FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

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FILER

SYQUEST TECHNOLOGY INC
CIK:**880865**| IRS No.: **942793941** | State of Incorp.:**DE** | Fiscal Year End: **0930**
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SIC: **3572** Computer storage devices

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended September 30, 1996	Commission File Number 0-19674

SYQUEST TECHNOLOGY, INC.
(Exact name of registrant as specified in its charter)

Delaware	94-2793941
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
47071 Bayside Parkway, Fremont, California	94538
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (510) 226-4000

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value $.001 per share
(Title of Class)

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate by checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [X].

The aggregate market value of the voting stock held by nonaffiliates of the registrant, based upon the closing price of Common Stock on November 30, 1996 as reported by NASDAQ, was approximately $78,663,000. Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. The number of outstanding shares of the registrant's Common Stock on November 30, 1996 was 15,830,753.

DOCUMENTS INCORPORATED BY REFERENCE

Specifically identified portions of the Proxy Statement for Registrant's 1997 Annual Meeting of Stockholders (the "Proxy Statement") are incorporated by reference into Part III of this Annual Report on Form 10-K.

FORWARD LOOKING STATEMENTS

IN ADDITION TO HISTORICAL INFORMATION, THIS ANNUAL REPORT CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES, SUCH AS STATEMENTS OF THE COMPANY'S PLANS, BELIEFS, EXPECTATIONS AND INTENTIONS. THE COMPANY'S ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THE RESULTS DISCUSSED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT COULD CAUSE OR CONTRIBUTE TO SUCH DIFFERENCE INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN THE SECTION ENTITLED "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- FACTORS THAT MAY AFFECT FUTURE RESULTS." SYQUEST UNDERTAKES NO OBLIGATION TO PUBLICLY REVISE THESE FORWARD-LOOKING STATEMENTS TO REFLECT EVENTS OR CIRCUMSTANCES THAT ARISE AFTER THE DATE HEREOF. READERS SHOULD CAREFULLY REVIEW THE RISK FACTORS DESCRIBED IN OTHER DOCUMENTS THE COMPANY FILES FROM TIME TO TIME WITH THE SECURITIES EXCHANGE COMMISSION, INCLUDING THE QUARTERLY REPORTS ON FORM 10-Q TO BE FILED BY THE COMPANY IN 1997 AND ANY

CURRENT REPORTS ON FORM 8-K FILED BY THE COMPANY.

ITEM 1. BUSINESS

General

SyQuest Technology, Inc. ("SyQuest"/1/ or the "Company") designs, develops, manufactures, and markets removable hard disk cartridges, associated disk drives and free-standing storage systems. The Company's products combine the advantages of fixed hard disk drives with the benefits of removability, which include unlimited incremental expansion of data storage capacity, transfer and sharing of data and software among personal computers, and backup, archival storage and physical security of data. The Company's principal products have been 5.25 inch and 3.5 inch cartridges, drives and storage systems used with personal computers and work stations manufactured and sold by manufacturers of such products. These products are typically purchased by distributors, mail order firms, national retail chains, value added resellers, original equipment manufacturers ("OEMs") for integration into their equipment, government contractors and others for resale to the end users.

Industry Background

All computer systems use one or more types of memory. Internal semiconductor or main memory is extremely fast but also expensive and is therefore used in limited quantities. As a result, auxiliary memory devices, such as disk drives, have long been used to provide additional memory capacity for operating systems, application programs and user data.

Today's personal computers and workstations typically use fixed disk drives as their primary auxiliary storage device. Other auxiliary memory devices include SyQuest's removable disk cartridges and disk drives, removable drives (where the entire drive unit is removable rather than only the disk), standard and high capacity floppy diskettes and drives, tapes and tape drives, magneto optical media and drives, phase change optical media and drives, WORM (Write Once Read Many) optical media and drives, CD-ROM (Compact Disk - Read Only Memory) optical media and drives, CD-R (Compact Disk Rewritable) optical media and drives, and flash memory devices.

/1/ "SyQuest," "SQ555," "SQ400," "SQ5110C," "SQ800," "SQ5200," "SQ2000," "SQ3105," "SQ310," "SQ3270," "SQ327," "EZ135," and "SQ3135," "SQ135," "SQ1100" and "SQ110" are trademarks of the Company. This Annual Report also includes trademarks of companies other than SyQuest Technology, Inc.

The Company believes that its removable disk cartridges and disk drives are the most appropriate auxiliary memory device for various business applications due to their combination of interchangeability, performance and cost.

Technology

The Company believes that it has developed and continues to refine a sophisticated and proprietary removability technology relating to its product designs and manufacturing processes. Features of this technology include:

- <u>specialized air flow design</u> to provide a sufficiently clean environment inside the cartridge for reliable operation;

- <u>ramp loading mechanics and microcode</u> to load the heads reliably over the spinning disk when the cartridge is inserted and to enable the heads to retract from the disk before the cartridge is removed;

- <u>cartridge loading mechanisms</u> to position the disk consistently over the drive hub with centering accuracies that are measured in micro inches;

- <u>closed loop servo electronics and microcode</u> to enable the cartridge to achieve high track densities in spite of the variations in centering inherent in removable disk cartridges;

- <u>multiple zone recording</u> to decrease bits per track and data transfer rates in the inner tracks of the disk so that variations in centering of the disk do not impair reading and writing accuracy;

- adaptive microcode to perform system control functions, such as track buffer control, actuator control and spin motor control, so as to compensate intelligently for variations in disks to ensure interchangeability and permit the use of wider tolerance mechanical components;

- servo track writing techniques to permit interchangeability of cartridges without compromising data retrievability; and

- advanced tribology (the science of design, friction, wear and lubrication of interacting surfaces) to achieve head flying heights over removable cartridge disks comparable to those of fixed Winchester disk drives.

Products

The Company's principle products are 5.25 inch and 3.5 inch removable Winchester disk drives, associated cartridges and system products.

5.25 Inch Products

The Company's 5.25 inch drive and cartridge products are designed and developed by the Company's engineering staff in Fremont, California. The 5.25 inch product line (including SyQuest branded systems products) accounted for 44% of the Company's net revenues in fiscal 1996 compared to 60% in fiscal 1995 and 72% in fiscal 1994. The 5.25 inch product line includes:

SQ555 & SQ400. The 44 megabyte SQ555 drive and associated SQ400 cartridge, first introduced in 1988, operate at a typical seek time of 20 milliseconds and support a burst asynchronous data transfer rate of 1.25 megabytes per second. The SQ555 was discontinued and phased out of production during the second quarter of fiscal 1995. The Company continues to manufacture and sell SQ400 cartridges.

SQ5110C & SQ800. The 88 megabyte SQ5110C drive and SQ800 cartridge, first introduced in 1991, operate at a typical seek time of 20 milliseconds and support a burst synchronous data transfer rate of 4 megabytes per second. The SQ5110C can both read and write SQ400 and SQ800 cartridges. This drive was phased out of production in the second quarter of 1996, but cartridges remain in production and are expected to remain in production into 1997.

SQ5200 & SQ2000. The 200 megabyte SQ5200 drive and SQ2000 cartridge, introduced in 1994, operate at a typical seek time of 16 milliseconds and support a burst synchronous data transfer rate of 5 megabytes per second. The SQ5200 can read and write both SQ400 and SQ800 as well as SQ2000 cartridges. The SQ5200 and SQ2000 products are still in production and are expected to remain in production throughout 1997.

3.5 Inch Products

The Company's 3.5 inch drive and cartridge products are designed and developed at SyQuest development centers in Boulder, Colorado and in Campbell, California. The 3.5 inch product line (including SyQuest branded systems) accounted for 56.0% of the Company's net revenues in fiscal 1996 compared to 40% in fiscal 1995 and 27% in fiscal 1994. The product line includes:

SQ3270 and SQ327. The 270 megabyte SQ3270 drive and associated SQ327 cartridge, first introduced in 1993, operate at a typical seek time of 13.5 milliseconds and support a burst data transfer rate of 4 megabytes per second. The SQ3270 can read and write the SQ310 cartridge (a 105 megabyte cartridge developed for the SQ3105 drive which was discontinued at the beginning of the fiscal year) as well as the SQ327 cartridge. The SQ3270 family of drives was discontinued in the fourth quarter of fiscal 1996 as the new generation of SyQuest drives began to come on line, but the SQ327 cartridges will continue in production.

EZ3135 and SQ135. The 135 megabyte SQ3135 drive and SQ135 cartridge, first

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introduced in the fourth quarter of 1995, operate at a typical seek time of 13.5 milliseconds and support a burst data transfer rate of 5 megabytes per second. Marketed primarily as a bridge product to the new generation EZFlyer 230 drives and cartridges, production of this drive was discontinued in the fourth quarter of fiscal 1996, but the SQ135 cartridges will continue in production.

EZFlyer 230 and SQ230. The 230 megabyte EZFlyer 230 and associated SQ230 cartridge, first shipped in volume in the fourth quarter of fiscal 1996, operate at a typical seek time of 13.5 milliseconds and support a sustained data transfer rate of 2.4 megabytes per second. The EZFlyer is able to read and write SQ135 cartridges as well as SQ230 cartridges.

SyJet 1.5GB and SQ15000. The SyJet 1.5GB drive and associated SQ15000 cartridge represent a new generation of removable storage devices for SyQuest. The SyJet operates at a typical seek time of 12 milliseconds and delivers burst data transfer rates of 10 megabytes per second. The Company commenced beta test shipments of the SyJet in September 1996, and commenced limited production shipments in December 1996.

Systems Products

SyQuest also designs, develops, manufactures and markets storage systems which incorporate the Company's 5.25 inch and 3.5 inch drives and cartridges. A system generally consists of a drive, a cartridge and additional components necessary for a user to attach and operate the system to his computer. These products, which include the EZFlyer 230, EZ3135 and 200SS subsystems, are marketed under the SyQuest brand name to national retail chains, commercial distributors, computer mail order houses and others.

Markets and Customers

The Company markets and sells its products through manufacturer representatives and SyQuest's direct sales force to VADs (Value Added Distributors), commercial and industrial distributors, systems integrators, retail sales channels (computer specialty retailers, computer superstores, computer mail order outlets, etc.) and OEMs. As

the market for the Company's products has become increasingly segmented, diverse sales channels have developed. While the market for the majority of the Company's products has been focused on distributors, VADs and systems integrators, the Company's sales to retailers and superstores have increased from nearly zero in 1994 to over 11% of the total net revenue in fiscal 1996. The Company believes this trend will continue into the near future.

The Company believes that continuing advancements and increased end user accessibility to applications with heavy storage demands such as multimedia, digital audio and music, digital video, the Internet, computer graphics, digital photography and large programs such as Windows 95, will benefit the Company's market by continuing to create a need for more storage. This basic need is addressed by the "endless" storage design offered by cartridge-based peripheral devices like SyQuest's and competitive products.

The Company plans to aggressively develop marketing strategies (channel marketing programs, national and consumer advertising campaigns, aggressive merchandising, etc.) and commit financial resources for these market strategies in an attempt to capture additional market share and presence. With the new generation of products being introduced in 1997, the Company will also make an effort to increase its level of business in the OEM market. There can be no assurance, however, that these efforts will result in increases to the Company's sales.

The majority of SyQuest's business is done through commercial distributors throughout the world. The largest single distributor of SyQuest products is Ingram Micro, which accounted for approximately 10% of the Company's total revenue in fiscal 1996.

Recently, the Company and Legend Group ("Legend"), the largest computer systems manufacturer and distributor in the People's Republic of China, executed a distribution agreement whereby Legend has become the exclusive distributor of the Company's products in the developing Chinese market.

A growing segment of the Company's business is the retail/superstore channel, which now accounts for over 11% of the Company's worldwide revenues. The largest superstore reseller of SyQuest products in fiscal 1996 was CompUSA, which accounted for 2.6% of the Company's total net revenue. In the mail order retail channel, MAC/Micro Warehouse continued to be the largest reseller as it represented nearly 8% of SyQuest's net revenue for fiscal 1996.

At the end of September, 1996, the Company had 7 direct sales personnel located in 5 offices in the United States, 4 direct sales representatives in Asia, Australia and the Far East located in 4 offices, and 3 direct sales representatives in Europe located in 3 offices. North American sales represented 57% of the Company's total net revenue in fiscal 1996.

Manufacturing

The Company manufactures high volume, mature products in Malaysia. In addition, the Company assembles system products and manufactures initial production quantities of new products in Fremont, California.

The Company currently has manufacturing relationships with Nomai, S.A. ("Nomai") for cartridges and others for manufacture and subassembly of components. The Company has filed lawsuits against Nomai and Maxell in France alleging copyright and patent infringement and in the United States regarding various related claims, including royalty payments owed by Nomai under a previous arrangement. In November 1996, the Company and two individuals owning a controlling interest in Nomai announced the execution of a letter of intent proposing a transaction in which the Company would acquire a controlling interest in Nomai from those individuals in exchange for shares of the Company's Common Stock, and would commence a tender offer to acquire up to 100% of the publicly held shares of Nomai. On November 25, 1996, however, the Company announced that plans to acquire Nomai have been terminated, adding that it intends to pursue vigorously all available causes of action against Nomai. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors That May Affect Future Results--Reliance on Manufacturing Relationships; Nomai Lawsuits" and "Legal Proceedings."

The Company and Legend Group ("Legend"), the largest computer systems manufacturer and distributor in the People's Republic of China, have announced the intention to form a joint venture company for the manufacture and distribution of the Company's removable cartridge hard drives and products in China. The Company would provide the proposed joint venture company with training and manufacturing know-how to insure that the joint venture had the requisite skills to manufacture the Company's removable cartridge hard drives and products. The Company and Legend have begun the process of negotiating definitive agreements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors That May Affect Future Results--Reliance on Manufacturing Relationships; Nomai Lawsuits."

The Company's drive manufacturing operations consist of incoming quality inspection of components, assembly and test of subassemblies, final assembly of drives, pretest, burn-in of drives and customer simulation tests. The cartridge production lines involve extensive media parametric and tribology testing, assembly of the disk onto a hub, balancing of the cartridge, mapping of media defects, servowriting and formatting of each cartridge.

The manufacture of removable cartridge disk drives and disk cartridges is complicated and difficult. In the past, the Company experienced manufacturing difficulties, including quality problems, resulting in low yields impacting the Company's ability to meet sales demand. While the Company is not currently experiencing any quality problems of a material nature in the manufacturing process, there can be no assurance that the Company will not experience manufacturing problems in the future. Any disruption of the Company's manufacturing could adversely affect the Company's business and results of operations. Foreign manufacturing is subject to various risks, including changes of governmental policies, transportation delays and interruptions, and the imposition of tariffs and import/export controls.

The Company obtains almost all subassemblies and components from outside sources located principally in the United States and Asia. Several of these components are available through limited or single sources. In the past, the failure to obtain sufficient quantities of certain key components or to obtain components of satisfactory quality has caused production delays. Prolonged disruptions in the supply of any key components used in the Company's manufacturing processes could adversely affect the Company's operating results and damage customer relationships. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors That May Affect Future Results -- Shortages of Critical Components; Absence of Supply Contracts; Suppier Workouts" and " -- Reliance on Manufacturing Relationships; Nomai Lawsuits."

Research and Development

SyQuest's strategy is to focus its research and development efforts on advancing its proprietary removability technology. At the same time, the Company takes advantage of developments in the fixed Winchester disk drive industry by purchasing standard components from vendors that sell to manufacturers of fixed Winchester disk drives. SyQuest's removability technology includes both product designs and manufacturing processes and is built upon expertise in mechanical, electrical and firmware engineering as well as in tribology.

The Company's current product development efforts are directed toward both high performance drives and cartridges and a value line of products. SyQuest makes extensive use of computer-aided design tools in mechanical, electrical, firmware and circuit board design areas.

In fiscal 1996, 1995 and 1994, the Company's research and development expenses were $25.9 million, $23.9 million and $18.0 million, respectively.

The data storage industry is subject to rapid technological change and short product life cycles. Data storage manufacturers continually strive for larger data storage capacities, higher performance and lower costs. Meeting these demands is more difficult and complicated for manufacturers of removable cartridge drives such as SyQuest than for fixed drive manufacturers. In order to remain competitive, the Company must continue to design,

develop, manufacture, market and sell new products in a timely manner. The Company may also identify and pursue opportunities for affiliation and/or acquisition to complement its existing technology base. To this end, the Company has incurred and expects to continue to incur significant product research and development expenditures. However, there can be no assurance that SyQuest will be able to introduce cost effective and competitive new products in a timely manner. If the Company is unable to do so, its future operating results will be adversely affected. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors That May Affect Future Results -- Technological Change and New Products."

Competition

The removable data storage industry is intensely competitive and is characterized by rapid technological change which can cause substantial shifts in pricing and product capabilities. The principle competitive factors in the industry include price, performance, storage capacity, ease of use, customer consumption, state of the personal computer market, customer service and time-to-volume production. In addition, smaller form factors, aesthetic appeal, ruggedness, compatibility and interfaces are important factors. Many of the Company's competitors have greater financial, marketing and technological resources than the Company, and there can be no assurance that the Company will be able to compete effectively. In particular, several of the Company's competitors have significantly greater cash reserves than the Company which may enable them to better withstand intense price competition and/or develop technology over the long term.

The Company believes that its products compete most directly with other removable media data storage devices, such as disk drives offered by Iomega Corporation and magneto optical disk drives. While the Company pioneered the technology used in the Winchester removable cartridge hard disk drive and for many years enjoyed a unique position in the industry having little direct competition, the competitive scene changed due to the activities of two companies. The Company's most direct competition comes from Nomai, which manufactures Winchester cartridges compatible with many SyQuest systems, and Iomega, whose Winchester-based Jaz drive competes directly with the Company's 3.5-inch products and is considered by the Company as similar in price and performance to the Company's SyJet drive. Today, only Iomega and Nomai manufacture Winchester-based removable cartridge disk drive products. Also noted as competition is Iomega's Zip product, based on a high-density floppy-disk technology, which has gained a large following in the Company's core markets and effectively enlarged the removable storage market at the retail level, and which competes with the EZ Flyer 230.

