QUANTUM

ANNUAL REPORT 1990

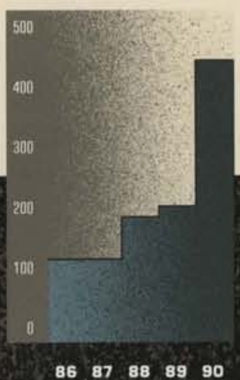
CORPORATE PROFILE: QUANTUM CORPORATION, ESTABLISHED IN 1980, IS A LEADING INDEPENDENT MANUFACTURER OF MASS STORAGE PRODUCTS FOR THE COMPUTER INDUSTRY. WE SUPPLY HIGH PERFORMANCE 3 1/2-INCH HARD DISK DRIVES IN A WIDE RANGE OF CAPACITIES AND INTERFACES. OUR DISK DRIVES PROVIDE STORAGE FOR BUSINESS AND PERSONAL COMPUTERS, HIGH-END SINGLE USER SYSTEMS, DESKTOP WORKSTATIONS, AND MULTI-USER SYSTEMS. ● WE HAVE TWO COMPLEMENTARY BUSINESSES. THROUGH OUR OEM ORGANIZATION, WE DESIGN AND MARKET OUR DRIVES TO MAJOR COMPUTER SYSTEMS MANUFACTURERS AND COMMERCIAL AND INDUSTRIAL DISTRIBUTORS WORLDWIDE. PLUS DEVELOPMENT CORPORATION, OUR WHOLLY OWNED SUBSIDIARY ESTABLISHED IN 1983, DEVELOPS AND MARKETS BRANDED END-USER MASS STORAGE PRODUCTS THROUGH 2,500 DEALERS IN 27 COUNTRIES WORLDWIDE. ● QUANTUM IS RECOGNIZED BY CUSTOMERS AND INDUSTRY ANALYSTS FOR INNOVATION, QUALITY AND RELIABILITY–NOT ONLY IN OUR PRODUCTS BUT IN THE WAY WE CONDUCT OUR BUSINESS.

FINANCIAL HIGHLIGHTS

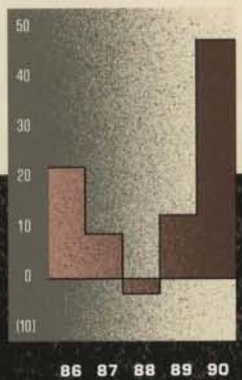
(In thousands except per share amounts and number of employees)

Fiscal year	1990	1989	1988	1987	1986
Sales	$ 446,291	$ 208,017	$ 188,529	$ 120,760	$ 121,244
Net income (loss)	$ 47,212	$ 12,887	$ (3,226)	$ 8,806	$ 22,243
Earnings (loss) per share	$ 1.71	$ .45	$ (.12)	$ .32	$ .77
Total assets	$ 243,209	$ 157,005	$ 141,710	$ 137,322	$ 126,162
Shareholders' equity per share	$ 6.20	$ 4.22	$ 3.88	$ 3.96	$ 3.73
Number of employees	763	531	513	696	696
Sales per employee	$ 663	$ 399	$ 371	$ 176	$ 161

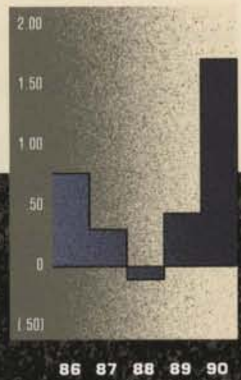
Sales
($ millions)



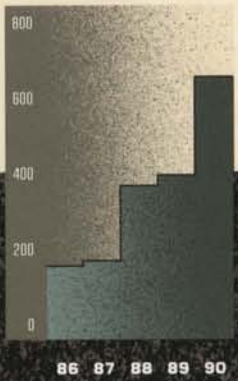
Net Income (Loss)
($ millions)



Earnings (Loss) Per Share
($)



Sales Per Employee
($ thousands)



To Our Shareholders: For many companies in the hard disk drive industry, the past year was a year of hoped-for survival. For Quantum, it was the year of arrival.

While we officially observed Quantum's 10th anniversary as a company during fiscal 1990, the greater cause for celebration was the third anniversary of "the New Quantum." The redirection of the Company which began in 1987 had already proven to management to be a sound course; in fiscal 1990, this became apparent to those outside the Company as well. Our dramatic growth by more than 100% in both revenues and profits this year solidified the turnaround reported in fiscal 1989. This growth was achieved without sacrificing financial stability, as we managed to remain debt-free while maintaining a healthy cash position.

Let me first summarize the year's results before analyzing some of the reasons for them. Sales reached record levels in the fourth quarter, climbing to $129.8 million and boosting total fiscal 1990 sales to $446.3 million, more than double the $208 million reported a year earlier. Fourth quarter net income rose to $12.8 million or $0.46 per share, and brought annual earnings to $47.2 million or $1.71 per share, up dramatically from $12.9 million or $0.45 per share for 1989. Of the $12.8 million net income or $0.46 per share reported for the fourth quarter, $2 million pre-tax or $0.05 per share is related to the reversal of a previous charge to operations in 1988 associated with discontinuing the Company's 5¼-inch products. (All earnings per share figures have

been restated to reflect the three-for-two stock split declared in April 1989 and the two-for-one split declared in July 1989.)

David A. Brown
Vice Chairman
and Chief Operating Officer

Shortly after the close of fiscal 1990, we announced plans to implement a stock repurchase program whereby Quantum may buy up to 3 million shares of its common stock in the open market. This is the fourth time in four years that Quantum's board has authorized the repurchase of the Company's stock, which we believe can be beneficial both to Quantum and its shareholders.

Maintaining and building on the financial health of Quantum was among the priorities set by management when it began to redirect the Company three years ago. Our success in achieving this is important for many reasons, with three of particular importance:

- It allows us to maintain the aggressive R&D program that produced our successful 3½-inch ProDrive® family of hard disk drives and is now developing a diverse group of exciting new products, a number of which will be unveiled in the year ahead.
- It supports the development of the worldwide infrastructure, including both personnel and facilities, necessary to build Quantum into a $1 billion global company.
- This financial strength assures our growing list of customers that Quantum is a disk

drive partner they can count on for years to come, no small consideration in an industry undergoing a massive shakeout.

Another important goal set three years ago, when Quantum's sales were highly dependent on one major OEM customer, Apple Computer, was to expand our OEM customer base. While Apple was, and continues to be, a very valued and significant customer, we realized that our growth required acceptance of Quantum's 3½-inch technology by other major computer companies as well. That acceptance began in fiscal 1989 and gained momentum in fiscal 1990. During the year, we added more than 30 new OEM customers, including such distinguished names as Sun Microsystems, AT&T, Hewlett Packard, Unisys, Intel and Zenith. Of equal significance was the growth of OEM sales through distributor channels, which grew by 358% over the previous year. Our U.S. distributors, Arrow Electronics and Marshall Industries, were among our five largest customers for the year. Distribution also played a key role in Europe, where Quantum's sales increased by 122% the past year, with the majority of the growth coming from our expanding distributor network. As a result of this dramatic expansion in both markets and customers served, sales to Apple as a percentage of our total revenues declined from 50% in the first quarter of fiscal 1990 to 31% in the fourth quarter.

What has attracted this growing number of OEMs and distributors is the ProDrive Series® of 3½-inch disk drives, with the 40, 80 and 105 megabyte models accounting for 88% of Quantum's worldwide sales in 1990. Introduced in February 1988, these high-performance drives have been so successful that we have constantly ramped production to meet demand. In April 1989, only 14 months after introduction, we shipped our 250,000th drive; by February 1990—only 10 months later—we had passed the 1 million mark in shipments. During the year, we more than tripled our manufacturing capacity to more than 2 million drives per year. We are in the process of increasing our manufacturing capability again and may potentially double our manufacturing capacity over the next year.

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

Jeffrey A. Heimbuck
President,
Plus Development
Corporation

Quantum continued to broaden the ProDrive family throughout fiscal 1990 with the largest number of product introductions in any year in the Company's history. This included six new higher capacity ProDrive models which extended their range up to 210 megabytes and four models in a new low profile series, ProDrive LPS,™ our first OEM products in a one-inch high package.

Our subsidiary, Plus Development, continued to expand its product offerings as well, with a January introduction of its Hardcard II™ line of high-performance 40 and 80 megabyte add-on disk drives for the end-user market. Near the end of the year, Plus added AT-bus and SCSI models of Plus Impulse,™ designed to facilitate dealer-level integration of high-performance hard disk drives into personal computer systems.

