Quantum Corporation

1987

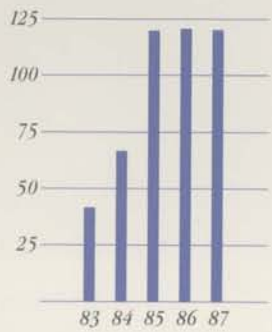
Annual Report 1987

# FINANCIAL HIGHLIGHTS

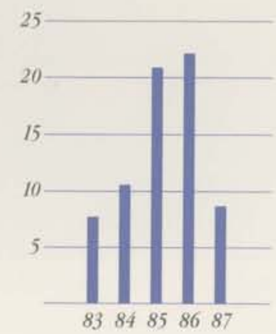
For the fiscal years ended March 31

| (Thousands except per share and employee amounts) | 1987 | 1986 | 1985 | 1984 | 1983 |
|---|---|---|---|---|---|
| Sales | $120,760 | $121,244 | $120,349 | $67,069 | $41,779 |
| Net income | 8,806 | 22,243 | 20,973 | 10,673 | 7,838 |
| Income per share: | | | | | |
| Income before extraordinary credit | .95 | 2.30 | 2.19 | 1.12 | .86 |
| Net income | .95 | 2.30 | 2.19 | 1.12 | .96 |
| Number of employees | 696 | 696 | 771 | 628 | 291 |
| Working capital | 99,024 | 94,064 | 71,599 | 32,697 | 25,599 |
| Total assets | 137,322 | 126,162 | 99,526 | 74,816 | 56,630 |
| Shareholders' equity | 108,108 | 105,812 | 82,481 | 60,311 | 48,489 |

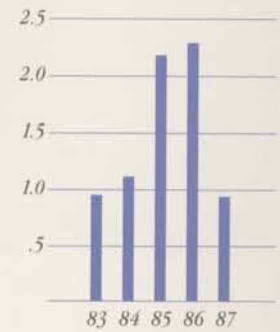
*Sales*
*($ millions)*

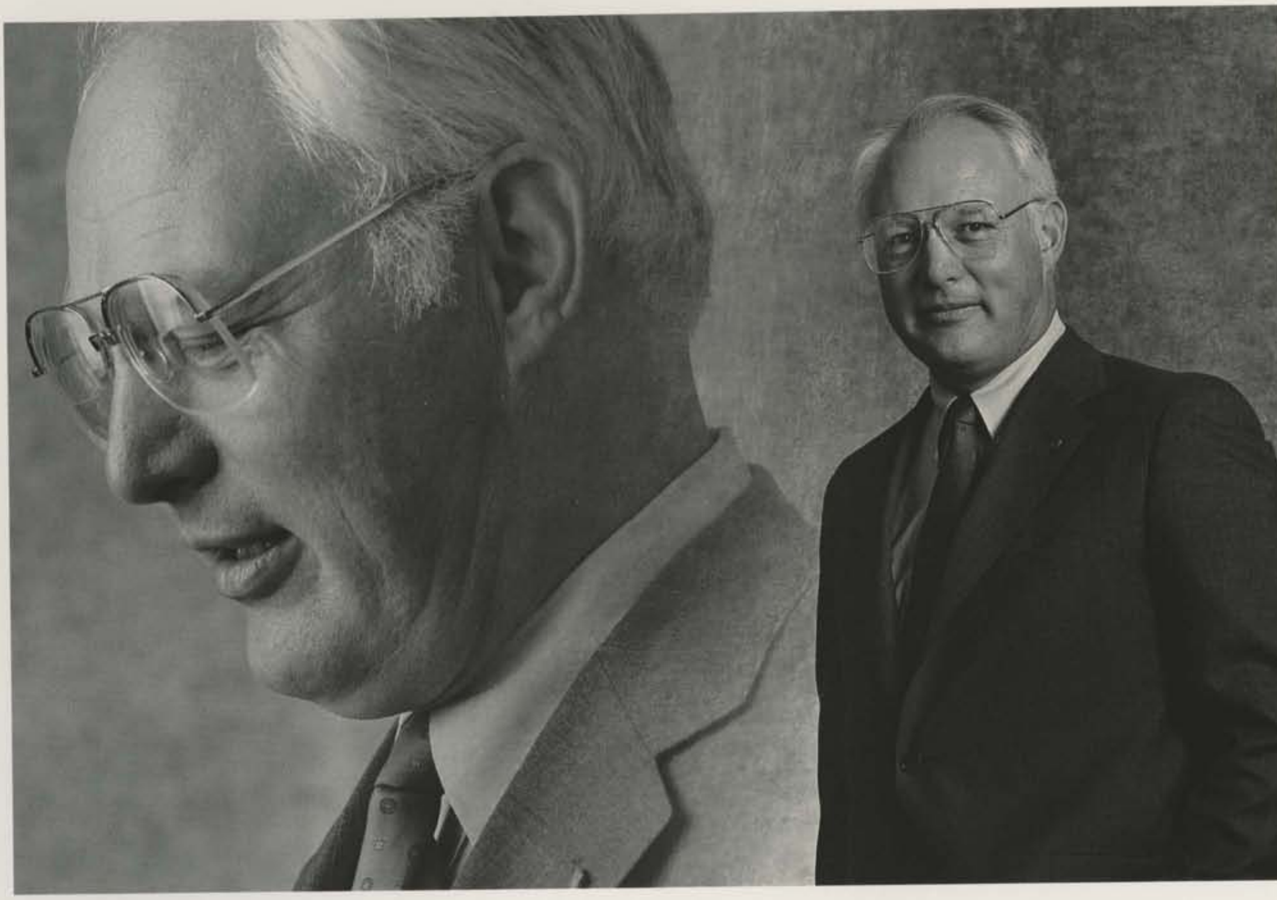



*Net Income*
*($ millions)*




*Earnings per share*
*($)*





*James L. Patterson, one of Quantum's founders, served as the company's chairman, president and chief executive officer from its inception in 1980 until his retirement in May of this year. He was succeeded by Stephen M. Berkley as chairman of the board and chief executive officer, and David A. Brown as president. Jim remains active on Quantum's Board of Directors.*

## TO OUR SHAREHOLDERS

Fiscal 1987 was a year of mixed results for Quantum. In the OEM business, demand for our Q200 Series™ products increased significantly, but sales from these products were not sufficient to offset declining sales from our older products. Our subsidiary, Plus Development Corporation, continued its strong performance with the introduction of a new member of the Hardcard™ product family, which contributed to record revenues and solid gross margins for that business.

■ Revenue for the fiscal year was $120,760,000 compared to $121,244,000 in 1986. Net income was $8,806,000 versus $22,243,000 for the year earlier. Earnings per share were $.95 compared with $2.30 for fiscal year 1986.

■ Fiscal 1987 earnings included a pretax charge of $3,000,000, which was taken in the third quarter to provide for the anticipated cost of closing our Puerto Rico facility where our older products are made. Fiscal 1986 results included a $6,000,000 pretax addition to fourth quarter income resulting from the settlement of litigation with Computer Memories, Inc.

■ Sales were essentially flat compared to 1986 largely due to the continuing decline in sales of two mature OEM products, the Q2000 and Q500. During the March quarter, we began a very aggressive ramp on the Q200 Series products. Fourth quarter sales of Q200 Series products increased 25 percent over third quarter sales. However, the increased sales came late in the year and were not sufficient to offset the decline from our older products.

■ We continue to ramp production on our Q200 Series. In the months subsequent to the close of fiscal 1987, we have seen a dramatic increase in production of these products. We currently are running multiple shifts to meet customer demand, and production rates are an order of magnitude greater than in fiscal 1987.

■ In June 1986, Plus introduced Hardcard 20, which provides personal computer users with 20 megabytes of formatted storage on a plug-in expansion card. Sales of this new product, combined with sales of the original 10-megabyte Hardcard, accounted for more than half of the total revenue for the corporation in the year ended March 31, 1987. Subsequent to the close of the fiscal year, Plus introduced a third generation Hardcard product. Hardcard 40 offers 40 megabytes of storage and extends the Hardcard application base to the new IBM Personal System/2 Model 25 and 30, and to 80286 machines.