Although the Company believes that its products offer performance and certain other advantages over most other removable media storage devices available today, the Company believes that the price/performance levels of existing removable media products will improve and that other companies will introduce new removable media storage devices. Accordingly, the Company believes that its products will face intense competition from makers of removable storage products based on other technologies. These technologies and some of their respective developers include: (optical) Panasonic, Pinnacle Micro, Maxoptics, Fujitsu; (rewritable CD) Toshiba, Sony, Phillips, Panasonic, MKE; and (LS-120) MKE, OR Technology, Compaq and Swan Instruments. In addition, the Company may face increased competition in the future from alternative data storage and retrieval technologies such as high-capacity floppy disk drives, rewritable CD drives and DVD devices. In particular, a consortium comprising Compaq Computer, 3M, Insite and Matsushita-Kotobuki Electronics Industries Ltd. has announced and is selling the LS120, a high-capacity floptical drive that is compatible with conventional floppy disks. Each of Mitsubishi Electric Corp. and Mitsumi has also announced that it plans to manufacture a high capacity, floppy drive that is downward compatible with existing floppy diskettes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors That May Affect Future Results -- Competition."

Backlog

The Company's sales are primarily for delivery of standard products according to standard purchase orders, which may be subject to change or cancellation by the customer without significant penalties. The quantity actually purchased, as well as the shipment schedules, therefore, are frequently revised to reflect changes in the customer's needs. At times when price competition is intense and price moves are frequent, the Company

believes that most customers may place purchase orders below their projected needs in order to obtain the most favorable pricing. Conversely, at times when the industry's participants are on allocation, the Company believes that certain customers may place purchase orders beyond their projected needs in order to obtain a greater portion of such allocation. In light of these factors, backlog as of any particular date may not be indicative of the Company's actual revenues for any succeeding period, and, therefore, is not material to an evaluation of the Company's future revenue.

Patents and Licenses

Since its inception, the Company has been issued more than 60 U.S. and foreign patents relating to certain features or components of its disk drive and cartridge products. Many of these patents, however, do not pertain to the Company's recent product generation. The Company has approximately 100 pending U.S. and foreign patent applications, although there can be no assurances that such applications will mature into patents. No assurance can be given that any patents issued to the Company will not be challenged, invalidated or circumvented. In addition to potential patent protection, the Company relies on the laws of unfair competition, copyright, trademark and trade secrets to protect its proprietary rights. The Company also utilizes nondisclosure agreements and internal secrecy procedures. No assurance can be given that the protective measures taken by the Company will be sufficient to preclude competitors from developing competing or similar technologies or products.

The Company has been and may in the future be notified that it may be infringing patent or other proprietary rights. None of these notifications has resulted in any litigation against the Company, but there can be no assurance that litigation will not be commenced in the future. If infringement is established, the Company could be required to pay damages and be enjoined from selling the infringing products or practicing the infringing processes. Moreover, if the Company were unable to alter its products or processes to avoid the infringement claim, it might be required to obtain licenses and there can be no assurance that necessary licenses could be obtained on satisfactory terms, if at all. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors That May Affect Future Results -- Dependence on Proprietary Technology."

Employees

As of November 30, 1996, the Company had a total of 1,904 full time employees of which 209 were in research and development, 1,413 were in manufacturing, 103 were in quality assurance, 74 were in marketing, sales and support, and 105 were in finance and administration. Of the total number of employees, the Company has 273 employees located in North America, 29 employees located in Europe, 9 employees located in Singapore, 1,586 employees in Malaysia, 2 employees in Australia and 5 employees in Japan. The Company makes use of temporary employees, primarily in manufacturing, who are hired on an as-needed basis. None of the Company's employees is represented by a labor union. The Company has experienced no material work stoppages and believes that its employee relations are good.

Foreign and Domestic Operations and Export Sales

See Note 2 to the Company's Consolidated Financial Statements set forth in Item 8 of this Annual Report on Form 10-K for financial information concerning SyQuest's foreign and domestic operations and export sales, which information is incorporated herein by reference.

ITEM 2. PROPERTIES

The Company's corporate offices, including research and development, domestic manufacturing, quality assurance, marketing, sales and support, and finance and administration are located in Fremont, California. The Company owns its manufacturing facility in Penang, Malaysia; the building is 100,000 square feet and the total land area leased by the Company at such site is 193,432 square feet. The lease on the Penang land area expires in 2050. SyQuest or one of its subsidiaries leases the facilities described in the following table:
<TABLE>
<CAPTION>

Location	Size (Sq. Ft.)	Expiration of Lease	Principal Use
<S>	<C>	<C>	<C>
Fremont, California..........	139,311/1/	April 1999	Administration, Manufacturing and Research and Development
Singapore....................	9,225	February 1997	Administration
Boulder, Colorado............	13,896	November 1999	Research and Development
Campbell, California.........	11,461	June 1997	Research and Development
Amsterdam, the Netherlands...	7,700/2/	March 2000	Unoccupied
Ismaning, Germany...........	56,000	September 1999	Administration
Total........................	237,593		

</TABLE>

/1/ Consists of two adjacent buildings

/2/ The Company is in the process of assigning its Amsterdam office space and anticipates that such assignment will be completed no later than the second quarter of fiscal 1997.

The Company also leases or rents office space for sales in the greater metropolitan areas of Washington, D.C.; Wylie, Texas; Pembroke and Boca Raton, Florida; Raleigh, North Carolina; Los Angeles and Fremont, California; Singapore; Paris, France; London and Edinburgh, United Kingdom; Stuttgart and Weingarten/Ravensburg, Germany; Milan, Italy; Tokyo, Japan; and Sydney, Australia.

ITEM 3. LEGAL PROCEEDINGS

The Company has been named as a defendant in four putative class action lawsuits. Two of the actions, _Ravens, et al. v. Iftikar, et al._ (filed April 2, 1996) and _Bellezza, et al. v. Iftikar, et al._ (filed May 24, 1996) have been brought in the United State District Court for the Northern District of California and have been assigned to the Honorable Vaughn Walker (collectively, the "Federal Lawsuit"). Certain current and former officers and directors also have been named as defendants in the Federal Lawsuit. Plaintiffs have petitioned the Court to consolidate the foregoing complaints into one consolidated action. That request, as well as other procedural matters which arose during a July 18, 1996, case management conference, is under consideration. The plaintiffs in the

Federal Lawsuit purport to represent a class of all persons who purchased the Company's Common Stock between October 21, 1994 and February 1, 1996. The Federal Lawsuit alleges that the defendants violated the federal securities laws through material misrepresentations and omissions. The third suit, a purported class action entitled Gary S. Kaufman v. SyQuest Technology, Inc., et al., was filed on March 25, 1996, in the Superior Court of the State of California for the County of Alameda (the "Kaufman Lawsuit"). Certain current and former executive officers and directors of the Company are also named as defendants in the Kaufman Lawsuit. The plaintiffs in the Kaufman Lawsuit purport to represent a class of all persons who purchased the Company's Common Stock between May 2, 1995, and February 2, 1996. The Kaufman Lawsuit alleges that defendants violated various California laws through material misrepresentations and omissions. Unspecified damages are sought. The fourth purported class action entitled Ravens, et al. v. Iftikar, et al., was filed on October 11, 1996 in the Superior Court of the State of California for the County of Alameda (the "Ravens Lawsuit"). The Ravens Lawsuit alleges that the Company and certain of its former officers and directors violated various California laws through material representations and omissions between October 21, 1994 and February 2, 1996, and is purportedly brought on behalf of persons who purchased stock during that period. Unspecified damages are sought. The Ravens Lawsuit has been consolidated with the Kaufman Lawsuit. Plaintiffs are preparing a consolidated complaint. The Company intends to defend the cases vigorously.

On May 14, 1996, the Company was served with a shareholder's derivative action filed in Alameda County, California, Superior Court entitled John Nitti, et al. v. Syed Iftikar, et al. On July 22, 1996, plaintiffs filed an amended complaint. The action seeks to recover unspecified and punitive damages on behalf of the Company from current and former officers and directors of the Company for alleged breach of fiduciary duty, unjust enrichment and waste of corporate assets. The Company is a nominal defendant in the action. The complaint alleges that the officers and directors issued false and misleading information and sold shares of the Company's stock at artificially inflated prices. The allegations are essentially the same as those in the putative class actions. The Company intends to defend this case vigorously.

A third party has notified the Company that it believes the Company infringes on six U.S. patents. It is the Company's belief that the claims are without merit or that the infringement claims related to component parts purchased from vendors. The Company also believes that in the event the third party prevails on its claims, the Company will be indemnified by its vendor for any liability arising from the alleged infringements and that this matter will not have a material adverse effect upon its financial condition or results of operations.

The Company has filed suit against Nomai, S.A. (Nomai) and Maxell in France for copyright and patent infringement, and though it did not obtain the temporary injunction sought against Nomai prohibiting the sale and distribution of Nomai's 200 megabyte cartridges, the underlying suit continues. The Company has also initiated an arbitration proceeding against Nomai seeking payment of outstanding royalties of approximately $1 million. The arbitration process began in May 1995, in San Jose, California.

From time to time, the Company is involved in litigation that it considers to be in the normal course of its business. Other than set forth above, the Company is not engaged in any legal proceedings as of the date hereof which the Company expects individually or in the aggregate to have a material adverse effect on the Company's financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held a Special Meeting of its stockholders on September 26, 1996. All of the proposals submitted to the stockholders at the meeting were approved, and the vote on such proposals is described below:

1. A proposal to amend the Company's Certificate of Incorporation to increase the number of authorized shares of Common Stock from 20,000,000 to 60,000,000 was approved by the following vote:

<TABLE>

<S>	<C>	<C>
For	:	9,240,216
Against	:	1,237,995
Abstain	:	87,414
Broker Non-Vote	:	0

</TABLE>

2. A proposal to allow the issuance by the Company of additional shares of Common Stock to the holders of the Company's 7% Cumulative Convertible Preferred Stock, Series 1, upon conversion was approved by the following vote:

<TABLE>

<S>	<C>	<C>
For	:	4,100,593
Against	:	832,417
Abstain	:	113,801
Broker Non-Vote	:	5,518,814

</TABLE>

3. A proposal to increase the number of shares issuable under the Company's 1991 Stock Option Plan from 4,428,524 shares to 6,000,000 shares was approved by the following vote:

<TABLE>

<S>	<C>	<C>
For	:	2,854,778
Against	:	2,123,841
Abstain	:	121,442
Broker Non-Vote	:	5,465,564

</TABLE>

4. A proposal to increase the number of shares issuable under the Company's 1992 Non-Employee Director Stock Option Plan from 250,000 shares to 500,000 shares was approved by the following vote:

<TABLE>

<S>	<C>	<C>
For	:	3,007,448
Against	:	2,216,623
Abstain	:	138,942
Broker Non-Vote	:	5,202,572

</TABLE>

A proposal to amend the Company's 1992 Non-Employee Director Stock Option Plan to increase the annual grants of options to the non-employee directors and to provide for a one-time option grant to purchase 30,000 shares to new non-employee directors (which one-time grant was also made to each non-employee director as of the date of stockholder approval of the amendments) was approved by the following vote:

<TABLE>

<S>	<C>	<C>
For	:	7,788,555
Against	:	2,236,833
Abstain	:	132,952
Broker Non Vote	:	407,285

</TABLE>

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

SyQuest's Common Stock, $.001 par value, was first offered to the public on December 18, 1991 and since that time has been traded in the over-the-counter market as a Nasdaq National Market security under the symbol SYQT. The following table sets forth, during the periods indicated, high and low closing sales prices in the Nasdaq National Market system for the last two fiscal years:

<TABLE>
<CAPTION>

Fiscal Year Ended September 30, 1995	High	Low
<S>	<C>	<C>
First Quarter.........	$18 3/4	$10
Second Quarter........	$18 1/2	$10 5/8
Third Quarter.........	$15 3/4	$10 5/8
Fourth Quarter........	$19 1/8	$12 1/2

Fiscal Year Ended September 30, 1996	High	Low

First Quarter.........	$13 1/2	$ 8 7/8
Second Quarter........	$11 1/4	$ 4 7/8
Third Quarter.........	$18 7/8	$ 4 3/8
Fourth Quarter........	$ 8 5/8	$ 5

</TABLE>

The Company's policy is to retain its earnings to finance future growth and it has paid no dividends in the last two fiscal years. The Company does not anticipate declaring cash dividends on its Common Stock in the forseeable future. In addition, the payment of cash dividends is restricted by certain of the Company's borrowing arrangements. See Note 4 of Notes to Consolidated Financial Statements. As of November 30, 1996, there were approximately 427 stockholders of record. Because many of such shares are held by brokers and other institutions on behalf of stockholders, the Company is unable to estimate the total number of stockholders represented by these record holders.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data is derived from the audited consolidated financial statements of SyQuest. The data should be read in conjunction with the consolidated financial statements, related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in Items 7 and 8 of this Annual Report.

<TABLE>
<CAPTION>

	YEARS ENDED SEPTEMBER 30,				
	1996	1995	1994	1993	1992
<S>	<C>	<C>	<C>	<C>	<C>
	(in thousands, except per share data)				
CONSOLIDATED STATEMENTS OF INCOME DATA:					
Net revenues	$ 200,407	$299,544	$221,001	$206,362	$174,852
Gross profit (loss)	(48,286)	51,047	60,659	75,281	59,142
Income(loss) from operations	(130,676)	(17,101)	5,120	19,278	17,592
Net income(loss)/(1)(2)/	$(136,651)	$(11,786)	$ 5,405	$ 15,212	$ 13,583
INCOME(LOSS) PER SHARE/(3)/:					
Income(loss) before cumulative effect of change in method of accounting for income taxes	$ (12.38)	$ (1.07)	$ 0.43	$ 1.23	$ 1.14
Net income (loss)	$ (12.38)	$ (1.07)	$ 0.46	$ 1.23	$ 1.17

<CAPTION>

	SEPTEMBER 30,				
	1996	1995	1994	1993	1992
	(in thousands)				
<S>	<C>	<C>	<C>	<C>	<C>
CONSOLIDATED BALANCE SHEET DATA:					
Working capital	$ (37,351)	$ 62,340	$ 72,652	$ 69,638	$ 56,183
Total assets	75,181	164,684	139,501	120,503	105,109
Total stockholders' equity (deficit)	(30,353)	83,188	90,845	89,544	76,900

</TABLE>

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(1) In 1994, the Company changed its method of accounting for income taxes from the deferred method to the liability method. The effect of the accounting change was to increase 1994 net income and income per share by $346,000 and $0.03, respectively.

(2) Net income includes a credit to income of $346,000 for the cumulative effect of the change in method of accounting for income taxes for the year ended September 30, 1994 and extraordinary credits of $300,000, resulting from the utilization of net operating loss carryforwards for the year ended September 30, 1992.

(3) See Note 1 of Notes to Consolidated Financial Statements for an explanation of the method used to determine the number of shares used to compute per share amounts.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto.

Revenue, gross profit and net income declined substantially in fiscal 1996. Revenue for fiscal 1996 was $200.4 million, a decline of $99.1 million from fiscal 1995; the gross loss in fiscal 1996 was $48.3 million, as compared to a gross profit of $51.0 million in fiscal 1995; net losses in fiscal 1996 were $136.7 million as compared to a loss of $11.8 million in fiscal 1995. The decrease in revenue can be primarily attributed to a substantial decline in average selling prices (ASPs) of the EZ Flyer 135 and SQ3270 products (EZ135/SQ3270). In addition to EZ135/SQ3270 pricing, the Company's revenue was affected by an ongoing trend of declining selling prices and unit volumes for the Company's mature 5.25 inch products, partially offset by the successful introduction of the EZ Flyer 230 in the fourth quarter of the fiscal year. The Company was not able to reduce its manufacturing costs as rapidly as ASPs declined, especially with respect to the EZ135/SQ3270 products. These products generated negative gross profits for most of fiscal 1996 and, along with declining ASPs and unit sales of the 5.25 inch products, were the primary cause for the large losses incurred by the Company. Inventory reserves, excess non-cancellable purchase commitments, and restructuring charges accounted for approximately $28.6 million of the fiscal 1996 net loss. As of September 30, 1996, the Company had a negative working capital of $37.4 million and a negative net worth of $30.4 million. With the consumption of available working capital, the Company was unable to meet a significant portion of its financial obligations to key suppliers and the supply of certain materials was disrupted. In the second half of the fiscal year, management changes were made and the Company initiated significant changes in financing, manufacturing operations, business processes, and product focus, including discontinuing the EZ135/SQ3270 products.

FISCAL 1996 COMPARED TO FISCAL 1995

Net Revenues

Fiscal 1996 revenues declined by 33% to $200.4 million from $299.5 million in fiscal 1995. The revenue reduction can be attributed to sharply reduced prices for the Company's EZ135 and SQ3270 3.5 inch products, and reduced unit sales and lower ASPs for all 5.25 inch platform drives and cartridges (down 50% from fiscal year 1995), which were partially offset by the successful introduction of the EZ Flyer 230 in the fourth quarter of fiscal 1996. From fiscal 1995 to fiscal 1996, ASPs for 5.25 inch drives and subsystems declined 9%, 3.5 inch drive and subsystem ASPs declined 37% and cartridge ASPs declined 29%. Cartridge revenue as a percentage of total revenue was 49% in both fiscal years. Cartridge unit sales volume declined 3% from fiscal 1995 to fiscal 1996 while unit drive volume decreased 4% for the same period. The Company's mature 5.25 inch products comprised 44% of revenue in fiscal 1996 after representing 60% of revenue in fiscal 1995. While a substantial portion of the Company's revenue in fiscal 1996 was derived from the current family of 5.25 inch drives and cartridges, the Company expects that this line of products will continue to decline as a portion of future revenue.

The Company reached volume production with the EZ Flyer 135 (EZ135) in the first quarter of fiscal 1996; however, during that quarter the Company experienced certain vendor related component supply and quality problems which limited its ability to fill its open customer backlog. Over the balance of fiscal 1996, a competitor marketed a product with a lower cost structure than the EZ135, causing the Company to lower its price in order to maintain market share. In the second quarter of fiscal 1996, the Company decided to cease production of the EZ135 drive as soon as economically possible, and sales of EZ135 drives ended in the fourth

quarter of fiscal 1996. However, cartridge production and sales traditionally continue beyond the final production of the associated drive in the removable cartridge disk drive industry. EZ135 cartridges are expected to contribute a significant portion of the Company's revenue in fiscal 1997.

The Company's EZ Flyer 230, a new 3.5 inch product that began shipping in the fourth quarter of fiscal 1996, contributed approximately 6% of total revenue for the year. Management believes the EZ Flyer 230 and future products utilizing the EZ Flyer platform will contribute a significant portion of the Company's revenue for fiscal 1997.

