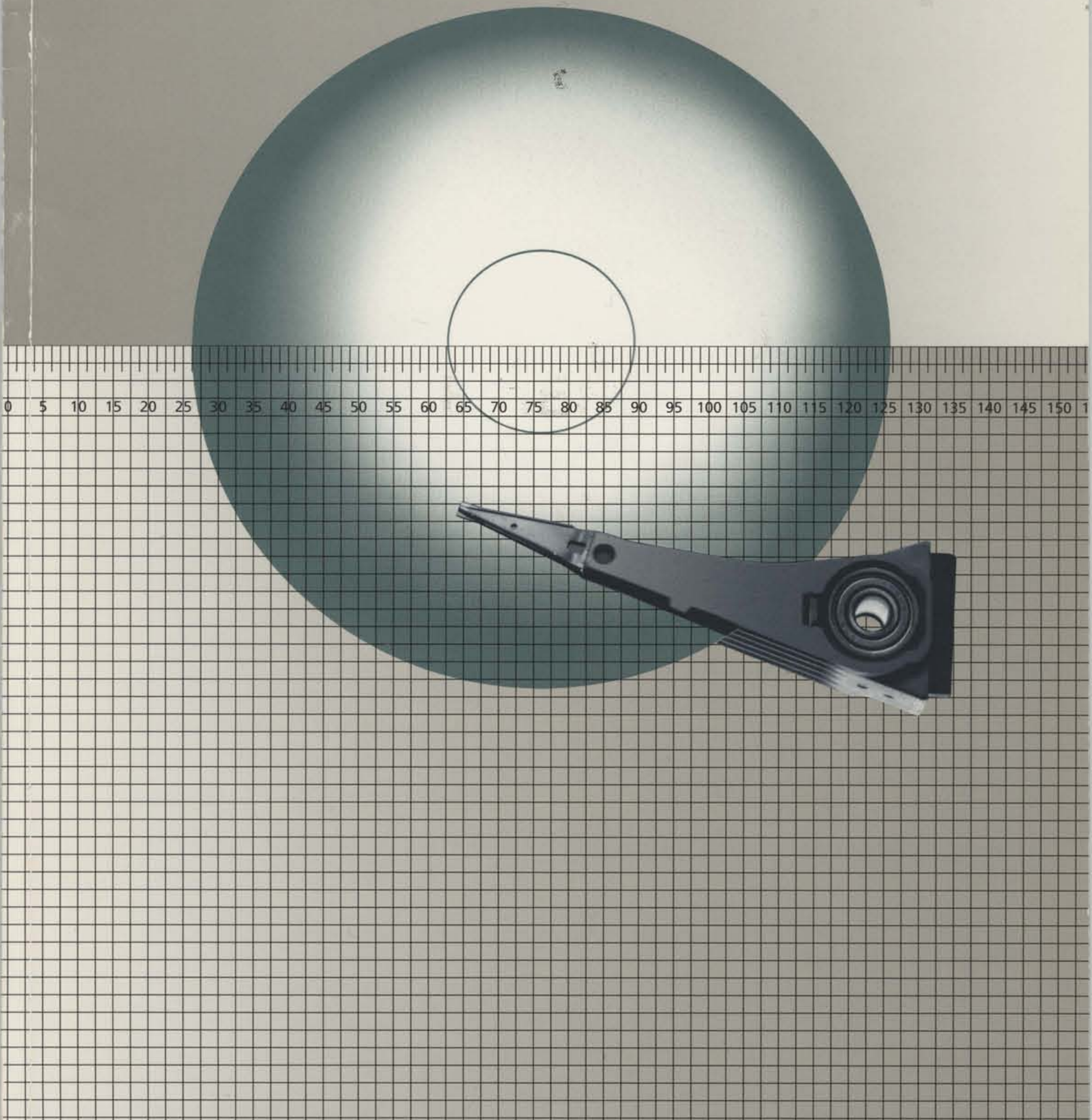
Quantum 1992 Annual Report

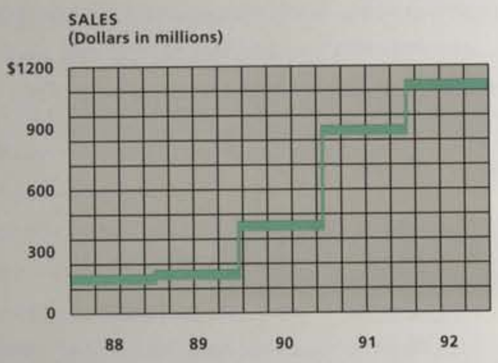


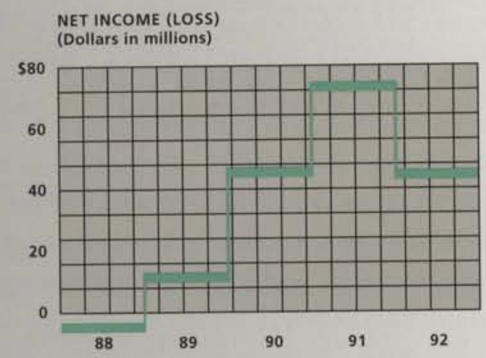
financial highlights

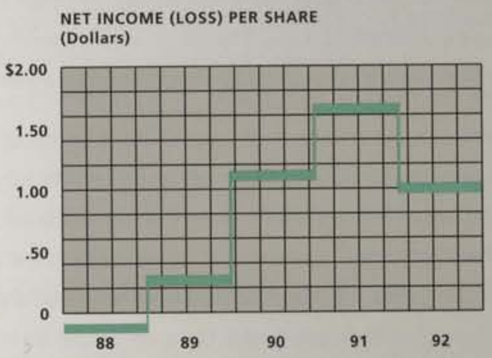
(In thousands except per share amounts and number of employees)

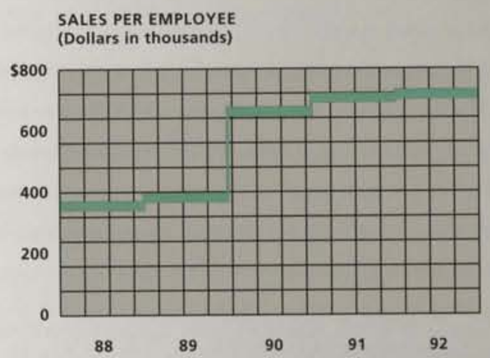
Year ended March 31,	1992	1991	1990	1989	1988
Sales	$1,127,733	$ 877,733	$ 446,291	$ 208,017	$ 188,529
Net income (loss)	$ 46,845	$ 73,881	$ 47,212	$ 12,887	$ (3,226)
Net income (loss) per share	$ 1.05	$ 1.69	$ 1.14	$ .30	$ (.08)
Total assets	$ 546,783	$ 489,420	$ 243,209	$ 157,005	$ 141,710
Shareholders' equity per share	$ 7.19	$ 6.09	$ 4.14	$ 2.81	$ 2.59
Number of employees	1,752	1,445	763	531	513
Sales per employee	$ 713	$ 706	$ 663	$ 399	$ 371

Corporate Profile: Quantum Corporation is a leading worldwide supplier of high-performance 3 1/2-inch and 2 1/2-inch hard disk drives designed for business personal computers, workstations and notebook computers. In fiscal 1992, we continued growing faster than the industry, exceeded $1 billion in sales and were named to the 1991 Fortune 500 for the first time. Quantum has a unique approach to the business which has enabled us to respond quickly to changing market conditions. We lead the hard disk drive industry in productivity and were among the top companies in the Fortune 500 in a variety of productivity measures. Quantum sells directly to major OEMs worldwide; to value-added resellers, systems integrators and smaller OEMs through a network of distributors in over 40 countries; and via direct marketing channels through our La Cie, Ltd. subsidiary. Quantum currently has over 1700 employees worldwide.


