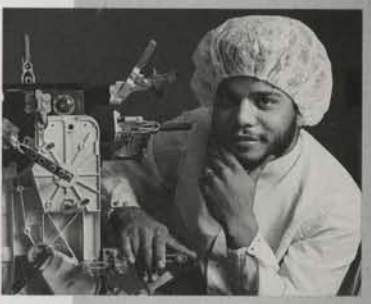
Quantum Strategy

The ultimate success of a company depends on a complete, clearly defined, and practical strategy coupled with a successful execution of that strategy; it can be achieved only through its people.

Quantum's strategy was defined at our inception. At Quantum, we believe that product design is the first step in the efficient manufacture of consistently reliable and cost-competitive disk drives. With the design of our first product, we began what became a series of successful product designs and improvements. These technological innovations enabled us to meet the needs and requirements of a broad range of customers, who looked to Quantum to provide quality, reliable Winchester disk drives. To continue to meet our customers' needs, we developed a team of people dedicated to our strategy and our way of thinking.

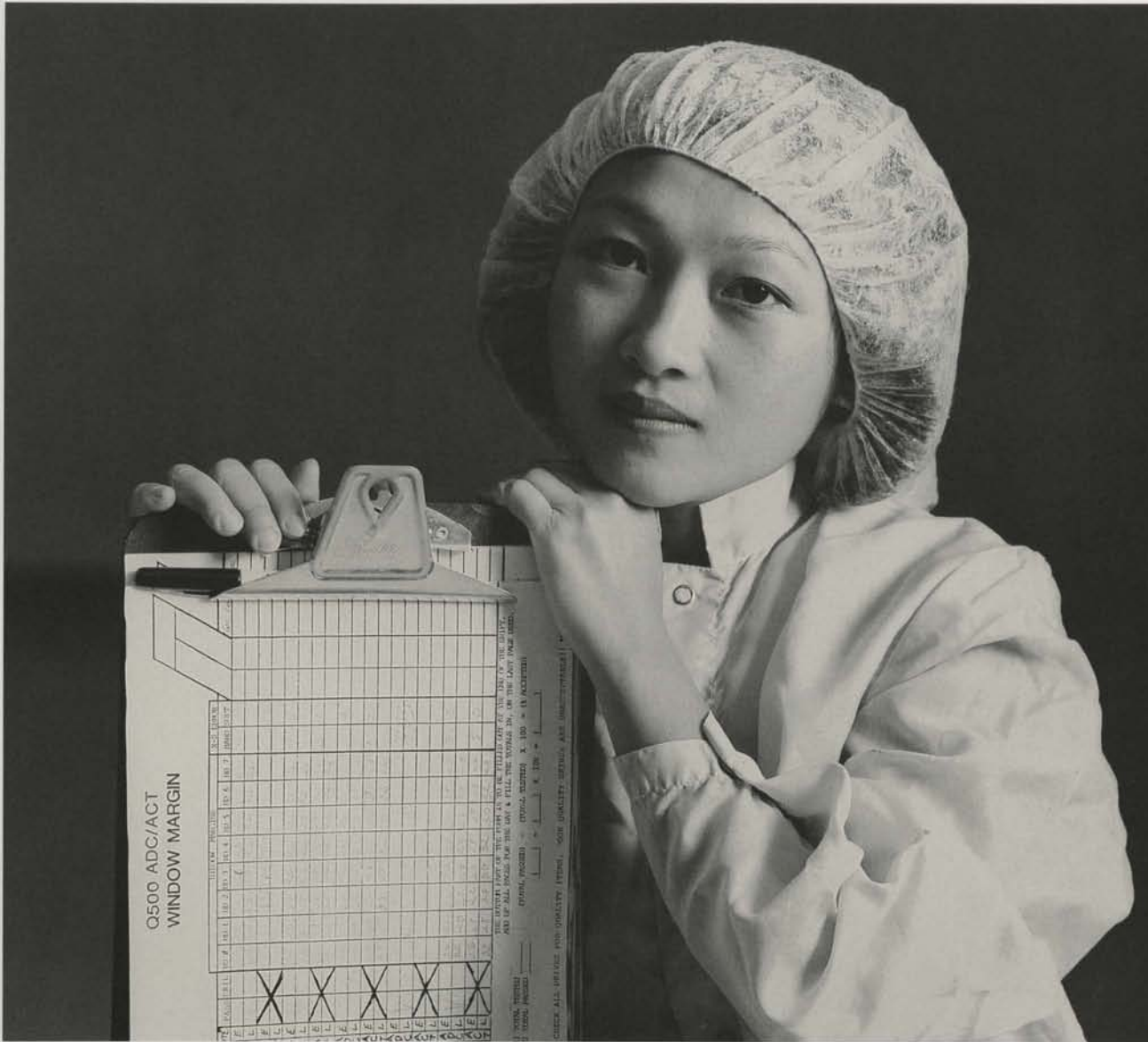


Dick Cowden,
Quality/Reliability Assurance



David Roldan, Final Assembly

We emphasize *how* we are going to manufacture a product—as soon as we begin to design it.



Minh Tu, Final Assembly

Defining and successfully executing a strategy is a simple combination, but one that few companies have achieved. In just 18 months after forming Quantum, we were the leading company manufacturing 8-inch Winchester disk drives. We had captured roughly 40 percent of our market segment in a field of at least 30 competitors. We did the same with our 5¼-inch drives; today we are the leading independent manufacturer of drives above 20 megabytes of data storage.