The data storage industry is subject to rapid technological change and short product life cycles. Data storage manufacturers continually strive for larger data storage capacities, higher performance and lower costs. Meeting these demands is more difficult and complicated for manufacturers of removable cartridge drives such as SyQuest than for fixed drive manufacturers. In order to remain competitive, the Company must continue to design, develop, manufacture, market and sell new products in a timely manner. To this end, in the fourth fiscal quarter of 1996 the Company announced a 1.5 gigabyte, 3.5 inch product (SyJet) but has not yet commenced volume production. The Company believes the SyJet will contribute a significant portion of its fiscal 1997 revenue. However, there can be no assurance that SyQuest will be able to introduce this or other cost effective and competitive new products in a timely manner. If the Company is unable to do so, its future operating results will be adversely affected.

Gross Profit (Loss)

The gross loss for the year ended September 30, 1996 was $48.3 million compared to a gross profit of $51.0 million in the previous fiscal year. The negative gross margin as a percentage of net revenue was 24% in fiscal 1996 compared to a positive gross margin of 17% in fiscal 1995. The decline in gross margin is primarily attributable to losses incurred on the sale of and reserves established for the EZ135/SQ3270 systems, and ongoing reductions in ASP and unit sales for the Company's current line of 5.25 inch products.

The Company made a strategic decision in fiscal 1995 to enter the growing SOHO (Small Office/Home Office) marketplace and acquire market share with the EZ135 rather than wait until it could introduce a low cost, low-end product. Due to competitive pressures, the Company reduced selling prices in order to maintain market share, but was unable to make corresponding reductions in manufacturing costs. As a result, the EZ135 and another subsystem product, the SQ3270, were sold for most of fiscal 1996 at negative gross margins. This was a significant factor in the Company's substantial operating loss in fiscal 1996.

In addition, the Company experienced a general decline in product prices which reduced the gross profit margins of its 5.25 inch and 3.5 inch drives, subsystems and cartridges. The decline in cartridge ASPs from fiscal 1995 to fiscal 1996 was 29%. Average 5.25 inch drive and subsystem prices decreased approximately 9% for the same period. From fiscal 1995 to fiscal 1996, EZ135 subsystem ASPs declined 30% and SQ3270 drives and subsystem ASPs declined 16%. During fiscal 1996, EZ135 and SQ3270 drive and subsystem ASPs declined 45% and 58%, respectively. Rapid price declines are common in the disk drive industry and there can be no assurance that the Company will be able to achieve manufacturing cost reductions or introduce higher capacity products, which generally have higher selling prices per unit, rapidly enough to offset the pricing pressures on lower capacity products.

In the second half of fiscal 1996, management changes were made and the Company initiated changes in product focus, financing, manufacturing operations, and business processes. The EZ135/SQ3270 drive products were declared "end-of-life" in the second fiscal quarter, with remaining inventory and purchase commitments being managed to minimize cash requirements. The final sales of the EZ135/SQ3270 drive products were completed in the fourth fiscal quarter of 1996. The discontinuing of the EZ135/SQ3270 drives resulted in charges to cost of goods sold of approximately $21.4 million in fiscal 1996, including $8.1 million of obsolete and excess inventories and $13.3 million for non-cancellable purchase commitments. The Company further granted customers an opportunity to return EZ135 product for a refund. This resulted in significant product returns in the third and fourth quarters of fiscal 1996. The Company incurred a charge to earnings of approximately $2.5 million to write-off the portion of those returns which could not be resold.

Selling, General & Administrative Expenses

Selling, general and administrative expenses were $51.7 million for fiscal 1996 versus $44.3 million for fiscal 1995. The increase in expenses was primarily attributable to an increase of $3.8 million in provisions for bad debt and an increase in legal expenses from $1.2 million to $2.3 million primarily attributable to various legal proceedings in which the Company is engaged. The Company also incurred an increase of approximately $1.9 million in general and administrative costs in fiscal 1996 over fiscal 1995, due to duplicate administrative costs during the transition of manufacturing operations from Singapore to Malaysia.

The Company continued to invest in its sales and marketing efforts despite the decline in revenue from fiscal 1995 to fiscal 1996 as it endeavored to increase the market presence of the Company's products.

Research and Development Expenses

Research and development expenses totalled $25.9 million in fiscal 1996, an increase of $2.0 million from fiscal 1995. This represents 12.9% of revenue in fiscal 1996, compared to 8.0% in fiscal 1995. The increase in spending is primarily due to increased headcount and related costs. The increase as a percentage of revenue is due to the increase in expense and the decline of revenue from fiscal 1995 to fiscal 1996. The Company believes that it must continue to make significant investments in R&D in order to effectively implement its product strategy and continues to make these investments despite the decline in revenue from 1995 to 1996.

Restructuring Expenses

Restructuring expenses were incurred during fiscal 1996 for the transfer of manufacturing operations previously located in Singapore to the Company's facility in Penang, Malaysia to lower costs and eliminate excess capacity, and for the relocation of the Company's European headquarters from the Netherlands to Germany. Restructuring charges from discontinued operations in Singapore included $1.4 million for severance and other benefits affecting approximately 1,500 employees, $0.6 million for site closure and related costs and $1.6 million for write-off of capital assets. The shutdown was completed in the third quarter of fiscal 1996. Restructuring charges related to the movement of the Company's European headquarters to Germany totalled $1.1 million and included severance costs and write-off of capital assets in the Netherlands, as well as certain legal expenses.

Other Income and Expenses

Other expenses in fiscal 1996 include $2.1 million in losses incurred on the sale of excess and obsolete fixed assets and approximately $0.6 million in foreign exchange losses. These expenses were partially offset by a $0.7 million gain realized on the disposition of common stock of a third party used to reduce certain debt owed to one of the Company's suppliers.

Interest Income and Expense

The Company incurred $1.2 million of interest expense on its borrowings and earned $0.2 million of interest income on its investments in fiscal 1996. The interest expense for fiscal 1996 was primarily the result of borrowings under the Company's bank lines of credit. There were no borrowings and interest income on investments was $1.1 million in fiscal 1995.

Income Taxes

The provision for income taxes was $3.0 million in fiscal 1996 as compared to a net tax benefit of $3.7 million in fiscal 1995. The provision in 1996 was primarily due to an increase in the deferred tax asset

valuation allowance which exceeded the expected tax benefit computed by applying the federal statutory rate to the fiscal 1996 loss. Realization of the net deferred tax asset of $50 million as of September 30, 1996 is dependent on future earnings, the timing and amount of which are uncertain. Accordingly, as of September 30, 1996, a valuation allowance in an amount equal to the net deferred tax asset has been recorded. In fiscal 1995, the Company recorded a tax benefit of $3.7 million representing an effective tax rate of 24%. The effective rate was less than the federal statutory rate primarily due to foreign losses for which no current income tax benefit could be recognized and the provision for income taxes on foreign earnings previously considered to be permanently reinvested offshore.

The Company has been in negotiations with Malaysian authorities for a tax holiday exempting at least part of the profits of its Penang, Malaysia operation from taxes. While there can be no assurance that the Company will be successful in negotiating or that it will be able to meet the conditions of the tax holiday, Management believes it will be able to realize a tax holiday in Malaysia in the future.

The Company's manufacturing operations in Singapore, prior to their relocation to Penang, Malaysia, operated under a tax holiday that expired in September 1996. The tax holiday had no impact on net income in fiscal 1996 or 1995.

FISCAL 1995 COMPARED TO FISCAL 1994

Net Revenues

Fiscal 1995 net revenues increased by 36% to $299.5 million from $221.0 million in fiscal 1994. The net revenue growth was attributed to several factors; strong demand for the Company's higher capacity drive and cartridge products which accounted for 62% of fiscal 1995 net revenues, continued demand for the Company's lower capacity cartridges, and the fourth quarter introduction and market acceptance of the EZ135 systems products targeted for the SOHO (small office/home office) market. Unit shipments of the Company's drive products increased by 47% resulting in a 71% increase in drive net revenues in fiscal 1995. Cartridge unit shipments increased 46%, yielding a 13% increase in fiscal 1995 cartridge net revenues. System net revenues, on the strength of the EZ135 product line, increased 163% in fiscal 1995.

Net revenues from 5.25 inch form factor products declined from 72% of net revenues in fiscal 1994 to 60% of net revenues in fiscal 1995 while 3.5 inch form factor net revenues increased to 40% of net revenues in fiscal 1995 from 27% in fiscal 1994.

The Company achieved volume shipments of its EZ135 drive and cartridge products in the fourth quarter of fiscal 1995. During the quarter the Company experienced certain vendor related component supply and quality problems which limited its ability to fill its open customer backlog.

Selling prices of the Company's mature, lower capacity products continued to decline in fiscal 1995. In order to stay competitive in the 5.25 inch cartridge market the Company reduced the selling prices of its 44 megabyte and 88 megabyte cartridges by approximately 30% in the second quarter of fiscal 1995.

Cartridge sales as a percentage of net revenues decreased from 58% in fiscal 1994 to 48% in fiscal 1995. The decline is attributable to pricing actions taken on the 44 megabyte and 88 megabyte cartridges along with the shift in sales to higher capacity products which require fewer cartridges to store the same quantity of data.

Sales to customers outside of North America, which are primarily denominated in U.S. dollars, increased from $85.7 million or 39% of net revenues in fiscal 1994 to $117.4 million or 39% of net revenues in fiscal 1995. In addition, the Company believes that a portion of its products sold to customers in North America are resold by such customers outside of North America.

Gross Profit

In fiscal 1995, gross profit totaled $51.0 million, a decline of $9.6 million or 16% from the $60.7 million reported in fiscal 1994. Gross margin in fiscal 1995 was 17% compared to 27% in fiscal 1994. The decline in gross margin is primarily attributable to losses incurred on the sale of and reserves established for the EZ135 systems. The Company made a strategic decision to enter the explosively growing SOHO marketplace and acquire market share rather than wait until it could introduce a low cost, low-end product.

Selling, General and Administrative Expenses

Selling, general and administrative expenses in fiscal 1995 of $44.3 million were up 17.4% compared to fiscal 1994 expenses of $37.6 million, and as a percentage of net revenues declined to 14.8% in fiscal 1995 from 17.0% in fiscal 1994. Primary contributors to the increase were staffing additions of $2.5 million in support of the revenue growth and a $3.1 million increase in advertising and promotional activities. Bad debt expenses declined by $1.1 million as a result of unusually high funding requirements in fiscal 1994 while legal expenses declined by $2.1 million resulting from the settlement in fiscal 1994 of certain litigation with Iomega and others.

Research and Development Expenses

In fiscal 1995, research and development expenses increased 33.0% to $23.9 million from $18.0 million in fiscal 1994. As a percentage of net revenues, research and development expenses were 8.0% in fiscal 1995 compared to 8.1% in fiscal 1994. During the year the Company devoted significant resources to its research, development and advanced manufacturing engineering groups to enhance existing products and develop higher capacity products on existing platforms. In addition, the Company created a dedicated engineering group focusing strictly on low cost derivatives of the low end EZ135 product line and continued its engineering efforts on the 110 megabyte, 1.8 inch drive which commenced shipping in the fourth quarter of fiscal 1995.

Interest Income

Interest income for fiscal 1995 was $1,134,000, relatively flat when compared to $1,193,000 in fiscal 1994. In spite of lower average cash and short term investment balances throughout the year, interest income remained flat due to higher prevailing interest rates.

Provision for Income Taxes

The Company recorded a tax benefit of $3.7 million in fiscal 1995 representing an effective tax rate of 24%. The effective tax rate was less than the federal statutory rate primarily due to foreign losses for which no current income tax benefit could be recognized and the provision for taxes on foreign earnings previously considered to be permanent reinvested offshore. In fiscal 1994, the Company recorded a $1.6 million provision for income taxes representing an effective tax rate of 24%. The fiscal 1994 effective tax rate was less than the federal statutory rate primarily due to the permanent reinvestment offshore of a portion of the tax holiday earnings of the Company's Far East operations and the utilization of federal tax credits.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 1996, the Company's net worth was negative $30.4 million compared to positive $83.2 million at September 30, 1995, and the Company's working capital at September 30, 1996 was negative $37.4 million compared to positive $62.3 million at September 30, 1995. The decrease in working capital during fiscal 1996 was primarily attributable to continuing losses from operations.

Due to the financial losses and associated decreases in working capital, the Company experienced interruptions in the supply of key components in the first half of fiscal 1996. As a result of negotiations held with key suppliers to refinance outstanding liabilities, approximately $50.8 million of accounts payable was converted to fixed payment notes and debentures, payable over six months to three years. Subsequently, certain of the suppliers have exchanged the notes for the Company's Common Stock, including $2.3 million converted as of September 30, 1996. See "Factors That May Affect Future Results - Shortages of Critical Components; Absence of Supply Contracts; Supplier Workouts." As a result of the Company's completion of recent financing transactions and other efforts by management to improve SyQuest's balance sheet, a number of the Company's suppliers have begun to transition from doing business with the Company on a C.O.D. basis and are selling to the Company under more standard commercial terms. Many of SyQuest's key suppliers are continuing to do business with SyQuest on a C.O.D. basis only, however, which places demands on the Company's available cash resources that may limit its financial flexibility and its ability to meet market demand for its products.

In addition to the operational impacts of limited cash resources, the Company may experience other effects in the future such as higher interest rates, inability to borrow without collateral and higher financing costs with regard to capital. Limitations on cash resources also restricted the ability of the Company to increase SyJet production in the first quarter of fiscal 1997 to the levels desired by the Company.

The Company has financed its working capital needs through a combination of existing cash resources, reduced inventories and accounts receivable, increased asset-based borrowings, and a series of capital financing transactions completed during calendar 1996. The Company's balance of cash and short-term investments decreased by $26 million during fiscal 1996, leaving the Company with cash and short-term investments of $3.7 million at September 30, 1996.

The accounts receivable balance was $30.3 million at September 30, 1996, a decline of $25.3 million from the end of fiscal 1995. The decline in accounts receivable was due to lower sales experienced in fiscal 1996 compared to fiscal 1995 and an increase in the level of reserve for doubtful accounts. Inventories, net of reserves, decreased $23.7 million during fiscal 1996 and totaled $10.6 million at September 30, 1996. The decline in inventories is attributable to the Company's second quarter decision to discontinue further production of the SQ3270 and EZ135 products, reduced sales levels and improved inventory management techniques introduced in the second half of fiscal 1996.

Borrowings under the Company's bank lines of credit amounted to $19.3

million at September 30, 1996. There were no borrowings outstanding at September 30, 1995. As of September 30, 1996, the Company has a line of credit agreement with a financial institution, expiring January 31, 1997. Borrowings under the agreement bear interest at the highest "LIBOR" (London Interbank Offered Rate) rate during the month plus 4.825% and are subject to the higher of a minimum interest rate of 8% per annum or $10,000 per month, regardless of borrowings. The interest rate as of September 30, 1996 was 10.25%. The total borrowings are limited to the lesser of $30 million or 75 percent of the Company's eligible accounts receivable. The Agreement also places limitations on additional borrowings and payment of dividends. As of September 30, 1996, approximately $14.7 million of borrowings were outstanding and approximately $5.3 million was available for borrowing under the agreement. The Company is in discussions with the financial institution for extension of the credit facility. Management believes the Company's relations with the institution are good, but there can be no assurances that it will be successful in negotiating an extension to the credit agreement on terms acceptable to the Company.

In fiscal 1996, the Company entered into a credit agreement with a bank in Penang, Malaysia. The agreement provides for a term loan equivalent to approximately $4.2 million, an overdraft facility of approximately $.8 million and a short-term line of credit for inventory financing. The term loan is repayable in 120 monthly installments and bears interest at the rate of 1.0% over the bank's base lending rate while the short-term borrowings bear interest at varying rates and become due every 180 days. The credit available under this agreement is secured by factory buildings owned by SyQuest Technology (M) SDN BHD and is further secured by a corporate guarantee from SyQuest Technology, Inc. At September 30, 1996 there was approximately $3.6 million outstanding against the term loan, $.5 million outstanding against the overdraft facility and approximately $4.0 million outstanding against the inventory line of credit. The interest rates for the term loan and the short-term line of credit as of September 30, 1996 were 9.15% and 8.275%, respectively.

In May 1996, the Company exchanged 4,155 common shares of a privately-held French company for a reduction of $2.8 million of debt with one of the Company's suppliers.

In June 1996, the Company sold 20,000 shares of 7% Cumulative Preferred Stock for $20 million in gross proceeds. In October 1996, the Company sold 5,500 shares of Convertible Preferred Stock for $5.5 million in gross proceeds and sold 24,500 shares of Series 2 Preferred Stock for $24.5 million in gross proceeds. In November 1996, the Company sold 1,500,000 shares of its Common Stock for approximately $8.5 million to an international investment firm and granted that investor warrants to purchase up to 1,875,000 shares of Common Stock, depending on, among other things, the number of shares of Common Stock owned by such investor on July 12, 1997.

In July 1996, the Company issued a $7.7 million, 6% Convertible Subordinated Debenture (the "Debenture") to one of its suppliers, of which a portion is convertible into Common Stock of the Company. Subsequently, the Company worked out repayment schedules with several of its other major suppliers and converted approximately $43.1 million of accounts payable and other obligations to notes payable reflecting extended repayment terms. From late September 1996, through October 30, 1996, the Company exchanged with four of these suppliers approximately $11.6 million of notes payable for an aggregate of 1,874,837 shares of the Company's Common Stock. Approximately $31 million of the notes payable remained outstanding following the conversion of $11.6 million in notes to equity.

The terms of these financings are described in three Current Reports on Form 8-K dated, respectively, June 14, 1996, October 31, 1996 and November 11, 1996, the contents of which are hereby incorporated by reference.

During fiscal 1996, the Company used $50.7 million in cash for operating activities and an additional $17.8 million of cash for the purchase of equipment and leasehold improvements. Based on current estimates, the Company expects to spend less than $5 million for capital assets in fiscal 1997. There can be no assurance, however, that the Company's actual spending will not exceed its forecasts. The Company believes that, based on a number of events occurring, the current sources of the financing available to the Company will be sufficient to fund the Company's operations only into the second quarter of fiscal 1997, and the Company will need additional funds for new products, to fund working capital required to increase sales and to pay suppliers. Management's financial plans for fiscal 1997 anticipate raising additional equity capital in order to stimulate business and take advantage of market opportunities. As discussed in Note 15, during the first quarter of fiscal 1997, the Company raised approximately $38 million of additional equity from investors. Management is currently pursuing other investment opportunities and expects to raise additional financing during the second quarter of fiscal 1997. There can be no assurance, however, that such financing would be available when needed, if at all, or on favorable terms. If results of operations for fiscal 1997 do not meet management's expectations, or additional capital is not available, management has the ability and intent to reduce certain expenditures so as not to require additional capital resources. The precise amount and timing of the Company's funding needs cannot be determined accurately at this time, and will depend on a number of factors, including the market demand for the Company's products, the progress of the Company's product development efforts, the availability of critical components, the Company's strategic alliances for the manufacture of its products, and the Company's management of inventories and accounts receivable, and whether key suppliers will grant payment terms for the purchase of materials and services.

