

## To Our Stockholders:

Since the acquisition of ADIC four years ago, Quantum has been focused on moving away from a device-centric foundation to becoming a storage systems company. In fiscal year 2010, we completed most aspects of this transformation, overcoming critical challenges and posting some significant accomplishments. As we began the year, we were faced with a very difficult economic environment, external skepticism about our ability to refinance our convertible debt, and some gaps in our product lines. Within a few months, EMC's acquisition of Data Domain disrupted our go-to-market strategy and resulted in misinformation and misperceptions about our technology.

As we moved through FY10, we met these challenges head on and delivered Quantum's best financial performance in many years:

- Our non-GAAP\* net profit of \$55 million was the best in nine years and more than double what it was just prior to the acquisition of ADIC in 2006.
- Our non-GAAP operating margin of 12 percent and gross margin rate of 44.5 percent were the best in nine and ten years, respectively.
- On a GAAP basis, our net profit of \$17 million was the highest in eight years.
- We had record revenue from branded disk systems and software sales (including related service revenue), up nearly 20 percent over fiscal year 2009.
- We generated \$100 million in cash and ended the year with \$117 million in cash, our highest year-end level since March 2006.

FY10 also was marked by major new product introductions and enhancements across our portfolio. As part of our DXi-Series of disk backup, deduplication and replication offerings, we launched the DXi6500 family of midrange systems optimized for NAS and OST environments and strengthened our enterprise DXi7500 VTL solution. We also laid the groundwork for the introduction of our new DXi4500 appliances that began shipping in early FY11 and are designed for small- and medium-size businesses and remote offices. On the StorNext side, we launched version 4.0 of our data management software, with deduplication natively integrated into the file system. In the area of tape, we introduced the entry-level Scalar i40 and Scalar i80 libraries, as well as LTO-5 tape drives that we offer both as standalone products and in our tape automation line. Finally, toward the end of the year, we prepared for the introductions of our Scalar i6000 enterprise tape library and Quantum Vision 4.0 monitoring and reporting software, both of which took place in April 2010.

In addition to launching these products, we shifted our go-to-market strategy for much of our portfolio during FY10, largely due to the EMC relationship changing from partner to competitor in deduplication. At the heart of this transition has been an increased emphasis on building our branded midrange business through the independent reseller channel, particularly around the DXi6500. At the same time, we have focused our enterprise business and related channel activities on customer opportunities where we have a competitive advantage and can leverage DXi7500, StorNext and now the Scalar i6000. Although it takes time to implement a go-to-market shift, and the full range of DXi6500 models only began shipping late in FY10, one indication of success is the fact that our branded fourth quarter revenue grew 8 percent year-over-year.

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\* A quantitative reconciliation of any GAAP and non-GAAP financial measures included in this letter can be accessed at the Investor Relations section of Quantum's website at [www.quantum.com](http://www.quantum.com).