SALES
(Dollars in millions)
$1200
900
600
300
0
88
89
90
91
92


NET INCOME (LOSS)
(Dollars in millions)
$80
60
40
20
0
88
89
90
91
92


NET INCOME (LOSS) PER SHARE
(Dollars)
$2.00
1.50
1.00
.50
0
88
89
90
91
92


SALES PER EMPLOYEE
(Dollars in thousands)
$800
600
400
200
0
88
89
90
91
92

STEPHEN M.BERKLEY

In fiscal 1992, Quantum achieved over $1 billion in sales for the first time. While we are proud of this accomplishment, we quickly turned our focus toward the future to ensure that we have the right strategies in place to continue Quantum's rapid growth and market success. A year ago, we talked about commitments in three areas: quality, our international infrastructure, and improving our ability to bring products to market ahead of the competition. This focus clearly paid off as we grew considerably faster than our industry during the year and continued to build market share.

to our shareholders

Our sales for the fourth quarter of fiscal 1992 were a record $345.5 million, up 19% from the $291.3 million we reported in the fourth quarter last year. Our sales for the year were $1.13 billion, up 28% from our fiscal 1991 sales of $877.7 million. Net income for the fourth quarter was $17.2 million or 38¢ per share, down 14% from $20.0 million or 45¢ per share in the same period a year ago. Net income for the year was $46.8 million or $1.05 per share, down 37% from $73.9 million or $1.69 per share for fiscal 1991.

Fiscal 1992 was a very difficult year for our industry. While we managed to grow our business and gain significant market share, our net income declined from the previous year for the first time in four years. During most of calendar 1991, personal computer market demand was weak, while production rates and inventories in our industry were high. The result was intense price competition which severely impacted our margins and earnings. In our third quarter, demand increased rapidly and continued strong through our fourth fiscal quarter. We entered our new fiscal year unable to satisfy the increased demand for our products.

During our third and fourth quarters, we benefitted from our first major time-to-market success. We began mass production of our 1-inch high, ProDrive LPS™ 120- and 240-megabyte products during our second quarter and at our fiscal year end, our competitors had not yet matched our offerings at those capacity points. These drives have been on our fastest production ramp ever: in just two full quarters of production, we achieved a run rate greater than $400 million and in early fiscal 1993, continued to increase our production rates.

Being first to market enabled us to capture the majority of the new OEM design wins at those capacity points, adding some important first-time Quantum customers to our customer list. We can now name AST Research, Apple, Hewlett-Packard and Dell Computer among our customers for these drives. As we added new OEMs, we continued to broaden and diversify our customer base. By our fourth quarter, we had decreased the portion of our sales accounted for by our top ten customers to 44% from 61% a year ago.

Our initial entry into the 2½-inch market was disappointing due to stagnant demand for notebook computers. However, we were able to establish important relationships with key notebook manufacturers during the year which began to show results by year end. In our fourth quarter, we shipped production volumes of our Go•Drive™ 120 products to important notebook manufacturers worldwide including Dell Computer and AST Research. We believe that these drives were the first 2-disk 120-megabyte 2½-inch drives available in volume. In early June 1992, we set a new standard, delivering evaluation units of single-disk 80- and two-disk 160-megabyte 2½-inch drives. With volume shipments scheduled to begin this summer, we believe we are again ahead of the competition in bringing these next generation 2½-inch drives to the market.

We remain pleased with our progress on our 3½-inch one-gigabyte drive program. Our ProDrive® 1050 drive has entered mass production and is being evaluated by virtually all of the major workstation manufacturers worldwide. It has already been selected for qualification by several of them. We continue our focus on research and development and plan to begin mass production of important new products across our product line during the coming year.

In a fast-paced business such as ours, the ability to respond quickly to changing market conditions is essential. An example of our ability to adapt is Quantum Commercial Products (QCP), our business unit focused on meeting the unique needs of the distribution channel. With analysts projecting sales of hard disk drives through distribution to grow faster than sales to system manufacturers over the next few years, we combined our Plus Development subsidiary and our industrial distribution organization to form QCP. We have structured QCP to enable Quantum to take maximum advantage of the opportunities in the distribution channel and to give us a consistent corporate focus on the distribution business.

As we continue building our global business, we have expanded our senior management team. In February, Michael Brown was promoted to executive vice president, assuming responsibility for day-to-day operations of the Company from David Brown who remains a director of the Company. In March, we successfully concluded our search for a chief executive officer when William Miller joined Quantum as CEO. Bill brings significant industry experience to Quantum with nine years in Control Data Corporation's disk drive business, including serving as president and CEO of Imprimis Technology prior to its acquisition by Seagate Technology. In my role as chairman of the board, I am focusing on longer term business opportunities and key partner relationships. With the changes we made this past year, we have structured our business and our expanded senior management team to enable Quantum to be proactive in addressing the significant growth opportunities we see in the years ahead.

Ours remains a very competitive industry and as always, we face significant challenges going forward. In the near term, we must carefully evaluate the sustainability of the increased level of demand and manage our production ramps accordingly. If we continue executing well in bringing new products to market ahead of our competition and maintain our quality leadership, we believe we will continue building momentum and gaining market share. In this challenging environment, we believe we have the correct strategies, management team and organization in place as we build Quantum toward the $2 billion mark.

SMBerkley

Stephen M. Berkley
Chairman of the Board

WILLIAM J. MILLER

Achieving $1 billion in sales and being named to the Fortune 500 for the first time are important milestones for a company. More important, though, are the solid fundamentals and business strategies that underlie those achievements. Our success, both in the marketplace and financially, has been driven by three key factors: the unmatched quality of our products, our emerging leadership in time-to-market and the exceptional productivity of our resources. We remain focused on improving with respect to each of these factors and intend to use them to continue building our business in the years to come.

to our shareholders

In recent years, quality has become an important buzzword in corporate America, but unfortunately there is often little to support it. At Quantum, we have put important resources and concerted effort behind our quality commitment. Along with our manufacturing partner, Matsushita-Kotobuki Electronics Industries, Ltd. (MKE), we have developed design and production techniques that enable us to achieve exceptionally high yields on the manufacturing floor and very low levels of defects at our customers' sites. We have built a strong reputation for delivering the highest quality drives available and intend to continue to earn that reputation.

We have made significant progress in shortening our product development cycles, and remain committed to that initiative. Over the past few years, Quantum has progressed from being as much as a year behind the competition in bringing products to market, to leading the market with new generations of 2½- and 3½-inch drives. What we call "fast cycle time" has become a way of life at Quantum.

Our productivity is also unmatched in the industry, and places us among the leaders when compared with other U.S. companies. Quantum was in the top 30 in the 1991 Fortune 500 for return on assets and equity, and our revenue per employee is several times that of others in our industry. The exceptional productivity of our resources is due in large part to our relationship with MKE. We continue to strengthen that relationship, recently announcing the establishment of a manufacturing facility in Ireland, which will be owned and operated by MKE. This plant, dedicated to Quantum products, will enable us to better support our European customers.