FACTORS THAT MAY AFFECT FUTURE RESULTS

Business Re-Engineering

Management expects to continue the strategic and process changes mentioned above into fiscal 1997 and to continue investing in the re-engineering of the Company. In December, 1996, the Company shipped limited quantities of the SyJet 1.5GB, a 3.5 inch, 1.5 gigabyte high performance product. Subject to the availability of additional cash resources, the Company expects to commence volume production of this product in January, 1997. In addition, the Company continues to invest in developing both higher performance and lower cost product lines. Management further expects to invest in promoting the Company's market presence throughout fiscal 1997, including various advertising and other promotional programs.

During fiscal 1996, new product launch processes were revised to include formal cost reduction and controlled introduction of products to manufacturing. Research and development efforts were re-focused to take advantage of the Company's technological leadership in Winchester-based removable cartridge disk drives and pursue the typically higher margins of high performance products relative to the markets the EZ135 competed in. The Company established a marketing strategy which emphasizes efforts to re-establish the Company's presence in the strategically important retail and distribution channels.

However, to support the planned activities, additional capital resources are required in the second fiscal quarter of 1997 and there can be no assurance that the Company will be able to obtain needed funding on satisfactory terms or that it will be successful in implementing its business re-engineering plans. Management is aggressively pursuing additional equity investments in the Company as well as strategic partnerships in manufacturing and marketing its products. The inability to obtain needed funding on satisfactory terms would have a material adverse affect on the Company's business and financial results.

Need for Additional Financing; Future Capital Needs

The Company incurred losses in its fiscal year ended September 30, 1995, and in each quarter of its fiscal year ended September 30, 1996. To meet its working capital needs, the Company has engaged in a series of financing transactions.

As of September 30, 1996, the Company had $3.2 million in unrestricted cash and cash equivalents. During fiscal 1996, the Company used $50.7 million of cash in operating activities and an additional $17.8 million of cash for the purchase of equipment and leasehold improvements. The Company believes that, based on a number of events occurring, the current sources of financing available to the Company will be sufficient to fund the Company's planned level of operations only into the second quarter of fiscal 1997, and the Company will need additional funds for new product introduction, for production and working capital and to pay suppliers. The Company is presently negotiating other possible equity investments into the Company but there can be no assurance that any of such negotiations will be successful. The precise amount and timing of the Company's funding needs cannot be determined at this time, and will depend upon a number of factors, including the market demand for the Company's products, the progress of the Company's product development efforts, the availability of critical components, the Company's strategic alliances, if any, for the manufacture of its products, and the Company's inventory and accounts receivable management. If additional funds are raised through the issuance of equity securities, the percentage ownership of the stockholders of the Company will be reduced, stockholders may experience additional dilution, and such securities may have rights, preferences and privileges senior to those of holders of the Company's Common Stock. See "Factors That May Affect Future Results -- Convertible Securities, Warrants and Options; Potential Dilution and Adverse Impact on Additional Financing." There can be no assurance that funds required by the Company in the future will be available on terms satisfactory to the Company. The inability to obtain needed funding on satisfactory terms would have a material adverse effect on the Company's business and financial results.

Risk of Losing Nasdaq Listing

On September 16, 1996, the Company was given a temporary exception from the net tangible asset and capital surplus listing requirements of the Nasdaq National Market. The listing exception was conditioned on the Company's ability to file a pro forma balance sheet as of September 30, 1996, indicating net tangible assets of at least $2.0 million. On October 31, 1996, the Company filed with Nasdaq and the Commission an unaudited pro forma balance sheet (the "Pro Forma Balance Sheet") showing sufficient net tangible assets, based on the Company's best estimate at that time of its losses for the fiscal year ended September 30, 1996. There can be no assurance that the Company's estimate in the Pro Forma Balance Sheet was accurate. Based on this filing, the National Association of Securities Dealers approved the continued listing of the Company's Common Stock on the Nasdaq National Market.

The Company has continued to incur losses, however, and there can be no assurance that the Company will continue to meet the net tangible asset, capital and surplus, or other listing requirements of the Nasdaq National Market in the future. Should the Company fail to meet such listing standards, it may be delisted from the Nasdaq Stock Market. Trading, if any, in the listed securities would thereafter be conducted on the Electronic Bulletin Board or the National Quotation Bureau's "pink sheets." As a result, an investor may find it difficult to dispose of, or to obtain accurate quotations of the price of, the Company's securities. This would likely have a material and adverse effect on the market price of the Company's Common Stock and on the Company's ability to raise additional capital.

Convertible Securities, Warrants and Options; Potential Dilution and Adverse Impact on Additional Financing.

On July 15, 1996, the Company issued a 6% Convertible Subordinated Debenture to a supplier in the amount of $7.7 million repayable in thirty-six (36) equal monthly installments. The debenture agreement allows the holder to convert up to $2,775,000 of the principal amount of the debenture into no more than 400,000 shares of the Company's Common Stock at the conversion price of $6.9375 per share. As of September 30, 1996, none of the principal of the debenture had been converted to Common Stock.

As of October 31, 1996, the Company had outstanding options and warrants to purchase an aggregate of 3,448,938 shares of Common Stock, at a weighted average exercise price of approximately $7.13 per share. The Company is also obligated to issue additional warrants to acquire up to 3,136,786 shares of Common Stock and up to 12,078,347 shares of Common Stock upon conversion of the 7% Cumulative Preferred Stock, the Convertible Preferred Stock and the Series 2 Preferred Stock (the "Preferred Stock"), based on the conversion prices of the Preferred Stock at December 20, 1996. The exact number of shares of Common Stock issuable upon conversion of Preferred Stock and exercise of warrants issued pursuant to such conversion cannot be estimated with certainty because, generally, such issuances of Common Stock will vary inversely with the market price of the Common Stock at the time of such conversion, and there is no cap on the number of shares of Common Stock that may be issuable. The number of warrants and shares of Common Stock issuable upon conversion of the Preferred Stock is also subject to various adjustments to prevent dilution resulting from stock splits, stock dividends or similar transactions. Further, the Company may, at its election, choose to issue additional shares of Common Stock in lieu of cash dividends due to the holders of the 7% Cumulative Preferred Stock and the Series 2 Preferred Stock.

In addition, on November 13, 1996, the Company sold to an investor an additional 1,500,000 shares of Common Stock that will become freely tradeable, subject to compliance with applicable securities laws, on approximately February 12, 1997. As part of this same transaction, the Company issued a warrant that will become exercisable for between 375,000 shares and 1,875,000 shares of Common Stock, depending on a number of factors, principally the price of the Company's Common Stock.

As of September 30, 1996, Warrants to purchase 100,000 shares of the Company's Common Stock at an exercise price of $10.88 per share had been issued as partial compensation for value received in the placement of the Company's 7% Cumulative Convertible Preferred Stock. Those Warrants are exercisable at the option of the holders on or before July 30, 1999.

To the extent that such options and warrants are exercised, shares of Common Stock are issued in lieu of cash dividends or convertible securities are converted (and the warrants issuable upon such conversion are exercised), substantial dilution of the interests of the Company's stockholders is likely to result and the market price of the Common Stock may be materially adversely affected. Such dilution will be greater if the future market price of the Common Stock decreases. For the life of such warrants, options and convertible securities, the holders will have the opportunity to profit from a rise in the price of the underlying securities. The existence of such warrants, options and convertible securities is likely to affect materially and adversely the terms on which the Company can obtain additional financing, and the holders of such warrants, options and convertible securities can be expected to exercise them at a time when the Company would otherwise, in all likelihood, be able to obtain additional capital by an offering of its unissued capital stock on terms more favorable to the Company than those provided by such warrants, options and convertible securities.

The Company has filed registration statements on Form S-8 under the Act to register shares of Common Stock subject to stock options and the Company's employee stock purchase plan that will permit the resale of such shares, subject to Rule 144 volume limitations applicable to affiliates of the Company and vesting restrictions. The Company has also filed a registration statement, Registration Statement No. 333-17119, to permit resale of the Common Stock issuable upon exercise of the warrants and conversion of the convertible securities described above. Additional shares of Common Stock issuable upon conversion of the 7% Cumulative Preferred Stock are being offered pursuant to a prospectus included in Registration Statement No. 333-7369. Such registered shares can be sold without any holding period or sales volume limitations.

Uncertainty of Market Acceptance of Products

The Company's future success will depend upon market acceptance of its new products and upon the Company's ability to establish its new products as industry standards. The Company introduced its EZ Flyer 230 in June 1996. The EZ Flyer 230 is a newly designed product for the Company with 230 megabytes of capacity, which the Company began to ship in significant volume in July 1996. While the Company believes that early indications of market acceptance of the EZ Flyer 230 are favorable, the product has only recently been introduced and there can be no assurance that the level of acceptance will continue or grow due to uncertainties regarding the market for the EZ Flyer 230 and the competition it is facing. The Company continues to refine the EZ Flyer 230 and there can be no assurance that the Company will not experience problems or delays if and when it attempts to manufacture and ship the EZ Flyer 230 in higher volumes.

On August 7, 1996, the Company announced that it had commenced taking orders for its new 3.5 inch, 1.5 gigabyte SyJet system products. The Company has begun limited production and has made limited shipments in the first quarter of fiscal 1997. The Company intends to increase production and shipments in the second fiscal quarter of 1997; however, there can be no assurance that the Company will be able to introduce this new product successfully and in a timely manner or that the product will be accepted in the market. Limitations on cash resources restricted the ability of the Company to increase SyJet production in the first quarter of fiscal 1997 to the levels desired by the Company.

The SyQuest technology is different from the most widely used data storage devices today (hard disk drives, floppy disk drives and CD-ROM drives). No new type of read/writable data storage device has achieved widespread market acceptance in recent years and there can be no assurance that the Company's new products will achieve market acceptance. Whether the Company's new products will achieve significant market acceptance will depend upon a number of factors, including the price, performance and other characteristics of competing solutions introduced by other vendors, the timing of the introduction of such products, and the success of the Company in establishing OEM arrangements for the Company's new products. See "Factors That May Affect Future Results - Competition" and "- Shortages of Critical Components; Absence of Supply Contracts; Supplier Workouts." There can be no assurance that the Company will be successful in satisfying any of these factors. In addition, the two formats of removable-media storage which have gained widespread market acceptance to date--floppy disk drives and CD-ROM drives--are both used by software manufacturers as a means of software distribution. The Company's products are not currently used for software distribution. The failure of the Company's new products to achieve widespread commercial acceptance would have a material adverse effect on the Company's business and financial results.

Introduction of EZ Flyer 230; Discontinuation of EZ135

The Company's EZ135 products accounted for 16% of the Company's sales in the last quarter of fiscal 1995, 42% in the first quarter of fiscal 1996, 46% in the second quarter of fiscal 1996, 45% in the third quarter of fiscal 1996 and approximately 16% in the fourth quarter of fiscal 1996. Although sales of EZ135 products contributed significantly to the Company's revenue during the last quarter of the 1995 fiscal year and the majority of fiscal year 1996, the Company sold EZ135 units at a significant loss due to cost issues which could not be corrected as the Company had originally anticipated, and due to competitive pressures requiring the selling price to continue to decline in the market. The Company discontinued sales of the EZ135 during the fourth quarter of fiscal 1996.

The Company introduced its EZ Flyer 230 on June 3, 1996. Commercial shipments of the EZ Flyer 230 commenced in June 1996, and the Company began to ship the EZ Flyer 230 in significant volume in July 1996. Revenue in the fourth fiscal quarter of 1996 was $12.7 million for the EZ Flyer 230, representing 28% of total revenue. There can be no assurance that the market acceptance of the EZ Flyer 230 will continue or that the level of acceptance will grow.

Shortages of Critical Components; Absence of Supply Contracts; Supplier Workouts

Many components incorporated in, or used in the manufacture of, the Company's products are currently only available from sole source suppliers. During the 1996 fiscal year, the Company experienced disruption in its supply of certain components for a number of reasons including the shortage of cash to pay suppliers. Component shortages due to limited cash availability affected the Company's ability to produce EZ Flyer 230 products and limited the Company's ability to implement certain cost reduction and productivity improvement plans. Moreover, the Company may continue to experience difficulty in the future in obtaining a sufficient supply of many key components due to the shortage of cash to pay suppliers and other reasons. A disruption in the supply of key components would have a material adverse affect on the Company's ability to generate sales and the ability to cuccessfully launch the SyJet products.

The Company recently completed the process of working out repayment terms with its key suppliers. On July 15, 1996, the Company issued a $7.7 million 6% Convertible Subordinated Debenture to one of its suppliers pursuant to which up to 400,000 shares of Common Stock could be issued to such supplier at a conversion price of $6.9375 per share. Subsequently, the Company negotiated with other suppliers to extend the payment dates on amounts owed, converting approximately $43.1 million of accounts payable and other obligations to all of those suppliers, to notes payable reflecting extended repayment terms. In September and October 1996, the Company exchanged certain of those notes payable for an aggregate of 1,874,837 shares of Common Stock. As a result of the Company's completion of recent financing transactions and other efforts by management to improve SyQuest's balance sheet, a number of Company suppliers have begun to transition from doing business with the Company on a C.O.D. basis and are selling to the Company under more standard commercial terms. Many of SyQuest's key suppliers are continuing to do business with SyQuest on a C.O.D. basis only, however, which places demands on the Company's available cash resources that may limit its financial flexibility and its ability to meet market demand for its products.

The Company purchases all of its sole and limited source components and equipment pursuant to purchase orders placed from time to time and has no guaranteed supply arrangements. The inability to obtain sufficient components and equipment, to obtain or develop alternative sources of supply at competitive prices and quality, or to avoid manufacturing delays could prevent the Company from producing sufficient quantities of its products to satisfy market demand, result in delays in product shipments, increase the Company's material or manufacturing costs, or cause an imbalance in the inventory levels of certain components. Moreover, difficulties in obtaining sufficient components may cause the Company to modify the design of its products to use a more readily available component, and such design modifications may result in increased costs and product performance problems. Any or all of these problems could in turn result in the loss of customers, provide an opportunity for competing products to achieve market acceptance and otherwise adversely affect the Company's business and financial results.

Competition

The data storage industry is highly competitive. The Company believes that its products compete most directly with other removable-media data storage devices, such as disk drives offered by Iomega Corporation and magneto optical disk drives. Although the Company believes that its products offer performance and certain other advantages over most other removable-media storage devices available today, the Company believes that the price/performance levels of existing removable-media products will improve and that other companies will introduce new removable-media storage devices. Accordingly, the Company believes its products will face increasingly intense competition. In particular, a consortium comprising Compaq Computer, 3M, Insite and Matsushita-Kotobuki Electronics Industries Ltd. has announced and is selling the LS120, a high-capacity floptical drive that is compatible with conventional floppy disks. Each of Mitsubishi Electric Corp. and Mitsumi has also announced that it plans to manufacture a high capacity, floppy drive that is downward compatible with existing floppy diskettes. If successfully marketed, these drives would compete with the Company's EZ products. The Iomega Zip drive, a high capacity floppy disk drive, is a competitor to EZ Flyer 230. The JAZ drive is Iomega's first removable hard drive and competes directly with SyQuest's products. In addition, to the extent that SyQuest drives are used for incremental primary storage capacity, they also compete with conventional hard disk drives. Finally, the leading suppliers of conventional hard disk drives could at any time determine to enter the removable-media storage market.

As new and competing removable-media storage solutions are introduced, it is possible that the first such solution to achieve a significant market presence will emerge as an industry standard and achieve a dominant market position. If such is the case, there can be no assurance that the Company's products would achieve significant market acceptance, particularly given the Company's size and market position relative to its competitors.

Technological Change and New Products

The Company operates in an industry that is subject both to rapid technological change and rapid change in consumer demands. For example, over the last 10 years the typical hard disk drive included in a new personal computer has increased in capacity from approximately 40 megabytes (MBs) to 1 gigabyte (GB) or more, while the market price per megabyte of a hard disk drive has dramatically decreased. The Company's future success will depend in significant part on its ability to develop and introduce, in a continuous and timely manner, new removable disk drive products with improved features, and to develop and manufacture those new products within a cost structure that enables the Company to sell such products at lower prices than those of comparable products today. In addition, the Company depends on technological developments from other vendors for the components in its products (such as heads, semiconductor devices and media). The Company has recently introduced its EZ Flyer 230 which is targeted for sale to the Company's traditional customer base in the desktop publishing, prepress and service bureau segments, as well as to a broad array of users in the SOHO (Small Office/Home Office) market segment. The SyJet 1.5 GB removable cartridge hard drive is targeted towards computer, audio and video OEMs, as well as retail, the Company's traditional customer base and the SOHO market segment. The Company believes that this product will compete with the Iomega JAZ. There can be no assurance that the Company will be successful in developing, manufacturing and marketing cost effective products (including the EZ Flyer 230 and the SyJet 1.5 GB) that meet both the performance and price demands of the data storage market.

Dependence on Strategic Marketing Alliance

The Company's business strategy depends in significant part on establishing successful strategic alliances with a variety of key companies within the computer, audio and video industries. Among the types of alliances contemplated by the Company's business strategy are: OEM arrangements with personal computer, audio and video manufacturers that will include SyQuest products as a standard feature or factory-installed option in their personal computers; reseller arrangements (including private and co-branding arrangements) with major vendors of computer products covering the resale of the Company's products by such companies; and licensing arrangements under which the Company grants certain computer manufacturers on a royalty-bearing basis the right to manufacture and sell its drives or media. Moreover, the Company believes that establishing strategic alliances (especially OEM arrangements) is critical to the success of its business, and there can be no assurance that the Company will be successful in doing so. In addition, the Company's strategic alliances are generally not covered by binding contracts and may be subject to unilateral termination by the Company's strategic partners, and may also require the Company to share control over its manufacturing and marketing programs and technologies.