■ The market acceptance of Hardcard products has been impressive. In fiscal 1987, sales passed the $65 million mark. Independent market researchers estimate that Hardcard enjoys a market share in excess of 70 percent through dealers and distributors.

■ Hardcard products are manufactured by our manufacturing partner, Matsushita Kotobuki Electronics Ltd. (MKE) of Japan, and currently are distributed through more than 2,500 retail outlets in 22 countries. During the year, Plus was awarded a patent on the design of Hardcard, which further strengthens our position in this rapidly growing market.

■ Fiscal 1987 was an exciting year for Plus, but a difficult one for our OEM business. As we look to fiscal 1988, we expect to see significant increases in revenue from our OEM business, due to increasing production of Q200 Series products, and a continuation of Plus' contribution from the Hardcard products. We plan to introduce an exciting new line of 3½-inch OEM products, which will be manufactured by MKE in a dedicated, modern manufacturing facility in Japan.

■ This will be my last letter to shareholders as I am stepping down from the day-to-day management of Quantum. I am very pleased to leave our company in the hands of Steve Berkley, who succeeds me as chairman and chief executive officer, and Dave Brown, who is president and chief operating officer in charge of our OEM business. I have had the pleasure of working with Steve and Dave for more than six years. In that period, I have learned a great deal from both and know they will be a very effective team to lead Quantum and Plus in the future.

James L. Patterson

Quantum Corporation consists of two complementary businesses that provide mass storage products to the computer industry. Our original business is a leading supplier of medium-capacity hard disk drives for original equipment manufacturers (OEMs). These Quantum disk drives provide storage for multi-user and high-end single user systems that range from fileservers and super microcomputers to professional and engineering workstations.

■ Plus Development Corporation, a majority-owned subsidiary of Quantum founded in 1983, develops and markets Hardcard™ hard disk expansion cards that are sold to end users through retail computer stores. Hardcard products provide an easy way for personal computer users to increase the capacity and performance of their systems.

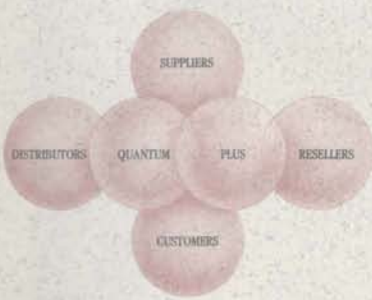
Good customer partnerships are a key to success at Quantum. Apple Computer also believes in strong vendor-customer relationships. Quantum Account Executive Chris Badger, right, and Shailesh Patel, Apple's hard disk drive manager, collaborated on the drive interface for the new Macintosh II. Susan Fritsch, Apple sales development specialist, demonstrates the Macintosh II.

## The Partnership Concept

■ Despite differences in the products of our two businesses and the markets they serve, one common element pervades the business philosophies of both Quantum OEM and Plus: the emphasis on partnerships. Both of our organizations actively cultivate partnerships with our customers, our suppliers, our distributors and dealers. Additionally, we benefit from strong alliances within and between our two organizations.

■ Successful partnerships are the building blocks of successful businesses. Quantum's concept of a partnership is an alliance with a company or individual where the success of one depends on the success of the other. The relationship is characterized by a mutual effort to learn as much as possible about the capabilities and needs of the other and the continual application of such understanding to serve shared needs.

# PARTNERSHIPS




■ This annual report will examine different types of partnerships that are vital to the success of both Quantum OEM and Plus. It will discuss the important partnerships that we have built with our OEM customers and with Plus' dealer and distributor network. It will examine the role of effective relationships with key suppliers to both organizations. And very important, it will show how Quantum OEM and Plus work together, sharing market knowledge, engineering talent, manufacturing expertise and common experiences to contribute to the growth and success of both businesses.

## Customer Partnerships

■ In the highly competitive disk drive industry, Quantum's OEM business consistently stands out as a supplier of innovative products with exceptional quality and reliability. Customers' acceptance rates for Quantum OEM disk drives average over 99 percent. The many ship-to-stock programs with our customers underscore the level of confidence they have in our products.

■ Much of the success Quantum has achieved is a result of strong partnerships with our customers. Quantum sales, marketing, engineering and manufacturing professionals work closely with customers throughout the life cycles of their products. A major Quantum asset is flexibility–the ability to understand customers' needs, anticipate them when possible and respond to them quickly.

■ In the earliest stages of product development, both of customers' systems and Quantum drives, strong partnerships are particularly critical. Quantum marketing individuals interface with customers regularly to understand their future product directions and thereby anticipate their mass storage needs.

■ Recently, Quantum announced a major new thrust into the development of a family of 3½-inch disk drives for OEMs. Smaller drives allow for smaller systems, which improves portability. They require less power and dissipate less heat. Overall, smaller drives are more cost effective than larger drives.

■ The industry we serve is moving increasingly to 3½-inch drives. This direction is driven by two primary forces: the demands of the personal computer industry, and the requirements of OEMs in the multi-user and workstation segments to provide competitively priced low-end systems. Quantum's customer relationships helped us to understand and verify this trend, which led us to our decision to focus our development efforts on this emerging form factor.

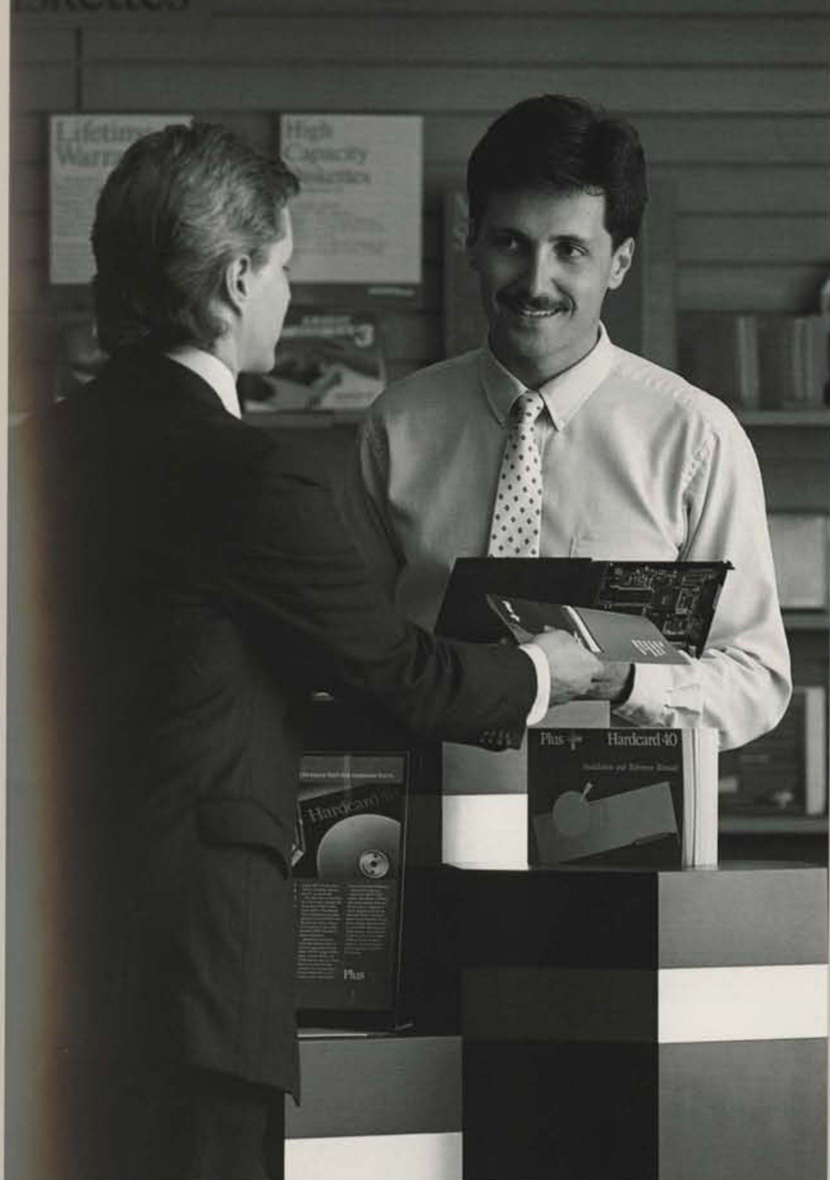
■ As customers' systems move beyond the concept stage to initial design, Quantum sales and engineering staffs work closely with customers to understand their mass storage requirements. In many cases, Quantum develops a disk drive in tandem with the system design. This allows for customization and response to unique customer requirements.