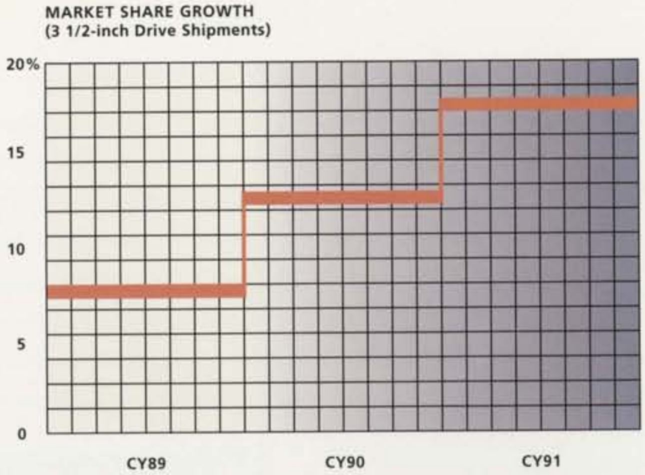
Our focus on quality, the productivity of our resources and our time-to-market leadership have contributed significantly to Quantum's growth in sales. However, success is much more than just sales growth. Throughout this annual report, you will see evidence of our success by a wide variety of measures which demonstrate the strengths and focus of the Company. As we continue growing the Company and building our leadership position, we will continue our efforts to set industry standards for customer satisfaction while providing competitive returns to our shareholders and challenging, rewarding careers for our employees.

William J. Miller

William J. Miller
Chief Executive Officer

introduction

IN FISCAL 1992, QUANTUM ACHIEVED OVER ONE BILLION DOLLARS IN SALES WITH ANOTHER YEAR OF STRONG GROWTH. WE WERE ALSO LISTED IN FORTUNE MAGAZINE'S RANKINGS OF THE NATION'S LARGEST COMPANIES FOR THE FIRST TIME. QUANTUM BECAME THE WORLD'S THIRD LARGEST INDEPENDENT HARD DISK DRIVE MANUFACTURER IN FISCAL 1992, AND WE WERE THE FASTEST GROWING SUPPLIER. IN AN INDUSTRY IN WHICH OUR MAJOR COMPETITORS AVERAGED LESS THAN 10% GROWTH OVER THE YEAR, OUR SALES GREW MORE THAN 28%. IN TERMS OF PRODUCTIVITY, WE WERE THE BEST IN OUR INDUSTRY AND WERE AMONG THE TOP 30 IN THE FORTUNE 500 ON MEASURES SUCH AS RETURN ON EQUITY AND RETURN ON ASSETS. CLEARLY, OUR GROWING SUCCESS CANNOT BE MEASURED BY OUR SALES GROWTH ALONE. AS THE FOLLOWING PAGES WILL DEMONSTRATE, QUANTUM IS CONTINUING TO BUILD ITS INDUSTRY LEADERSHIP ANY WAY YOU MEASURE IT.



market share growth

In an industry in which sales grew about 50% over the last two years, our sales increased more than 150%. As a result, Quantum's share of the 3½-inch drive market increased to nearly 20% this past year from less than 10% two years ago, and we became the number two supplier of 3½-inch drives in the world.

An important new force behind Quantum's growth this year was successful execution of our time-to-market strategy, bolstered by aggressive expansion of our international and distribution businesses. Without compromising our traditional leadership in quality, we brought several important products to market far ahead of our competition.

An example is our new 1-inch high ProDrive LPS 120/240 drives, introduced in August 1991. Within seven months, 20 of the top 25 OEM customers worldwide for 100 to 300 megabyte drives had already selected these drives for their systems.

We're also building our share in the fast-growing workstation market. Our ProDrive 425 has given Quantum over 20% of the market for drives in the 300 to 500 megabyte range.

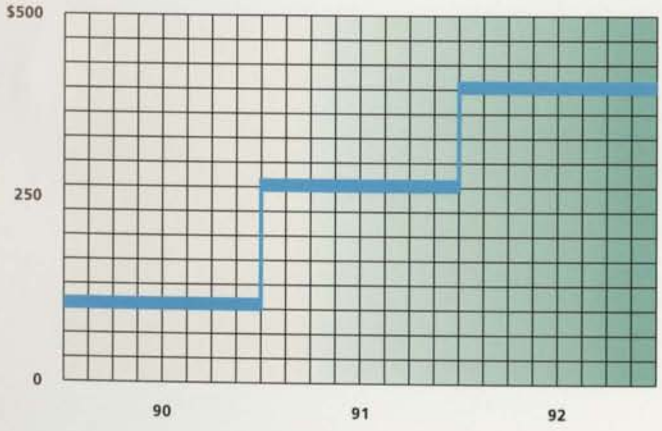
growth in distribution

This past year, Quantum established the hard disk drive industry's first and only full-function business unit solely dedicated to serving the needs of the distribution channel: Quantum Commercial Products.

We merged two organizations with proven track records – our industrial distribution organization and our wholly-owned commercially focused subsidiary, Plus Development Corporation. Our rationale? Industry analysts project that sales through distribution channels will grow significantly faster than sales to OEMs through mid-decade and will account for an increasingly larger share of the overall market.

The distribution business has unique requirements and poses different challenges from selling to OEMs. We leveraged our expertise in distribution into a dedicated focus on this important opportunity. With our distribution sales up 49% from last year we have the industry's fastest growing distribution business. We are now the second largest participant in the distribution market, with a market share of 15% for the last calendar year.

GROWTH IN DISTRIBUTION
(Dollars in millions)



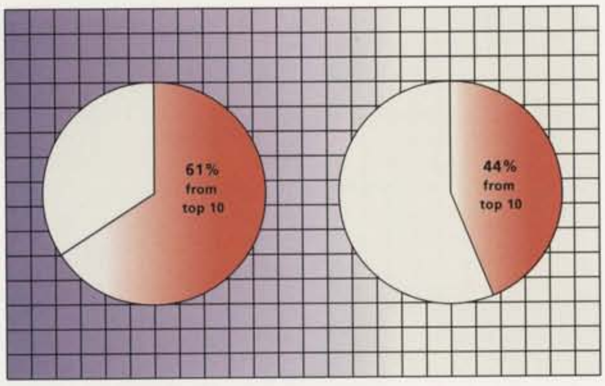
broad customer base

One year ago, Quantum's top ten customers accounted for over 60% of our total business. We've broadened our customer base and reduced our dependence on our largest customers; today, Quantum's top ten account for just 44% of sales.

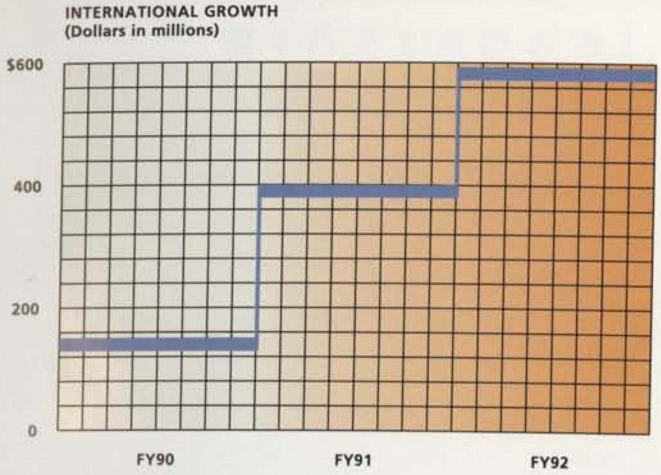
We have increased our business with important existing customers such as Hewlett-Packard and Dell Computer and have significantly increased our sales through our top distributors. We've also added important new OEMs to our customer list including AST Research and CompuAdd in the U.S., plus DTK and FIC in Taiwan. With Acer already a Quantum customer for several years, we now do business with the three largest personal computer manufacturers in Taiwan.