Our way of thinking begins with innovative design. This led initially to the Quantum Q2000 Series®, our line of 8-inch disk drives with capacities up to 85 megabytes.

We followed that with the Q500 Series®, Quantum's line of 5¼-inch disk drives with capacities up to 43 megabytes. Both use mature, available components in a creative manner to produce a straightforward and clean design, free of exotic technology, thus achieving efficient manufacturing and reliable performance.

Our basic design then allowed us to shape products that we could manufacture economically and in quantity, that would perform reliably, and that would address a broad market segment. The foundation for this accomplishment is that we emphasize *how* we are going to manufacture a product — as soon as we begin to design it. The manufacturing process, the tools, and the test equipment all are designed or specified simultaneously with the product design.



Ivan Nazario (left),
Vice President and
General Manager,
Quantum Caribe
Harold Medley (right),
Manufacturing



Julie Allyn, Human Resources

It is our belief that the team approach benefits both our product quality and working environment.



Jerome Okun, (left) Engineering
Misha Rozenberg, (right) Test Engineering

This approach is demonstrated in our manufacturing operation. Quantum uses modular clean “tunnels” instead of more expensive, less flexible clean rooms in our assembly operations, so we can expand manufacturing capacity rapidly with lower capital expenditures. Our production managers, not our quality control people, are responsible for the statistical control charts that monitor our processes; Quantum’s quality department works closely with our manufacturing team, measuring results and recommending improvements throughout the process. Perhaps most significantly of all, the responsibility for the entire manufacturing process is shared by the manufacturing team and the engineers who design our products.

As effective as our manufacturing operation has proven, we at Quantum view it as but a successful starting point for continual

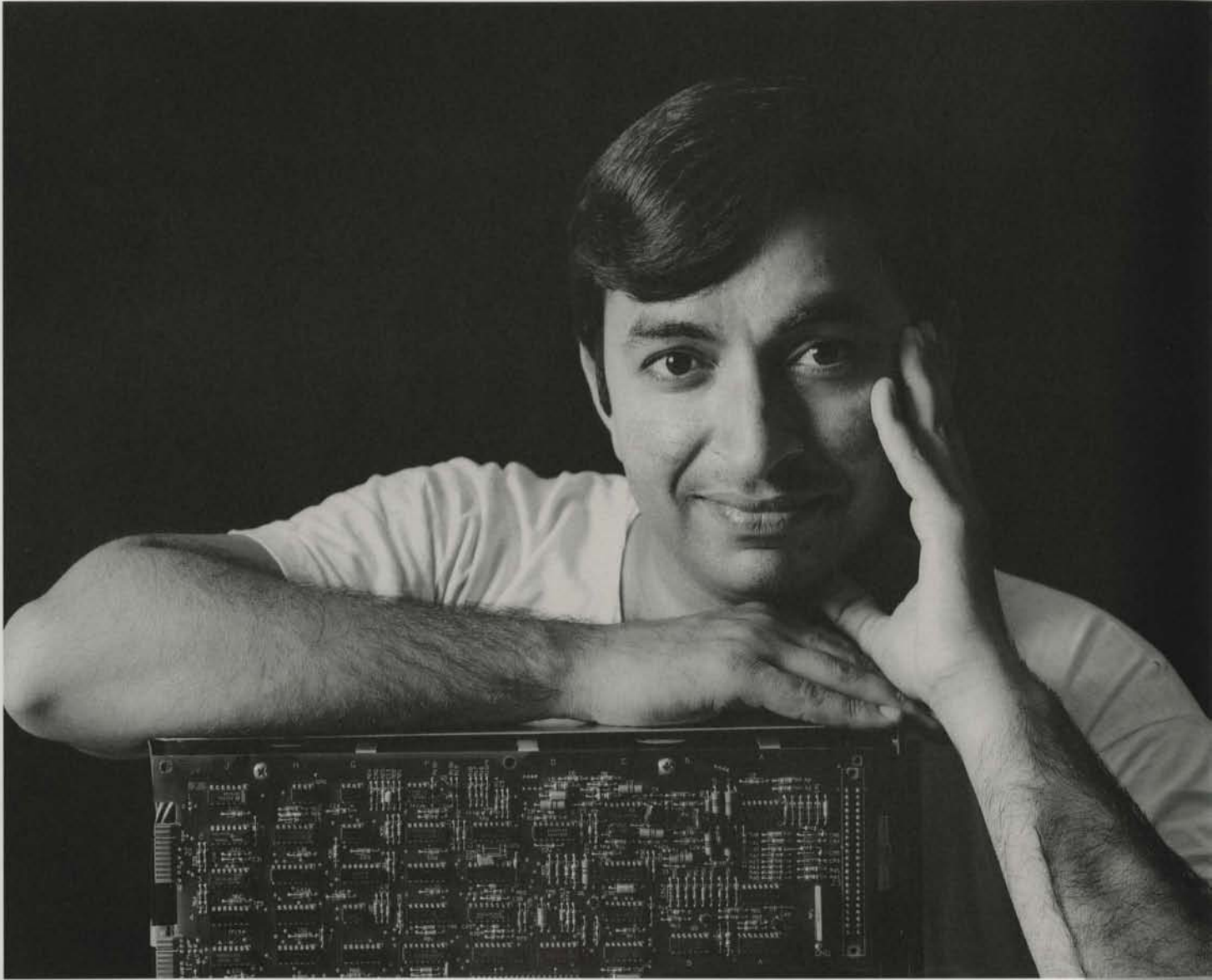
refinements. For example, our new Q500 product line is even more manufacturable than the Q2000, and we already are considering methods to simplify the process even further—for buying materials, for handling them, for moving them through the plant, for reducing the number of production steps. We have formed three-person teams in final assembly of the Q500, with the intent of expanding this concept to other phases of our process. It is our belief that the team approach benefits both our product quality and working environment.