■ Quantum's objective is to provide the optimal storage solution to coincide with the timing of customers' requirements. Our success in serving their needs is dependent upon access to critical product specifications, just as their decision to design a Quantum disk drive into their systems is dependent upon having detailed information on our products.

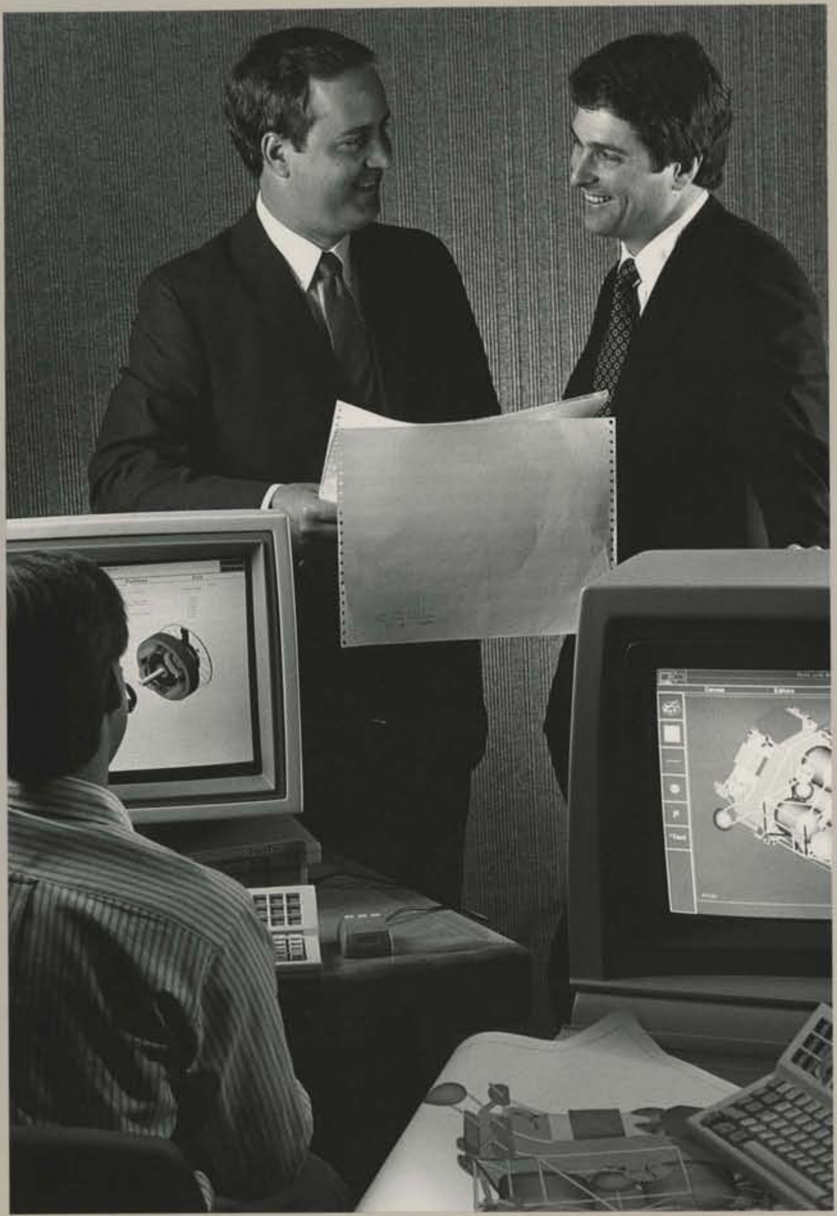
■ As customers' products mature, frequently their mass storage requirements change. They may need to upgrade the storage capacity and performance of their systems. Quantum works closely with customers in this stage to provide an upgrade path to new generations of disk drive products.

■ As mature systems are eventually phased out in favor of newer systems, Quantum and systems manufacturers maintain an active relationship to forecast the demand for both the systems themselves and the disk drives in those systems. The resulting sharing of information enables Quantum to manage production levels such that customers' demands are met and Quantum's profitability is optimized.

■ Such was the case in November 1986 when Quantum announced a plan to discontinue production of two older disk drive products, the Q500 and the Q2000, which are sold primarily into mature systems. Quantum currently




Plus Development's retail partners are a direct link to personal computer users. Businessland, one of the largest computer retail chains, was also one of the first outlets to market the Hardcard.™ "We work closely with the people at Plus," says Michael Pazin, Businessland center assistant, right. Plus representatives conduct sales seminars and provide technical and marketing support for Hardcard retailers.



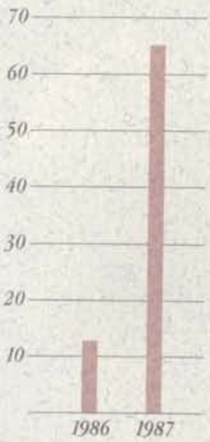
Maintaining a good customer relationship means providing value and flexibility. Intergraph Vice President of Systems Development Bruce Imsand, right, uses Quantum drives in the company's product line. "Quantum brought Intergraph a way to increase overall system performance," says Quantum Regional Sales Manager Steven Smith. "And, our half-high drives provided the high performance and small package needed for the new InterPro 32C workstation."

is working closely with a couple of key customers to ensure that their needs are met before discontinuing these products in favor of newer products like the Q200 Series™ intelligent disk drives.

■ Often, Quantum disk drives are used in several of a customer's systems that are in various stages of their life cycles. By maintaining close contact with customers throughout their product life cycles, Quantum is best able to anticipate their needs and provide mass storage solutions for current and future products.

## Partnerships with Dealers and Distributors

*Hardcard revenue*
*($ millions)*




■ Plus Development's customers are very different from those of the OEM business. Hardcard products are marketed through an extensive dealer and distributor network and are sold through more than 2,500 retail outlets throughout the world.

■ Plus was founded in 1983 as a separate entity from Quantum's OEM business, with its own marketing, engineering and sales organizations. In choosing to establish Plus as a separate business, the company recognized that Plus' first end-user products, while based on technology that originated in Quantum OEM, would be sold to a much different customer, and through a significantly different channel from its traditional OEM products.

■ For Plus to be successful, it had to establish relationships with a completely new set of people–dealers and distributors that sell computer products to end users. To supplement its dealer network, Plus established a partnership with Microamerica of Marlborough, Massachusetts, a premier distributor of computer products. Microamerica extends the effective reach of the Plus sales organization to small dealers and value-added resellers that collectively account for substantial Hardcard revenues. Today, the Plus sales organization and Plus' dealer and distributor network work in tandem to market Hardcard products to end users.

■ During fiscal 1987, Plus continued to expand its distribution channel to new dealer organizations. Several international distributors have been added, allowing Plus to sell Hardcard products in 27 countries.

■ Partnerships within its distribution channel are essential to Plus' success; similarly, the OEM business relies upon distributors to extend the reach of its sales force. Arrow Electronics of Melville, New York, has been a valuable partner of the OEM sales organization since 1982. During fiscal 1987, a new partnership was formed with Marshall Industries of El Monte, California. Together, Arrow Electronics and Marshall

Industries add more than 500 sales professionals in 75 locations throughout the United States and Canada in support of Quantum disk drives. A cooperative advertising program with Marshall Industries further aids the OEM selling effort.