Virtually all of the world's leading computer companies are now Quantum customers. Why? Because we provide the quality of products and support these customers require. Says Michael Dell, founder and CEO of Dell Computer, *"Quantum is the kind of supplier that truly understands the changing needs of the very competitive PC industry. They have been very flexible in responding to our dramatic business growth and have provided us with high quality products at competitive prices."*

SALES: TOP 10 CUSTOMERS




HEWLETT PACKARD
DELL COMPUTER
AST RESEARCH
ACER
SUN MICROSYSTEMS
UNISYS
APPLE COMPUTER



international growth

This year, for the first time, Quantum's international sales exceeded our sales in the U.S.

The hard disk drive business is increasingly global. Last year, we negotiated a purchase contract with a customer on one continent, worked with them to qualify the drives on another continent, and actually shipped and supported the drives on a third.

In fiscal 1992, we established a configuration center in Dundalk, Ireland where we customize our standard drives for our European customers. We also recently announced the development of a new manufacturing facility in Dundalk, Ireland which will be built and operated by our manufacturing partner, MKE.

Once that facility is operational in Fall 1992, we will have sales, customer support and manufacturing in each of our three major markets – Europe, Asia and the U.S. – enabling us to fully support our global OEM and distribution customers on a local basis.

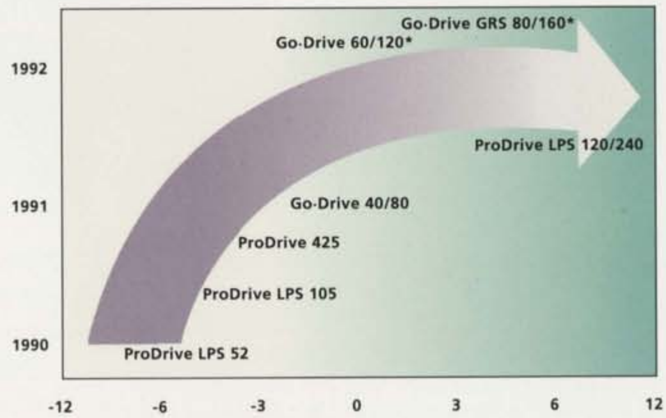
time to market **leadership**

One of the driving forces behind our market share growth and expanded customer base was our success in bringing products to market ahead of the competition. Our three-year focus on improving our time-to-market began to show significant results for us in fiscal 1992.

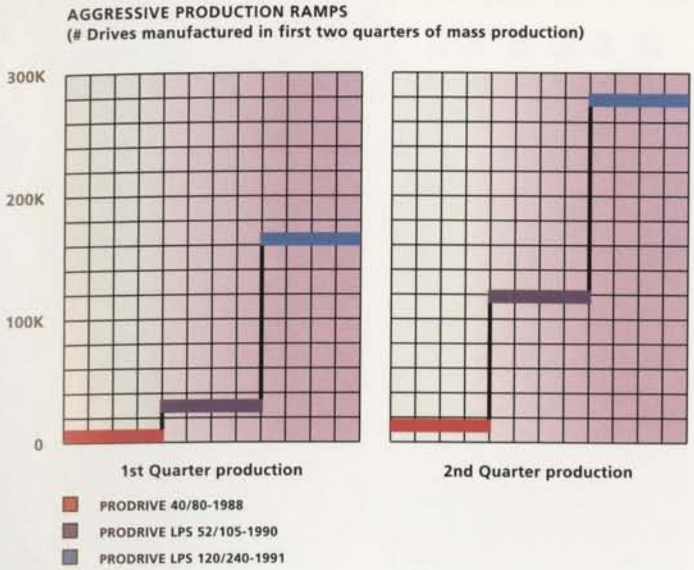
Our most stunning time-to-market success was our ProDrive LPS 120/240 drives. Nine months after we began mass production, we still had no real competition at those capacity points. We also had important firsts this year in the notebook computer market. We were the first to ship 60- and 120-megabyte 2½-inch drives in volume, and this summer we expect to be ahead of the competition again when we begin mass production of our 80- and 160-megabyte 2½-inch drives for advanced notebook computers.

As we enter our new fiscal year, our time-to-market momentum continues. We aren't just doing things faster. Rather, we are doing things *differently*, and we continue to apply the lessons we've learned to our current development programs.

TIME TO MARKET



Quantum mass production date
Months ahead of or behind earliest competitor
*Estimate



aggressive production ramps

When we say first to market, we don't mean simply first to announce or demonstrate a product. Being first means first to deliver high quality drives in volume to our customers.

This requires steep production ramps with high manufacturing yields early on – a Quantum specialty. Our manufacturing partner, MKE, is an expert at ramping production quickly, and we are tailoring our own manufacturing facility in California to support our time-to-market efforts on our higher capacity products.

Last year, Quantum and MKE executed what we believe was the steepest new product production ramp ever in our industry. We achieved a run rate greater than $400 million with our ProDrive LPS 120/240 products after just two quarters of mass production. Entering fiscal 1993, we continue to ramp production to meet demand.

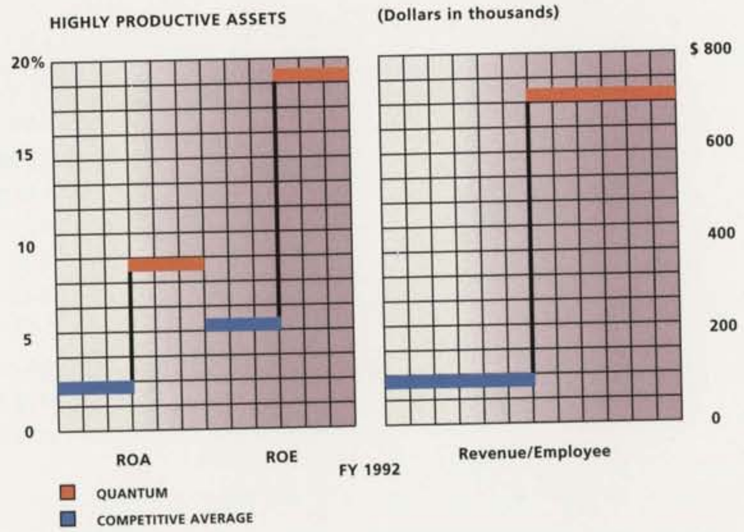
highly productive **assets**

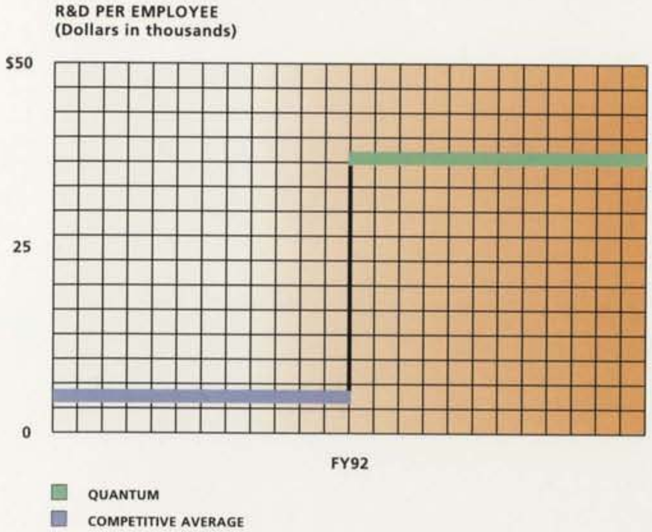
Quantum ranked 26th in return on equity and 19th in return on assets in the Fortune 500 for 1991. For fiscal 1992, our ROE was 19.7%, tops in the industry and 240% higher than the average of our leading competitors. Likewise, our year-end ROA is nearly four times the average of our competitors.