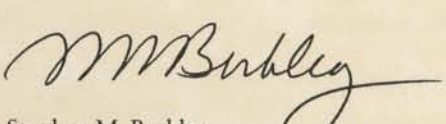
In the year ahead, Quantum will be developing new disk drive products for high-end personal computers and desktop workstations, the two markets now served by the Company. In addition, we plan to develop our first products for lower-end PCs, laptop and notebook computers, which we group into what we refer to as the entry-level systems market. This year we intend to increase our participation in the European and Pacific Rim markets, reflecting the global strategy discussed later in this report. Of course, we will also continue to build the worldwide organization needed to support this growth, implementing plans made over the past year while sales were increasing by more than 100%.

We consider Quantum's growth plans to be aggressive. They are backed by the proven technological and financial resources that will be necessary to bring them to fruition. We have embraced a long-range strategy to compete globally by combining superior technology with cost-effective manufacturing and sound financial management. Our intent is to bring high-quality, high-performance products to virtually all the major applications where small form factor hard disk drives will be in strong demand.

STEPHEN M. BERKLEY
Chairman of the Board and Chief Executive Officer

The continuing volatility in the hard disk drive industry has raised doubts in some minds about the stability of the industry. This concern may be justified regarding the prospects for some individual companies in the business but not for the business itself. According to the market research firm, Dataquest, the worldwide market for hard disk drives in Quantum's target 3½-inch or smaller form factors is expected to grow from an estimated $3 billion in 1989 to $12 billion by 1994.

The independent disk drive industry is an integral component of a dynamic computer industry. It represents a critical technology that is principally driven today by a handful of U.S. disk drive companies like Quantum. The potential rewards are high for those companies who are able to seize new global growth opportunities while adhering to sound fiscal policies, which is how we have always charted the course of Quantum.

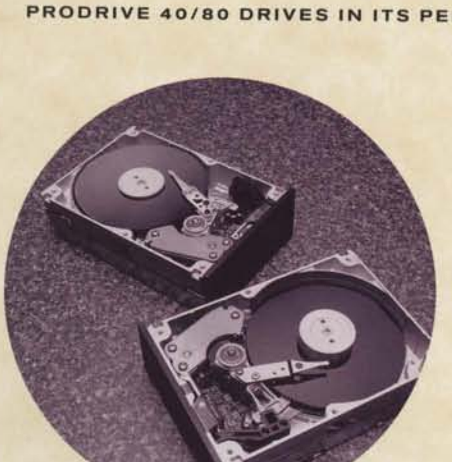


Stephen M. Berkley

Chairman & Chief Executive Officer

SUCCESS IS ALMOST ALWAYS A COLLABORATIVE EFFORT. IN THIS 1990 QUANTUM ANNUAL REPORT, WE SALUTE THE CUSTOMERS, PARTNERS AND EMPLOYEES WHO COLLECTIVELY ARE RESPONSIBLE FOR OUR RECORD GROWTH THIS YEAR AND WHO WILL BE IMPORTANT TO OUR CONTINUED SUCCESS IN THE YEARS AHEAD. THROUGH THEIR EFFORTS WE HAVE ACHIEVED TREMENDOUS RESULTS, AS IS EVIDENT FROM OUR GROWING AFFILIATION WITH THE TOP MANUFACTURERS OF PERSONAL COMPUTER SYSTEMS AND WORKSTATIONS WORLDWIDE. OUR DEDICATION TO LEADERSHIP PRODUCTS IS MATCHED BY OUR UNWAVERING COMMITMENT TO SOUND MANAGEMENT PRINCIPLES, ASSURING OUR CUSTOMERS THAT QUANTUM WILL BE AROUND TO MEET THEIR NEEDS TOMORROW AS WELL AS TODAY.

THE PERSONAL COMPUTER INDUSTRY HAS MOVED QUICKLY TO ADOPT 3 1/2-INCH HARD DISK DRIVE TECHNOLOGY. APPLE COMPUTER WAS ONE OF THE FIRST TO UTILIZE QUANTUM'S HIGH-PERFORMANCE PRODRIVE 40/80 DRIVES IN ITS PERSONAL COMPUTERS. SYSTEMS SUCH AS THE MACINTOSH SE SHOWN HERE ARE WIDELY USED FOR DESKTOP PUBLISHING AND A HOST OF OTHER POPULAR BUSINESS APPLICATIONS.



QUANTUM: KNOWN BY THE COMPANY WE KEEP A year of record growth in the high technology industry doesn't happen by chance. It begins with a well-honed strategic plan. It requires painstaking adherence to the plan and depends upon the efforts of a great many talented people both inside and outside of the Company.

For Quantum, the record year of 1990, like the turnaround year of 1989, had its roots three years ago with a pivotal management decision. That decision was to discontinue the 5¼-inch drives which then accounted for all of Quantum's OEM sales and to concentrate engineering development efforts on smaller form factor drives. The first payoff from this bold decision was our highly successful ProDrive Series of 3½-inch drives.

Despite the apparent risk at the time, the Company's performance in the past two years confirms that focusing on smaller form factors was the correct decision. To understand what this decision has meant for Quantum, we would like to take a closer look at the progress we made during fiscal 1990.

Quantum 3½-inch Drive Sales ($ millions)

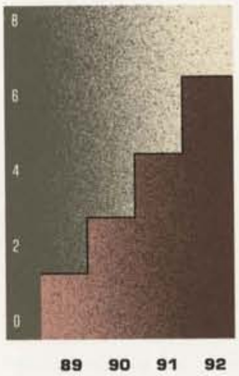
QUANTUM'S GROWING OEM CUSTOMER BASE If it is true that one is judged by the company one keeps, Quantum has clearly established itself as a leader. Nowhere is this more evident than in our customer list.

As recently as 18 months ago, before our 1989 turnaround, Quantum had four OEM customers. Today, the list is long and distinguished. It has grown from these initial four to over fifty OEMs. These customers are designing Quantum ProDrive Series drives into an exciting array of new information handling products which are extending the state-of-the-art in computer technology.

Apple Computer, whose association with Quantum began about four years ago, continued to be our largest customer in fiscal 1990. By the fall of 1988, Apple had evaluated and accepted the ProDrive Series drives, and now uses our 42 and 84 megabyte drives in all models of its Macintosh SE and Macintosh II products. During this year, we announced that Sun Microsystems had selected our 105 megabyte drive for its SPARCstation I family of workstations. Similarly, Hewlett Packard Company chose our 42 and 84 megabyte drives for use in several models of their Vectra line of personal computers. And, because of the high reliability and performance of our ProDrive products, Unisys Corporation has selected three models, ranging from 42 to 170 megabytes, for use in the desktop systems it will supply to the U.S. Air Force over the next seven years.

Notably, our list of new OEM customers includes important international companies in both the Pacific Rim and Europe. A few months ago, Lucky Goldstar selected our ProDrive products for its line of 286 and 386 personal computers. This agreement was especially significant for Quantum because it was our first major relationship with a Korean manufacturer. In Europe, recent new OEM customers include Victor, Apricot Computers and Brother.

Worldwide Shipments
100-500 MB Drives (unformatted)
(units, millions)



Calendar Year
Source: Disk/Trend

Other new customer relationships which began in 1990 include Intel, AT&T, Zenith Data Systems, NeXT Computer and many others whose names appear elsewhere in this report. We are proud to be associated with all of them.

QUANTUM'S GROWING DISTRIBUTOR SALES The fastest growing segment of Quantum's business in 1990 was in sales to the distribution market, driven by our U.S. distributors, Arrow Kierulff Electronics, Arrow Commercial Systems and Marshall Industries. In fact, our OEM sales to our distributors have increased more than 350% during the past 12 months.

HIGH-CAPACITY 3 1/2-INCH HARD DISK DRIVES, SUCH AS QUANTUM'S PRODRIVE 120/170/210 PRODUCTS, MATCH THE REQUIREMENTS AND SOPHISTICATION OF WORKSTATIONS FOR COMPLEX SCIENTIFIC, ENGINEERING AND BUSINESS TASKS. HIGH-PERFORMANCE WORKSTATIONS INCORPORATE

SUCH HARD DISK DRIVES FOR APPLICATIONS SUCH AS MEDICAL IMAGING AND COMPUTER AIDED DESIGN AND MANUFACTURING.

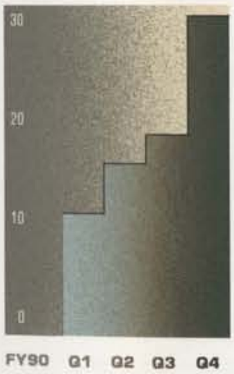
Industrial Distribution

QUANTUM'S OEM SALES THROUGH ITS WORLDWIDE DISTRIBUTORS INCREASED MORE THAN 350% THIS PAST YEAR. ALL OF QUANTUM'S PRODRIVE PRODUCTS, INCLUDING THE ONE-INCH HIGH PRODRIVE LPS 52/105 DRIVES SHOWN HERE, HAVE BEEN IN GREAT DEMAND IN THE DISTRIBUTION MARKET. DESIGNED INTO PERSONAL COMPUTERS, WORKSTATIONS AND EXTERNAL HARD DRIVE SYSTEMS, PRODRIVE DISK DRIVES SUPPORT A WIDE VARIETY OF APPLICATIONS.