■ Quantum's OEM business also benefits from partnerships with distributors in a dozen countries. These relationships are coordinated through the company's Frankfurt, West Germany, facility.

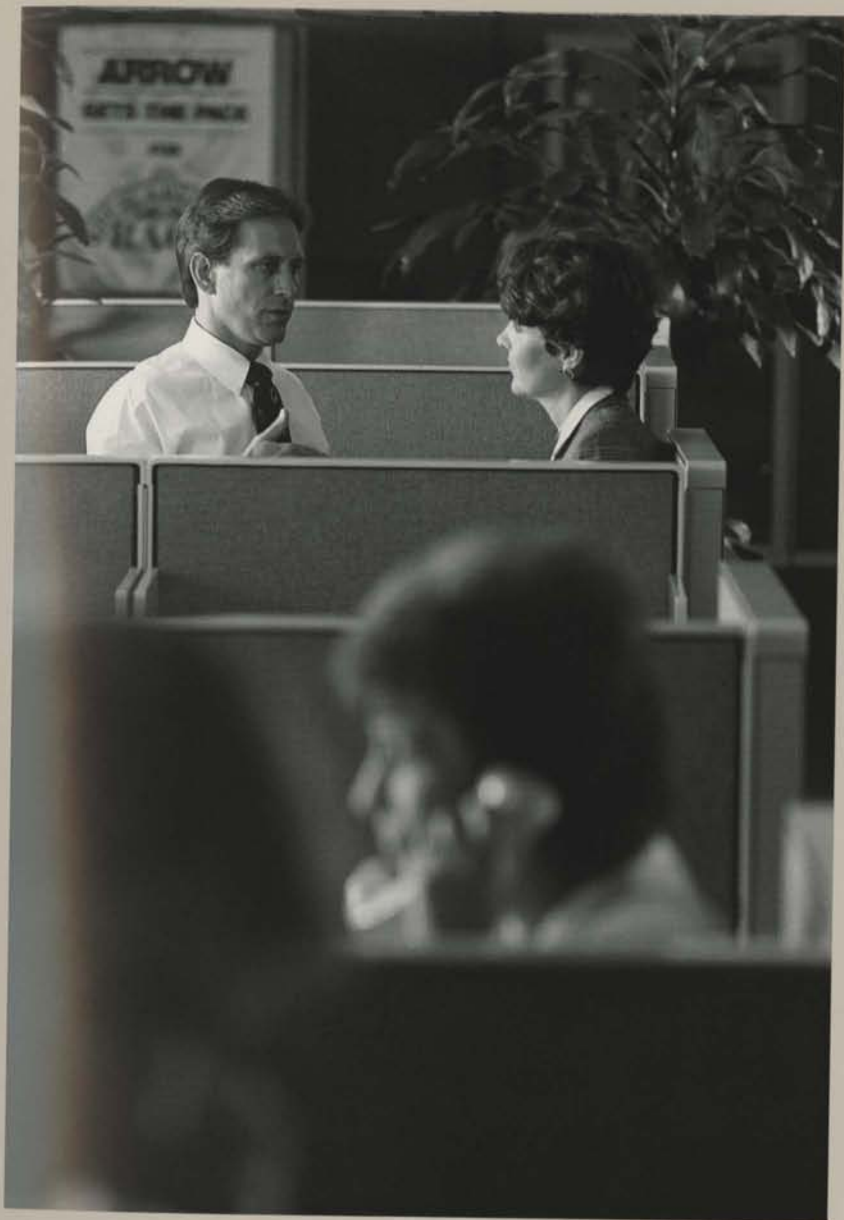
## Supplier Partnerships

■ Partnerships with suppliers play a critical role in Quantum's ability to meet customer demand, particularly in Quantum's OEM business. Suppliers of various components typically are involved early in the design stage of a new family of Quantum disk drives. Components often must be customized to some degree to meet Quantum drive specifications, and development of these parts must begin early enough to ensure timely delivery of components to our manufacturing facility. Quantum has long-standing relationships with a number of suppliers who have provided components for several generations of disk drive families. We work closely with suppliers to understand their product design and manufacturing capabilities.

■ Plus' relationships with suppliers are somewhat different from those in the OEM business. Hardcard products are built by our Japanese manufacturing partner, Matsushita Kotobuki Electronics of Ipponmatsu, Japan. Some of the components are manufactured by MKE itself.

■ The partnership with MKE is a very important one to Plus, dating from Plus' start-up phase in 1984. MKE is well known for its sophisticated manufacturing processes, and high volume, high quality manufacturing capabilities. The relationship with MKE combines the strengths of both MKE and Plus: MKE's manufacturing capabilities and the technological, marketing and distribution skills of Plus. Plus' personnel also bring to the partnership an expert knowledge of the needs of the personal computer marketplace and excellence in product design.


■ Based upon the successful partnership between Plus and MKE, Quantum's OEM business will enter into a similar relationship with MKE relative to the manufacture of its new family of 3½-inch disk drives. This new arrangement will combine the engineering and design expertise of Quantum, along with its experience in developing multiple successful generations of OEM products, with MKE's excellent manufacturing capabilities.




At Quantum, sales people work closely with distributors. Arrow Electronics, the nation's second largest industrial distributor, has been handling Quantum drives for five years. Meetings between Michael Hart, Arrow vice president, left, and Sueki Woodward, Quantum's national distribution sales manager, focus on progress and strategy. "We consider our distributors to be an extension of our sales force," says Woodward.

The right fit and mutual support are important in a good partnership, and the Counterpoint-Quantum team has both. "The embedded SCSI Q280 was a good fit for Counterpoint, since the System 19K was a SCSI project from the very beginning," explains Quantum Account Executive David Bales, right. "Quantum provided excellent technical support throughout the entire systems integration process," says Counterpoint Project Manager Mark Walker.

## Partnerships within Quantum and Plus

■ A more subtle type of partnership, but perhaps one of the most important, is that which exists within Quantum and Plus, and between the two organizations. The various functions within each organization work closely together to translate market needs into manufacturable products. A phrase commonly heard in both organizations is "design for manufacturability."

■ In the OEM business, the Q200 Series is a recent example of this philosophy. Quantum developed the Q200 Series product and process in tandem. Features in the drive that enhanced manufacturability were encouraged. Those that encumbered the manufacturing process were revised.

■ In Plus, MKE engineers and Plus engineers work together to develop a product design appropriate to MKE's manufacturing process. As a result, yields on Hardcard products are among the highest in the industry.

■ Quantum and Plus also work closely together, sharing resources, expertise and experience. The development effort that will produce Quantum's first family of 3½-inch OEM products is an excellent example of partnership between Plus and Quantum. The team that is developing the new product family consists of engineers from both Plus and Quantum.

■ Quantum has seven years' experience designing, manufacturing and marketing multiple families of successful disk drive products for OEMs. Plus has produced three successful generations of Hardcard products, which are 3½-inch disk drives on a plug-in card. The basic architecture of these products incorporated many important features developed and refined as part of earlier OEM drives. Plus also established the manufacturing relationship with MKE. MKE will manufacture the new family of 3½-inch OEM products.

■ Partnerships have been important to Quantum Corporation's success from the beginning. As the company grows and expands into new markets, strong partnerships with customers, suppliers, distribution channels and internally will take on even greater significance. It is through close working relationships, constant communication, and a mutual objective of learning as much as possible about the needs and capabilities of the other that Quantum will continue to meet the mass storage needs of computer manufacturers and end users worldwide.