What makes our assets so productive? Our entire approach to running the business is different from that of our competitors.

One example is our manufacturing strategy. Our eight-year partnership with MKE to produce our highest volume products gives us the advantage of the most advanced disk drive manufacturing facility in the world without committing our own capital. As a result, we have fewer capital assets and employees, and our revenue per employee is significantly higher than that of our major competitors.

But it is really more than just manufacturing. It's also the way we manage our business. Flatter hierarchies, distributed decision making, and our dedicated distribution focus are examples of the organizational strategies that enable Quantum to respond to the rapidly changing markets we serve.





This year, we brought 15 new models of leadership disk drives into mass production and have more than that number currently in development.

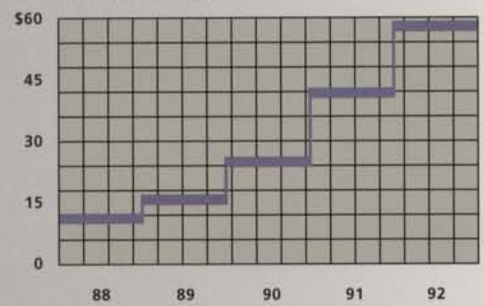
We continue to increase our investment in advanced research, ensuring that we will have the technologies required to build our technology leadership. We've entered into alliances with suppliers of major components including heads, media and motors. These alliances enable us to gain access to advanced technology and test component prototypes for our products two or three generations in the future.

We continue to focus on custom ASICs (Application Specific Integrated Circuits) which enable us to offer features and achieve capacity points ahead of competitors who rely on off-the-shelf chips. We are also making the most of our R&D investments, leveraging technology, firmware, and ASIC designs across our product lines. As an example, our one-gigabyte 3½-inch drive uses the same servo architecture and shares ASICs with our 2½-inch drives.

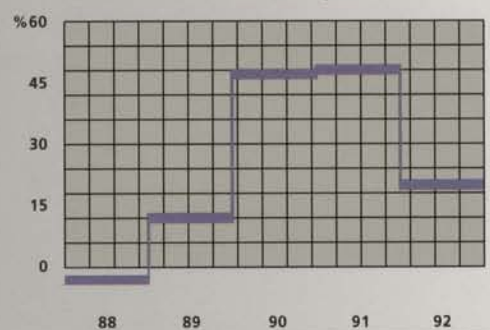
As we continue investing in developing leadership products, we continue to demonstrate that time-to-market leadership and quality work hand in hand.

financial **highlights**

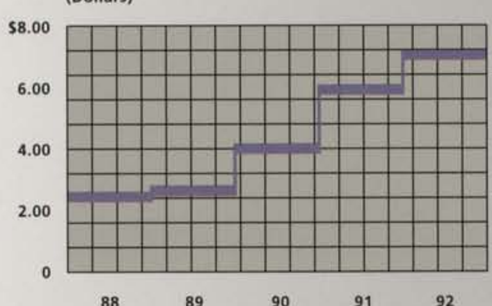
R&D EXPENDITURES
(Dollars in millions)



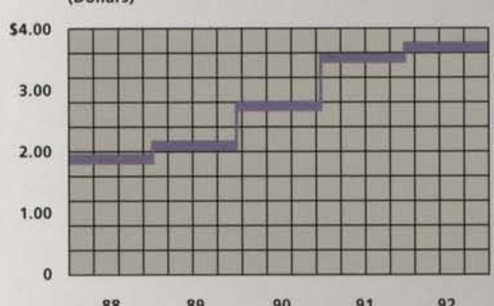
RETURN ON SHAREHOLDERS' EQUITY



NET EQUITY PER SHARE (At March 31)
(Dollars)



CASH AND CASH INVESTMENTS
PER SHARE (At March 31)
(Dollars)



The results for the year ended March 31, 1992 reflect significant achievements by Quantum. The Company exceeded $1 billion in sales, gained market share and successfully introduced new products to the market. It was, however, a difficult year for the disk drive industry and the economy as a whole. As a result of weakness in the economy and over-capacity in the disk drive industry, the Company faced a period of weak market demand and severe price competition. During this difficult time the Company was able to increase sales and successfully introduce new products. Gross margins, however, were negatively impacted by competitive pressures and the weak market conditions.

Sales for the year ended March 31, 1992 were $1.13 billion, an increase of 28% over fiscal 1991 sales of $877.7 million. The growth in revenue was the result of strong market acceptance of newly introduced products, such as the LPS 120 and LPS 240. The increase in revenue also reflects the increased market share and the expansion of the Company's customer base, both in the original equipment manufacturers (OEM) and distribution channels. Sales for fiscal year 1991 increased 97% when compared to fiscal 1990 revenue of $446 million.

During fiscal 1992, the Company realigned resources to provide consistent corporate focus on the rapidly growing distribution channel. Plus Development Corporation, Quantum's wholly-owned subsidiary, and Quantum's industrial distribution organization were merged to become Quantum Commercial Products, a business unit focused on serving the unique needs of the distribution channel. Revenue for fiscal 1992 from the distribution channel represented $405.7 million or 36% of sales, as compared to $272.0 million or 31% in fiscal 1991.

Quantum has continued to focus on the expansion of its sales and support network outside of the United States resulting in an increased international customer base. Foreign sales, which include foreign sales to U.S. companies, increased to 52% of sales in fiscal 1992, as compared to 45% in fiscal 1991, and 32% in fiscal 1990.

The Company continues to have substantial sales to Apple Computer. Sales to Apple Computer were $277 million or 25% of sales for fiscal 1992, as compared to $300 million or 34% for fiscal 1991, and $186 million or 42% for fiscal 1990. Any significant decrease in sales to a major customer or the loss of a major customer would have a material adverse effect on the Company's results of operations.

Gross margin declined to 19% in fiscal 1992, as compared to 25% in fiscal 1991 and 30% in fiscal 1990. Gross margin declined in fiscal 1992 due to rapid price erosion. The decline in gross margin was also attributable to excess inventory levels experienced during the first and second quarters of fiscal 1992 as a result of weakened industry-wide demand and over capacity. By the end of the third quarter, industry-wide capacity had been reduced, prices began to return to a more normal pricing environment and market demand improved. Although market conditions remained strong at March 31, 1992, it is not clear whether these strong market conditions will be sustained throughout fiscal 1993.

Over the past eight years, Quantum has established a strong business relationship with Matsushita-Kotobuki Electronics Industries, Ltd. (MKE) of Japan. This relationship has been built on Quantum's engineering and design expertise and MKE's high-volume, high-quality manufacturing expertise. During fiscal 1992 more than 80% of Quantum's sales were derived from products manufactured by MKE. In the event MKE is unable to supply such products or increases its prices for manufacturing services, the Company's results of operations would be adversely affected. The Company's agreement with MKE will expire on December 31, 1992 unless extended. The Company is currently discussing a multi-year renegotiation and extension of its relationship with MKE and expects that it will reach an acceptable agreement.