Reliance on Manufacturing Relationships; Nomai Lawsuits

The Company plans to continue to use independent parties to manufacture for the Company a portion of the Company's components. The Company currently has manufacturing relationships with Nomai, S.A. ("Nomai") for cartridges and with others for manufacture and subassembly of components. The Company has filed lawsuits against Nomai in France alleging copyright and patent infringement and in the United States regarding various related claims, including royalty payments owed by Nomai under a previous arrangement. On November 18, 1996, the Company and Herve Frouin and Marc Frouin (the "Frouins"), owners of a controlling interest in Nomai, announced the execution of a letter of intent proposing a transaction (the "Proposed Transaction") in which the Company would acquire a controlling interest in Nomai from the Frouins in exchange for 3,422,968 shares of the Company's Common Stock, and would commence a tender offer to acquire up to 100% of the publicly held shares of Nomai. On November 25, 1996, however, the Company announced that plans to acquire Nomai have been terminated, adding that it intends to pursue vigorously all available causes of action against Nomai.

In September 1996, the Company and Legend Group ("Legend"), the largest computer systems manufacturer and distributor in the People's Republic of China, announced an intention to form a joint venture company for the manufacture and distribution of the Company's removable cartridge hard drives and products in China. In addition, Legend would become the exclusive distributor of Company products in the developing Chinese market. The Company would provide the proposed joint venture company with training and manufacturing know-how to insure that the joint venture had the requisite skills to manufacture the Company's removable cartridge hard drives and products. It is anticipated that both Legend and the Company would contribute the capital required for the joint venture. The Company and Legend have entered into a Memorandum of Understanding under which Legend would invest up to $20 million in the Company. The definitive terms of this investment are being negotiated, and the completion of any such investment (currently proposed for the first calendar quarter of 1997) may require approval of the Company's stockholders pursuant to Nasdaq listing rules and may be subject to a waiting period pursuant to the Hart-Scott-Rodino Act. In December, 1996, the Company and Legend announced a distribution agreement whereby Legend has become the exclusive distributor of the Company's products in the developing Chinese market.

There can be no assurance that the Company will be successful in prosecuting its lawsuit against, or in maintaining its manufacturing relationships with, Nomai, that the joint venture or financing agreement with Legend will be consummated or successful, or that the Company will successfully establish additional relationships in the future or successfully manage such manufacturing relationships. The lawsuit against Nomai and either the completion of or failure to complete the proposed transactions with Legend could have numerous consequences that could affect the Company materially and adversely. The Company's manufacturing relationships are generally not covered by binding contracts and may be subject to unilateral termination by the Company's manufacturing partner. Moreover, there can be no assurance that third-party manufacturers will be willing or able to meet the Company's quantity or quality requirements for manufactured products.

Quarterly Fluctuations in Operating Results

The Company has experienced and in the future may continue to experience significant fluctuations in its quarterly operating results. Factors such as price reductions, the introduction and market acceptance of new products, product returns, the availability of critical components and the lower gross margins associated with the Company's newly introduced products could contribute to this quarterly variability. Moreover, the Company's expense levels are based in part on expectations of future sales levels, and a shortfall in expected sales could therefore result in a disproportionate decrease in the Company's results of operations. As a result of these and other factors, it is likely that the Company's operating results in some future period will be below the expectations of investors, which would probably result in a significant reduction in the market price of the Common Stock.

Dependence on Proprietary Technology

The Company's success depends heavily on the establishment and maintenance of proprietary technologies. The Company relies on a combination of patent, copyright and trade secret law to protect the technology in its drives and cartridges. The Company holds numerous U.S. and foreign patent applications relating to its drives and hard disk cartridges. Many of these patents, however, do not pertain to the Company's recent product generations, and there can be no assurance that additional patents will issue in the future. There can be no assurance that the steps taken by the Company to protect its technology will be adequate to prevent misappropriation of its technology by third parties, or that third parties will not be able independently to develop similar technology. In particular, the Company's sales have been and will continue to be materially adversely affected when parties develop cartridges compatible with the Company's disk drives.

From time to time the Company receives notices alleging that the Company's products infringe third party proprietary rights. A third party notified the Company in June 1995, that such party believes the Company infringes on six of its U.S. patents. It is the Company's belief that the claims are without merit or that the infringement claims relate to component parts purchased from vendors. The Company also believes that if the third party prevails on its claims, the Company will be indemnified by its vendor for any liability arising from the alleged infringements and that this matter will not have a material effect upon its financial condition or results of operations.

Patent and similar litigation frequently is complex and expensive and its outcome can be difficult to predict. There can be no assurance that the Company will prevail in any proceedings that may be commenced against the Company. In addition, certain technology used in the Company's products is licensed from third parties. The termination of any such license arrangements could have a material adverse effect on the Company's business and financial results.

International Operations

International sales generated a significant portion of the Company's revenues in fiscal years 1995 and 1996, and the Company expects international sales to continue to constitute a significant percentage of its total sales in the future. The international portion of the Company's business is subject to a number of inherent risks, including difficulties in building and managing foreign operations and foreign reseller networks, the differing product needs of foreign customers, fluctuations in the value of foreign currencies, import-export duties and quotas, and regulatory, economic or political changes. Moreover, the Company relies on foreign companies for the supply of certain critical components and is increasingly relying on foreign companies for the manufacture of certain of its products, and these relationships may be subject to some of the same risks affecting its international sales. There can be no assurance that these factors will not materially and adversely affect the Company's international sales and its overall business and financial performance.

The Company's international sales are predominantly denominated in U.S. dollars. Accordingly, a significant increase in the valuation of the U.S. dollar and the resultant increase in the price of the Company's foreign currency priced products could have a material adverse effect on the Company's sales.

Management Changes; Dependence On Key Personnel

The Chairman of the Board, the President and Chief Executive Officer, the Executive Vice President and Chief Financial Officer, the Executive Vice President-Sales, the Chief Technical Officer, the Executive Vice President-Operations, and the Vice President-Marketing, have all just recently joined the Company. Syed Iftikar, the Company's former Chairman of the Board, President and Chief Executive Officer, ceased to be an officer of the Company on June 13, 1996 and resigned as a director on August 15, 1996.

The Company's success will depend in large part upon the capabilities of the new management team. The inability of such individuals to become familiar with the widespread operations of the Company and its subsidiaries and turn around the financial situation of the Company could have a material adverse effect on the Company. The Company's success will also depend in significant part upon its ability to attract and retain highly-skilled management and other personnel. Competition for such personnel in the computer industry is intense, and the Company has from time to time experienced difficulty in finding sufficient numbers of qualified professional and production personnel. The Company has had a number of other executive officers leave the Company over the last six months. There can be no assurance that the Company will be successful in attracting and retaining the quantity and quality of personnel that it needs.

Volatility of Stock Price; Absence of Dividends

The market prices for shares of high technology companies including the securities of SyQuest have been volatile. The Company's Common Stock has recently experienced substantial levels of short selling, which has depressed the market price, and increased the volatility of the market price, of the Company's Common Stock. Factors such as announcements of technological innovations or new products by the Company or its competitors, variations in the Company's quarterly operating results, continued high levels of short selling of the Common Stock, or general economic or stock market conditions unrelated to the Company's operating performance may have material adverse effects on the market price of the Common Stock. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against such a company. Such litigation, if instituted against the Company, could result in substantial costs and a diversion of management attention and resources. See "Risk Factors - Class Action and Shareholder Derivative Lawsuits."

In addition, the Company believes that electronic bulletin board postings regarding the Company on America Online and other similar services, certain of which have in the past contained false information about Company developments, have in the past and may in the future contribute to volatility in the market price of the Common Stock. Any information concerning the Company, including projections of future operating results, appearing in such on-line bulletin boards or otherwise emanating from a source other than the Company should not be relied upon as having been supplied or endorsed by the Company.

The Company has not paid any cash dividends since its inception, and it does not anticipate paying cash dividends on its Common Stock in the foreseeable future.

Certain Marketing and Sales Risks

As is common practice in its industry, the Company's arrangements with its customers generally allow customers, in the event of a price decrease, credit equal to the difference between the price originally paid and the new decreased price on units in the customers' inventories on the date of the price decrease. When a price decrease is anticipated, the Company establishes reserves for amounts it estimates will be reimbursed to qualifying customers. There can be no assurance that these reserves will be sufficient or that any future returns or price protection charges will not have material adverse effects on the Company's results of operations, particularly because future results will depend heavily on recently introduced products for which the Company has little or no operating history. In addition, customers generally have stock rotation rights permitting them to return slower-moving products in inventory within specified time periods in return for compensating orders of other products. Any build-up of inventory at the Company or in its distribution channels that does not sell through to end users could have material adverse effects on the Company's operating results and financial condition.

As is typical in the industry, from time to time the Company experiences product defects and product returns. There can be no assurance that the Company will not experience quality or reliability problems in the future that have material adverse effects on the Company's business and financial results.

The Company markets its products primarily through computer product distributors and retailers. Distribution channels for personal computers and accessories have been characterized by rapid change, including consolidation and financial difficulties of distributors. The loss or ineffectiveness of any of the Company's major distributors could have a material adverse effect on the Company's results of operations. In addition, since the Company grants credit to its customers, a substantial portion of outstanding accounts receivable are due from computer product distributors and certain large retailers. At September 30, 1996, the customers with the three highest outstanding accounts receivable balances totaled $12.03 million, or 28.9%, of gross accounts receivable. The Company has no reason to believe these receivable balances are uncollectible, but if any one or a group of these customers' receivable balances should be deemed uncollectible, it would have a material adverse effect on the Company's results of operations and financial condition.

Effect of Anti-Takeover Provisions

The Company's Board of Directors has the authority to issue up to 4,000,000 shares of preferred stock and to determine the price, rights, preferences and privileges of those shares, which, under certain circumstances, could be issued without any further vote or action by the Company's stockholders. To date, an aggregate of 50,000 shares of preferred stock have been issued: 20,000 shares of 7% Cumulative Preferred Stock; 5,500 shares of Convertible Preferred Stock and 24,500 shares of Series 2 Preferred Stock. The rights of the holders of Common Stock will be subject to, and may be adversely affected by, the rights of the holders of these preferred shares and any preferred stock that may be issued in the future. Such issuance, while providing desirable flexibility in connection with possible financings and acquisitions and other corporate purposes, could make it more difficult for a third party to acquire a majority of the outstanding voting stock of the Company. In addition, preferred stock may have other rights, including economic rights, senior to the Common Stock, and, as a result, the issuance thereof could have a material adverse effect on the market value of the Common Stock. The Company is also subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which prohibit the Company from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person first becomes an "interested stockholder," unless the business combination is approved in a prescribed manner. The application of Section 203 could also have the effect of delaying or preventing a change of control of the Company.

Class Action and Shareholder Derivative Lawsuits

The Company has been named as a defendant in four punitive class action lawsuits. For a full discussion, see Item 3, Legal Proceedings.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

For the years ended September 30, 1996, 1995, and 1994

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Ernst & Young LLP, Independent Auditors

The Board of Directors and Stockholders
SyQuest Technology, Inc.

We have audited the accompanying consolidated balance sheets of SyQuest Technology, Inc. and subsidiaries as of September 30, 1996 and 1995, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 1996. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SyQuest Technology, Inc. and subsidiaries at September 30, 1996 and 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 1996, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

Ernst & Young LLP

San Jose, California
December 11, 1996

SyQuest Technology, Inc.
Consolidated Balance Sheets

<TABLE>
<CAPTION>

	September 30, 1996	September 30, 1995
ASSETS	(In Thousands, Except Share Data)	
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	$ 3,470	$ 29,248
Short-term investments	200	400
Accounts receivable	30,341	55,653
Inventories	10,538	34,213
Prepaid expenses and deposits	2,471	2,066
Deferred income taxes	--	13,254
Total current assets	47,020	134,834
Property, equipment and leasehold improvements:		
Equipment	49,340	47,291
Furniture and fixtures	2,710	2,667
Property and leasehold improvements	9,896	7,832
	61,946	57,790
Accumulated depreciation and amortization	34,765	31,070
	27,180	26,720
Other assets	981	3,130
	$ 75,181	$164,684
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 23,917	$ 41,213
Bank borrowings	19,268	--
Accrued compensation and benefits	3,811	5,206
Provision for losses on purchase commitments	--	10,510
Accrued expenses and other liabilities	14,860	15,210
Income taxes payable	1,966	355
Current portion, long-term debt	20,549	--
Total current liabilities	84,371	72,494
Deferred rent	192	276
Long-term debt	20,971	--
Deferred income taxes	--	8,726
Commitments and contingencies	--	--
Stockholders' equity (deficit):		
Preferred stock, $.001 par value:		
Authorized shares -- 4,000,000; issued and outstanding shares -- 19,193 in 1996 and none in 1995	18	--
Liquidation preference -- $19,208		
Common stock, $.001 par value:		
Authorized shares -- 60,000,000; issued and outstanding shares -- 12,312,769 in 1996 and 11,323,974 in 1995	14	13
Additional paid-in capital	102,580	79,489
Treasury common stock at cost -- 1,225,000 shares in 1996 and 1995	(12,855)	(12,855)
Retained earnings (deficit)	(120,110)	16,541
Total stockholders' equity (deficit)	(30,353)	83,188
	$ 75,181	$164,684

</TABLE>

See accompanying notes.

SyQuest Technology, Inc.
Consolidated Statements of Operations

	Years Ended September 30, 1996	1995	1994
	(In Thousands, Except Per Share Data)		
Net revenues	$ 200,407	$299,544	$221,001
Cost of revenues	248,693	248,497	160,342
Gross profit(loss)	(48,286)	51,047	60,659
Operating expenses:			
Selling, general, and administrative (includes provision for losses on accounts receivable of $5,839 in 1996, $2,008 in 1995, and $3,151 in 1994)	51,743	44,264	37,566
Research and development	25,920	23,892	17,967
Restructuring charges	4,727	--	--
Total operating expenses	82,390	68,156	55,533
Income (loss) from operations	(130,676)	(17,109)	5,126
Other income and (expense)	(1,938)	468	337
Interest income	192	1,134	1,193
Interest (expense)	(1,229)	--	--
Income (loss) before income taxes and cumulative effect of accounting change	(133,651)	(15,507)	6,656
Provision (benefit) for income taxes	3,000	(3,721)	1,597
Income (loss) before cumulative effect of accounting change	(136,651)	(11,786)	5,059
Cumulative effect of change in method of accounting for income taxes	--	--	346
Net income (loss)	$(136,651)	$(11,786)	$ 5,405
Income (loss) per share:			
Primary:			
Income(loss) before cumulative effect of accounting change	$ (12.38)	$ (1.07)	$ .43
Cumulative effect of accounting change	--	--	.03
Net income (loss) per share	$ (12.38)	$ (1.07)	$ .46
Common and common equivalent shares used in computing per share amounts	11,497	11,063	11,647

See accompanying notes.

SyQuest Technology, Inc.
Consolidated Statements of Stockholders' Equity (Deficit)

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Common Stock	Retained Earnings (Deficit)	Total
				(In Thousands)				
Balance at October 1, 1993	--	--	11,283	$12	$ 72,221	$ (5,611)	$ 22,922	$ 89,544
Stock options exercised	--	--	88	--	497	--	--	497
Shares issued under the								

Employee Stock Purchase Plan	--	--	79	--	736	--	--	736
Purchase of treasury stock at cost	--	--	(625)	--	--	(6,044)	--	(6,044)
Income tax benefit from stock options exercised	--	--	--	--	642	--	--	642
Stock option compensation	--	--	--	--	65	--	--	65
Net income	--	--	--	--	--	--	5,405	5,405
Balance at September 30, 1994	--	--	10,825	12	74,161	(11,655)	28,327	90,845
Stock options exercised	--	--	502	1	2,932	--	--	2,933
Shares issued under the Employee Stock Purchase Plan	--	--	97	--	1,061	--	--	1,061
Purchase of treasury stock at cost	--	--	(100)	--	--	(1,200)	--	(1,200)
Income tax benefit from stock options exercised	--	--	--	--	1,321	--	--	1,321
Stock option compensation	--	--	--	--	14	--	--	14
Net income (loss)	--	--	--	--	--	--	(11,786)	(11,786)
Balance at September 30, 1995	--	--	11,324	13	79,489	(12,855)	16,541	83,188
Stock options exercised	--	--	386	1	1,421	--	--	1,422
Shares issued under the Employee Stock Purchase Plan	--	--	64	--	350	--	--	350
Issuance of preferred stock	20	19	--	--	18,981	--	--	19,000
Debt to equity conversion	--	--	371	--	2,338	--	--	2,338
Conversion of preferred stock to common stock	(1)	(1)	168	--	1	--	--	--
Net income (loss)	--	--	--	--	--	--	(136,651)	(136,651)
Balance at September 30, 1996	19	$18	12,313	$14	$102,580	$(12,855)	$(120,110)	$ (30,353)

</TABLE>

See accompanying notes.

SyQuest Technology, Inc.
Consolidated Statements of Cash Flows

<TABLE>
<CAPTION>

	Years Ended September 30, 1996	1995	1994
	(In Thousands)		
<S>	<C>	<C>	<C>
OPERATING ACTIVITIES			
Net income (loss)	$(136,651)	$(11,786)	$ 5,405
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	10,578	8,052	7,129
Deferred income taxes	4,528	(4,227)	(1,675)
Stock option compensation	--	14	65
Deferred rent	(84)	12	34
Loss on disposal of equipment and leasehold improvements	6,782	99	63
Changes in operating assets and liabilities:			
Accounts receivable	25,312	(8,934)	(14,569)
Inventories	23,675	(22,065)	(1,487)
Prepaid expenses and deposits	(405)	(359)	(991)
Accounts payable	13,413	15,161	11,036
Accrued compensation and benefits	(1,395)	1,677	(437)
Provision for losses on purchase commitments	2,282	10,510	--
Accrued expenses and other liabilities	(350)	5,455	2,058
Income taxes payable (refundable)	1,611	(1,144)	3,462
Net cash provided by (used in) operating activities	(50,704)	(7,535)	10,093
INVESTING ACTIVITIES			
Purchase of property, equipment and leasehold improvements	--	(12,509)	(7,743)
Purchase of short-term investments	200	(3,178)	(7,603)
Proceeds from sale of short-term investments	(17,820)	4,493	5,895
Investment in Silmag	--	(2,100)	--
Other	(5)	1,301	44

Net cash used in investing activities	(18,295)	(11,993)	(9,407)
FINANCING ACTIVITIES			
Purchase of treasury stock	--	(1,200)	(6,044)
Payments of long-term debt	(426)	--	--
Net borrowings under line of credit agreements	22,875	--	--
Proceeds from sale of common stock and exercise of stock options and warrants	1,772	3,994	1,233
Proceeds from sale of preferred stock	19,000	--	--
Net cash provided by (used in) financing activities	43,221	2,794	(4,811)
Decrease in cash and cash equivalents	(25,778)	(16,734)	(4,125)
Cash and cash equivalents at beginning of year	29,248	45,982	50,107
Cash and cash equivalents at end of year	$ 3,470	$ 29,248	$ 45,982

</TABLE>

See accompanying notes.