# SELECTED FINANCIAL DATA

Five years ended March 31, 1987

| | 1987 | 1986 | 1985 | 1984 | 1983 |
|---|---|---|---|---|---|
| Net sales | $120,760 | $121,244 | $120,349 | $67,069 | $41,779 |
| Income before extraordinary credit | 8,806 | 22,243 | 20,973 | 10,673 | 7,024 |
| Net income | 8,806 | 22,243 | 20,973 | 10,673 | 7,838 |
| Earnings per share: | | | | | |
| Income before extraordinary credit | .95 | 2.30 | 2.19 | 1.12 | .86 |
| Net income | .95 | 2.30 | 2.19 | 1.12 | .96 |
| Common & common equivalent shares | 9,317 | 9,673 | 9,589 | 9,516 | 8,172 |
| Total assets | 137,322 | 126,162 | 99,526 | 74,816 | 56,630 |
| Shareholders' equity | 108,108 | 105,812 | 82,481 | 60,311 | 48,489 |
| Backlog | 26,053 | 22,422 | 32,608 | 43,947 | 14,250 |
| Number of employees | 696 | 696 | 771 | 628 | 291 |
| Net sales per employee | 176 | 161 | 172 | 155 | 154 |

All amounts are in thousands except per share amounts and number of employees. All numbers represent dollar amounts except common & common equivalent shares and number of employees.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

## RESULTS OF OPERATIONS

Revenue for the fiscal year ended March 31, 1987, was $120,760,000 as compared with fiscal 1986 revenue of $121,244,000 and fiscal 1985 revenue of $120,349,000. Sales of the Hardcard,™ including the Hardcard 20, represented 54% of total revenue for fiscal 1987, as compared to 11% in the prior year. The Company introduced the original Hardcard in fiscal 1986 and the Hardcard 20 in fiscal 1987. The increase in the Hardcard sales from fiscal 1986 to fiscal 1987 was attributable to the significantly higher volume of shipments of Hardcard.

For the second successive year, the Company experienced a decline in unit sales of its disk drive products to original equipment manufacturers. Demand for the Company's mature product lines, the Q2000 Series 8-inch product and the Q500 Series 5¼-inch product, decreased as customers phased out products using these disk drives. Due to the continued softness in demand for these products, the Company announced the discontinuance of these product lines during fiscal 1988 and the closure of its Puerto Rican manufacturing plant by March 31, 1988. A $3,000,000 charge to income was made in the third quarter to accrue for certain costs relating to the Puerto Rican closure.

The decline in Q2000 and Q500 sales was partially offset by the introduction of the Q200 Series,™ half height and full height 5¼-inch drives with SCSI interface and caching. The development of the Q200 Series was substantially complete at the end of fiscal 1986; however, technical problems have, to date, delayed the Company's ability to produce the Q200 in commercial volumes.

In fiscal 1987, the Company's overall gross margin was 34%, a decline from 40% and 39% in fiscal 1986 and 1985, respectively. Although material costs on OEM products were slightly less than in the prior years as the cost of certain components declined, material costs of the Hardcard increased due to currency fluctuations. In addition, OEM manufacturing overhead costs increased due to start-up costs for the Q200 assembly line and proportionally higher fixed costs due to lower volume. Also contributing to the decrease in the overall gross margin percentage was the decrease in average unit prices for older OEM products. The decline in gross margin was partially offset by sales of the higher-margin Hardcard.

Research and development expenses remained relatively constant on a year-to-year basis and represented 9.5% of total revenue in fiscal 1987 as compared with 9.3% in 1986 and 6.0% in 1985. In fiscal 1987, such expenses were incurred by the Company in connection with the completion of development programs for the Q200 Series and Hardcard 20 and new development programs started for the OEM and retail markets.

Marketing expenses increased to $13,832,000, or 11.5% of sales in 1987, compared with $10,653,000, or 8.8% of sales in 1986 and $5,397,000, or 4.5% of sales in 1985. The majority of the increase is attributable to substantial expenditures for advertising and promotion programs relating to the Hardcard and the introduction of the new OEM products.

General and administrative expenses increased to 5.3% of sales in 1987 from 4.0% and 4.4% in 1986 and 1985, respectively, primarily as a result of incremental administration costs incurred in operating the Company's subsidiary, Plus Development Corporation, increased attorney fees relating to the defense of the Company's patents and increases to corporate and OEM administrative staff.

Interest and investment income declined slightly from the prior year. The decrease was attributable to lower rates of return experienced during fiscal 1987.

Quantum's effective tax rate was 19% during 1987, a decrease from 1986's effective tax rate of 30% and 1985's effective tax rate of 32%. The decrease is attributable to a higher proportion of income generated from the Company's Puerto Rican operations which are subject to a lower tax rate, increased research and development tax credits as a percentage of pre-tax income, and utilization of capital loss carryforwards. It is anticipated that the effective tax rate will increase as operations in Puerto Rico are phased out.

Fiscal 1987 net income of $8,806,000 declined as compared to 1986 and 1985 net income of $22,243,000, and $20,973,000, respectively, principally due to the lack of revenue growth compounded with lower gross margins, costs associated with the closing of the Puerto Rico facility, increased research and development and marketing expenses, and substantial start-up expenses associated with the introduction of the Q200 product line. In addition, the decrease from fiscal 1986 to fiscal 1987 is partially attributable to the $6,000,000 income recognized in 1986 from the CMI, Inc. litigation settlement. Substantially all of the Company's fiscal 1987 net income was generated by its majority-owned subsidiary, Plus.

In June 1987, Quantum announced the discontinuance of its Q160 160-megabyte disk drive. As a result, the Company expects to incur a one-time charge to operations in the first quarter of fiscal 1988 of approximately $3,500,000 for certain costs relating to the discontinuance.

The Company believes that inflation has not had a significant impact on its net revenues or results of operations.

## LIQUIDITY AND CAPITAL RESOURCES

At March 31, 1987, the Company had working capital of $99,000,000, which included cash and cash equivalents of approximately $77,000,000. Working capital increased $5,000,000 over the prior year. Sources of funds included $17,300,000 from operations and $4,300,000 from the exercise of stock options by employees.

Application of funds included $10,800,000 for the repurchase of the Company's common stock in the open market and $5,900,000 for capital equipment investments, primarily for test equipment, tooling and equipment used in manufacturing the Q200 Series product.

In addition, the Company's inventory increased by $5,800,000 during fiscal 1987 as the Q200 Series product ramped to meet customer demands.

The Company anticipates no material requirements for capital expenditures in fiscal 1988 and expects to be able to meet its capital expenditure and working capital requirements from the funds provided by operations and by existing financing arrangements.

In assessing the Company's liquidity, the impact of the Tax Reform Act of 1986 has been considered, particularly the provisions that repeal the investment tax credit; alter depreciation schedules; provide for an alternative minimum tax; and lower the overall corporate income tax rate. Management does not expect these changes to have a significant impact on the Company.

# CONSOLIDATED STATEMENTS OF OPERATIONS

| Year ended March 31 | 1987 | 1986 | 1985 |
|---|---|---|---|
| Sales | $120,760,000 | $121,244,000 | $120,349,000 |
| Costs and expenses: | | | |
| Cost of sales | 79,269,000 | 72,868,000 | 73,668,000 |
| Research and development | 11,499,000 | 11,298,000 | 7,210,000 |
| Marketing | 13,832,000 | 10,653,000 | 5,397,000 |
| General and administrative | 6,377,000 | 4,897,000 | 5,265,000 |
| Provision for closure of Puerto Rican operations (Note 9) | 3,000,000 | | |
| | 113,977,000 | 99,716,000 | 91,540,000 |
| Income from operations | 6,783,000 | 21,528,000 | 28,809,000 |
| Interest and dividend income, net | 4,093,000 | 4,315,000 | 3,098,000 |
| Income from litigation settlement (Note 10) | | 6,000,000 | |
| Loss on sale of marketable securities (Note 11) | | | (1,245,000) |
| Income before income taxes | 10,876,000 | 31,843,000 | 30,662,000 |
| Provision for income taxes (Note 8) | 2,070,000 | 9,600,000 | 9,689,000 |
| Net income | $ 8,806,000 | $ 22,243,000 | $ 20,973,000 |
| Net income per common share (Note 1) | $0.95 | $2.30 | $2.19 |
| Common and common equivalents used in computing per share amounts | 9,316,589 | 9,672,573 | 9,589,114 |

See accompanying notes to consolidated financial statements.