Through the efforts of Arrow and Marshall, Quantum's 3½-inch drives were rapidly accepted in the markets they serve. These markets include many smaller OEMs and systems integrators and the growing number of Value Added Resellers (VARs) who specially package hard disk drive technology to meet the diverse needs of business and personal computer users.

Distributors also are a vital element in our growing success in Europe, where they accounted for a significant share of our 122% growth in international sales last year. During the year we added six new distributors, bringing to 18 the number of organizations selling Quantum products in 13 European countries. To provide them with additional support, we announced plans this year for an Amsterdam Distribution Center which will stock a complete line of Quantum drives for the European market. Operated by a third party already experienced in serving distributors throughout the Continent, the center will begin operations this summer.

Quantum OEM Distribution Sales ($ millions)



QUANTUM'S GROWING MANUFACTURING EXPERTISE "Manufacturability" has been a key design consideration for all Quantum products since our founding in 1980. We design our products concurrently with the production processes required to manufacture them efficiently. This enables us to shorten the length of time from design to low-cost, high-volume manufacturing.

Our success in this endeavor is due in part to the close working relationship with Matsushita Kotobuki Electronics Industries, Ltd. (MKE), our Japanese manufacturing partner. A critical factor in this relationship has been a shared commitment to high-yield manufacturing processes which are critical to producing low-cost, high quality, high reliability products. The benefit of this emphasis on quality of both product and process was evident this year. MKE has been able to quickly ramp production to match the rapid increase in demand for our ProDrive Series products. In fiscal 1990 alone, MKE tripled production capacity on our 42, 84 and 105 megabyte models. At the same time, we were able to achieve excellent production yields and what we believe is the best reliability record in the industry, with customer acceptance rates greater than 99.5% and proven MTBF (mean time between failures) figures far exceeding the product specifications of 50,000 hours.

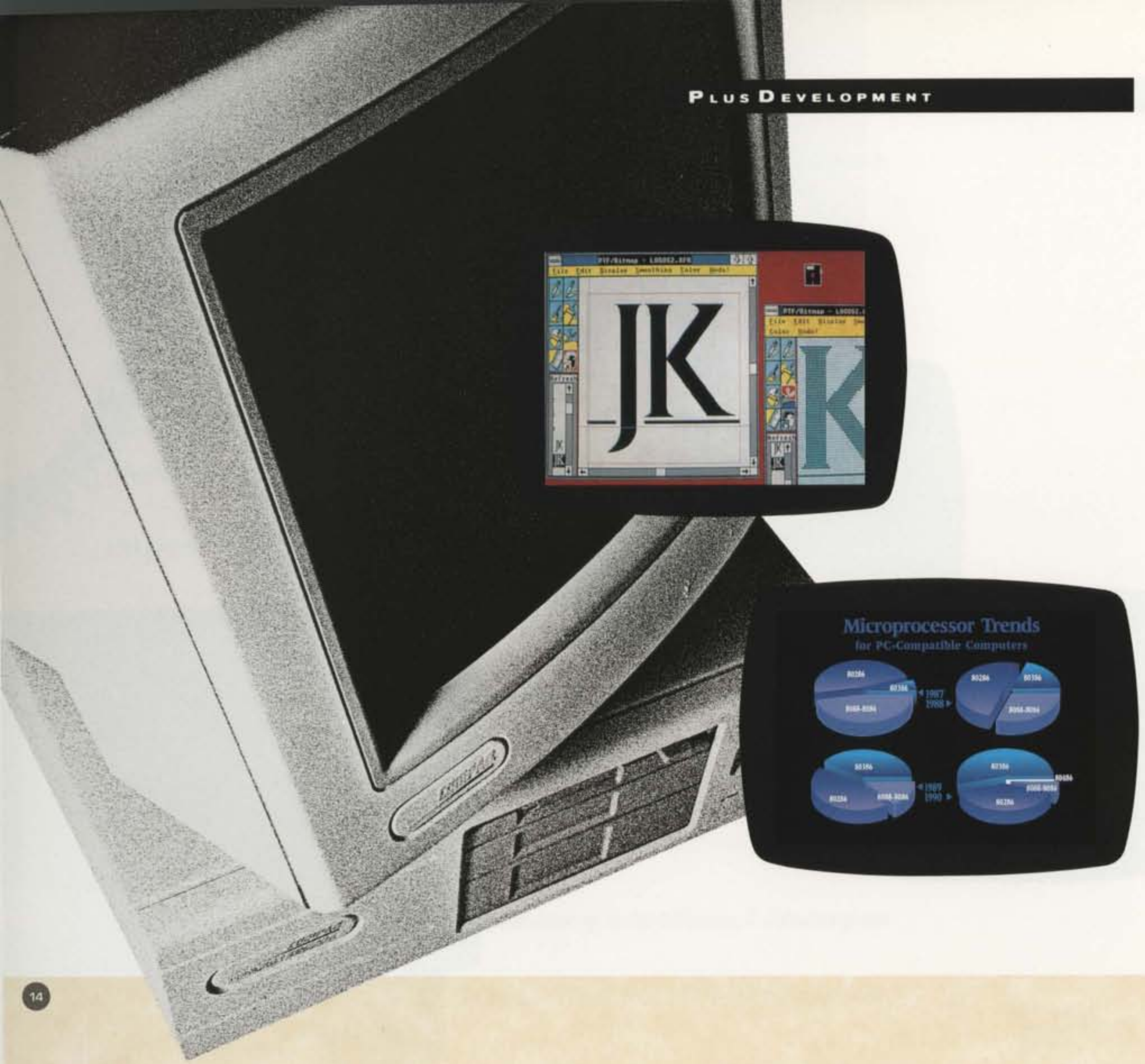
We are now extending our manufacturing expertise to meet the needs of our customers on a global basis. Our lower capacity ProDrive products, as well as the entire Plus Development product line, will continue to be manufactured in Japan by MKE. And in 1990, Quantum resumed manufacturing in the Milpitas, California plant formerly used for our 5¼-inch drives. We began volume production in Milpitas of our 120, 170 and 210 megabyte 3½-inch drives during the fourth quarter and expect this segment of our business to grow significantly in the coming year.

Quantum OEM International Sales ($ millions)

In March 1990, we announced our intention to develop a manufacturing facility in Europe and began the process of finding a suitable location. Our objective is to begin manufacturing operations in Europe within 18 to 24 months.

Quantum's sales in Europe increased significantly this year both through OEMs and distributors. We expect this robust growth to continue as the European market draws closer to economic unification at the end of 1992. A European manufacturing capability will enable us to better support the requirements of European computer systems manufacturers and distributors as well as the overseas production facilities of our major U.S. OEM customers.

THE GREATER THAN 120% GROWTH IN QUANTUM'S EUROPEAN BUSINESS AND THE ADDITION OF OUR FIRST OEM CUSTOMERS IN THE FAR EAST IN 1990 REFLECT THE IMPORTANCE OF GLOBAL MARKETS TO THE COMPANY. PERSONAL COMPUTERS, SUCH AS THE ONE PICTURED FROM MULTINATIONAL SUPPLIER COMMODORE, ARE NOW BEING DESIGNED WITH QUANTUM HIGH-RELIABILITY HARD DISK DRIVES LIKE THE PRODRIVE 105S.



END-USERS ARE THE TARGET FOR THE PLUG-IN, EXPANDABLE, AND REMOVABLE HARD DISK DRIVES DESIGNED BY QUANTUM'S PLUS DEVELOPMENT SUBSIDIARY, WHICH PRODUCES THE HARDCARD® PLUS IMPULSE AND PLUS PASSPORT™ PRODUCTS. THE NEW HARDCARD II DRIVES PROVIDE CAPACITY UPGRADES FOR THE GROWING NUMBER OF 80286/80386 PERSONAL COMPUTERS USED IN A WIDE RANGE OF BUSINESS PC APPLICATIONS.

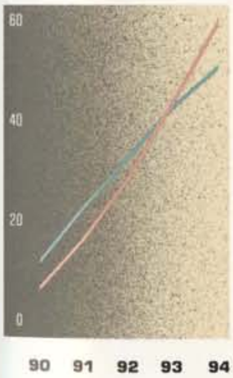
QUANTUM'S GROWING PRODUCT FAMILY The ProDrive Series of 3½-inch hard disk drives was introduced in February 1988. The four initial products offered 42 or 84 megabytes of capacity with two of the most widely-used interfaces, the IBM PC/AT bus and SCSI (Small Computer System Interface). During the 1990 fiscal year, we introduced 10 new products, more than in any year of Quantum's history. These new products are only just beginning to contribute to our revenue stream. In addition, development is progressing on other drives to be introduced during the next year, including higher capacity drives in the 400-megabyte range and smaller form-factor drives for the growing number of applications for which smaller disk drive size is critical.