In the case of our Q2000 line, we also have continued to review our operation, always keeping in mind Quantum’s long-



Bob Christensen,
Material Control

We take responsibility for our customers' successful use of our products.



Davinder Hayer, PCB Test

range manufacturing plans. As the initial step of our overall plan, we chose Puerto Rico as the location for our first offshore facility. During the 1984 fiscal year, we transferred production of our Q2000 line of 8-inch drives there, and reached full production capacity to satisfy our customers' requirements.

But at Quantum our involvement with our customers and our commitment to meeting their needs do not end when our product is selected; service and support also are needed to integrate our drives into our customers' systems. From the time that a company begins evaluating our drives, our engineers are available to offer support in system integration. This is important to Quantum's customers because there are differences in system environments from one microcomputer to the next.

We consider it our responsibility to make our customers' use of our products successful. We meet that responsibility through a

commitment to them that extends beyond engineering to encompass every area of our company. It all makes the difference in how we can respond, how quickly and how thoroughly. That's one of the most important aspects of how we think—thoroughness—and that means we are able to re-set our priorities and respond quickly.

It works—our customer acceptance rates are among the highest in the industry—because our people make it work. Quantum's customers have confidence in our approach, our focus on the value of what we deliver to them. With the first product Quantum built, we established a strong relationship with our customer base of computer manufacturers. It was a relationship built on the quality and reliability of our drives, and the support we provide *after* those drives are delivered. With our second