Quantum continues to invest in research and development as the disk drive industry is subject to rapid technological advances and the future success of the Company is dependent upon continued successful and timely introduction of new products and new technologies. Research and development expenses increased to $59.3 million or 5% of sales in fiscal 1992, as compared to $43.3 million or 5% of sales in fiscal 1991 and $25.8 million or 6% of sales in fiscal 1990. Research and development expenses are expected to continue to increase in absolute dollars in fiscal 1993 but remain relatively consistent as a percentage of sales.

Marketing expenses increased to $55.0 million or 5% of sales in fiscal 1992 as compared to $42.4 million or 5% in fiscal 1991 and $27.2 million or 6% in fiscal 1990. The increase in marketing spending is the result of costs associated with expanding the customer base, both international and domestic, and the introductions of multiple new product families.

General and administrative expenses increased modestly to $23.9 million in fiscal 1992, as compared to $22.4 million in fiscal 1991, and $13.8 million in fiscal 1990. These expenses, however, declined as a percentage of sales to 2% in fiscal 1992, as compared to 3% for fiscal 1991 and 1990. The decline in spending as a percentage of sales is the result of the Company's cost control measures.

Net income for the year ended March 31, 1992 was $46.8 million, as compared to $73.9 million in fiscal 1991, and $47.2 million in fiscal 1990. The decline in net income from fiscal 1991 is due to the weak market conditions experienced during the first half of the fiscal year and the resulting decline in gross margin.

The Company's effective tax rate was 37%, 36% and 35% for the fiscal years 1992, 1991, and 1990, respectively. These rates are lower than the combined federal and state statutory rate due primarily to tax-exempt interest and research and development credits. The Company will be required to adopt Statement of Financial Accounting Standards No. 109 by the beginning of its fiscal year ending March 31, 1994 and does not expect an adverse impact on the financial statements from such adoption.

The Company is currently unable to meet demand for certain key products and is taking steps to increase the availability of such products. Should the Company be unable to meet customer demand for a prolonged period, results of operations could be adversely affected.

The Company expects that sales from new products will account for a significant portion of fiscal 1993 revenue and will replace sales from some current products. The Company's ability to produce new products economically and successfully introduce these products to the marketplace is key to future success. The failure to successfully manufacture new products and manage the transition of customers to these products would adversely effect results of operations.

Quantum operates in an extremely competitive industry and its rapid growth has been the result of the Company's ability to identify customer needs and develop quality products. As a result of price competition, competitive product introductions, volatility in the personal computer market and other factors which may affect the Company's operating results, past financial performance should not be considered a reliable indicator of future performance and investors should not use historical trends to anticipate results or trends in future periods.

Liquidity and Capital Resources

At March 31, 1992, the Company had $145.0 million in cash and cash equivalents and short-term marketable securities as compared to $114.7 million in cash and cash equivalents at March 31, 1991. The Company also had $16.2 million in long-term investments at March 31, 1992 with various maturities through 1995. The Company has available $85 million under bank agreements for the issuance of standby letters of credit. In addition, in April 1992, the Company completed a $212.5 million offering of convertible subordinated debentures resulting in net proceeds to the Company of approximately $207 million. See also Note 10 in the Notes to the Consolidated Financial Statements regarding terms of the debenture offering.

During fiscal 1992, the Company generated a positive cash flow from operations of $50.4 million. Major expenditures included the investment of $37.8 million in leasehold improvements and capital equipment primarily at the Company's new campus headquarters in Milpitas, California. As a result of the consolidation of operations at the new campus, lease payments are expected to decline approximately $1 million in fiscal 1993. At this time, the Company expects to invest approximately $34 million in manufacturing, engineering and other capital equipment and leasehold improvements in fiscal 1993. Approximately $110 million of the funds received from the convertible debenture offering will be used to reduce the term of the outstanding accounts payable to MKE for inventory purchases from 90 days, bearing interest, to 45 days, non-interest bearing. The Company believes that its current cash position and its future cash flow from operations are sufficient to meet all currently planned expenditures and sustain operations during the next fiscal year.

consolidated income statements

(In thousands except share and per share data)	1992	1991	1990
			Year ended March 31,
Sales	$ 1,127,733	$ 877,733	$ 446,291
Costs and expenses:			
Cost of sales	914,348	661,430	314,552
Research and development	59,255	43,251	25,771
Marketing	55,027	42,377	27,178
General and administrative	23,852	22,403	13,836
Reversal of provision for product discontinuance and reduction in capacity	—	—	(2,030)
	1,052,482	769,461	379,307
Income from operations	75,251	108,272	66,984
Interest and other income	6,868	9,200	6,905
Interest expense	(7,763)	(5,205)	(1,820)
Income from litigation settlement	—	3,692	—
Income before income taxes	74,356	115,959	72,069
Income tax provision	27,511	42,078	24,857
Net income	$ 46,845	$ 73,881	$ 47,212
Net income per common share	$ 1.05	$ 1.69	$ 1.14
Shares used in per share calculations	44,672,171	43,613,535	41,390,378

See accompanying notes to consolidated financial statements.

consolidated balance sheets

(In thousands except share data)	March 31, 1992	March 31, 1991
Assets		
Current assets:		
Cash and cash equivalents	$ 74,486	$ 114,721
Marketable securities	70,547	—
Accounts receivable, net of allowance for doubtful accounts of $6,474 and $5,397	194,350	161,749
Inventories	87,375	101,709
Prepaid income taxes	20,203	13,821
Other current assets	5,919	4,269
Total current assets	452,880	396,269
Property and equipment, at cost less accumulated depreciation and amortization	65,831	56,110
Investments	16,218	24,871
Other assets	11,854	12,170
	$ 546,783	$ 489,420
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 171,346	$ 197,869
Income taxes payable	10,482	12,681
Accrued warranty expense	29,567	17,757
Other accrued liabilities	24,664	19,405
Total current liabilities	236,059	247,712
Deferred income taxes	2,335	3,453
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $.01 par value, 4,000,000 shares authorized, none issued		
Common stock, $.01 par value, 150,000,000 shares authorized, 42,893,007 and 39,146,474 shares outstanding	429	391
Capital in excess of par value	88,582	62,584
Retained earnings	219,378	175,280
Total shareholders' equity	308,389	238,255
	$ 546,783	$ 489,420

See accompanying notes to consolidated financial statements.

(In thousands except share data)	Common stock Shares	Amount	Capital in excess of par value	Retained earnings	Total
Balance at March 31, 1989	35,566,263	$ 356	$ 45,610	$ 54,187	$ 100,153
Shares repurchased from employees	(128,457)	(2)	(157)	–	(159)
Shares issued under employee stock option plans	1,187,462	12	2,607	–	2,619
Shares issued under employee stock purchase plan	505,422	5	1,348	–	1,353
Tax benefits related to stock option plans	–	–	2,404	–	2,404
Net income for year ended March 31, 1990	–	–	–	47,212	47,212
Balance at March 31, 1990	37,130,690	371	51,812	101,399	153,582
Shares repurchased from employees	(10,554)	–	(125)	–	(125)
Shares issued under employee stock option plans	1,330,281	13	3,591	–	3,604
Shares issued under employee stock purchase plan	696,057	7	2,294	–	2,301
Tax benefits related to stock option plans	–	–	5,012	–	5,012
Net income for year ended March 31, 1991	–	–	–	73,881	73,881
Balance at March 31, 1991	39,146,474	391	62,584	175,280	238,255
Shares repurchased from employees	(232,337)	(2)	(473)	(2,747)	(3,222)
Shares issued under employee stock option plans	3,530,366	35	8,686	–	8,721
Shares issued under employee stock purchase plan	448,504	5	3,607	–	3,612
Tax benefits related to stock option plans	–	–	14,178	–	14,178
Net income for year ended March 31, 1992	–	–	–	46,845	46,845
Balance at March 31, 1992	42,893,007	$ 429	$ 88,582	$ 219,378	$ 308,389