Our new products in fiscal 1990 include six high-capacity, high-performance ProDrive products for the desktop workstation markets, and four one-inch high models, known as ProDrive LPS (Low Profile Series) designed for the business PC market. Our original 42, 84 and 105 megabyte ProDrive Series products have been described by several independent testing labs as the highest performing drives available at their capacity levels and as having a solid reputation for quality. We expect our new drives to continue the tradition of providing the highest performance and reliability at prices competitive with those of more commodity-like drives.

These new Quantum products have positioned us well to serve the two primary markets we have addressed to date—high-performance business personal computers and desktop workstations.

The flow of new products during fiscal 1990 extended to our Plus Development subsidiary, which has introduced some of the most highly acclaimed products for the end-user computer market in recent years. Like the distribution business on the OEM side, the dealer aftermarket served by Plus differs significantly from the OEM

Installed Base, 80286/386 PC's (units, millions)



Calendar Year

■ 80286
■ 80386/386SX
Source: IDC

business and thus requires innovative approaches to both technology and marketing.

Plus' products have been heralded as revolutionary. The original Hardcard® series of hard disk expansion board products was followed by Plus Passport,™ a removable hard disk drive system for PCs; and Plus Impulse,™ an expandable hard disk drive system for local area networks (LANs). In 1990, Plus introduced new higher performance 40 and 80 megabyte Hardcard products designed as upgrades for 286/386 class personal computers. Plus also added AT-bus and SCSI models to the Impulse line to enable dealers to easily integrate high performance drives into AT and SCSI-port systems.

Plus' contributions to Quantum have extended well beyond the success of Plus' products, however. It was Plus' early experience in pioneering the 3½-inch technology developed for Hardcard which facilitated the transition of Quantum's OEM business from 5¼-inch to 3½-inch technology.

QUANTUM'S GROWING GLOBAL ORGANIZATION Management commitments to superior products, quality, customer service and all the other elements that add up to industry leadership are meaningless unless they are supported by motivated employees who share those commitments. It is also essential to provide those employees with a working environment and facilities which enable them to fulfill those commitments.

The success of our products and our strong financial performance in 1990 indicate that we are succeeding in building an effective organization. In every area—from administrative offices to the manufacturing floor—we are developing teams of employees who take pride in Quantum and their contributions to their company. In addition, we are working to ensure that we continue to develop the appropriate environment and facilities to support them. During fiscal 1990, we made major commitments to developing the Company's infrastructure including the expansion of our physical facilities.

In September 1989, we announced plans to develop and lease a five-building campus complex on a 37-acre site near our existing Milpitas facility. The campus will enable us to expand our corporate, marketing, administrative, manufacturing and R&D operations as required. The first phase, which will provide 332,000-square feet of space in two buildings, is planned for completion in the Spring of 1991. As we continue to grow, additional buildings will be added up to a total of 560,000 square feet, providing space for 1,500 employees.

We are also addressing the requirements for continued growth on a global basis. In addition to the plans for manufacturing in Europe, we increased our European sales and service teams operating from our Quantum Europe headquarters in Frankfurt, West Germany, and our sales offices in Paris and London. We also expanded our repair center in Frankfurt and remain the only U.S. disk drive manufacturer to provide local repair capabilities on the European continent.

Like the computer industry it serves, the disk drive industry has rapidly become a global business. With our planned expansion in California, Europe, and at MKE's operations in Japan and our growing sales base in the Pacific Rim, Quantum will continue building a team of dedicated employees, superior manufacturing facilities and localized customer support on three continents. We are putting the infrastructure in place to continue building on our successes of the past year and to strengthen our leadership in innovative design, manufacturing and customer support throughout the 1990s and beyond.

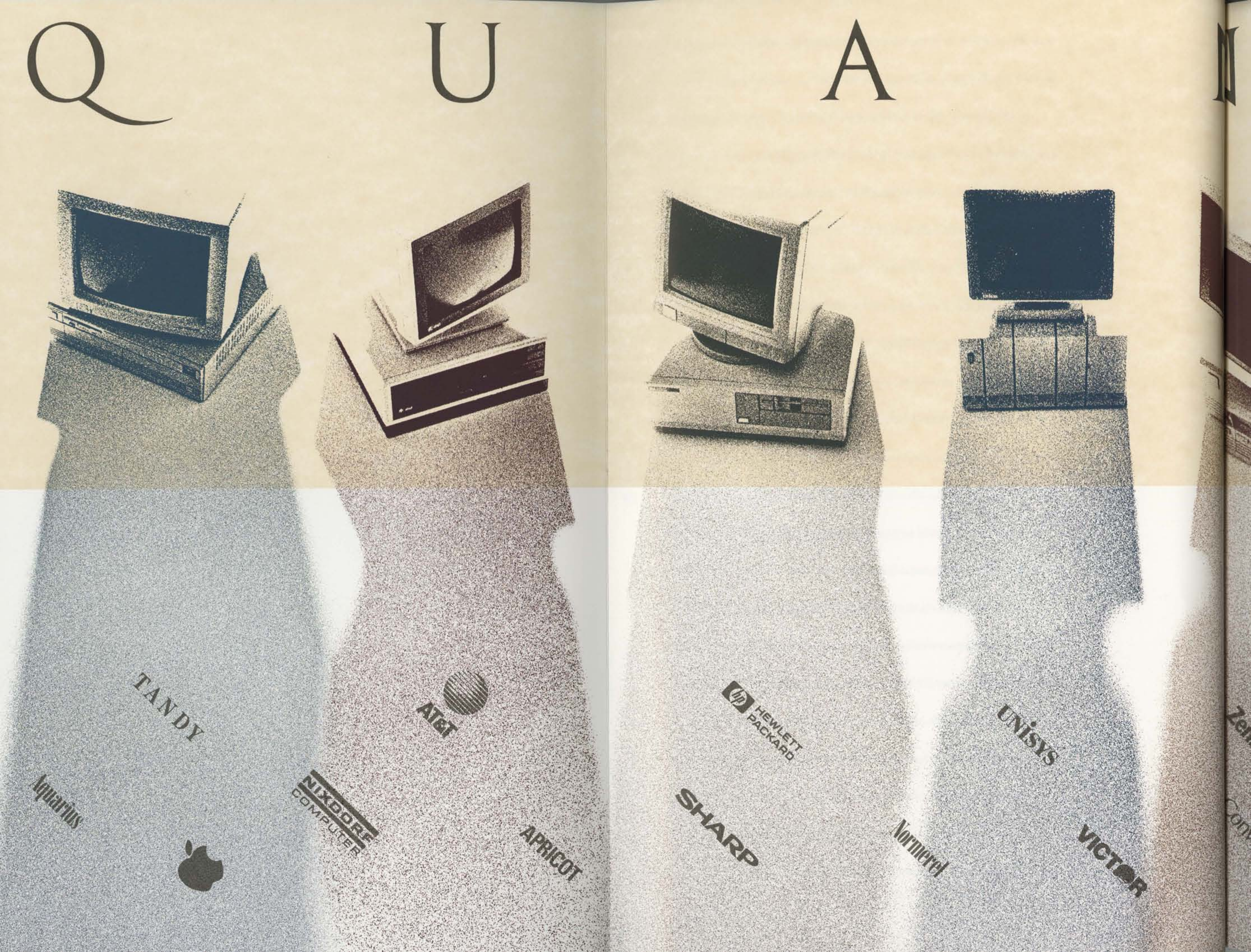
"INCLUDES QUANTUM HARD DISK DRIVE." THAT PHRASE IS BECOMING ACCEPTED AS A SYMBOL OF QUALITY BY END USERS OF HIGH-PERFORMANCE PERSONAL COMPUTERS AND DESKTOP WORKSTATIONS. QUALITY IS ONE OF THE PRIMARY REASONS FOR THE WIDESPREAD ACCEPTANCE OF QUANTUM'S PRODRIVE

SERIES BY THE WORLD'S LEADING COMPUTER SYSTEM MANUFACTURERS.