# CONSOLIDATED BALANCE SHEETS

| March 31 | 1987 | 1986 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash, including certificates of deposit of $61,912,000 and $63,317,000 | $ 65,611,000 | $ 67,767,000 |
| Cash, restricted certificates of deposit (Note 12) | 11,500,000 | 10,250,000 |
| Accounts receivable, net of allowance for doubtful accounts of $1,290,000 and $898,000 | 12,246,000 | 11,688,000 |
| Inventories (Notes 1 and 4) | 20,956,000 | 15,178,000 |
| Income tax receivable | 2,496,000 | |
| Prepaid income taxes (Note 8) | 1,356,000 | 1,385,000 |
| Prepaid expenses | 741,000 | 224,000 |
| Other current assets | 2,725,000 | 697,000 |
| Total current assets | 117,631,000 | 107,189,000 |
| Property and equipment, at cost less accumulated depreciation (Note 5) | 19,337,000 | 18,508,000 |
| Other assets | 354,000 | 465,000 |
| | $137,322,000 | $126,162,000 |

| | | |
|---|---|---|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 10,101,000 | $ 8,824,000 |
| Accrued compensation | 1,874,000 | 1,391,000 |
| Income taxes payable | 332,000 | 324,000 |
| Accrued warranty expense | 1,326,000 | 1,537,000 |
| Other accrued liabilities | 1,974,000 | 1,049,000 |
| Estimated liabilities related to closure of Puerto Rican operations (Note 9) | 3,000,000 | |
| Total current liabilities | 18,607,000 | 13,125,000 |
| Deferred income taxes (Note 8) | 10,607,000 | 7,225,000 |
| Commitments and contingencies (Note 12) | | |
| Shareholders' equity (Notes 6 and 7): | | |
| Preferred stock, no par value, 4,000,000 shares authorized, none issued | | |
| Common stock, no par value, 30,000,000 shares authorized, 9,089,148 and 9,462,694 shares outstanding | 46,974,000 | 45,668,000 |
| Retained earnings | 61,134,000 | 60,144,000 |
| Total shareholders' equity | 108,108,000 | 105,812,000 |
| | $137,322,000 | $126,162,000 |

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

| Year ended March 31 | 1987 | 1986 | 1985 |
|---|---|---|---|
| Financial resources were provided by: | | | |
| Operations: | | | |
| Net income | $ 8,806,000 | $22,243,000 | $20,973,000 |
| Charges not affecting working capital | | | |
| – depreciation | 5,091,000 | 3,603,000 | 2,433,000 |
| – deferred taxes | 3,382,000 | 4,158,000 | 2,372,000 |
| – write-down of marketable investment securities | | | 456,000 |
| – loss on sale of marketable investment securities | | | 1,245,000 |
| Resources provided by operations | 17,279,000 | 30,004,000 | 27,479,000 |
| Proceeds from sales of marketable securities | | | 17,480,000 |
| Issuance of common stock | 4,282,000 | 1,088,000 | 747,000 |
| | 21,561,000 | 31,092,000 | 45,706,000 |
| Financial resources were used for: | | | |
| Acquisition of property and equipment, net of retirements | 5,920,000 | 8,598,000 | 6,762,000 |
| Purchase of Company common stock in the open market | 10,792,000 | | |
| Other assets | (111,000) | 29,000 | 42,000 |
| | 16,601,000 | 8,627,000 | 6,804,000 |
| Increase in working capital | $ 4,960,000 | $22,465,000 | $38,902,000 |
| Increase (decrease) in components of working capital: | | | |
| Cash | $(2,156,000) | $20,801,000 | $28,294,000 |
| Cash, restricted | 1,250,000 | 10,250,000 | |
| Accounts receivable | 558,000 | (1,719,000) | 4,225,000 |
| Inventories | 5,778,000 | (7,836,000) | 5,337,000 |
| Income tax receivable | 2,496,000 | | |
| Prepaid income taxes | (29,000) | 425,000 | 960,000 |
| Prepaid expenses | 517,000 | 12,000 | 4,000 |
| Other current assets | 2,028,000 | (321,000) | 250,000 |
| Accounts payable | (1,277,000) | 252,000 | 803,000 |
| Accrued compensation | (483,000) | (224,000) | (303,000) |
| Income taxes payable | (8,000) | 1,259,000 | (43,000) |
| Deferred income taxes | | | 315,000 |
| Accrued warranty expenses | 211,000 | (14,000) | (615,000) |
| Other accrued liabilities | (925,000) | (420,000) | (325,000) |
| Estimated liabilities related to closure of Puerto Rican operations | (3,000,000) | | |
| Increase in working capital | $ 4,960,000 | $22,465,000 | $38,902,000 |

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| | Common Stock (Notes 6 and 7) Shares | Amount | Valuation allowance for marketable investment securities | Retained earnings | Total |
|---|---|---|---|---|---|
| Balance at March 31, 1984 | 9,242,608 | $43,833,000 | $(450,000) | $16,928,000 | $ 60,311,000 |
| Shares repurchased from employees | (1,680) | (46,000) | | | (46,000) |
| Shares issued under employee stock option plan (Note 6) | 92,063 | 309,000 | | | 309,000 |
| Shares issued under employee stock purchase plan (Note 7) | 30,994 | 484,000 | | | 484,000 |
| Valuation allowance for marketable investment securities | | | 450,000 | | 450,000 |
| Net income for year ended March 31, 1985 | | | | 20,973,000 | 20,973,000 |
| Balance at March 31, 1985 | 9,363,985 | $44,580,000 | | $37,901,000 | $ 82,481,000 |
| Shares repurchased under employee stock purchase agreements | (3,034) | (1,000) | | | (1,000) |
| Shares repurchased from employees | (1,822) | (45,000) | | | (45,000) |
| Shares issued under employee stock option plan (Note 6) | 70,739 | 299,000 | | | 299,000 |
| Shares issued under employee stock purchase plan (Note 7) | 32,826 | 532,000 | | | 532,000 |
| Tax benefits related to stock option plans | | 303,000 | | | 303,000 |
| Net income for year ended March 31, 1986 | | | | 22,243,000 | 22,243,000 |
| Balance at March 31, 1986 | 9,462,694 | $45,668,000 | | $60,144,000 | $105,812,000 |
| Shares repurchased from employees | (1,754) | (44,000) | | | (44,000) |
| Shares repurchased in the open market | (615,000) | (2,976,000) | | (7,816,000) | (10,792,000) |
| Shares issued under employee stock option plan (Note 6) | 207,364 | 2,511,000 | | | 2,511,000 |
| Shares issued under employee stock purchase plan (Note 7) | 35,844 | 548,000 | | | 548,000 |
| Tax benefits related to stock option plans | | 1,267,000 | | | 1,267,000 |
| Net income for year ended March 31, 1987 | | | | 8,806,000 | 8,806,000 |
| Balance at March 31, 1987 | 9,089,148 | $46,974,000 | | $61,134,000 | $108,108,000 |

See accompanying notes to consolidated financial statements.

## NOTE 1–SIGNIFICANT ACCOUNTING POLICIES

Quantum Corporation (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 and its wholly owned and majority 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.

*Forward exchange contracts*

The Company enters into forward exchange contracts to reduce the risk of foreign currency fluctuations on certain inventory purchase commitments. Such contracts are designated as a hedge of the foreign currency commitments. Accordingly, the effects of the contracts are reflected in the valuation of the related inventories.

*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.