See accompanying notes to consolidated financial statements.

consolidated statements of cash flows

(In thousands)	1992	1991	1990
			Year ended March 31,
Cash flows from operating activities:			
Net income	$ 46,845	$ 73,881	$ 47,212
Items not requiring the current use of cash:			
Depreciation and amortization	28,126	13,205	5,301
Reversal of provision for product discontinuance and reduction in capacity	—	—	(2,030)
Changes in assets and liabilities:			
Accounts receivable	(32,601)	(91,776)	(34,102)
Inventories	14,334	(77,632)	(7,470)
Accounts payable	(26,523)	137,362	25,193
Accrued warranty expense	11,810	8,710	5,296
Estimated liabilities related to product discontinuance and reduction in capacity	—	—	(2,847)
Other assets and liabilities	8,453	15,712	4,111
Net cash provided by operating activities	50,444	79,462	40,664
Cash flows from investing activities:			
Purchase of marketable securities	(62,024)	—	—
Investment in property and equipment	(37,766)	(45,990)	(16,673)
Investment in La Cie, Ltd.	—	(3,800)	—
Purchase of long-term investments	—	—	562
Net cash used in investing activities	(99,790)	(49,790)	(16,111)
Cash flows from financing activities:			
Proceeds from issuance of common stock	9,111	5,780	3,813
Net cash provided by financing activities	9,111	5,780	3,813
Net increase (decrease) in cash and cash equivalents	(40,235)	35,452	28,366
Cash and cash equivalents at beginning of year	114,721	79,269	50,903
Cash and cash equivalents at end of year	$ 74,486	$ 114,721	$ 79,269
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	$ 7,559	$ 5,459	$ 1,776
Income taxes	$ 22,642	$ 40,626	$ 21,543

See accompanying notes to consolidated financial statements.

Note 1: Significant accounting policies

Principles of consolidation: The accompanying consolidated financial statements include the accounts of Quantum Corporation and its subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation.

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

Net income per common share: Net income per share is computed using the weighted average number of common and dilutive common equivalent shares attributable to stock options outstanding during the period.

Cash and cash equivalents and marketable securities: The Company has classified all cash and highly liquid investments with original maturities of three months or less at the date of acquisition as cash equivalents. All other short-term investments have been classified as marketable securities and are stated at cost, which approximates market. The effect of foreign currency exchange rate fluctuations on cash flows was not material.

Concentration of credit risk: The Company designs, manufactures and sells hard disk drives to original equipment manufacturers and distributors throughout the world. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from its customers. The Company maintains reserves for potential credit losses and such losses have historically been within management's expectations.

The Company invests its excess cash in deposits with major banks and in money market and short-term debt securities of companies with strong credit ratings and from a variety of industries. These securities mature within 365 days and, therefore, bear minimal risk. The Company has not experienced any material losses on its investments.

Inventories: Inventories are stated at the lower of cost, determined on a first-in, first-out basis, or market.

Depreciation and amortization: Depreciation is computed for financial reporting purposes using the straight-line method over the estimated useful lives which range from three to seven years. Amortization of leasehold improvements is computed over the shorter of the useful life of the improvement or the remaining life of the lease.

Investments: Pursuant to the Company's agreement with the Puerto Rican Treasury, the Company is required to maintain approximately $25,000,000 of qualified investments in Puerto Rico five years from the original date of the investment. These investments are primarily obligations of the Commonwealth of Puerto Rico or any of its instrumentalities and mature between 1992 and 1995 with interest rates ranging from 5.2% to 9.3%. These investments are stated at cost which approximates market and are included in marketable securities and investments on the accompanying balance sheets.

Goodwill: Goodwill and purchased intangibles, which are included in other assets, represent the excess cost over fair value of net assets acquired as a result of the acquisition of the minority interest in Plus Development Corporation (Plus) on December 22, 1987, and the acquisition of La Cie, Ltd. on November 19, 1990. The goodwill and purchased intangibles relating to Plus and La Cie, Ltd. are being amortized using the straight-line method over 15- and 10-year periods, respectively. The acquisition of La Cie, Ltd., did not have a material effect on operations in fiscal 1991.

Income taxes: The Company accounts for income taxes under the liability method pursuant to Statement of Financial Accounting Standards (SFAS) No. 96, "Accounting for Income Taxes." In February 1992, SFAS No. 109, "Accounting for Income Taxes," was issued, which supersedes SFAS No. 96. The Company will be required to adopt SFAS No. 109 by the beginning of its fiscal year ending March 31, 1994, although earlier adoption is allowed. The Company is analyzing the impact of this pronouncement and whether it will choose to adopt the standard early. No adverse impact from adoption of SFAS No. 109 is expected.

Research and development tax credits are recognized as a reduction of income tax expense in the year the qualified research and development expenditures are incurred.

Warranty expense: The Company generally warrants its products against defect for a period of one to two years. A provision for estimated future costs relating to warranty expense is recorded when products are shipped.

Note 2: Business segment

The Company is engaged in a single business segment consisting of the design, manufacture and marketing of hard disk drives based on Winchester technology. The Company is a leading supplier of small form factor hard disk drives for desktop personal computers, workstations and notebook computers, providing a broad range of 3½-inch and 2½-inch hard disk drives with capacities ranging from 40 megabytes to one gigabyte. The Company also designs and markets storage enhancement products that upgrade the capacity of existing desktop personal computer systems.

Export sales accounted for a significant portion of the Company's revenues and are summarized by geographic area as follows:

			Year ended March 31,
(In thousands)	1992	1991	1990
Europe	$ 344,000	$ 235,000	$ 103,000
Pacific Rim	220,000	150,000	35,000
Other	27,000	7,000	5,000
	$ 591,000	$ 392,000	$ 143,000

One major customer accounted for 25%, 34% and 42% of sales in 1992, 1991 and 1990, respectively.

Note 3: Inventories

Inventories were composed of:

		March 31,
(In thousands)	1992	1991
Materials and purchased parts	$ 18,745	$ 25,525
Work in process	3,726	5,407
Finished goods	64,904	70,777
	$ 87,375	$ 101,709

Note 4: Property and equipment

Property and equipment consisted of:

(In thousands)		March 31, 1992		1991
Machinery and equipment	$	60,336	$	52,714
Furniture and fixtures		16,759		10,489
Leasehold improvements		29,861		18,345
		106,956		81,548
Less accumulated depreciation and amortization		(41,125)		(25,438)
	$	65,831	$	56,110

Note 5: Shareholders' Equity

Stock Option Plans The Company has three stock option plans (the "Plans") under which an aggregate of 15,375,000 shares of common stock have been reserved for issuance. Options under the Plans are granted at prices determined by the Board of Directors, but at not less than the fair market value, and expire five to ten years from the date of grant. Options generally vest ratably over four to five years. At March 31, 1992, options with respect to 1,359,817 shares were available for grant.