IN THESE PAGES YOU'LL FIND AN IMPRESSIVE GALLERY OF COMPUTER PROD-

UCTS AND THE COMPANIES THAT MANUFACTURE THEM—ALL COMPANIES

WE ARE PROUD TO NAME AS QUANTUM CUSTOMERS.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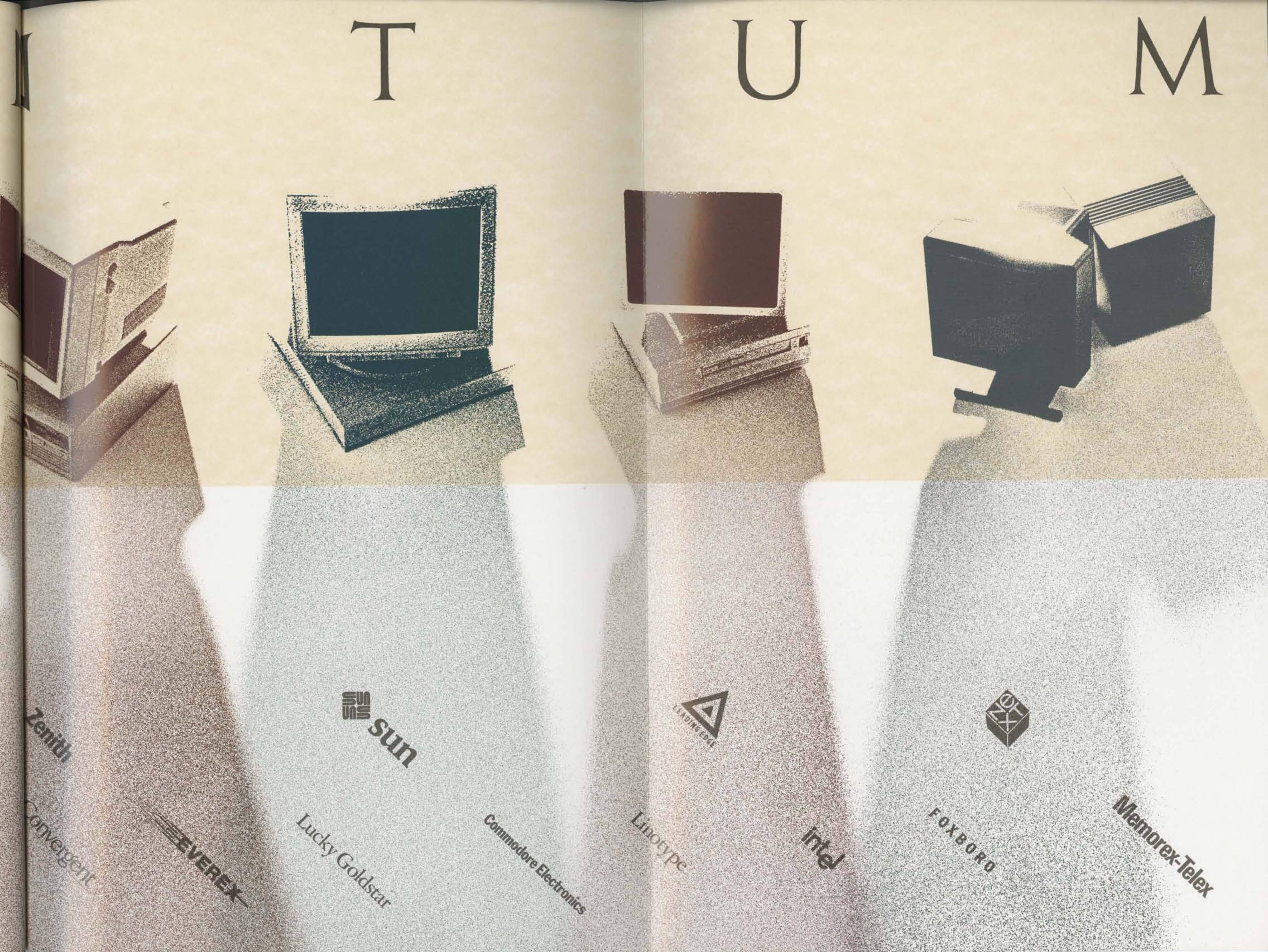
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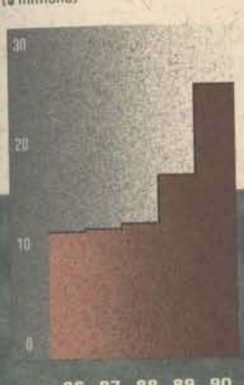
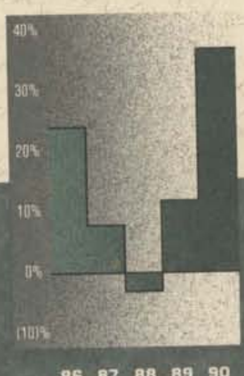
R&D Expenditures
($ millions)



Return on Shareholders' Equity



Net Equity Per Share
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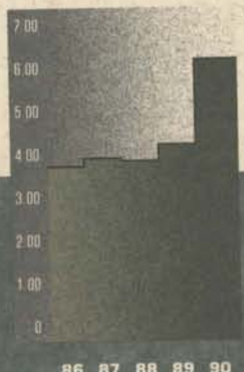
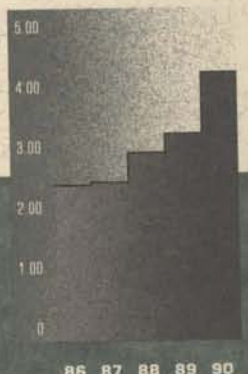


Cash & Cash Investments/Share
($)



Financial Summary

(In thousands) Fiscal Year	1990	% Change	1989	% Change	1988
Sales	$ 446,291	115%	$ 208,017	10%	$ 188,529
Gross margin	131,739	120%	59,818	48%	40,495
Research and development	25,771	53%	16,804	39%	12,067
Marketing	27,178	25%	21,774	28%	16,967
General and administrative	13,836	57%	8,814	33%	6,640
Net income	47,212	266%	12,887	499%	−3,226
Total assets	243,209	55%	157,005	11%	141,710
Shareholders' equity	153,582	53%	100,153	−12%	114,060

Quantum designs, manufactures and sells hard disk drives. The marketplace is competitive and the technology changes rapidly with the introduction of new generations of drives offering greater speed and higher capacities in smaller form factors. In fiscal 1988, Quantum made a strategic decision to phase out production of its 5¼-inch Q200 Series of products and concentrate efforts on the newly emerging 3½-inch market opportunity. This decision has had a significant impact on the Company's results of operations for the past three fiscal years.

Consolidated sales have continued to grow based on strong market acceptance of Quantum's 3½-inch products. Sales for the year ended March 31, 1990, which consisted solely of sales of 3½-inch products, were $446,291,000, an increase of 115% over the prior year. Sales for the year ended March 31, 1989 were $208,017,000, of which 70% was attributed to 3½-inch products, as compared to the prior year sales of $188,529,000, of which 39% was attributed to 3½-inch products.

During the past three years Quantum has expanded its customer base and increased sales to major OEM customers and distributors. In fiscal 1990, the Company added a significant number of new OEM customers, including Hewlett Packard, Sun Microsystems, Intel and AT&T, and experienced strong growth in sales to domestic distributors, such as Arrow Electronics and Marshall Industries. The Company continues to have significant shipments to Apple Computer which accounted for 42% of consolidated sales in fiscal 1990 as compared to 38% in fiscal 1989. Any significant decrease in sales to Apple Computer, or the loss of Apple Computer as a customer, would have a material adverse effect on the Company's results of operations.

Over the past three years Quantum has also increased sales in foreign markets both to OEMs and through distributors. Sales outside the United States represented 32% of total sales in fiscal 1990, 31% in fiscal 1989 and 22% in fiscal 1988. This trend is expected to continue as the Company expands its distribution and support network in Europe and the Pacific Rim.

Sales from OEM products represented 88% of total sales for fiscal 1990, 69% of total sales for fiscal 1989 and 61% of total sales for fiscal 1988. OEM sales increased 175% during fiscal 1990 as compared to an increase of 25% during fiscal 1989. The increase in OEM sales is due to the continued increase in unit shipments of the ProDrive Series of 3½-inch drives.

Sales from Plus represented 12% of consolidated sales in fiscal 1990, as compared to 31% in fiscal 1989 and 39% in fiscal 1988. Plus sales decreased 18% in fiscal 1990 when compared to fiscal 1989, and decreased 12% in fiscal 1989 when compared to fiscal 1988. The decrease in sales in fiscal 1990 is primarily due to general softness in the retail aftermarket. The decrease in sales in fiscal 1989 was primarily due to declining Hardcard 20 sales as the market standardized on 40 megabyte products.

The Company's consolidated gross margin in fiscal 1990 was 30%, as compared to 29% in fiscal 1989, and 21% in fiscal 1988. The improvement in gross margin is primarily due to better product economics for the 3½-inch ProDrive products as compared to the earlier 5¼-inch products. In fiscal 1991, the Company expects that gross margin will decline due to shifts in product mix, manufacturing costs associated with the start up of production of the ProDrive 120, 170 and 210 megabyte products at the Milpitas, California facility, and continued price competition.