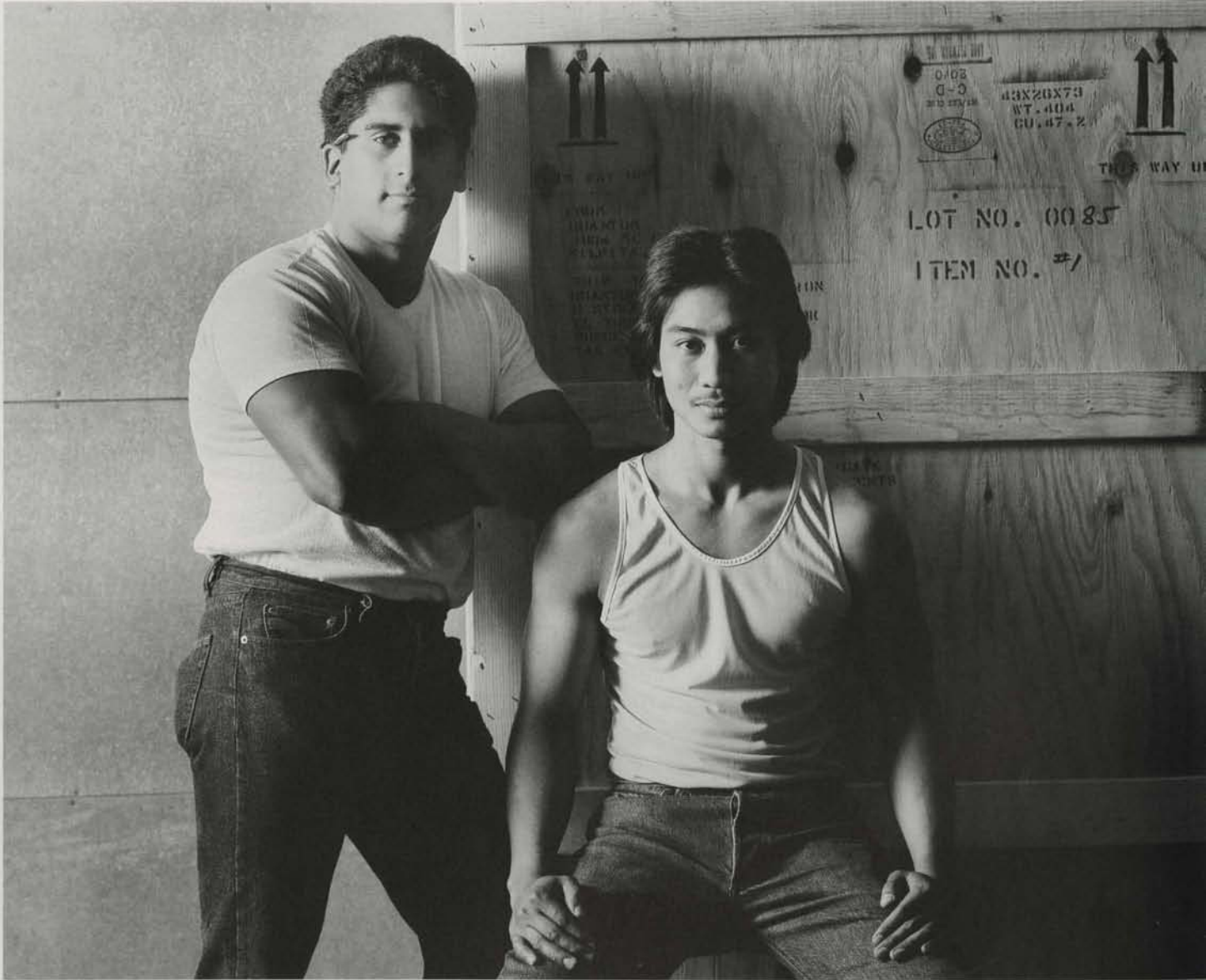


Glenda Brown (left),
Customer Service
Elena Joseph (right),
Customer Service



Iraida Muñiz, Sub-assembly,
Quantum Caribe

Quantum derives its true strength
from our one unique asset — our
people.



John Ballin (left),
Customer Service
Rick Biala (right),
Production Control

product, that relationship was reinforced, while new relationships with new customers were formed.

The market's requirements for new disk drive products help shape our product definition and design. We believe in focusing on a few products in clearly defined, high growth markets, then producing them consistently, in volume, and on time.

Both our 8-inch and 5¼-inch disk drive lines were created for the higher-capacity market segment of 20 to 100 megabytes — one of the largest and fastest growing segments of our industry. These higher-capacity drives are used primarily in systems for two to eight users, which account for over 80 percent of all multi-user systems shipped.

Quantum's studies indicate our target market segment will expand from 175,000 units in 1983 to approximately 800,000

units in 1985. Accompanying this expansion will be a major shift to 5¼-inch and smaller-sized drives, due to the continuing trend toward smaller, desktop systems.

In addition to the anticipated market growth, a significant benefit to us now and in the coming years is that our market segment spans virtually every industry and encompasses a wide range of applications.

Our drives are used in a variety of environments, such as word processing, accounting spreadsheets, computer graphics, in-process control systems for manufacturing lines, automated teletypes, and inventory control and management. This market span and our broad customer base contribute to our strength.

Yet, our market position encompasses far more than a sound customer base, a unique product design, or an efficient and low-cost manufacturing process. It ultimately derives its strength from the true strength of our company — Quantum's people.



George Hammitt,
Facilities



Lynne Drew,
Encoder Assembly

Our success is a group effort—
not an individual achievement
or reward.



Al Pun, Finance

In the beginning, there were only a few of us. As we have grown, we have attracted more good people by being certain that every person who joins our team really *is* part of that team. We know our success comes from good people, and we work hard to avoid compromising on the quality of the people who become part of our Quantum team. Being part of our team means that each of us affects the final results, and that everyone relies on each other for opinions to make sure that we get the best results. That's important for each of us, knowing we are valued enough to have our opinions sought, and it's part of what differentiates Quantum from other companies—our success is a group effort, not an individual achievement or reward.

That success has evolved over the years, from the foundation we established when our engineers first designed a unique and reliable product. That was our initial step in serving our customers and just the first of many evidences of the way we think. Quantum thinking continues beyond technology and manufacturing, to quality and cost-competitiveness, to administration and ser-

vice. Thus, we have been able to provide our customers with the greatest value in a product, as well as become financially successful as a company.

It is our people who brought this about. They created the product designs, established the manufacturing processes, and cemented the relationships with our customers. They accomplished this because, as a team, we believe in delivering value to our customers.



Joe Rodgers,
Vice President, Finance

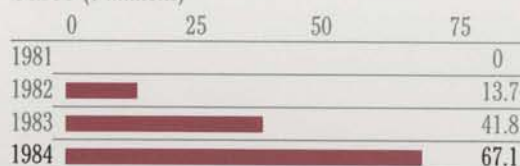
Selected Financial Information

Four years ended March 31, 1984
(Thousands except per share amounts
and number of employees)

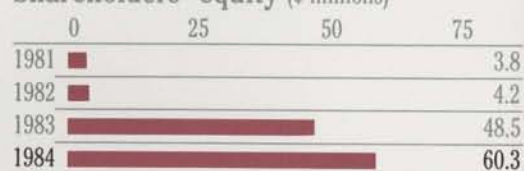
	1984	1983	1982	1981
Annual				
Net sales	\$67,069	\$41,779	\$13,656	\$ 0
Income (loss) before extraordinary credit	\$10,673	\$ 7,024	\$ 186	\$ (1,769)
Net income (loss)	\$10,673	\$ 7,838	\$ 186	\$ (1,769)
Earnings (loss) per share:				
Income before extraordinary credit	\$ 1.12	\$.86	\$.03	\$ (1.50)
Net income	\$ 1.12	\$.96	\$.03	\$ (1.50)
Common and common equivalent shares	9,516	8,172	6,595	1,175
Total assets	\$74,816	\$56,630	\$12,121	\$ 4,266
Shareholders' equity	\$60,311	\$48,489	\$ 4,167	\$ 3,788
Backlog	\$43,947	\$14,250	\$13,000	\$ 1,550
Number of employees	628	291	262	60
Net sales per employee	\$ 155	\$ 154	\$ 96	\$ 0

