

**EXABYTE
Corporation**

**Third Quarter Report
1989**

EXABYTE™

EXABYTE Corporation
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1989 CVF

Dear EXABYTE Shareholder:

With our initial public offering successfully behind us, we would like to welcome our new shareholders to EXABYTE.

We were very pleased with our strong third quarter results. Revenue increased to \$23,924,000 in the third quarter of 1989 from \$9,475,000 in the same period last year, an increase of 152 percent. Third quarter net income likewise grew significantly to \$3,108,000 in 1989 from \$856,000 in the third quarter of 1988, an increase of 263 percent.

Sales of our 8mm cartridge tape subsystems continue to strengthen. More than 60,000 units of our current product, the EXB-8200, are now solving customer problems around the world. The high capacity and performance, compactness and low cost of our products make them very desirable for use in data backup, archival storage and data acquisition in a wide variety of systems environments. For example, two EXABYTE tape drives flew aboard the recent Atlantis space shuttle as an integral part of a data-gathering experiment in microgravity environments.

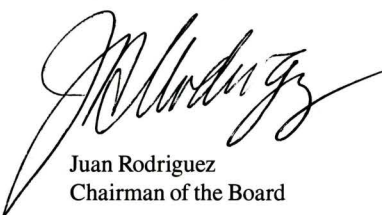
While our immediate customers include system integrators, value-added resellers and distributors, the fastest growing part of our customer base is the very important computer systems manufacturer segment, which increased from 6 percent of revenues in the first nine months of 1988 to 22 percent in the comparable period of 1989. We anticipate revenues from this segment to increase significantly in the coming months.

Our key vendor alliances remain solid, including our long-term relationship with Sony Corporation. Major customers have now successfully qualified our manufacturing partner, Kubota Ltd., as a second source of production. In all, the present combined manufacturing capacity of EXABYTE and its vendors is ample to supply the ever-increasing requirements of our customers.


EXABYTE has continued to demonstrate its technological leadership with the announcement of two exciting new products at the November COMDEX show. The first is the EXB-8500 8mm Cartridge Tape Subsystem which more than doubles the data transfer rate and storage capacity of our current product. The second product, the EXB-120 Cartridge Handling Subsystem, offers up to 580 billion bytes of capacity with unprecedented pricing and compactness. Incorporating advanced robotics, the EXB-120 holds up to 116 cartridges and four EXABYTE subsystems and is well suited for applications ranging from network backup to satellite data acquisition.

On behalf of EXABYTE's board of directors, management and employees, we thank you for your confidence in EXABYTE.

Sincerely,



Juan Rodriguez
Chairman of the Board



Peter Behrendt
President

**EXABYTE CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET**

(In Thousands of Dollars)

	September 30, 1989	December 31, 1988
	(Unaudited)	
ASSETS		
Cash, including cash equivalents	\$ 5,204	\$ 3,937
Accounts receivable, (less allowance for doubtful accounts of \$322 and \$308)	15,785	8,441
Inventories	5,142	3,187
Other current assets	1,289	70
Total current assets	<u>27,420</u>	<u>15,635</u>
Property and equipment, (net)	3,631	1,980
Other assets	270	106
	<u>\$31,321</u>	<u>\$17,721</u>
LIABILITIES & STOCKHOLDERS' EQUITY		
LIABILITIES		
Current portion of long-term debt	\$ 226	\$ 183
Accounts payable	6,948	4,825
Accrued liabilities	3,496	1,442
Income taxes payable	947	135
	<u>11,617</u>	<u>6,585</u>
Long-term debt	230	296
Total liabilities	<u>11,847</u>	<u>6,881</u>
STOCKHOLDERS' EQUITY		
Preferred stock	14	14
Common stock	3	3
Capital in excess of par value	13,692	13,632
Retained earnings (accumulated deficit)	5,765	(2,809)
Total stockholders' equity	<u>19,474</u>	<u>10,840</u>
	<u>\$31,321</u>	<u>\$17,721</u>