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Supplemental information on noncash investing and financing activities, in thousands:

Conversion of preferred to Common Stock	$738
Conversion of accounts payable to Common Stock	$2,338

A number of suppliers converted approximately $31 million of net accounts payable and purchase commitment liabilities into notes payable. The notes are payable over six to thirty-six months and bear interest at approximately 10%.

One supplier converted approximately $7.3 million of net accounts payable and purchase commitment liabilities into a long-term, 6% Convertible Subordinated Debenture.

In the third quarter of fiscal 1996, the Company exchanged 4,155 common shares of Silmag S.A. for a reduction of accounts payable in the amount of $2.8 million with one of its suppliers. The Company realized a gain of $0.7 million on the exchange which is classified as other income.

In the quarter ended September 30, 1996, the Company entered into a Securities Purchase Agreement with a supplier to exchange 370,000 shares of common stock for $2.3 million of debt.

Cash paid for interest expense in fiscal year 1996 were approximately $0.9 million.

SyQuest Technology, Inc.
Notes to Consolidated Financial Statements
September 30, 1996

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The consolidated financial statements include the accounts of SyQuest Technology, Inc. (the "Company" or "SyQuest") and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation

The Company's consolidated financial statements have been presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Over the last two years the Company has experienced aggregate consolidated losses of $148,437,000 including a net loss of $136,651,000 for the year ended September 30, 1996. Working capital (deficit) at September 30, 1996 was $(37,426,000) as compared to $62,340,000 at September 30, 1995.

Management's financial plans for fiscal 1997 anticipate raising additional equity capital in order to stimulate business and take advantage of market opportunities. As discussed in Note 15, during the first quarter of fiscal 1997, the Company raised approximately $38 million of additional equity from investors. Management is currently pursuing other investment opportunities and expects to raise additional financing during the second quarter of fiscal 1997. There can be no assurance, however, that such financing would be available when needed, if at all, or on favorable terms. If results of operations for fiscal 1997 do not meet management's expectations, or additional capital is not available, management has the ability and intent to reduce certain expenditures so as not to require additional capital resources.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Certain prior year amounts have been restated to conform to the 1996 presentation.

Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Certain of the Company's balances of cash and cash equivalents are subject to usage restrictions. See Note 4.

Short-Term Investments

The Company considers investments with an original maturity of more than three months but less than twelve months to be short-term investments. Short-term investments consist primarily of certificates of deposit, bankers acceptances, commercial paper, and US Government agency debt securities.

The Company classified its entire investment portfolio at September 30, 1996 and 1995 as available-for-sale. Available for sale securities are stated at fair value with unrealized gains and losses included in stockholder's equity. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest income. Realized gains and losses are included in other income (expense). The cost of securities is based on the specific identification method. Short term investments at September 30, 1996 and 1995 are comprised of certificates of deposit.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

Property, Equipment and Leasehold Improvements

Property, equipment and leasehold improvements are stated on the basis of cost. Equipment is depreciated over the estimated useful lives (three to five years) of the assets using the straight-line method. Property and leasehold improvements are amortized by the straight-line method over the shorter of the life of the related asset or the term of the lease.

In 1995, the Financial Accounting Standards Board released the Statement of Financial Accounting Standards No. 121 (SFAS 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". SFAS 121 requires the recognition of impairment of long-lived assets in the event that the net book value of such assets exceeds the future undiscounted cash flows attributable to such assets. SFAS 121 is effective for fiscal years beginning after December 15, 1995. Adoption of SFAS 121 is not expected to have a material impact on the Company's financial position or results of operations.

Foreign Currency Translation and Foreign Currency Transactions

The functional currency of the Company's foreign subsidiaries is the US dollar. Subsidiary financial statements are remeasured into US dollars for consolidation. Foreign currency transaction gains (losses) of ($573,000), $468,000, and $337,000 are included in other income and expense for 1996, 1995, and 1994, respectively.

Revenue Recognition

The Company recognizes revenue upon shipment to customers and provides an estimated allowance for returns based on the historical return history experienced by the Company.

Warranty

The Company generally warrants its products for one to five years. A provision for estimated future warranty costs is recorded at the time of shipment.

Income (Loss) Per Share

At September 30, 1996, the Company had 19,193 shares of convertible preferred stock issued and outstanding with an assured incremental yield embedded in the conversion terms. Included in the computation of earnings per share is a $5.7 million charge for the embedded yield for the discount from the average fair market value of the common stock for the five trading days prior to September 30, 1996 times the number of common shares reserved for conversion

Income per share for the year ended September 30, 1994 is based on the weighted average number of shares of common stock outstanding and dilutive common equivalent shares from stock options (using the treasury stock method). Loss per share for years ending September 30, 1996 and 1995 is based on the weighted average number of shares of common stock outstanding. All other common equivalant shares would be antidilutive.

Derivative Financial Instruments

During fiscal 1995, the Company adopted Statement of Financial Accounting Standards No. 119, "Disclosure about Financial Instruments and Fair Value of Financial Instruments" (FAS 119).

Fair Values of Financial Instruments

For certain of the Company's financial instruments, including cash and equivalents, accounts receivable, notes payable, and accrued liabilities, the carrying amounts approximate fair value due to their short maturities. The Company further believes that the carrying amounts of its long-term obligations approximate fair value due to the stability of interest rates since the Company entered into the agreements.

Off Balance Sheet Risk

The Company may enter into foreign currency forward exchange contracts to manage exposure related to certain foreign currency commitments and certain foreign currency denominated balance sheet positions. The Company does not enter into derivative financial instruments for trading purposes. At September 30, 1996, the Company had no forward exchange contracts. At September 30, 1995, the Company had forward exchange contracts totaling $12,300,000 for the purchase of Singapore dollars, $2,313,000 of forward exchange contracts for the purchase of Malaysian Ringgits and $830,000 of forward exchange contracts for the purchase of Japanese Yen. All forward exchange contracts entered into by the Company had maturities of 60 days or less.

While the contract or notional amounts of the Company's forward exchange contracts provide one measure of the volume of these transactions, they do not represent the amount of the Company's exposure to credit risk. The amounts potentially subject to credit risk (arising from the possible inability of counterparties to meet the terms of their contracts) are generally limited to the amounts, if any, by which the counterparties obligations exceed the obligations of the Company. The Company controls credit risk through credit approvals, limits and monitoring procedures. Credit rating criteria for off-balance sheet transactions are similar to those for investments.

Employee Stock Plans

The Company accounts for its stock option plans and the Employee Stock Purchase Plan in accordance with provisions of the Accounting Principles Board's Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees". In 1995, the Financial Accounting Standards Board released Statement of Financial Accounting Standard No. 123 (SFAS 123), "Accounting for Stock Based Compensation". SFAS 123 provides an alternative to APB 25 and is effective for fiscal years beginning after December 15, 1995. The Company will adopt FAS 123 in fiscal 1997, however, the Company will continue to account for its employee stock purchase plans in accordance with the provisions of APB 25. Accordingly, SFAS 123 is not expected to have any material impact on the Company's financial position or results of operations.

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2. BUSINESS SEGMENT AND CONCENTRATION OF CREDIT RISK

The Company operates in one business segment, the development, production and marketing of removable cartridge Winchester disk drives and associated cartridges. The Company has a manufacturing facility in Penang, Malaysia which produces the majority of the Company's drives and cartridges. The Company sells primarily to distributors in the personal computer market. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral.

One customer accounted for approximately 10% of revenues in 1996 and another customer accounted for approximately 10% of revenues in 1995. Export sales by domestic operations accounted for approximately 10%, 1%, and 3% of net revenues in 1996, 1995, and 1994, respectively, and are made primarily to Europe and Far East customers.

The following tables summarize the Company's operations in different geographic areas:

	North America	Europe	Far East	Adjustments and Eliminations	Consolidated
			(In Thousands)		
1996					
Sales to unaffiliated customers	$ 131,122	$57,235	$ 12,050	$ --	$ 200,407
Transfers between geographic locations	$ 27,060	$21,718	$228,288	$(277,066)	$ --
Income (loss) from operations	$(107,274)	$ 452	$(20,187)	$ (3,667)	$(130,676)
Identifiable assets	$ 33,837	$ 2,536	$ 49,626	$ (10,818)	$ 75,181
1995					
Sales to unaffiliated customers	$ 186,276	$ --	$113,268	$ --	$ 299,544
Transfers between geographic locations	$ 8,590	$ --	$256,106	$(264,696)	$ --
Income (loss) from operations	$ (20,973)	$ --	$ 5,618	$ (1,754)	$ (17,109)
Identifiable assets	$ 97,008	$ --	$ 73,483	$ (5,807)	$ 164,684
1994					
Sales to unaffiliated customers	$ 144,123	$ --	$ 76,878	$ --	$ 221,001
Transfers between geographic locations	$ 31,142	$ --	$166,037	$(197,179)	$ --
Income (loss) from operations	$ 793	$ --	$ 4,395	$ (62)	$ 5,126
Identifiable assets	$ 106,411	$ --	$ 37,228	$ (4,138)	$ 139,501

Sales and transfers between geographic areas generally provide a profit after coverage of all manufacturing costs. Income from operations is total net revenues less operating expenses.

The identifiable assets by geographic area are those assets used in the Company's operations in each area.

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3. SUPPLEMENTARY BALANCE SHEET INFORMATION

	September 30, 1996	September 30, 1995
	(In Thousands)	

Accounts receivable:		
Accounts receivable	$36,035	$58,488
Less allowance for doubtful accounts	(5,694)	(2,835)
	$30,341	$55,653
Inventories:		
Raw materials	$ 5,005	$22,258
Work-in-process	4,481	8,564
Finished goods	1,052	3,391
	$10,538	$34,213
Accrued expenses and other liabilities:		
Accrued warranty	$ 6,757	$ 5,676
Co-op advertising/Market development funds	2,999	5,314
Other	5,104	4,220
	$14,860	$15,210

</TABLE>

4. BORROWINGS

At September 30, 1996, the Company had a line of credit agreement with a financial institution, expiring January 31, 1997. Borrowings under the agreement bear interest at the highest "LIBOR" (London Interbank Offered Rate) rate during the month plus 4.825% (10.25% at September 30, 1996) and are subject to the higher of a minimum interest rate of 8% per annum or $10,000 of interest per month, regardless of borrowings. The total borrowings are limited to the lesser of $30 million or 75 percent of the Company's eligible accounts receivable and a compensating balance, included in cash and cash equivalents, of $282,000 is required on the loan. The Agreement places limitations on additional borrowings and payment of cash dividends. As of September 30, 1996, approximately $14.7 million of borrowings were outstanding and approximately $5.3 million was available for borrowing under the agreement.

In March 1996, the Company entered into a loan agreement with a bank in Penang, Malaysia. The line of credit, which is denominated in Malaysian Ringgits, provides for a term loan equivalent to approximately $4.2 million and an overdraft facility of approximately $.8 million. The term loan is repayable in 120 monthly installments and bears interest at the rate of 1.0% over the bank's base lending rate (9.15% at September 30, 1996). Amounts drawn on the overdraft line are payable on demand. The line of credit is secured by factory buildings owned by SyQuest Technology (M) SDN BHD. The term loan is also covered by a corporate guarantee from SyQuest Technology, Inc. A compensating balance, included in short-term investments, of approximately $0.2 million is required on the loan. At September 30, 1996, there were approximately $3.6 million of borrowings outstanding under this term loan, and $0.5 million outstanding against the overdraft facility, bearing an interest rate of 9.15%.

On May 29, 1996, the Company entered into a loan agreement based on inventories with the same bank in Penang, Malaysia and is due on demand. The agreement, which is denominated in Malaysian Ringgits, provides for borrowing equivalent to approximately $ 4.0 million and is due on demand. This loan is also secured by factory buildings owned by SyQuest Technology, (M) SDN BHD, and is covered by a corporate guarantee from SyQuest Technology, Inc. As of September 30, 1996 there were approximately $4.0 million of borrowings outstanding under this agreement at an interest rate of 8.275%.

During fiscal 1996, the Company converted accounts payable and purchase commitments with certain suppliers to notes payable. The aggregate amount due on those notes as of September 30, 1996, was approximately $30.7 million. The notes are payable over six to thirty-six months and bear interest of 10%.

On July 15, 1996, the Company issued a 6% Convertible Subordinated Debenture to a supplier in the amount of $7.7 million repayable in thirty-six (36) equal monthly installments. The debenture agreement allows the holder to convert up to $2,775,000 of the principal amount of the debenture into no more than 400,000 shares of the Company's Common Stock at the conversion price of $6.9375 per share. As of September 30, 1996, none of the principal of the debenture had been converted to Common Stock.

Lines of credit, term loan and notes payable obligations consist of the following:

	September 30, 1996	September 30, 1995
	(In thousands)	
BANK BORROWINGS		
Line of Credit, interest payable at the rate of highest LIBOR rate plus 4.825% (10.25% at September 30, 1996)	$14,729	$ --
Line of Credit, principal and interest due on demand, interest rate 8.275%, secured by land and buildings	4,010	--
Overdraft rider to term loan	529	--
Total bank borrowings	19,268	--
LONG-TERM DEBT		
Term Loan, principal payments deferred until July 1997, interest rate 9.15% at September 30 1996; secured by land and buildings	3,607	--
Subordinated Debenture, $2,775,000 of principal can be converted to Common Stock	7,252	--
Notes Payable to suppliers, principal and interest payable over six to thirty-six months, interest rate 10%	30,661	--
Total long-term debt	41,520	--
Total Debt	60,788	--
Less amounts due within one year	39,817	--
Due after one year	$20,971	$ --

Future minimum payments on lines of credit, term loan and notes payable are as follows (in thousands):

1997	$39,817
1998	15,260
1999	3,187
2000	361
2001	361
Due after 2001	1,802
Total minimum payments	$60,788

5. INCOME TAXES

The income tax provisions for fiscal 1996, 1995, and 1994 consist of the following:

	1996	1995	1994
	(In Thousands)		
FEDERAL:			
Current	$(1,528)	$ (421)	$1,455
Deferred	3,197	(2,578)	79
	1,669	(2,999)	1,534
STATE:			
Current	--	181	324
Deferred	1,331	(928)	(279)
	1,331	(747)	45
FOREIGN:			
Current	--	25	18
PROVISION (BENEFIT) FOR INCOME TAXES	$ 3,000	$(3,721)	$1,597

Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured by applying enacted tax rates and laws to the taxable years in which such differences are expected to reverse. The significant components of the Company's deferred tax assets and liabilities were as follows:

<TABLE>
<CAPTION>

<S>	September 30, 1996 <C>	September 30 1995 <C>
	(In Thousands)	
DEFERRED TAX ASSETS		
Credit carryforwards	$ 1,894	$ 1,773
Receivable reserves	2,979	879
Warranty reserves	1,575	1,152
Inventory valuation reserve	7,142	7,668
Accrued expenses	2,496	1,561
Depreciation of property, plant and equipment	560	--
Domestic and foreign tax net operating losses	38,997	728
Other	--	221
	--------	-------
Total deferred tax assets	55,643	13,982
Valuation allowance	(50,061)	(728)
	--------	-------
Net deferred tax assets	5,582	13,254
DEFERRED TAX LIABILITIES	(5,582)	(8,417)
Unremitted income of foreign subsidiaries	--	(309)
Depreciation of property, plant and equipment	--------	-------
	(5,582)	(8,726)
Total deferred tax liabilities	--------	-------
	$ --	$ 4,528
Net deferred tax assets	========	=======

</TABLE>

Realization of deferred tax assets is dependent on future earnings, if any, the timing and amount of which are uncertain. Accordingly, a valuation allowance, in an amount equal to the net deferred tax asset as of September 30, 1996 has been established to reflect these uncertainties. The September 30, 1995 valuation allowance was provided for deferred tax assets related to foreign net operating loss carryforwards.

Approximately $702,000 of the deferred tax assets subject to the valuation allowance at September 30, 1996 relates to the tax benefit of stock option deductions. These benefits when realized, will be credited directly to stockholders' equity and will not reduce the provision for income taxes. The valuation allowance increased by $49,333,000 in fiscal 1996 and by $428,000 in fiscal 1995.

The reconciliation of income taxes provided at the federal statutory rate to the income tax provision follows:

<TABLE>
<CAPTION>

<S>	1996 <C>	1995 <C>	1994 <C>
		(In Thousands)	
Income taxes (benefit) computed at the federal statutory rate	$(46,610)	$(5,272)	$2,263
State income taxes (benefit) net of federal income taxes effect	--	(511)	30
Foreign losses for which no current tax benefit is recognizable	1,366	--	--
Taxes provided on earnings of foreign subsidiaries previously considered to be permanently invested in non-US operations	--	1,768	--
Benefit from net earnings of foreign subsidiaries			

considered to be permanently invested in non-US operations	--	--	(652)
Utilization of tax credits	--	(566)	(227)
Valuation allowance for deferred tax assets	48,244	427	300
Other	--	433	(117)
	$ 3,000	$(3,721)	$1,597

</TABLE>

Income taxes paid (refunded) were ($3,139,000), $1,600,000, and ($670,000), in fiscal 1996, 1995, and 1994, respectively.

The Company's manufacturing operations in Singapore operated under a tax holiday that expired at the end of fiscal 1996. The tax holiday had no impact on the net loss in fiscal 1996 and 1995. The net impact of the tax holiday in fiscal 1994 was to increase net income by $518,130 ($0.04 per share). At September 30, 1996, the Company no longer had any manufacturing operations in Singapore.

The Company has approximately $4,256,000 in foreign net operating loss carryforwards. These carryforwards will expire in fiscal 1999 through fiscal 2001.

At September 30, 1996, the Company had federal net operating loss carryforwards of approximately $99,845,000. These carryforwards will expire in 2010 and 2011 if not utilized. The Company had state net operating loss carryforwards of approximately $30,000,000 that will expire in 2001 if not utilized. In addition, the Company had research and development tax credit carryforwards for federal and state tax purposes of approximately $1,212,000 and $400,000, respectively. The federal tax credit carryforwards will expire beginning in fiscal 2007 if not utilized. The Company anticipates that in fiscal 1997, it may experience a "change of ownership" for tax purposes that would result in an annual limitation on the utilization of domestic net operating loss and tax credit carryforwards in future periods. The limitation amount is determined at the point in time when the "ownership change" occurs.