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
<i>(Thousands except per share amounts)</i>				
Quarterly (Unaudited)				
Fiscal 1984				
Net sales	\$21,938	\$17,515	\$15,143	\$12,473
Net income	\$ 3,229	\$ 2,885	\$ 2,485	\$ 2,074
Earnings per share	\$.34	\$.30	\$.26	\$.22
Fiscal 1983				
Net sales	\$11,860	\$11,311	\$ 9,950	\$ 8,658
Net income	\$ 2,256	\$ 1,872	\$ 1,600	\$ 2,110
Earnings per share	\$.24	\$.23	\$.21	\$.28

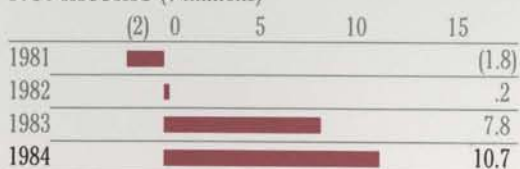
Sales (\$ millions)



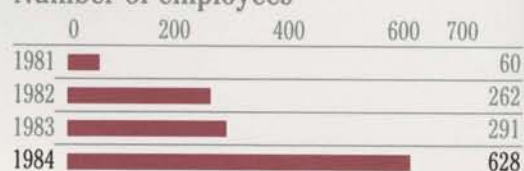
Shareholders' equity (\$ millions)



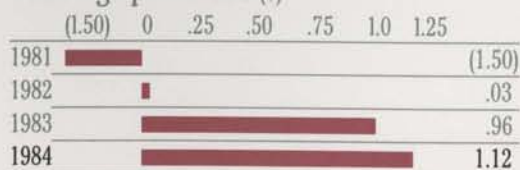
Net income (\$ millions)



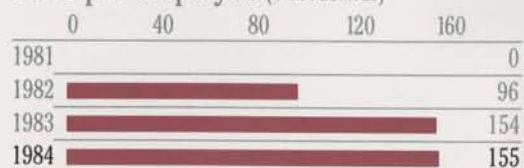
Number of employees



Earnings per share (\$)



Sales per employee (\$ thousands)



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

Results of Operations

Sales for the fiscal year ended March 31, 1984 were \$67.1 million, an increase of 61% over fiscal 1983 sales of \$41.8 million. The Company's growth has been attributable to continued strong demand for the Q2000 Series 8-inch product line, and sales of the new Q500 Series 5 1/4-inch products, introduced during the fiscal year just ended. Quantum expects that future sales increases will reflect the growth of the small business computer market which the Company's products serve, and market acceptance of both the Company's current and future products.

In fiscal 1984, cost of sales increased to 61.3% of net sales as compared to 56.2% for fiscal 1983. Higher manufacturing costs were incurred in establishing the offshore facility in Puerto Rico, and the start-up production of the Company's new Q500 Series 5 1/4-inch product line. The overall effect of inflation on the cost of materials, labor and other expenses was minimal.

Marketing and general and administrative costs as a percentage of sales were 10.4% in fiscal 1984 compared with 9.6% in the prior year. This increase reflects the overall expansion of the Company's business, increased expenses as a result of being a

public company and the cost of establishing the Puerto Rico operation.

During fiscal 1984 the Company devoted a significant amount of engineering effort and cost in developing and increasing the production of the Q500 Series and Q2080 disk drives, as well as starting the development of new lines of rigid disk drives. As a result, research and development cost increased over the prior year.

Interest and dividend income for the fiscal year 1984 was \$3.4 million as compared to \$1.0 million for the prior year. The income was derived from investments of the cash received from the public offering of common stock in December 1982.

Net income for fiscal 1984 was 15.9% as a percentage of net sales, down from 16.8% in fiscal 1983. The increase in cost of sales as a percentage of net sales in 1984 was substantially offset by higher interest and dividend income.

Fiscal 1983 was the Company's first full year of production, and sales and related costs increased dramatically over 1982. This change of operations, along with the Company's initial public offering in 1983, also significantly increased the liquidity of the Company.

<i>Year ended March 31</i>	Percentage of Net Sales		
	1984	1983	1982
Sales	100.0%	100.0%	100.0%
Costs and expenses			
Cost of sales	61.3	56.2	75.8
Research and development	4.7	5.8	3.1
Marketing	6.0	6.4	13.2
General and administrative	4.4	3.2	6.3
Total costs and expenses	76.4	71.6	98.4
Income from operations	23.6	28.4	1.6
Interest and net realization on marketable investment securities	5.1	2.4	(.2)
Income before income taxes	28.7	30.8	1.4
Provision for income taxes	12.8	14.0	—
Income before extraordinary credit	15.9	16.8	1.4
Extraordinary credit	—	2.0	—
Net income	15.9%	18.8%	1.4%

Financial Condition

The Company improved its already strong financial condition in fiscal 1984. Working capital at March 31, 1984 was \$32.7 million, up from \$25.6 million in fiscal 1983. The Company has met its financial needs from the proceeds of the initial public stock offering in December 1982 and from cash flow from operations.

At March 31, 1984, the Company's principal source of liquidity consisted of \$18.7 million in cash and cash equivalents, a decrease from the \$20.8 million at March 31, 1983. During the 1984 fiscal year, the Company invested resources in inventories and capital equipment to expand manufacturing capacity for the Q500 Series 5¼-inch drives. An offshore manufacturing facility was also established

in Puerto Rico. Inventories grew to \$17.7 million from \$6.0 million as of March 31, 1983. Capital equipment purchases were \$6.3 million in fiscal 1984. Accounts receivable increases reflected the growth in sales.