The ProDrive 40, 80 and 105 as well as the ProDrive LPS and all Plus products are manufactured by the Company's manufacturing partner, Matsushita Kotobuki Electronics Industries, Ltd., (MKE) of Japan, which has exclusive manufacturing rights for these products. 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 gross margin on products manufactured in Japan has not been significantly affected by fluctuations of the U.S. dollar against the Japanese yen, as the Company periodically entered into foreign exchange contracts to partially hedge against purchase commitments in yen. Beginning in the December 1989 quarter, major purchase commitments from MKE were denominated in U.S. dollars.

Most of the components used in the Company's products are available from more than one supplier. The Company maintains component inventories which it believes are adequate for its short-term needs. Certain key components, however, are presently available from sole sources. During the fourth quarter of fiscal 1990, the Company's growth in revenue was constrained by the limited availability of certain key components. Some component shortages are expected to continue to affect revenue during fiscal 1991. The Company believes it will be able to qualify additional sources during 1991. However, the inability to obtain essential components or to qualify additional sources as necessary, if prolonged, could have a material adverse effect on the Company's business.

As Quantum operates in an industry subject to rapid technological advances, the future success of the Company is dependent upon continued successful introductions of new products. Research and development and marketing expenses have continued to increase during the past three fiscal years, and are expected to increase in fiscal 1991, as a result of multiple product development programs and the related product introduction costs.

General and administrative expenses increased to $13,836,000, but declined to 3% of sales in fiscal 1990, as compared to $8,814,000 or 4% of sales in fiscal 1989, and $6,640,000 or 4% of sales in fiscal 1988. The increase in general and administrative spending reflects increases in recruiting costs, wages, legal and litigation expenses, and other general expenses necessary to support the Company's growth.

The decision to exit the 5¼-inch market in fiscal 1988 resulted in a charge to operations of $16,700,000 to cover losses on inventories, equipment, facilities commitments and other costs related to the discontinuance of the products. The transition to 3½-inch products was completed during fiscal 1990, and as a result of unexpected continued demand for the 5¼-inch products as well as the Company's management of the transition to 3½-inch products, $2,030,000 of the original charge to operations was reversed to operating income in the fourth quarter of fiscal 1990.

Net income for the year ended March 31, 1990 was $47,212,000, or $1.71 per share, (including $.05 per share related to the $2,030,000 pre-tax credit to operations resulting from the reversal of the provision for product discontinuance and reduction in capacity), as compared with $12,887,000, or $.45 per share for the year ended March 31, 1989. The net loss of $3,226,000, or net loss per share of $.12, for the year ended March 31, 1988, reflects the pre-tax charge to operations of $16,700,000.

During fiscal 1990, the Company declared two stock splits, both of which were effected in the form of a stock dividend. A three-for-two split was declared on April 11, 1989, and a two-for-one split was declared on July 26, 1989 (see Note 13). All share and earnings per share amounts for all periods have been restated to reflect these splits. The fiscal 1989 and 1990 earnings per share figures also reflects the effects of the Company's repurchase of 6,000,000 shares of its common stock in the December 1988 quarter pursuant to a Dutch Auction tender offer.

The Company's effective tax rate was 34.5% for fiscal 1990. This was lower than the combined federal and state statutory rate due primarily to tax-exempt interest and research and development credits. In fiscal 1989, the effective tax rate was 26.6%, reflecting the utilization of a book operating loss carry-forward. During fiscal 1988, the Company recorded a tax benefit equal to 49.3% of the pretax loss. The fiscal 1988 tax rate included the effect of the reduced tollgate tax on profits which were repatriated from Quantum Caribe, the Company's former subsidiary in Puerto Rico.

Liquidity and Capital Resources

At March 31, 1990, the Company had $79,269,000 in cash and cash equivalents as compared to $50,903,000 at March 31, 1989. In addition, the Company has $24,985,000 in long term investments with maturity dates ranging from July 1992 through July 1994. The Company has available $80,000,000 under bank credit agreements for the issuance of standby letters of credit and an additional $15,000,000 credit facility for forward exchange contracts. The Company has no bank debt.

During fiscal 1990, the Company generated a positive cash flow from operations of $40,664,000. Major expenditures included the investment of $16,673,000 in capital equipment for research and development and production at the Milpitas manufacturing facility.

During fiscal 1990, the Company entered into a lease for a 37 acre, campus style complex in Milpitas. The Company plans to move operations to this new facility in June 1991. As a result of the new facilities lease, total rent payments will increase approximately $1,500,000 in fiscal 1992 when compared to fiscal 1991. At this time the Company expects to spend approximately $13,000,000 for leasehold improvements and approximately $6,000,000 for capital equipment in conjunction with development of the new facility. The expenditures will be made over the next fifteen months. The Company also expects to invest approximately $8,000,000 in engineering, manufacturing and other capital equipment during fiscal 1991. Additionally, on May 1, 1990, the Company announced plans to implement a stock repurchase program whereby up to 3 million shares of its common stock may be repurchased in the market from time to time. The Company believes that its current cash position and future cash flow from operations are sufficient to meet all costs associated with the development of and move to the new site, the stock repurchase plan, as well as sustain operations during the next fiscal year.

(In thousands except share and per share data)	1990	1989	1988
			Year ended March 31,
Sales	$ 446,291	$ 208,017	$ 188,529
Costs and expenses:			
Cost of sales	314,552	148,199	148,034
Research and development	25,771	16,804	12,067
Marketing	27,178	21,774	16,967
General and administrative	13,836	8,814	6,640
Provision (reversal of provision) for product discontinuance and reduction in capacity (Note 8)	(2,030)	–	16,700
	379,307	195,591	200,408
Income (loss) from operations	66,984	12,426	(11,879)
Interest and other income, net	5,085	5,125	4,745
Income from litigation settlement (Note 9)	–	–	2,975
Income (loss) before income taxes and minority interest	72,069	17,551	(4,159)
Income tax provision (benefit) (Notes 1 and 7)	24,857	4,664	(2,051)
Income (loss) before minority interest	47,212	12,887	(2,108)
Minority interest in income of consolidated subsidiary (Note 11)	–	–	(1,118)
Net income (loss)	$ 47,212	$ 12,887	$ (3,226)
Net income (loss) per common share (Notes 1 and 13)	$ 1.71	$ .45	$ (.12)
Shares used in per share calculations	27,593,585	28,536,344	27,834,628

See accompanying notes to consolidated financial statements.

(In thousands except share and per share data)	March 31, 1990	March 31, 1989
Assets		
Current assets:		
Cash and cash equivalents (Note 1)	$ 79,269	$ 50,903
Accounts receivable, net of allowance for doubtful accounts of $1,934 and $1,954	69,973	35,871
Inventories (Notes 1 and 3)	24,077	16,607
Prepaid income taxes (Note 7)	3,892	2,644
Prepaid expenses	527	709
Other current assets	7,664	3,166
Total current assets	185,402	109,900
Property and equipment, at cost less accumulated depreciation (Notes 1 and 4)	23,180	11,310
Investments (Note 1)	24,985	25,547
Other assets	963	884
Goodwill (Notes 1 and 11)	8,679	9,364
	$ 243,209	$ 157,005
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 60,507	$ 35,314
Accrued compensation	5,543	3,110
Income taxes payable	3,341	4,146
Accrued warranty expenses	9,047	3,751
Other accrued liabilities	4,765	2,193
Estimated liabilities related to product discontinuance and reduction in capacity (Note 8)	–	4,877
Total current liabilities	83,203	53,391
Deferred income taxes (Note 7)	6,424	3,461
Commitments and contingencies (Notes 10 and 12)		
Shareholders' equity (Notes 1, 5, 6, and 13):		
Preferred stock, $.01 par value, 4,000,000 shares authorized, none issued		
Common stock, $.01 par value, 45,000,000 shares authorized, 24,753,793 and 23,710,842 shares outstanding	248	238
Capital in excess of par value	51,935	45,728
Retained earnings	101,399	54,187
Total shareholders' equity	153,582	100,153
	$ 243,209	$ 157,005