A summary of transactions relating to outstanding stock options follows:

	Year ended March 31, 1992		1991	
	Shares	Option price	Shares	Option price
Options outstanding beginning of period	8,526,663	$ .82 - 13.75	7,635,278	$ .56 - 8.33
Options granted	1,449,910	9.50 - 10.88	2,540,880	8.50 - 13.75
Options cancelled	(477,866)	2.11 - 13.75	(319,214)	.82 - 13.75
Options exercised	(3,530,366)	.82 - 13.75	(1,330,281)	.56 - 9.17
Options outstanding end of period	5,968,341	$ .82 - 13.75	8,526,663	$ .82 - 13.75
Options exercisable end of period	1,457,198		3,199,866	

Stock Purchase Plan The Company has an employee stock purchase plan (the "Purchase Plan") under which 3,300,000 shares of common stock have been reserved for issuance. The Purchase Plan is qualified under Section 423 of the Internal Revenue Code.

During fiscal 1992, 1991, and 1990, 448,504; 696,057 and 505,422 shares, respectively, were issued under this plan.

Shareholder Rights Plan The Company has a shareholder rights plan (the "Rights Plan") which provides existing shareholders with the right to purchase 1/100 preferred share for each common share held in the event of certain changes in the Company's ownership. The Rights Plan may serve as a deterrent to takeover tactics which are not in the best interests of shareholders.

Note 6: Income taxes

The provision for income taxes computed under Statement of Financial Accounting Standards No. 96 consisted of the following:

(In thousands)		Year ended March 31, 1992		1991		1990
Federal—current	$	28,466	$	43,910	$	17,671
deferred (prepaid)		(7,500)		(12,900)		1,715
Total Federal		20,966		31,010		19,386
State—current		5,874		10,135		5,471
Foreign		671		933		—
Total income tax provision	$	27,511	$	42,078	$	24,857

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 and the income tax effect of these differences are as follows:

(In thousands)		Year ended March 31, 1992		1991		1990
Accelerated depreciation for tax purposes	$	(1,504)	$	217	$	1,038
Inventory valuation methods		1,246		(5,198)		(678)
Accrued warranty expense		(4,220)		(3,278)		(1,385)
Reversal of (provision for) product discontinuance and reduction in capacity		—		(1,511)		2,776
Capital equipment reserve		(1,276)		—		—
Other		(1,746)		(3,130)		(36)
	$	(7,500)	$	(12,900)	$	1,715

The income tax provision differs from the Federal statutory rate of 34% for the following reasons:

(In thousands except percent)		Year ended March 31, 1992	%		1991	%		1990	%
Tax computed at Federal statutory rate	$	25,281	34.0	$	39,426	34.0	$	24,503	34.0
State income tax, net of Federal benefit		3,877	5.2		6,689	5.8		3,611	5.0
Research and development credit		(1,531)	(2.1)		(1,453)	(1.3)		(1,113)	(1.6)
Other		(116)	(0.1)		(2,584)	(2.2)		(2,144)	(2.9)
	$	27,511	37.0	$	42,078	36.3	$	24,857	34.5

Note 7: Litigation settlement

In June 1990, the Company settled a patent infringement suit against Western Digital Corporation. The terms of the settlement resulted in net proceeds of $3,692,000.

Note 8: Commitments and contingencies

The Company leases its present facilities under non-cancellable operating lease agreements that range from 6 months to 15 years with various expiration dates through 2006. Some of the leases have renewal options ranging from 1 to 10 years.

Rent expense was $7,939,000, $3,617,000 and $2,709,000 for the years ended March 31, 1992, 1991 and 1990, respectively.

Future minimum lease payments under operating leases are as follows:

Year ending March 31,	(In thousands)
1993	$ 7,142
1994	7,072
1995	6,646
1996	6,728
1997	6,874
Thereafter	76,509
Total future minimum lease payments	$ 110,971

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 9: Credit agreements

The Company has credit agreements expiring October 31, 1992, with certain banks totalling $85,000,000 for the issuance of standby letters of credit and is contingently liable for letters of credit totalling approximately $585,000 as of March 31, 1992. These agreements require the Company to maintain specific financial covenants, including maintaining minimum levels of working capital, tangible net worth, net income and certain financial ratios. As of March 31, 1992, the Company was in compliance with all financial covenants.

Note 10: Subsequent event

The Company issued $212,500,000 of 6⅜% convertible subordinated debentures on April 1, 1992. The debentures are due April 1, 2002, and are subordinated to all existing and future senior indebtedness of the Company. Each debenture is convertible at the option of the holder into the Company's common stock at a conversion price of $18.15 per share. The debentures are redeemable at the Company's option on or after April 2, 1995, at prices ranging from 104.5% of the principal to 100% at maturity. The Company estimates underwriting fees and expenses of issuance and distribution at approximately $6,000,000, which will be capitalized and amortized over the term of the debentures.

Note 11: Unaudited quarterly consolidated financial data

(In thousands except per share data) Fiscal 1992		1st Quarter		2nd Quarter		3rd Quarter		4th Quarter
Net sales	$	250,859	$	244,776	$	286,611	$	345,487
Gross profit	$	53,970	$	44,892	$	46,607	$	67,916
Net income	$	12,453	$	7,713	$	9,445	$	17,233
Net income per share	$	.28	$	.17	$	.21	$	.38

Fiscal 1991		1st Quarter		2nd Quarter		3rd Quarter		4th Quarter
Net sales	$	162,685	$	192,153	$	231,583	$	291,312
Gross profit	$	43,201	$	49,910	$	57,619	$	65,573
Net income	$	17,339[a]	$	18,480	$	18,040	$	20,022
Net income per share	$	.40	$	.43	$	.41	$	.45

(a) Includes $3,692,000 income from litigation settlement.

Market for the Registrant's Common Equity and Related Shareholder Matters

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. These share prices reflect the impact of the Company's three-for-two stock split declared on April 4, 1991.

Fiscal 1992	High	Low
Fourth quarter ended March 31, 1992	17⅝	11⅜
Third quarter ended December 29, 1991	11½	9⅛
Second quarter ended September 29, 1991	11¾	9¾
First quarter ended June 30, 1991	17¾	9⅞

Fiscal 1991	High	Low
Fourth quarter ended March 31, 1991	17¾	11½
Third quarter ended December 30, 1990	15¼	8½
Second quarter ended September 30, 1990	16⅝	9½
First quarter ended July 1, 1990	15	8⅞

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 May 26, 1992, there were approximately 24,400 shareholders of the Company.

report of independent **auditors**

Report of Ernst & Young, Independent Auditors

To the Board of Directors and Shareholders
Quantum Corporation

We have audited the accompanying consolidated balance sheets of Quantum Corporation as of March 31, 1992 and 1991, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 1992. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Quantum Corporation at March 31, 1992 and 1991, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 1992, in conformity with generally accepted accounting principles.

Ernst + Young

Palo Alto, California
April 23, 1992

corporate directory

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Chairman
Quantum Corporation

David A. Brown
Founder
Quantum Corporation

Edward M. Esber, Jr.
President
The Esber Group
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Marcelo A. Gumucio
President
Gumucio, Burke & Associates
Private Investment Firm

William J. Miller
Chief Executive Officer
Quantum Corporation

Steven C. Wheelwright
Professor of Management
Graduate School of Business
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Corporate Officers

Corporate Staff

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William J. Miller
Chief Executive Officer

Albert Y. Pun
Treasurer

Joseph T. Rodgers
Executive Vice President, Finance
Chief Financial Officer
and Secretary

Executive Staff

John H. Frandsen
Vice President, Finance

Kenneth Lee
Vice President, Engineering

Jean-Pierre Patkay
Vice President, Operations

Kenneth Potashner
Vice President, Quality and Business Excellence

William F. Roach
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Investor Relations
Quantum Corporation welcomes inquiries from its shareholders and other interested investors. For further information on the Company, additional copies of this report, the Form 10K or other financial material, without charge, contact:

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