At March 31, 1984 the Company's material unused sources of liquidity totaled \$37.4 million, consisting primarily of \$18.7 million in cash and \$18.7 million in long term marketable investment securities which are available for use if needed.

The Company believes that its current cash position and anticipated cash flow from operations are adequate to finance its planned growth at least through fiscal 1985.

Consolidated Statements of Operations

<i>Year ended March 31</i>	1984	1983	1982
Sales	\$67,069,000	\$41,779,000	\$13,656,000
Costs and expenses:			
Cost of sales	41,131,000	23,498,000	10,350,000
Research and development	3,156,000	2,420,000	427,000
Marketing	4,044,000	2,694,000	1,804,000
General and administrative	2,948,000	1,314,000	853,000
	<u>51,279,000</u>	<u>29,926,000</u>	<u>13,434,000</u>
Income from operations	15,790,000	11,853,000	222,000
Interest and dividend income (expense), net	3,433,000	999,000	(36,000)
Income before income taxes	19,223,000	12,852,000	186,000
Provision for income taxes (Note 10)	8,550,000	5,828,000	
Income before extraordinary credit	10,673,000	7,024,000	186,000
Extraordinary credit — reduction of income taxes from utilization of tax loss carryforward		814,000	
Net income	<u>\$10,673,000</u>	<u>\$ 7,838,000</u>	<u>\$ 186,000</u>
Income per common share (Note 1):			
Income before extraordinary credit	\$1.12	\$.86	\$.03
Extraordinary credit		.10	
Net income	<u>\$1.12</u>	<u>\$.96</u>	<u>\$.03</u>
Common and common equivalents used in computing per share amounts	9,516,211	8,172,090	6,595,098

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

	<i>March 31</i>	1984	1983
Assets	Current assets:		
	Cash, including certificates of deposit and time deposits of \$18,512,000 and \$20,428,000	\$18,672,000	\$20,836,000
	Accounts receivable, net of allowance for doubtful accounts of \$329,000 and \$235,000	9,182,000	5,859,000
	Interest and dividends receivable	675,000	479,000
	Inventories (Notes 1 and 3)	17,677,000	6,017,000
	Prepaid expenses	208,000	201,000
	Other current assets	93,000	19,000
	Total current assets	46,507,000	33,411,000
	Property and equipment at cost less accumulated depreciation (Note 4)	9,184,000	4,190,000
	Long-term marketable investment securities less valuation allowance of \$450,000 and \$1,175,000 (Note 5)	18,731,000	18,726,000
	Other assets	394,000	303,000
		\$74,816,000	\$56,630,000
Liabilities and Shareholders' Equity	Current liabilities:		
	Accounts payable	\$ 9,879,000	\$ 2,172,000
	Accrued compensation	864,000	499,000
	Income taxes payable	1,540,000	3,813,000
	Deferred income taxes (Note 10)	315,000	888,000
	Accrued warranty expense	908,000	329,000
	Other accrued liabilities	304,000	111,000
	Total current liabilities	13,810,000	7,812,000
	Deferred income taxes (Note 10)	695,000	329,000
	Commitments (Note 11)		
	Shareholders' equity (Notes 6, 7, 8, and 9):		
	Preferred stock, no par value, 4,000,000 shares authorized, none issued		
	Common stock, no par value, 30,000,000 shares authorized, 9,242,608 and 9,151,839 shares outstanding	43,833,000	43,409,000
	Valuation allowance for long-term marketable investment securities	(450,000)	(1,175,000)
	Retained earnings	16,928,000	6,255,000
	Total shareholders' equity	60,311,000	48,489,000
		\$74,816,000	\$56,630,000

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

	<i>Year ended March 31</i>	1984	1983	1982
Financial resources were provided by:	Operations:			
	Net income before extraordinary credit	\$10,673,000	\$ 7,024,000	\$ 186,000
	Charges not affecting working capital			
	— depreciation	1,333,000	555,000	180,000
	— deferred taxes	366,000	329,000	
	— unrealized loss on marketable investment securities	720,000	141,000	
	Resources provided by operations	13,092,000	8,049,000	366,000
	Extraordinary credit		814,000	
	Sale of convertible preferred stock, series B			150,000
	Sale of convertible preferred stock, series C		6,107,000	
	Proceeds from notes receivable from employees		75,000	
Common stock transactions	424,000	31,477,000	59,000	
	<u>13,516,000</u>	<u>46,522,000</u>	<u>575,000</u>	
Financial resources were used for:	Purchase of marketable investment securities		20,042,000	
	Acquisition of property and equipment, net of retirements	6,327,000	2,605,000	2,035,000
	Notes receivable from employees			16,000
	Other assets	91,000	61,000	185,000
		<u>6,418,000</u>	<u>22,708,000</u>	<u>2,236,000</u>
Increase (decrease) in working capital	<u>\$ 7,098,000</u>	<u>\$23,814,000</u>	<u>\$(1,661,000)</u>	
Increase (decrease) in components of working capital:	Cash	\$ (2,164,000)	\$20,578,000	\$(3,264,000)
	Accounts receivable	3,323,000	1,215,000	4,643,000
	Interest and dividends receivable	196,000	479,000	
	Inventories	11,660,000	1,321,000	4,413,000
	Prepaid income taxes		(22,000)	
	Prepaid expenses	7,000	117,000	39,000
	Other current assets	74,000	(16,000)	(16,000)
	Notes payable to bank		4,385,000	(4,385,000)
	Accounts payable	(7,707,000)	767,000	(2,572,000)
	Accrued compensation	(365,000)		(418,000)
	Income taxes payable	2,273,000	(3,813,000)	
	Deferred income taxes	573,000	(888,000)	
	Accrued warranty expenses	(579,000)	(255,000)	(74,000)
	Other accrued liabilities	(193,000)	(54,000)	(27,000)
	Increase (decrease) in working capital	<u>\$ 7,098,000</u>	<u>\$23,814,000</u>	<u>\$(1,661,000)</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Balance at March 31, 1981