*Net income per common share*

Primary net income per common and common equivalent share is computed on the weighted average number of common shares and common equivalent shares from options outstanding during the respective periods, 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 rigid disk drives based on Winchester technology. The Company supplies high-capacity rigid disk drives to original equipment manufacturers (OEMs) for use in small business computers and engineering/professional workstations. In addition, Quantum's majority-owned subsidiary, Plus Development Corporation (Plus), designs rigid disk drives for personal-computer enhancement; such products are marketed through distributors and dealers to end-users.

Foreign sales account for 21%, 20%, and 21% of total sales in 1987, 1986, and 1985, respectively. Major customers (those accounting for 10% or more of sales) accounted for 16%, 12%, and 11% of revenues during the year ended March 31, 1987, 17%, 13%, 12%, and 11% of revenues during the year ended March 31, 1986, and 16%, 14%, 11%, and 10% of revenues for the year ended March 31, 1985.

### NOTE 3–INTEREST IN MAJORITY-OWNED SUBSIDIARY

Sales of Plus represented 54% and 11% of consolidated sales for the years ended March 31, 1987 and 1986, respectively. Plus income for fiscal 1987 amounted to $13,900,000 resulting in an increase in retained earnings from a deficit at March 31, 1986, of $13,300,000 (before tax benefit) to a positive balance at March 31, 1987, of $600,000 (net of tax).

The minority interest of 20% and 17% of the voting stock of Plus at March 31, 1987 and 1986, respectively, is held by officers and employees of Quantum and Plus. During the year ended March 31, 1987, additional shares of Plus stock were sold to officers and employees at fair market value as determined by Plus' Board of Directors.

Prior to fiscal 1987, all Plus losses, including losses of $2,300,000 related to the minority interest, were reflected in consolidated income of the Company. In turn, fiscal 1987 consolidated income includes both Quantum's share of Plus' current earnings and the recovery of prior year losses related to the minority interest.

### NOTE 4–INVENTORIES

Inventories were composed of:

| March 31 | 1987 | 1986 |
|---|---|---|
| Materials and purchased parts | $11,335,000 | $ 5,775,000 |
| Work in process | 2,289,000 | 2,308,000 |
| Finished goods | 7,332,000 | 7,095,000 |
| | $20,956,000 | $15,178,000 |

### NOTE 5–PROPERTY AND EQUIPMENT

Property and equipment consisted of:

| March 31 | 1987 | 1986 |
|---|---|---|
| Machinery and equipment | $20,769,000 | $15,980,000 |
| Furniture and fixtures | 2,069,000 | 1,910,000 |
| Tooling | 4,045,000 | 3,219,000 |
| Leasehold improvements | 3,860,000 | 3,603,000 |
| Construction in progress | 1,324,000 | 1,867,000 |
| | 32,067,000 | 26,579,000 |
| Less-accumulated depreciation | (12,730,000) | (8,071,000) |
| | $19,337,000 | $18,508,000 |

### NOTE 6–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. Generally, one-sixtieth of the grant becomes exercisable each month. At March 31, 1987 and 1986, options with respect to 18,500 shares and 24,800 shares, respectively, of common stock were available for grant.

In November 1984, the Company adopted the 1984 Incentive Stock Option Plan, and reserved 300,000 shares of common stock for issuance to eligible employees and consultants of the Company. The terms of this plan are essentially identical to those of the 1981 Incentive Stock Option Plan. At March 31, 1987 and 1986, options with respect to 5,500 and 231,600 shares, respectively, of common stock were available for grant.

In December 1986, the Company adopted the 1986 Stock Option Plan and reserved 600,000 shares of common stock for issuance to eligible employees and consultants of the Company. The terms of this plan are essentially identical to those of the 1984 Incentive Stock Option Plan. At March 31, 1987 options with respect to 600,000 shares of common stock were available for grant.

A summary of transactions relating to outstanding stock options follows:

| Year ended March 31 | 1987 | | 1986 | |
|---|---|---|---|---|
| | Shares | Option Price | Shares | Option Price |
| Options outstanding beginning of period | 643,400 | $ .19 - 31.88 | 570,600 | $ .19 - 30.25 |
| Options granted | 748,500 | 16.00 - 19.00 | 203,800 | 18.75 - 21.25 |
| Options cancelled | (516,600) | 1.50 - 31.88 | (56,600) | .38 - 31.88 |
| Options exercised | (207,200) | .19 - 22.00 | (74,400) | .19 - 22.00 |
| Options outstanding end of period | 668,100 | $ 1.50 - 20.00 | 643,400 | $ .19 - 31.88 |
| Options exercisable end of period | 144,600 | | 134,000 | |

### NOTE 7–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 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. In 1986, the Board of Directors increased the number of shares reserved for issuance under the Purchase Plan by 100,000 shares to a total of 200,000 shares.

During fiscal 1987 and 1986, 35,844 and 32,826 shares were issued under this plan.

### NOTE 8–INCOME TAXES

The components for the provision for income taxes are presented below:

| Year ended March 31 | 1987 | 1986 | 1985 |
|---|---|---|---|
| Current – Federal | $(2,889,000) | $2,568,000 | $5,468,000 |
| – State | 1,548,000 | 3,299,000 | 3,124,000 |
| Deferred – Federal | 3,558,000 | 3,775,000 | 1,111,000 |
| – State | (147,000) | (42,000) | (14,000) |
| Total provision for income taxes | $ 2,070,000 | $9,600,000 | $9,689,000 |

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:

| Year ended March 31 | 1987 | 1986 | 1985 |
|---|---|---|---|
| Reversal of deferred profit on installment sales | $ (123,000) | $ (322,000) | $ (419,000) |
| Excess of tax over book depreciation | 356,000 | 855,000 | 486,000 |
| Taxable portion of DISC income not currently deductible | | | (63,000) |
| Inventory valuation allowances | 445,000 | (392,000) | (135,000) |
| Accrued warranty expense | 112,000 | (27,000) | (191,000) |
| Deferred tax on income from Puerto Rican operations | 2,824,000 | 3,401,000 | 1,545,000 |
| Other | (203,000) | 218,000 | (126,000) |
| | $3,411,000 | $3,733,000 | $1,097,000 |

As a result of the provisions of the "Deficit Reduction Act of 1984," the Company's Domestic International Sales Corporation (DISC) terminated on December 31, 1984, and income taxes on accumulated earnings were permanently forgiven. Since it had been the intention of the Company to reinvest indefinitely the earnings of its DISC, income taxes had not previously been provided on the accumulated DISC earnings. Accordingly, this change in the DISC rules had no effect on net earnings.

The Company's effective income tax rate for the years ended March 31, 1987, March 31, 1986, and March 31, 1985, varies from the 46% statutory federal rate for the following reasons:

| Year ended March 31 | 1987 | % | 1986 | % | 1985 | % |
|---|---|---|---|---|---|---|
| Taxes computed at the statutory rate | $5,003,000 | 46.0 | $14,648,000 | 46.0 | $14,105,000 | 46.0 |
| State income tax, net of federal benefit | 451,000 | 4.2 | 1,324,000 | 4.2 | 1,292,000 | 4.2 |
| Investment tax credits (net of recapture) | 89,000 | 0.8 | (504,000) | (1.6) | (298,000) | (1.0) |
| Research and development tax credits | (550,000) | (5.1) | (635,000) | (2.0) | (590,000) | (1.9) |
| Capital gain | (313,000) | (2.8) | | | | |
| Dividend exclusion | | | | | (372,000) | (1.2) |
| Non-deductible loss on stock | | | | | 572,000 | 1.8 |
| Reduced tax rate of Puerto Rican operations | (2,622,000) | (24.2) | (5,090,000) | (16.0) | (5,189,000) | (16.9) |
| Foreign Sales Corporation | (12,000) | (0.1) | (46,000) | (0.2) | | |
| Other | 24,000 | 0.2 | (97,000) | (0.3) | 169,000 | 0.6 |
| Provision for income taxes | $2,070,000 | 19.0 | $ 9,600,000 | 30.1 | $ 9,689,000 | 31.6 |

### NOTE 9–CLOSURE OF PUERTO RICAN OPERATIONS

On November 24, 1986, the Company announced that it would close its manufacturing facility in Ponce, Puerto Rico. The closing is currently scheduled to occur in late fiscal 1988. The Company has recorded a reserve of $3,000,000 for severance pay, shut-down costs, payment of lease obligations and disposal of certain assets.