6. RESTRUCTURING CHARGES

In the quarter ended March 31, 1996, the Company developed and began implementation of a plan to relocate the manufacturing capabilities in Singapore to Penang, Malaysia. The relocation was completed in the third quarter of fiscal 1996. The Company recorded a $3.6 million charge for direct costs related to exiting manufacturing facilities in Singapore. The charge consisted of $1.6 million for the write-off of leasehold improvements, $0.6 million for site closure and related costs and $1.4 million for staff severance and retrenchment. As of September 30, 1996, substantially all of these costs had been incurred, and no additional accrual was recorded.

In the quarter ended June 30, 1996 the Company recorded a $1.9 million charge for restructuring costs associated with the consolidation and closure of several of its administrative support locations. Actual charge in the qurter ended September 30, 1996, were approximately $0.5 million associated with the write-off of fixed assets, $0.5 million of severance compensation, and $0.1 million for remaining lease obligations. As of September 30, 1996, the consolidation of one location was substantially complete, $0.8 million of the charge was reversed due to the Company's decision to continue operations at one of the locations, and $0.6 million remains accrued to cover remaining exit costs.

7. REDEEMABLE CONVERTIBLE PREFERRED STOCK

In the quarter ended June 30, 1996 the Company issued 20,000 shares of 7% Cumulative Convertible Preferred Stock for approximately $19 million net of issuance costs. The Preferred Stock is convertible into Common Stock at the lesser of $11 per share or 77% of the average market price of the Common Stock on the five trading days prior to the conversion, which conversion price is subject to downward adjustment under certain circumstances. Rights relating to the Common Stock issuable upon conversion and certain shares were negotiated pursuant to Registration No. 333-7369. If the Common Stock is trading below $5 per share when the Preferred Stock converts, the Company may redeem the Preferred Stock at 130% of the original purchase price, except that the redemption price is reduced to 110% of the original purchase price to the extent that the original purchase price of the Preferred Stock being redeemed (plus one half the amount previously converted by the holders) exceeds $10 million. The Company must redeem all Preferred Shares which remain outstanding on May 31, 1999, at 100% of original purchase price in cash or, at the Company's option, in Common Stock. Should the Company's Common Stock no longer be listed on the Nasdaq National Market, Small Cap or Electronic Bulletin Board, the New York Stock Exchange or the American Stock Exchange, then the repurchase price is 130% of the original purchase price. Under certain circumstances, additional shares may be issued with any terms and without stockholder approval.

The preferred stockholders are entitled to receive cash dividends at the rate of 7% of the stated value per annum. Dividends accrue from the date of issuance through and including the date that the shares are converted or redeemed. Dividends may be paid in cash or, at the Company's option, in common stock based on the average closing market price on the five trading days preceding the date of conversion.

Holders of preferred shares have no voting rights. In the event of voluntary or involuntary liquidation, the holders of the preferred shares are entitled to receive in cash, before any amount is paid to holders of common stock, an amount equal to the stated value of preferred share, plus any accrued and unpaid dividends. As of September 30, 1996, 807 shares of Preferred Stock had been converted into 168,311 shares of common stock in accordance with the preferred stock agreement.

As of September 30, 1996, warrants to purchase 100,000 shares of the Company's Common Stock at an exercise price of $10.88 per share had been issued as partial compensation for value received in the placement of the Company's 7% Cumulative Convertible Preferred Stock. Those warrants are exercisable at the option of the holders on or before July 30, 1999.

8. TREASURY STOCK

In 1993, the Board of Directors authorized the Company to repurchase up to one million shares of the Company's Common Stock. In April 1994, the Board of Directors authorized the Company to repurchase up to an additional 500,000 shares of the Company's Common Stock. There were no treasury stock transactions during fiscal 1996. The Company acquired 100,000 and 625,000 shares of its Common Stock for approximately $1.2 million and $6.0 million through open market transactions during fiscal 1995 and 1994, respectively. The Company has acquired a total of 1,225,000 shares of its Common Stock as of September 30, 1996. These shares are held as treasury stock at September 30, 1996.

9. STOCK OPTION PLANS AND COMMON STOCK RESERVED

In 1991, the Company adopted the SyQuest Technology, Inc. 1991 Stock Option Plan (the "Plan") covering 3,403,524 shares of common stock for issuance under the Plan and assumed stock options currently outstanding under predecessor stock option plans. The Plan provides for the issuance of incentive stock options and non statutory stock options to officers, employees (including directors who are also employees), consultants, independent contractors and advisors to or of the Company or any parent, subsidiary or affiliate of the Company. Options granted under the Plan are granted at fair value on the date of grant and become exercisable within the times or upon the events determined by the Stock Option Committee as set forth in the grant and expire within ten years from the date of the grant. In 1995, the Company adopted an amendment to the Plan to increase the authorized number of shares for the plan to 4,428,524. On September 26, 1996, the shareholders approved an amendment to the Plan to increase the number of shares issuable under the Plan to 6,000,000. Other minor changes were made to the Plan to comply with changes in Rule 16B3 under the Securities and Exchange Act of 1934. These changes did not affect the terms of any existing options.

In 1992, the Company adopted the 1992 Nonemployee Director Stock Option Plan (the "Director Plan") and reserved 150,000 shares of Common Stock for issuance. The Director Plan was amended in 1994 to increase the size of the annual option grants. The Board of Directors administers the Director Plan. In 1995, the Company adopted an amendment to the Nonemployee stock option plan to increase the authorized number of shares for the plan to 250,000. On September 26, 1996, the shareholders approved an amendment to the Director Plan to increase the authorized number of shares to 500,000. Options are granted at fair value on the grant date and options may only be granted to Directors who are not employees of the Company or its subsidiaries (Outside Directors). All option grants are automatic and nondiscretionary. After each annual meeting of stockholders at which directors are elected, reelected, or continuing as directors, each Outside Director shall be automatically granted an option or options. These options are to purchase such number of shares of Common Stock as necessary so that during each of the four immediately following twelve-month periods of July 1 through June 30, such Outside Directors will have stock options (including Company stock options granted under plans other than the Director Plan) which become exercisable with respect to a minimum of 10,000 shares during each such period. Prior to 1994 the minimum was 2,500 shares during each such period. On September 26, 1996, the stockholders approved a one-time grant of 30,000 options for each new Outside Director which were not counted in determining annual grants in the future. Other minor changes were made to the Director Plan to comply with changes in Rule 16 of the Securities and Exchange Commission Act of 1934. As of September 30, 1996, options to purchase 160,000 shares of common stock were outstanding under the Director plan.

The following table summarizes stock option activity under the Plan and the Director Plan:

<TABLE>
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	Shares	Option Price Per Share (range) Low	High	Aggregate
	(In Thousands, Except Per Share Amounts)			
Outstanding at September 30, 1993	1,999	$ .30	$28.25	$ 17,433
Granted	750	9.00	11.63	7,189
Exercised	(88)	.30	18.00	(497)
Canceled	(360)	1.25	28.25	(5,948)
Outstanding at September 30, 1994	2,301	.30	27.25	18,177
Granted	833	11.50	16.75	11,865
Exercised	(502)	.30	12.50	(2,933)
Canceled	(431)	7.50	27.25	(6,176)
Outstanding at September 30, 1995	2,201	.30	24.25	20,933
Granted	2,247	4.94	11.38	13,877
Exercised	(386)	.30	12.50	(1,421)
Canceled	(1,306)	.30	24.25	(12,923)
Outstanding at September 30, 1996	2,756	$ .30	$24.25	$ 20,466

</TABLE>

At September 30, 1996, options to purchase 627,538 shares were exercisable, and 1,813,926 shares were available for grant.

The following table summarizes shares of Common Stock reserved for future issuance by the Company under the Company's stock option and purchase plans as of September 30, 1996:

<TABLE>

1991 stock option plan	4,070,232
Director stock option plan	500,000
Shares reserved for conversion of preferred stock	4,020,318
Shares reserved for conversion of warrants	100,000
Employee stock purchase plan	203,133
	8,893,683

</TABLE>

10. EMPLOYEE STOCK PURCHASE PLAN

In 1992, the Company adopted the 1992 Employee Stock Purchase Plan (the "Purchase Plan"), and 500,000 shares of common stock were reserved for issuance under the Purchase Plan. The Purchase Plan is intended to qualify under Section 423 of the Internal Revenue Code of 1986, as amended.

The Purchase Plan is implemented by a single offering for each six-month period commencing on approximately February 1 and August 1 of each year. The Purchase Plan is administered by the Board of Directors or a committee appointed by the Board of Directors. The Purchase Plan permits eligible employees to purchase common stock through payroll deductions, which may not exceed 15% of an employee's compensation, at a price equal to 85% of the lower of the fair market value of the common stock as of the first day or as of the last day of each offering period. As of September 30, 1996, 296,867 shares of common stock had been issued under the Purchase Plan.

11. BONUS, PROFIT SHARING AND 401(K) SAVINGS AND RETIREMENT PLANS

The Company has bonus and profit sharing plans that provide additional compensation to substantially all employees. The profit sharing compensation is determined on an annual basis based principally on a percentage of income after taxes, before profit sharing, and the Company meeting certain objectives for the year. Bonuses for officers and key management personnel are determined annually at the discretion of the Board of Directors. Such determination considers the extent to which individuals and the Company meet objectives for the year. The Company did not incur bonus or profit sharing expenses in 1996 or 1995. The Company recorded bonus and profit sharing expenses of $455,000 in 1994.

The Company adopted a 401(k) Savings and Retirement Plan (the "Savings Plan") to provide for voluntary salary deferral contributions on a pretax basis in accordance with Section 401(k) of the Internal Revenue Code of 1986, as amended. The Company has the option of matching a certain percent of each participant's contribution to the Savings Plan. The Company's maximum contribution per participant was limited to $1,000 in 1996 and 1995 and $500 in 1994. The Company made matching contributions of $254,000, $242,000 and $135,000 in 1996, 1995, and 1994, respectively.

12. COMMITMENTS

The Company leases its United States facilities under noncancelable operating lease agreements. These leases terminate through 2001, and certain leases include five-year renewal options as well as provisions for adjustments to lease payments based on the fair market value of similar properties. The Company leases its Singapore facility under noncancelable lease agreements expiring in 1997. The Company leases its facilities in Amsterdam, Netherlands under a noncancelable lease agreement expiring in 2000. The Company is in the process of assigning that lease, and expects the assignment to be completed no later than the second quarter of fiscal 1997. Notwithstanding the anticipated assignment, the future lease payments for the Amsterdam facility have been included in the commitments schedule below.

Total rent expense amounted to $2,507,000, $3,250,000, and $3,001,000 for 1996, 1995, and 1994, respectively. Future minimum rental commitments under non-cancelable operating leases are as follows (in thousands):

1997	$2,445
1998	2,230
1999	1,425
2000	197
2001	13
Total minimum lease payments	$6,310

13. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

	Three Months Ended (in thousands, except per share data)			
	Dec. 31, 1995	March 31, 1996	June 30, 1996	Sept. 30, 1996
Net revenues	$ 78,667	$ 47,445	$ 29,459	$ 44,836
Gross profit (loss)	(9,262)	(25,391)	(23,699)	10,066
Income (loss) from operations	(30,886)	(50,702)	(41,604)	(7,484)

Net income (loss)	(33,801)	(51,105)	(41,317)	(10,428)
Net income (loss) per share	$ (2.98)	$ (4.49)	$ (3.61)	$ (1.29)

<CAPTION>

<S>	Dec. 31, 1994 <C>	March 31, 1995 <C>	June 30, 1995 <C>	Sept. 30, 1995 <C>
Net revenues	$ 65,892	$ 76,490	$ 68,787	$ 88,375
Gross profit (loss)	15,927	21,460	18,427	(4,767)
Income (loss) from operations	2,088	4,695	1,355	(25,247)
Net Income (loss)	1,923	3,686	1,711	(19,106)
Net income (loss) per share	$ 0.16	$ 0.31	$ 0.15	$ (1.70)

</TABLE>

14. LITIGATION

The Company has been named as a defendant in four putative class action lawsuits. Two of the actions, *Ravens, et al. v. Iftikar, et al.* (filed April 2, 1996) and *Bellezza, et al. v. Iftikar, et al.* (filed May 24, been brought in the United States District Court for the Northern District of California and have been assigned to the Honorable Vaughn Walker (collectively, the "Federal Lawsuit"). Certain current and former officers and directors also have been named as defendants in the Federal Lawsuit. Plaintiffs have petitioned the Court to consolidate the foregoing complaints into one consolidated action. That request, as well as other procedural matters which arose during a July 18, 1996, case management conference, is under consideration. The plaintiffs in the Federal Lawsuit purport to represent a class of all persons who purchased the Company's Common Stock between October 21, 1994 and February 1, 1996. The Federal Lawsuit alleges that the defendants violated the federal securities laws through material misrepresentations and omissions. The third suit is a purported class action entitled *Gary S. Kaufman v. SyQuest Technology Inc., et al.* was filed on March 25, 1996, in the Superior Court of the State of California for the County of Alameda (the "Kaufman Lawsuit"). Certain current and former executive officers and directors of the Company are also named as defendants in the Kaufman Lawsuit. The plaintiffs in the Kaufman Lawsuit purport to represent a class of all persons who purchased the Company's Common Stock between May 2, 1995, and February 2, 1996. The Kaufman Lawsuit alleges that defendants violated various California laws through material misrepresentations and omissions. Unspecified damages are sought. The fourth purported class action entitled *Ravens, et al. v. Iftikar, et al.*, was filed on October 11, 1996 in the Superior Court of the State of California for the County of Alameda (the "Ravens Lawsuit"). The Ravens Lawsuit alleges that the Company and certain of its former officers and directors violated various California laws through material representations and omissions between October 21, 1994 and February 2, 1996, and is purportedly brought on behalf of persons who purchased stock during that period. Unspecified damages are sought. The Ravens Lawsuit has been consolidated with the Kaufman Lawsuit. Plaintiffs are preparing a consolidated complaint. The Company intends to defend the cases vigorously.

The Company has certain insurance coverage with respect to the above claims, however, the amount of any ultimate claims on these actions and related insurance coverage is not presently determinable.

On May 14, 1996, the Company was served with a shareholder's derivative action filed in Alameda County, California, Superior Court entitled *John Nitti, et al. v. Syed Iftikar, et al.* On July 22, 1996, plaintiffs filed an amended complaint. The action seeks to recover unspecified damages and punitive damages on behalf of the Company from current and former officers and directors of the Company for alleged breach of fiduciary duty, unjust enrichment and waste of corporate assets. The Company is a nominal defendant in the action. The complaint alleges that the officers and directors issued false and misleading information and sold shares of the Company's stock at artificially inflated prices. The allegations are essentially the same as those in the putative class actions. The Company intends to defend this case vigorously.

The Company has filed suit against Nomai, S.A. (Nomai) and Maxell in France for copyright and patent infringement, and though it did not obtain the temporary injunction sought against Nomai prohibiting the sale and distribution of Nomai's 200 megabyte cartridges, the underlying suit continues. The Company has also initiated an arbitration proceeding against Nomai seeking payment of outstanding royalties of approximately $1 million. The arbitration process began in May 1995, in San Jose, California.

A third party has notified the Company that it believes the Company infringes on six U.S. patents. It is the Company's belief that the claims are without merit or that the infringement claims related to component parts purchased from vendors. The Company also believes that in the event the third party prevails on its claims, the Company will be indemnified by its vendor for any liability arising from the alleged infringements and that this matter will not have a material adverse effect upon its financial condition or results of operations.

From time to time, the Company is involved in litigation that it considers to be in the normal course of its business. Other than set forth above, the Company is not engaged in any legal proceedings as of the date hereof which the Company expects individually or in the aggregate to have a material adverse effect on the Company's financial condition or results of operations.

15. SUBSEQUENT EVENTS

Between October 1, 1996 and October 31, 1996, the Company exchanged approximately $9.2 million of notes payable held by creditors for 1,504,000 shares of Common Stock and associated registration rights.

On October 8, 1996, the Company issued 5,500 shares of its Convertible Preferred Stock, Series 1, $.001 par value per share at a price of $1,000 per share, to certain accredited investors. Net proceeds to the Company were approximately $5,225,000. The Convertible Preferred Stock is convertible into Common Stock at the option of the holders at any time after December 15, 1996.

The Convertible Preferred Stock is convertible into a number of Common Stock equal to $1,000 plus $50 for each year between October 25, 1996, and the conversion date, divided by a conversion price which is the lesser of $6.50 per share or 85% of the average closing market price of the Common Stock on the five trading days preceding the date of conversion. The Convertible Preferred Stock cannot be converted if the converting holder and its respective affiliates would beneficially own more than 4.9% of the Company's Common Stock at the time of conversion. Any Convertible Preferred Stock outstanding on October 31, 1998 will automatically convert to Common Stock on that date. In the event of liquidation, the holders of the Convertible Preferred Stock receive their Stated Value before the holders of Common Stock receive any cash or assets on liquidation. If the Company consolidates, merges or reclassifies its outstanding Common Stock, the holders of the Convertible Preferred Stock are entitled to receive the greater of their share of any consideration on an as-converted basis, or $1,250 per share of the Convertible Preferred Stock. The Convertible Preferred Stock is nonvoting, except as required by law. The holders of the Convertible Preferred Stock are not entitled to dividends. The Company also has certain redemption rights.

The Company has filed a registration statement covering resale of shares of Common Stock issuable in connection with such conversions, and will make its best efforts to have the registration statement declared effective with respect to certain holders of the Convertible Preferred Stock no later than January 9, 1997, or with respect to other holders, no later than other subsequent dates. If the registration statement is not effective by such dates, or if sales cannot be made pursuant to the registration statement at any time after such dates, the conversion percentage shall be reduced 3% per month (prorated on a daily basis) and the fixed conversion price shall be reduced by $0.195 per month (prorated on a daily basis) for each month of delayed effectiveness or inability to sell.

In accordance with the preferred stock agreement, the proceeds were placed in an escrow account. Terms of the escrow agreement require that the funds be used only for specific purposes and require that only certain of the Company's officers may request withdrawals and must certify that usage is in accordance with the escrow agreement.

On October 8, 1996, the Company issued 24,500 shares of its 5% Cumulative Convertible Preferred Stock, Series 2, $.001 par value per share at a price of $1,000 per share to certain accredited investors. Net proceeds to the Company were approximately $23,275,000. The Convertible Preferred Stock is convertible into Common Stock at the option of the holders, any time after December 15, 1996.