Shares repurchased under employee stock purchase agreements *(Note 7)*
Shares issued under employee stock purchase agreements *(Note 7)*
Shares issued as stock bonus to employees
Shares issued as compensation for the services of a director *(Note 7)*
Shares issued in January 1982 *(Note 6)*
Net income for year ended March 31, 1982

Balance at March 31, 1982

Shares issued during April 1982 *(Note 6)*
Shares repurchased under employee stock purchase agreements *(Note 7)*
Conversion of all preferred stock into common stock *(Note 6)*
Public offering of common stock on December 10, 1982 *(Note 6)*
Shares issued under employee stock option plan *(Note 8)*
Valuation allowance for marketable investment securities
Net income for year ended March 31, 1983

Balance at March 31, 1983

Shares repurchased under employee stock purchase agreements *(Note 7)*
Shares issued under employee stock option plan *(Note 8)*
Shares issued under employee stock purchase plan *(Note 9)*
Shares issued as stock bonus to employees
Reduction of valuation allowance for marketable investment securities
Net income for year ended March 31, 1984

Balance at March 31, 1984

See accompanying notes to consolidated financial statements.

Convertible Preferred Stock

Series A		Series B		Series C		Common Stock (Notes 6, 7, 8 and 9)		Valuation allowance for marketable investment securities	Retained earnings (deficit)
Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount		
1,013,333	\$ 3,040,000	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
1,013,333	3,040,000	212,000	2,650,000			1,790,466	135,000		(1,583,000)
				410,667	\$ 6,107,000				
(1,013,333)	(3,040,000)	(212,000)	(2,650,000)	(410,667)	(6,107,000)	(49,133)	(4,000)		
						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
						(867)	(2,000)		
						71,904	91,000		
						17,647	299,000		
						2,085	36,000		
								725,000	
									10,673,000
						9,242,608	\$43,833,000	\$ (450,000)	\$16,928,000

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. All significant transactions and accounts between the Company and these subsidiaries have been eliminated in consolidation.

Revenue recognition

Revenue from sales of products is recognized upon shipment to customers.

Research and development expenses

Research and development expenditures are expensed when incurred.

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.

Inventories

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

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 per common share

Primary net income per common and common equivalent share is computed on the weighted average number of common shares outstanding during the respective periods, and including dilutive convertible preferred stock and options, using the treasury stock method.

**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 account for 16% and 11% of total sales in 1984

and 1983, respectively. Foreign sales were minor in 1982.

Major customers (those accounting for more than 10% of sales) accounted for 15%, 10%, 10% and 10% of revenues during the year ended March 31, 1984, 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:

<i>March 31</i>	1984	1983
Materials and purchased parts	\$ 6,960,000	\$1,930,000
Work in process	7,469,000	2,144,000
Finished goods	3,248,000	1,943,000
	<u>\$17,677,000</u>	<u>\$6,017,000</u>

**Note 4—
Property and equipment**

Property and equipment consisted of:

<i>March 31</i>	1984	1983
Machinery and equipment	\$ 6,024,000	\$2,444,000
Furniture and fixtures	1,300,000	578,000
Tooling	2,232,000	941,000
Leasehold improvements	1,211,000	780,000
Construction in progress	488,000	183,000
	11,255,000	4,926,000
Less—accumulated depreciation	(2,071,000)	(736,000)
	<u>\$ 9,184,000</u>	<u>\$4,190,000</u>

**Note 5—
Marketable
Investment Securities**

During fiscal 1983 the Company invested approximately \$20 million 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.

**Note 6—
Preferred and
common stock, and
initial public offering**

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.

**Note 7—
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 1984, 1983 and 1982, 867, 49,000 and 370,466 shares, respectively, were reacquired by the Company.

**Note 8—
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. At March 31, 1984 and 1983, options with respect to 291,300 shares and 419,000 shares, respectively of common stock were available for grant.

A summary of transactions relating to outstanding stock options follows:

<i>Year ended March 31</i>	1984		1983	
	Shares	Option Price	Shares	Option Price
Options outstanding beginning of period	415,000	\$.19-26.75	113,500	\$.19- .38
Options granted	139,200	16.50-30.25	331,500	1.50-26.75
Options cancelled	(11,500)	.38-22.00	(14,000)	.19- 3.00
Options exercised	(71,900)	.19- 4.00	(16,000)	.19- 1.50
Options outstanding end of period	470,800	\$.19-30.25	415,000	\$.19-26.75
Options exercisable end of period	39,418		28,322	

**Note 9—
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.

During fiscal 1984, 17,647 shares were issued under this plan.