### NOTE 10–LITIGATION SETTLEMENT

During January 1986, the Company settled a patent infringement suit that it brought against Computer Memories, Inc. (CMI). The terms of the settlement resulted in a cash payment to the Company of $6,000,000 and a stipulated injunction restricting CMI from the development, manufacture and sale of its patent infringing products as of April 30, 1986.

### NOTE 11–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. During the period that the Company held the investment, a valuation allowance was included in shareholders' equity to the extent an excess of cost over market was considered a temporary decline in value. The amount considered to be a permanent impairment of value was charged to income. For federal income tax purposes, 85% of the dividends received on these securities are exempt from tax. During fiscal 1985, these securities were sold at a loss of $1,245,000.

## NOTE 12–COMMITMENTS AND CONTINGENCIES

At March 31, 1987, the Company is contingently liable for outstanding letters of credit totalling $8,500,000 which are secured by certificates of deposit of $8,500,000. The Company was also required to maintain certificates of deposit, totalling $3,000,000 at March 31, 1987, to secure certain outstanding forward exchange currency contracts.

The Company leases its present facilities and certain equipment under non-cancellable operating lease agreements that range from 5 to 10 years with various expiration dates through 1994. Some of the leases have renewal options ranging from 5 to 10 years.

Equipment was leased through a bank for a five year term which expired in 1986. This lease agreement required, 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:

| Year ended March 31 | 1987 | 1986 | 1985 |
|---|---|---|---|
| Rental expense | $2,289,000 | $2,211,000 | $1,912,000 |
| Sub-lease rental income | (18,000) | (265,000) | (282,000) |
| Net rental expense | $2,271,000 | $1,946,000 | $1,630,000 |

Future minimum lease payments under operating leases are as follows:

| Year ended March 31 | |
|---|---|
| 1988 | $2,087,000 |
| 1989 | 2,044,000 |
| 1990 | 2,004,000 |
| 1991 | 1,939,000 |
| 1992 | 581,000 |
| Thereafter | 251,000 |
| Total future minimum lease payments | $8,906,000 |

The Company is subject to legal proceedings and claims which arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability, if any, with respect to these actions will not materially affect the financial position or results of operations of the Company.

## NOTE 13–SUBSEQUENT EVENT-DISCONTINUANCE OF Q160 PRODUCT LINE

On June 19, 1987, the Company announced that it would discontinue the production and sale of the Q160 (5¼-inch) product line in order to concentrate its resources on the new 3½-inch line. The Company estimates that the fiscal 1988 charge to income for expected losses on inventories, equipment, facility commitments and other costs related to the Q160 line will approximate $3,500,000.

## NOTE 14–UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL DATA

| 1987 | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Total |
|---|---|---|---|---|---|
| Net sales | $25,307,000 | $29,616,000 | $33,934,000 | $31,903,000 | $120,760,000 |
| Gross profit | 8,559,000 | 9,914,000 | 11,210,000 | 11,808,000 | 41,491,000 |
| Net income | 2,451,000 | 2,716,000 | 694,000(1) | 2,945,000 | 8,806,000 |
| Earnings per share | $.25 | $.30 | $.08 | $.32 | $.95 |

| 1986 | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Total |
|---|---|---|---|---|---|
| Net sales | $34,001,000 | $29,084,000 | $30,473,000 | $27,686,000 | $121,244,000 |
| Gross profit | 13,344,000 | 10,780,000 | 13,207,000 | 11,045,000 | 48,376,000 |
| Net income | 5,743,000 | 4,394,000 | 5,220,000 | 6,886,000(2) | 22,243,000 |
| Earnings per share | $.60 | $.45 | $.54 | $.71 | $2.30 |

(1) Includes a $3,000,000 pre-tax charge against operations for provision for closure of Puerto Rican operations (Note 9).
(2) Includes pre-tax income totalling $6,000,000 related to litigation settlement (Note 10).

## REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and
Board of Directors of
Quantum Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of shareholders' equity, and of changes in financial position present fairly the financial position of Quantum Corporation and its subsidiaries at March 31, 1987 and 1986, 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, 1987, 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 1, 1987, except as to Note 13
which is as of June 19, 1987

## 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 prices in the NASDAQ National Market System for the quarter indicated.

| | High | Low |
|---|---|---|
| Fiscal 1987 | | |
| Fourth quarter ended March 31, 1987 | 33¾ | 20¼ |
| Third quarter ended December 28, 1986 | 21 | 16 |
| Second quarter ended September 28, 1986 | 19 | 16¼ |
| First quarter ended June 29, 1986 | 25½ | 16 |
| Fiscal 1986 | | |
| Fourth quarter ended March 31, 1986 | 27 | 21¼ |
| Third quarter ended December 29, 1985 | 27¼ | 19¾ |
| Second quarter ended September 29, 1985 | 28¼ | 21 |
| First quarter ended June 30, 1985 | 24¼ | 18¾ |

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 4, 1987, there were approximately 5,100 shareholders of the Company.

## BOARD OF DIRECTORS

Stephen M. Berkley
*Chairman of the Board*
*and Chief Executive Officer*
*Quantum Corporation*

James L. Patterson
*Founder and Former*
*Chairman, President*
*and Chief Executive Officer*
*Quantum Corporation*

Glenn M. Mueller
*General Partner*
*Mayfield Fund*
*(Venture capital investments)*

Robert A. Fox
*Private Investor*
*Former Chairman and*
*Chief Executive Officer*
*Del Monte Corporation*

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

Robert E. Schroeder
*Private Investor*
*Former President and*
*Chief Executive Officer*
*International Power*
*Technology*

Don M. Muller
*Chairman of the Board*
*Cipher Data Products, Inc.*
*(Manufacturer of secondary*
*mass storage devices)*

## OFFICERS

Stephen M. Berkley
*Chairman of the Board*
*and Chief Executive Officer*
*Quantum Corporation*

David A. Brown
*President*
*Chief Operating Officer*

Barry M. McGriff
*Vice President*
*Sales*

Ivan A. Nazario
*Vice President*
*Manufacturing*

Joseph T. Rodgers
*Executive Vice*
*President, Finance*
*Secretary and Treasurer*

Carl F. Shelton
*Vice President*
*Engineering*

Joseph C. Shepela
*Vice President*
*Human Resources*

Richard P. Taylor
*Vice President*
*Quality*

## SALES OFFICES

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Telephone: (603) 893-2672

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Telephone: (408) 980-8555

2659 Townsgate Road
Suite 101
Westlake Village, CA 91361
Telephone: (805) 495-7955

2710 Jefferson Street
Austell, GA 30001
Telephone: (404) 944-7442

Quantum GmbH
Hahnstrasse 70
D-6000 Frankfurt/M.71
West Germany
Telephone: 49-69-666-6167

Quantum Peripheral
Products Ltd.
Runnymede Malt House
Runnymede Road
Egham, Surrey, England
Telephone: 44-784-34377

A copy of the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, is available from the Company without charge. Please direct your request to:

Joseph T. Rodgers, Jr.
Executive Vice President
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

Independent Accountants
Price Waterhouse
150 Almaden Boulevard
San Jose, CA 95113

Transfer Agent
Bank of America
P.O. Box 37002
San Francisco, CA 94137

The Annual Meeting of Shareholders of Quantum Corporation will be held at 3:00 p.m. on October 19, 1987, at Quantum Corporation 1804 McCarthy Boulevard, Milpitas, CA 95035.



Designed and Produced by Tenner Design

Quantum Corporation
1804 McCarthy Blvd.
Milpitas, CA 95035

Jim Patterson