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	1990	1989	1988
			Year ended March 31,
Cash flows from operating activities:			
Net income (loss)	$ 47,212	$ 12,887	$ (3,226)
Items not requiring the current use of cash:			
Depreciation and amortization	5,301	4,314	5,782
Provision (reversal of provision) for product discontinuance and reduction in capacity	(2,030)	–	16,700
Loss on disposition of property and equipment	187	66	1,469
Deferred income taxes	2,963	(632)	(6,514)
Minority interest	–	–	1,118
Changes in assets and liabilities:			
Restricted cash	–	–	11,500
Accounts receivable	(34,102)	(18,880)	(4,745)
Inventories	(7,470)	(1,579)	5,928
Accounts payable	25,193	25,187	26
Accrued warranty expense	5,296	1,025	1,400
Estimated liabilities related to product discontinuance and reduction in capacity	(2,847)	(1,163)	(5,865)
Other assets and liabilities	961	3,130	2,774
Net cash provided by operating activities	40,664	24,355	26,347
Cash flows from investing activities:			
Investment in property and equipment	(16,673)	(6,396)	(4,897)
Proceeds from sale of property and equipment	–	300	499
Purchase of long term investments	562	453	(26,000)
Net cash used in investing activities	(16,111)	(5,643)	(30,398)
Cash flows from financing activities:			
Proceeds from issuance of common stock	3,813	1,241	710
Purchase of Company common stock in the open market	–	(28,157)	(3,163)
Net cash provided by (used in) financing activities	3,813	(26,916)	(2,453)
Net increase (decrease) in cash and cash equivalents	28,366	(8,204)	(6,504)
Cash and cash equivalents at beginning of year	50,903	59,107	65,611
Cash and cash equivalents at end of year	$ 79,269	$ 50,903	$ 59,107
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	$ 1,776	$ 577	$ 333
Income taxes	$ 21,543	$ 3,569	$ 596

See accompanying notes to consolidated financial statements.

(In thousands except share data)	Common Stock Shares	Common Stock Amount	Capital in excess of par value	Retained earnings	Total
Balance at March 31, 1987	27,267,444	$ 273	$ 46,701	$ 61,134	$108,108
Shares repurchased from employees	(61,074)	(1)	(10)	–	(11)
Shares repurchased on the open market	(1,065,000)	(11)	(1,921)	(1,231)	(3,163)
Shares issued under employee stock option plans (Note 5)	184,468	2	299	–	301
Shares issued under employee stock purchase plan (Note 6)	99,434	1	419	–	420
Shares issued to acquire subsidiary (Note 11)	2,942,308	30	11,188	–	11,218
Tax benefits related to stock option plans	–	–	413	–	413
Net loss for year ended March 31, 1988	–	–	–	(3,226)	(3,226)
Balance at March 31, 1988	29,367,580	294	57,089	56,677	114,060
Shares repurchased from employees	(149,680)	(1)	(88)	–	(89)
Shares repurchased on the open market	(6,000,000)	(60)	(12,720)	(15,377)	(28,157)
Shares issued under employee stock option plans (Note 5)	274,868	3	696	–	699
Shares issued under employee stock purchase plan (Note 6)	218,074	2	629	–	631
Tax benefits related to stock option plans	–	–	122	–	122
Net income for year ended March 31, 1989	–	–	–	12,887	12,887
Balance at March 31, 1989	23,710,842	238	45,728	54,187	100,153
Shares repurchased from employees	(85,638)	(1)	(158)	–	(159)
Shares issued under employee stock option plans (Note 5)	791,641	8	2,611	–	2,619
Shares issued under employee stock purchase plan (Note 6)	336,948	3	1,350	–	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	24,753,793	$ 248	$ 51,935	$101,399	$153,582

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 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.

Warranty expenses: 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 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: Depreciation is computed for financial reporting purposes using the straight-line method over 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 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 in 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 1994 with interest rates ranging from 5.2 percent to 9.3 percent. These investments are stated at cost which approximates market.

Goodwill: Goodwill represents 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 (see Note 11), and is being amortized using the straight-line method over a 15 year period.

Income taxes: The Company accounts for income taxes under the liability method pursuant to the Statement of Financial Accounting Standards 96, "Accounting for Income Taxes." 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.

Net income (loss) 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. Net loss per share is computed in the same manner except common equivalent shares are excluded since an increase in the number of shares assumed to be outstanding would be antidilutive.

On April 11, 1989, the Company declared a three-for-two stock split and on July 20, 1989, the Company declared a two-for-one stock split. The effect of these stock splits has been reflected retroactively in these financial statements (see Note 13).

Cash and cash equivalents: The Company has classified all cash and highly liquid investments (generally with original maturities of three months or less) as cash and cash equivalents. The effect of foreign currency rate fluctuations on cash balances held in foreign currencies was not material.

Note 2: Business segment

The Company is engaged in a single business segment consisting of the design, manufacture and sale of hard disk drives. The Company supplies hard disk drives to original equipment manufacturers ("OEMs") and distributors for use in personal computers and workstations. In addition, the Company's wholly-owned subsidiary, Plus, designs hard disk drives for personal computer storage enhancement; such products are marketed through distributors and dealers to end users.

Foreign sales accounted for 32%, 31% and 22% of total sales in 1990, 1989 and 1988, respectively. One major customer (accounting for 10% or more of sales) accounted for 42% of sales during the year ended March 31, 1990 and 38% of sales during the year ended March 31, 1989. Two major customers accounted for 39% and 11% of sales during the year ended March 31, 1988.

Note 3: Inventories

Inventories were composed of:

(In thousands)	March 31, 1990	1989
Materials and purchased parts	$ 2,882	$ 2,664
Work in process	1,313	171
Finished goods	19,882	13,772
	$ 24,077	$ 16,607

Note 4: Property and equipment

Property and equipment consisted of:

(In thousands)	March 31, 1990	1989
Machinery and equipment	$ 24,288	$ 21,315
Furniture and fixtures	5,098	2,933
Tooling	2,014	2,132
Leasehold improvements	5,460	2,921
	36,860	29,301
Less accumulated depreciation and reserve for reduction in capacity	(13,680)	(17,991)
	$ 23,180	$ 11,310

Note 5: Stock option plans

The Company has adopted 1981 and 1984 Incentive Stock Option Plans and a 1986 Stock Option Plan. The aggregate number of shares reserved for issuance to eligible employees and consultants of the Company under these plans is 8,250,000. Options under the plans are granted at prices determined by the Board of Directors, but not less than the fair market value on the date of grant and expire five to ten years after the date of grant. Generally, one-forty-eighth or one-sixtieth of the grant becomes exercisable each month. At March 31, 1990 and 1989, options with respect to 1,440,000 and 1,670,000 shares, respectively, were available for grant from all plans combined.

A summary of transactions relating to outstanding stock options follows:

	Year ended March 31, 1990		Year ended March 31, 1989	
	Shares	Option price	Shares	Option price
Options outstanding beginning of period	5,351,488	$ .84 - 4.50	3,673,500	$ .84 - 3.42
Options granted	752,958	5.34 - 12.50	2,430,328	3.25 - 4.50
Options cancelled	(222,620)	.84 - 10.63	(477,472)	1.24 - 4.13
Options exercised	(791,641)	1.23 - 6.50	(274,868)	1.24 - 4.00
Options outstanding end of period	5,090,185	$ .84 - 12.50	5,351,488	$ .84 - 4.50
Options exercisable end of period	1,877,804		1,493,746	

Note 6: 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 300,000 shares of common stock for purchase by eligible employees during 24-month offering periods consisting of four six-month exercise periods. An eligible employee participating under the Purchase Plan may purchase shares of common stock at the lower of (i) 85% of the fair market value per share of common stock at the commencement of the offering period, or (ii) 85% of the fair market value per share of the common stock on the last day of the applicable six month exercise period within the 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 300,000 shares to a total of 600,000, and in 1989 they increased the number of shares reserved for issuance by 600,000 shares to a total of 1,200,000 shares.

During fiscal 1990, 1989 and 1988, 336,948, 218,074 and 99,434 shares, respectively, were issued under this plan.

Note 7: Income taxes

The provision (benefit) for income taxes consists of the following:

		Year ended March 31,	
(In thousands)	1990	1989	1988
Federal—current	$ 17,671	$ 4,650	$ 2,040
deferred (prepaid)	1,715	(1,498)	(6,249)
Total Federal	19,386	3,152	(4,209)
State—current	5,471	1,512	1,858
Foreign	–	–	300
Total provision (benefit) for income taxes	$ 24,857	$ 4,664	$ (2,051)

Federal income taxes in 1988 include tollgate taxes on the Company's former subsidiary in Puerto Rico.