Note 10—
Income taxes

The components for the provision for income taxes for the year ended March 31, 1984 and March 31, 1983 are presented below. During fiscal 1983 all

available net operating loss carryforwards were recognized.

<i>Year ended March 31</i>	1984	1983
Current—Federal	\$6,812,000	\$2,787,000
—State	1,945,000	990,000
Deferred—Federal	(125,000)	998,000
—State	(82,000)	239,000
Charge in lieu of federal income taxes which would have been required in the absence of loss carryforwards from prior periods		814,000
Total provision for income taxes	\$8,550,000	\$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:

<i>Year ended March 31</i>	1984	1983
Installment sales receivable	\$ 116,000	\$ 879,000
Excess of tax over book depreciation	366,000	329,000
Taxable portion of DISC income not currently deductible	172,000	131,000
Inventory valuation allowances	(673,000)	
Accrued warranty expense	(269,000)	(148,000)
Other	81,000	26,000
	\$ (207,000)	\$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, was approxi-

mately \$843,000 through March 31, 1984.

The Company's effective income tax rate for the years ended March 31, 1984 and March 31, 1983 varies from the 46% statutory federal rate for the following reasons:

<i>Year ended March 31</i>	1984		1983	
Taxes computed at the statutory rate	\$8,843,000	46.0%	\$5,912,000	46.0%
State income tax, net of federal benefit	1,005,000	5.2	664,000	5.1
Investment tax credits	(302,000)	(1.5)	(290,000)	(2.3)
Research and development tax credits			(310,000)	(2.4)
Dividend exclusion	(762,000)	(4.0)	(140,000)	(1.0)
Other	(234,000)	(1.2)	(8,000)	(0.1)
Provision for income taxes	\$8,550,000	44.5%	\$5,828,000	45.3%

The provision for the year ended March 31, 1983 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 same year.

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 II—
Commitments**

The Company leases its present facilities and certain equipment under non-cancellable operating lease agreements that range from 5 to 10 years. Some of the leases have renewal options ranging from 5 to 10 years.

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.

Rent expense charged to income is as follows:

<i>Year ended March 31</i>	1984	1983	1982
Rental expense	\$1,546,000	\$1,232,000	\$274,000
Sub-lease rental income	235,000	—	—
Net rental expense	\$1,311,000	\$1,232,000	\$274,000

Future minimum lease payments under operating leases are as follows:

<i>Year ending March 31</i>	
1985	\$ 1,880,000
1986	2,081,000
1987	2,029,000
1988	1,192,000
1989	888,000
Thereafter	2,357,000
Total future minimum lease payments	10,427,000
Future minimum sub-lease income	328,000
Net future minimum lease payments	\$10,099,000

Report of Independent Accountants

To the Shareholders and
Board of Directors of
Quantum Corporation

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In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, shareholders' equity and changes in financial position present fairly the financial position of Quantum Corporation and its subsidiaries at March 31, 1984 and 1983, and the results of their operations and the changes in their financial position for each of the three years in the period ended March 31, 1984, in conformity with generally accepted accounting principles consistently applied. 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.

PRICE WATERHOUSE

San Jose, California
May 23, 1984

Common Stock Trading Range

Quantum Corporation's common stock has been traded in the over-the-counter market under the NASDAQ symbol QNTM since the Company's initial public offering on December 10, 1982. The price per share reflected in the table represents the range of

high and low closing bid prices prior to May 9, 1983 and the closing prices in the NASDAQ National Market System after such date, for the quarter indicated.

<i>Fiscal 1984</i>	High	Low
Fourth quarter ended March 31, 1984	20 ½	16
Third quarter ended December 31, 1983	23 ¼	16 ½
Second quarter ended October 1, 1983	30 ½	18
First quarter ended July 2, 1983	34 ¾	27 ½
<i>Fiscal 1983</i>		
Fourth quarter ended March 31, 1983	28 ¼	20
Third quarter ended January 1, 1983	21 ¾	19 ½

The Company has not paid cash dividends on its common stock and does not plan to pay cash dividends to its shareholders in the near future. The Company presently intends to retain its earnings to

finance future growth of its business.

As of June 6, 1984 there were approximately 1800 shareholders of the Company.

Board of Directors

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

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

Officers

James L. Patterson
President and
Chief Executive Officer

Helen Preston
Vice President,
Human Resources

Richard P. Taylor
Vice President,
Manufacturing

Arthur P. Geffon
Vice President,
Engineering

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

James G. Watson
Vice President, Marketing

Sales Offices

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Telephone: (603) 893-2672

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Santa Clara, CA 95050
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Telephone: (512) 327-9322

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West Germany
Telephone: (611) 666-6167

1931 North Meacham Road
Suite #341
Schaumburg, IL 60195
Telephone: (312) 397-7410

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:

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Vice President, Finance
Secretary and Treasurer
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Milpitas, CA 95035

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& 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 3:30 p.m. on August 15, 1984 at
the Red Lion Inn, 2050 Gateway
Place, San Jose, CA.

Jim Patterson

QUANTUM

Quantum Corporation
1804 McCarthy Blvd.
Milpitas, CA 95035