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

The sources and tax effects of these differences are as follows:

(In thousands)	Year ended March 31, 1990	1989	1988
Accelerated depreciation for tax purposes	$ 1,038	$ 214	$ (51)
Allowance for doubtful accounts	76	(380)	(116)
Inventory valuation methods	(678)	(527)	796
Accrued warranty expense	(1,385)	(471)	(555)
Tax on income from Puerto Rican operations	—	—	(2,889)
(Provision) reversal of provision for product discontinuance and reduction in capacity	2,776	(161)	(3,373)
Other	(112)	(173)	(61)
	$ 1,715	$ (1,498)	$ (6,249)

The provision (benefit) for income taxes differs from the Federal statutory rates for the following reasons:

(In thousands except percent)	Year ended March 31, 1990	%	1989	%	1988	%
Tax computed at Federal statutory rate	$ 24,503	34.0	$ 5,968	34.0	$ (1,539)	(37.0)
State income tax, net of Federal benefit	3,611	5.0	998	5.7	383	9.2
Investment tax credit	—	—	—	—	300	7.2
Research and development credit	(1,113)	(1.6)	(436)	(2.5)	—	—
Tax-exempt interest	(1,164)	(1.6)	(1,089)	(6.2)	(141)	(3.4)
Capital gain benefit	(97)	(.1)	(238)	(1.3)	(250)	(6.0)
Reduced tax rate of Puerto Rican operations and tollgate tax reduction	—	—	—	—	(2,400)	(57.7)
Unrealized (realized) current losses	—	—	(992)	(5.7)	1,432	34.4
Other	(883)	(1.2)	453	2.6	164	4.0
	$ 24,857	34.5	$ 4,664	26.6	$ (2,051)	(49.3)

During fiscal 1990, the Internal Revenue Service completed its examination of the Company's Federal income tax returns for fiscal years 1984 through 1987. There were no adjustments made which have a material effect on the financial statements.

Note 8: Provision for product discontinuance and reduction in capacity

During the year ended March 31, 1988, the Company announced plans to discontinue production of all 5¼-inch disk drive products and concentrate resources on new 3½-inch market opportunities. As a result, $16,700,000 was charged to income related to product discontinuance and reduction in 5¼-inch manufacturing capacity. The transition to 3½-inch products and modifications of the Milpitas manufacturing facility associated with the 5¼-inch product discontinuance were completed during the year ended March 31, 1990. Due to the unexpected continued demand for 5¼-inch disk drive products, as well as the management of the transition to the current 3½-inch products, the charges were minimized and $2,030,000 was returned to operating income in 1990.

Note 9: Litigation settlement

In November 1987, the Company settled a patent infringement lawsuit against Mountain Computer, Inc., NEC Corporation and NEC Information Systems, Inc. (NECIS). The terms of the settlement resulted in a cash payment of $2,975,000 to the Company. In addition, Mountain Computer, Inc., NEC and NECIS agreed to discontinue the manufacture, sale and use of disk drives using the patented technology.

Note 10: Commitments and contingencies

The Company leases its present facilities under non-cancellable operating lease agreements that range from 2 to 10 years with various expiration dates through 1994. Some of the leases have renewal options ranging from 5 to 10 years.

Additionally, the Company has entered into a lease for a new campus facility. The Company expects to occupy the new facility in June 1991. The term of the lease is 15 years with two 5-year renewal options.

Rent expense was $2,709,000, $1,916,000 and $2,178,000 for the years ended March 31, 1990, 1989 and 1988, respectively.

Future minimum lease payments under operating leases are as follows:

Year ended March 31,	(In thousands)
1991	$ 2,699
1992	4,164
1993	4,308
1994	4,441
1995	4,507
Thereafter	66,267
Total future minimum lease payments	$ 86,386

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 11: Acquisition of minority interest in subsidiary

Plus is a subsidiary in which the Company had an 80% voting interest at March 31, 1987, with the minority interest held primarily by officers and employees of the Company and Plus.

Sales of Plus represented 12%, 31% and 39% of consolidated sales for the years ended March 31, 1990, 1989 and 1988, respectively.

On December 22, 1987, the Company acquired all outstanding shares of Plus, other than the shares held by the Company and dissenting shareholders. Each outstanding minority share of Plus was exchanged for 1.5 shares of the Company's common stock. A total of 2,942,308 shares of the Company's stock was issued. In addition, outstanding Plus employee options were assumed by the Company under the same terms of exchange, resulting in an additional obligation to issue 738,202 shares upon the exercise of such options. As a result of this acquisition, the Company recorded approximately $10,300,000 in goodwill (see Note 1).

Had this transaction occurred on April 1, 1987, the results of operations for the year ended March 31, 1988 would have been a net loss of $2,618,000 ($0.09 per share). Revenue for the year ended March 31, 1988 would not have changed.

Note 12: Credit agreements

The Company has credit agreements with certain banks totalling $80,000,000 for the issuance of standby letters of credit and an additional $15,000,000 credit facility for forward exchange contracts. These agreements are to be renegotiated on an annual basis. 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.

Note 13: Stock splits

On April 11, 1989, the Company declared a three-for-two stock split and on July 20, 1989, the Company declared a two-for-one stock split. The stock splits were effected in the form of a dividend paid in newly issued stock. The new stock resulting from the dividend declared April 11, 1989 was issued on May 5, 1989 to shareholders of record as of April 21, 1989. The new stock resulting from the dividend declared July 20, 1989 was issued on August 15, 1989 to all shareholders of record as of August 1, 1989. All share and per share amounts have been restated to reflect the impact of these stock splits.

Note 14: Unaudited quarterly consolidated financial data

(In thousands except per share data)

Fiscal 1990	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Sales	$ 91,822	$ 113,449	$ 111,190	$ 129,830
Gross profit	$ 30,911	$ 33,595	$ 31,651	$ 35,582
Net income	$ 11,590	$ 12,546	$ 10,276	$ 12,800[1]
Income per share	$ .43	$ .45	$ .37	$ .46

Fiscal 1989	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Sales	$ 38,924	$ 39,774	$ 51,591	$ 77,728
Gross profit	$ 9,293	$ 11,830	$ 15,710	$ 22,985
Net income	$ 602	$ 2,052	$ 3,312	$ 6,921
Income per share	$ .02	$ .07	$ .12	$ .27

(1) INCLUDES A $2,030,000 pre-tax credit to operations (resulting in a $1,330,000 after tax credit to net income) for the reversal of the provision for product discontinuance and capacity reduction charged against operations in fiscal 1988 (see Note 8).

Report of Ernst & Young, Independent Auditors
To the Board of Directors and Shareholders of Quantum Corporation

We have audited the accompanying consolidated balance sheets of Quantum Corporation as of March 31, 1990 and 1989, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 1990. 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, 1990 and 1989 and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 1990 in conformity with generally accepted accounting principles.

Ernst + Young

San Jose, California
April 30, 1990

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 pubic 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 11, 1989, and two-for-one split declared on July 20, 1989.

Fiscal 1990	High	Low
Fourth quarter ended March 31, 1990	14½	9
Third quarter ended December 31, 1989	16	8¾
Second quarter ended October 1, 1989	16	9¼
First quarter ended July 2, 1989	10⅞	5⅜

Fiscal 1989	High	Low
Fourth quarter ended March 31, 1989	5½	4⅜
Third quarter ended January 1, 1989	4½	4
Second quarter ended October 2, 1988	4¼	3⅜
First quarter ended July 3, 1988	3¾	3⅛

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 8, 1990, there were approximately 10,000 shareholders of the Company.

Board of Directors

STEPHEN M. BERKLEY
Chairman of the Board
and Chief Executive Officer
Quantum Corporation

DAVID A. BROWN
Founder, Vice Chairman
and Chief Operating Officer
Quantum Corporation

EDWARD M. ESBER, JR.
Vice Chairman
Ashton-Tate Company

MARCELO A. GUMUCIO
President and
Chief Operating Officer
Cray Research, Inc.

STEVEN C. WHEELWRIGHT
Professor of Management
Graduate School of Business
Harvard University

Officers/Corporate Staff

STEPHEN M. BERKLEY
Chairman of the Board
and Chief Executive Officer

DAVID A. BROWN
Vice Chairman
and Chief Operating Officer

JEFFREY A. HEIMBUCK
President, Plus Development
Corporation

JOSEPH T. RODGERS
Executive Vice President
Finance, Secretary
and Treasurer

OEM Executive Staff

MICHAEL A. BROWN
Vice President
Marketing

RAY A. MILLER
Vice President
Quality

IVAN A. NAZARIO
Vice President
International Manufacturing

ALBERT Y. PUN
Director Finance

WILLIAM F. ROACH
Vice President
Sales

CARL F. SHELTON
Vice President
Engineering

JOSEPH C. SHEPELA
Vice President
Human Resources

MARK D. WILSON
Vice President
Entry Level Systems

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Crowthorne, Berkshire
RG11 7AD
United Kingdom
Telephone: 44-344-780144

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

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

Annual Meeting
The Annual Meeting of Shareholders of Quantum Corporation will be held at 3:00 p.m. on September 12, 1990, at the Fairmont Hotel at Fairmont Plaza, 170 South Market Street, San Jose, CA 95113-2395.

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Goodrich & Rosati
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Palo Alto, CA 94304

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Dave Brown