The Series 2 Preferred Stock is convertible to Common Stock at a conversion price which is the lesser of $6.50 per share or 85% of the average market price of the Common Stock on the five trading days prior to conversion. The Convertible Preferred Stock cannot be converted if the converting holder and its respective affiliates would beneficially own more than 4.9% of the Company's Common Stock at the time of conversion. In the event of liquidation, the holders of the Convertible Preferred Stock receive their original purchase price plus any accrued but unpaid dividends, before the holders of Common Stock receive any cash or assets on liquidation. If the Company consolidates, merges or reclassifies its outstanding Common Stock, the holders of the Convertible Preferred Stock are entitled to receive their share of consideration on an as-converted basis. The Convertible Preferred Stock is nonvoting, except as required by law. Dividends accrue on the Series 2 Preferred stock at an annual rate of 5%. Such dividends are payable quarterly in cash or stock, at the Company's option. The Company also has certain redemption rights.

The Company has filed a registration statement covering shares of Common Stock issuable in connection with the conversion of, or payable as dividends upon, the Convertible Preferred Stock and will make its best efforts to have the registration statement declared effective with respect to certain holders of the 5% Cumulative Convertible Preferred Stock no later than January 9, 1997, or with respect to other holders, no later than other subsequent dates. If the registration statement is not effective by such dates, or if sales cannot be made pursuant to the registration statement at any time after such dates, the conversion percentage and the fixed conversion rate shall be reduced at the rate of three percentage points per month (prorated on a daily basis) of delayed effectiveness or inability to sell.

In accordance with the preferred stock agreement, the proceeds were placed in an escrow account. Terms of the escrow agreement require that the funds be used only for specific purposes and require that only certain of the Company's officers may request withdrawals and must certify that usage is in accordance with the escrow agreement.

On November 13, 1996, the Company issued 1,500,000 shares of common stock, par value $.001 per share, at a price of $5.6875 to a company (the "Purchaser"). Net proceeds to the Company were $8,531,300. At the same time, the Company also granted the Purchaser a warrant to purchase additional shares of common stock at the same price per share. The number of Warrant Shares available for purchase will not be less than 375,000 or more than 1,875,000. The Warrant will expire November 13, 2001.

ITEM 9. CHANGES IN AND DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is incorporated by reference to the Company's definitive Proxy Statement for its Annual Meeting of Stockholders to be held in 1997 ("Proxy Statement"), to be filed with the Commission within 120 days after the end of the Company's fiscal year pursuant to General Instruction G(3) to Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the Proxy Statement to be filed with the Commission within 120 days after the end of the Company's fiscal year pursuant to

General Instruction G(3) to Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference to the Proxy Statement to be filed with the Commission within 120 days after the end of the Company's fiscal year pursuant to General Instruction G(3) to Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference to the Proxy Statement to be filed with the Commission within 120 days after the end of the Company's fiscal year pursuant to General Instruction G(3) to Form 10-K.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents are filed as a part of this Report:

(1) Financial Statements. The following Consolidated Financial Statements of SyQuest Technology, Inc. and subsidiaries are included in Item 8 of this Annual Report on Form 10-K:

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(2) Financial Statement Schedule. The following consolidated financial statement schedule of the Company and subsidiaries are filed as part of this Report and should be read in conjunction with the Consolidated Financial Statements of SyQuest Technology, Inc. and subsidiaries.

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Schedules not listed above have been omitted because they are not applicable or are not required or the information required to be set forth therein is included in the Consolidated Financial Statements or Notes thereto.

(3)

EXHIBITS

Exhibit Number	Description of Document
3.1	Restated Certificate of Incorporation of the Company. Incorporated by reference to Exhibit 3.1 of the Company's Annual Report on Form 10-K for the fiscal period ended September 30, 1995.
3.2	Amendment to Restated Certificate of Incorporation of the Company. Incorporated by reference to Exhibit 3.2 of the Company's Form S-3 Registration Statement filed December 2, 1996 (File No. 333-17119), as amended and to be amended.
3.3	By-Laws of the Company. Incorporated by reference to the Company's Registration Statement on Form S-1 (File No. 33-43656) filed on November 9, 1991.
4.1	Specimen stock certificate, $.001 par value. Incorporated by reference to Amendment No. 2 to the Company's Registration Statement on Form S-1 (File No. 33-43656) filed on December 10, 1991.
4.2	Corrected Certificate of Designations, Preferences and Rights of 7% Cumulative Convertible Preferred Stock, Series 1. Incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K dated June 14, 1996.
4.3	Securities Purchase Agreement, dated as of May 31, 1996, by and among the Company and holders of 7% Cumulative Convertible Preferred Stock, Series 1. Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K dated June 14, 1996.
4.4	Registration Rights Agreement dated as of May 31, 1996, by and among the Company and holders of 7% Cumulative Convertible Preferred Stock, Series 1. Incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K dated June 14, 1996.
4.5	6% Convertible Subordinated Debenture dated July 15, 1996. Incorporated by reference to Exhibit 10.3 of the Company's Form S-3 Registration Statement No. 333-7369 ("Registration 333-7369").
4.6	Registration Agreement dated July 15, 1996, among the Company and WISRS (Malaysia) SDN.BMP. Incorporated by reference to Exhibit 10.4 of Registration 333-7369.
4.7	Certificate of Designations, Preferences and Rights of Convertible Preferred Stock, Series 1, as amended and agreed to be amended. Incorporated by Reference to Exhibit 3.1 to the Company's Current Report on Form 8-K/A dated October 31, 1996.
4.8	Certificate of Designations, Preferences and Rights of 5% Cumulative Preferred Stock, Series 2. Incorporated by Reference to Exhibit 3.2 to the Company's Current Report on Form 8-K/A dated October 31, 1996.
4.9	Securities Purchase Agreement dated as of October 8, 1996, among the Company and the buyers of the Convertible Preferred Stock, Series 1 including the following exhibits: Form of Warrant, Form of Registration Rights Agreement, Form of Escrow Agreement and certain Schedules to the representations. Incorporated by Reference to Exhibit 10.1 to the Company's Current Report on Form 8-K/A dated October 31, 1996.

4.10	Securities Purchase Agreement dated as of October 8, 1996, among the Company and certain buyers of the Series 2 Preferred Stock, including the following exhibits: Form of Escrow Agreement, Form of Warrant, Form of Registration Rights Agreement and certain Schedules to the representations. Incorporated by Reference to Exhibit 10.2 to the Company's Current Report on Form 8-K/A dated October 31, 1996.
4.11	Securities Purchase Agreement dated as of October 8, 1996, among the Company and certain buyers of the Series 2 Preferred Stock, including the following exhibits: Form of Escrow Agreement, Form of Warrant, Form of Registration Rights Agreement and certain Schedules to the representations. Incorporated by Reference to Exhibit 10.3 to the Company's Current Report on Form 8-K/A dated October 31, 1996.

4.12 Securities Purchase Agreement dated as of October 8, 1996, among the Company and certain buyers of the Series 2 Preferred Stock, including the following exhibits: Form of Escrow Agreement, Form of Warrant, Form of Registration Rights Agreement and certain Schedules to the representations. Incorporated by Reference to Exhibit 10.4 to the Company's Current Report on Form 8-K/A dated October 31, 1996.

4.13 Securities Purchase Agreement dated as of October 8, 1996, among the Company and certain buyers of the Series 2 Preferred Stock, including the following exhibits: Form of Escrow Agreement, Form of Warrant, Form of Registration Rights Agreement and certain Schedules to the representations. Incorporated by Reference to Exhibit 10.5 to the Company's Current Report on Form 8-K/A dated October 31, 1996.

4.14 Securities Purchase Agreement dated as of September 27, 1996, between the Company and Atmel Corporation, including the exhibit Form of Registration Rights Agreement. Incorporated by Reference to Exhibit 10.6 to the Company's Current Report on Form 8-K/A dated October 31, 1996.

4.15 Securities Purchase Agreement dated as of October 18, 1996, between the Company and Petronic International, Inc., including the exhibit Form of Registration Rights Agreement. Incorporated by Reference to Exhibit 10.7 to the Company's Current Report on Form 8-K/A dated October 31, 1996.

4.16 Securities Purchase Agreement dated as of October 24, 1996, between the Company and SAE Magnetics (HK) Ltd., including the exhibit Form of Registration Rights Agreement. Incorporated by Reference to Exhibit 10.8 to the Company's Current Report on Form 8-K/A dated October 31, 1996.

4.17 Securities Purchase Agreement dated as of October 25, 1996, between the Company and Freight Solutions International, including the exhibit Form of Registration Rights Agreement. Incorporated by Reference to Exhibit 10.9 to the Company's Current Report on Form 8-K/A dated October 31, 1996.

4.18 Subscription Agreement dated November 12, 1996, between SyQuest Technology, Inc. and Fletcher International Limited, including the Annex Warrant Certificate issued November 13, 1996.

10.1 Form of Indemnification Agreement between the Company and its directors*. Incorporated by reference to the Company's Registration Statement on Form S-1 (File No. 33-43656) filed on November 9, 1991.

10.2 Form of Indemnification Agreement between the Company and its executive officers*. Incorporated by reference to Amendment No. 2 to the Company's Registration Statement on Form S-1 (File No. 33-43656) filed on December 10, 1991.

10.3 Industrial Space Lease dated May 15, 1990, between SyQuest Technology and Renco Investment Company covering property located at 47100 Bayside Parkway in Fremont, California, with other documents related thereto. Incorporated by reference to the Company's Registration Statement on Form S-1 (File No. 33-43656) filed on November 9, 1991.

10.4 Industrial Space Lease dated July 30, 1991, between SyQuest Technology and Renco Investment Company covering property located at Building #47, Bayside Parkway in Fremont, California with other documents related thereto. Incorporated by reference to the Company's Registration Statement on Form S-1 (File No. 33-43656) filed with on November 9, 1991.

10.5 Tenancy of Flatted Factory Unit dated July 18, 1990, between SyQuest Technology (c) and Jurong Town Corporation covering property located at 30 Kallang Place, Singapore. Incorporated by reference to the Company's Registration Statement on Form S-1 (File No. 33-43656) filed on November 9, 1991.

10.6 Tenancy of Flatted Factory Unit dated June 26, 1991, between SyQuest Technology International and Jurong Town Corporation covering property located at 19 Kallang Avenue, Singapore.

Incorporated by reference to the Company's Registration Statement on Form S-1 (File No. 33-43656) filed on November 9, 1991.

10.7 Revolving Credit Agreement dated January 1, 1991, among SyQuest Technology, First Interstate Bank of California and Silicon Valley Bank, together with First Amendment related thereto. Incorporated by reference to the Company's Registration Statement on Form S-1 (File No. 33-43656) filed on November 9, 1991.

10.8 Product License Agreement dated April 1, 1990, between SyQuest Technology and PrairieTek Corporation. Incorporated by reference to the Company's Registration Statement on Form S-1 (File No. 33-43656) filed on November 9, 1991.

10.9 SyQuest Technology, Inc. 1991 Stock Option Plan, as amended*. Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995.

10.10 Form of Stock Option Grant for SyQuest Technology, Inc 1991 Stock Option Plan*. Incorporated by reference to the Company's Registration Statement on Form S-8 (File No. 33-46460) filed on March 18, 1992.

10.11 Policy Regarding Options and Cash Bonuses to be Awarded to Employees of Iota Memories Corporation*. Incorporated by reference to the Company's Registration Statement on Form S-1 (File No. 33-43656) filed on November 9, 1991.

10.12 1992 Non-Employee Director Stock Option Plan, as amended*. Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995.

10.13 1992 Employee Stock Purchase Plan, as amended. Incorporated by reference to the Company's Registration Statement on Form S-8 (File No. 33-48273) filed on June 9, 1992.

10.14 Credit Agreement dated January 17, 1992, among the Company and Silicon Valley Bank and First National Bank of Boston. Incorporated by reference to the Company's Registration Statement on Form S-1 (File No. 33-47361) filed on April 21, 1992.

10.15 Bonus Arrangements for Executive Officers*. Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal period ended September 30, 1995.

10.16 Amendment No. 2 to Credit Agreement made as of June 10, 1993, among the Company, Silicon Valley Bank and First National Bank of Boston. Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993.

10.17 Line of Credit Agreement dated February 28, 1995, with Silicon Valley Bank, and Amendment No. 1 thereto. Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995.

10.18 Line of Credit Agreement with Bank of America. Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995.

10.19 Amendment No. 2 to Silicon Valley Bank Credit Agreement and Limited Waiver dated November 21, 1995. Incorporated by reference to the Company's Current Report on Form 8-K dated November 21, 1995.

10.20 Amendment No. 3 to Silicon Valley Bank Credit Agreement and Limited Waiver dated December 27, 1995. Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal period ended September 30, 1995.

11.1 Computation of Earnings Per Share.

21.1 Subsidiaries of the Company. Incorporated by reference to the Company's Registration Statement on Form S-1 (File No. 33-43656) filed on November 9, 1991.

22.1 Published Report Regarding Special Stockholders Meeting on September 26, 1996. Incorporated by reference to the Company's

Current Report on Form 8-K/A dated October 31, 1996.

23.1 Consent of Ernst & Young LLP.

27 Financial Data Schedule.

* A management contract or compensatory plan or arrangement required to be filed as an Exhibit pursuant to Item 14(c) of this Report.

(b) Reports on Form 8-K:

A current report on Form 8-K, dated December 2, 1996, was filed by the Company reporting under Item 5 the Filing of a Registration Statement on Form S-3.

A current report on Form 8-K, dated November 25, 1996, was filed by the Company reporting under Item 5 the Company's discontinuation of plans to acquire a controlling interest in Nomai.

A current report on Form 8-K, dated November 11, 1996, was filed by the Company reporting under Item 5 the continuation of the Company's Nasdaq National Market listing and the execution of a Letter of Intent to acquire a controlling interest in Nomai, and under Item 9 the sale by the Company of equity securities pursuant to Regulation S.

A current report on Form 8-K, dated October 31, 1996, and an amendment thereto were filed by the Company reporting under Item 5 the results of the Company's Special Meeting of Stockholders held September 26, 1996, the Company's filing with Nasdaq of a pro forma balance sheet evidencing the Company's compliance with the listing requirements of the Nasdaq National Market, and the Company's exchange of debt for equity with certain vendors, sale of Convertible Preferred Stock, Series 1 and sale of 5% Cumulative Convertible Preferred Stock, Series 2 and related warrants.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

SYQUEST TECHNOLOGY, INC.

By: /s/Edwin L. Harper
____
Edwin L. Harper
President and Chief Executive Officer

Dated: December 27, 1996

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.
<TABLE>
<CAPTION>

Signature	Title	Date
/s/ Edwin L. Harper ---------------------- Edwin L. Harper	President, Chief Executive Officer and Director (Principal Executive Officer)	December 27, 1996
/s/ Henry C. Montgomery ---------------------- Henry C. Montgomery	Executive Vice President, Finance and Chief Financial Officer	December 27, 1996
/s/ Edward L. Marinaro ---------------------- Edward L. Marinaro	Director and Chairman of the Board	December 27, 1996
/s/ Joseph Baia	Director	December 27, 1996

Joseph Baia

/s/ David I. Caplan ---------------------- David I. Caplan	Director	December 27, 1996
/s/ Donald P. Landry ---------------------- Donald P. Landry	Controller	December 27, 1996

</TABLE>

SYQUEST TECHNOLOGY, INC.
SCHEDULE VIII -- VALUATION AND QUALIFYING ACCOUNTS

<TABLE>
<CAPTION>

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions	Balance at End of Period
		(In thousands)		
<S>	<C>	<C>	<C>	<C>
Year Ended September 30, 1996:				
Allowance for doubtful accounts	$2,835	$5,839	$(2,980)/(1)/	$5,694
Year Ended September 30, 1995:				
Allowance for doubtful accounts	$3,574	$2,008	$(2,747)/(1)/	$2,835
Year Ended September 30, 1994:				
Allowance for doubtful accounts	$2,003	$3,151	$(1,580)/(1)/	$3,574

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(1) Represents uncollectable accounts written off.

EXHIBIT 4.18

SUBSCRIPTION AGREEMENT

This Subscription Agreement (the "Agreement") dated November 12, 1996 is entered into by and between SyQuest Technology, Inc., a Delaware corporation (together with its successors, "SyQuest"), and Fletcher International Limited, a company organized under the laws of the Cayman Islands (together with its successors, "Fletcher").

Unless otherwise defined herein, capitalized terms used herein and not defined herein shall have the meanings given to them in Regulation S ("Regulation S") under the United States Securities Act of 1933, as amended (the "Securities Act").

The parties hereto agree as follows:

1. Purchase and Sale. In consideration of and upon the basis of the representations, warranties and agreements and subject to the terms and conditions set forth in this Agreement:

a. Common Stock. SyQuest agrees to issue and sell to Fletcher, and Fletcher agrees to purchase from SyQuest, on the Closing Date specified in Section 2 hereof, 1,500,000 newly issued shares of SyQuest common stock, par value $.001 per share (the "Common Stock"), at a purchase price equal to FIVE and 68.75/100 DOLLARS ($5.6875) per share (the "Purchase Price", the last sales price of the Common Stock as reported by Bloomberg L.P. ("Bloomberg") for the date hereof. The shares of Common Stock purchased pursuant to this Section 1.a are referred to herein as the "Initial Shares."

b. Warrant. In consideration of the purchase of the Initial Shares by Fletcher, SyQuest will issue to Fletcher on the Closing Date a warrant (the "Warrant") having the terms set forth in the Warrant Certificate attached hereto as Annex A to purchase shares of Common Stock (the "Warrant Certificate"). The shares of Common Stock issuable pursuant to the Warrant are referred to herein as the "Warrant Shares."

2. Closing. The delivery of the Initial Shares referred to in Section 1.a and the delivery of the Warrant referred to in Section 1.b (the "Closing") shall take place via facsimile at 2:00 p.m. (New York time) on

November 13, 1996, or at such other date and time as Fletcher and SyQuest may agree in writing (such date and time being referred to herein as the "Closing Date").

At the Closing, the following deliveries shall be made:

a. Initial Shares Certificate. SyQuest shall deliver the certificate representing the Initial Shares to Fletcher.

b. Warrant. SyQuest shall deliver the Warrant Certificate to Fletcher.

c. Closing Documents. The closing documents required by Sections 7 and 8 shall be delivered to Fletcher and SyQuest, respectively.

d. Purchase Price. Fletcher shall cause to be wire transferred to SyQuest, in accordance with instructions furnished by SyQuest at least one day prior to the Closing, an amount, in immediately available United States dollars, equal to the product of the Purchase Price multiplied by 1,500,000.

The foregoing deliveries shall be deemed to occur simultaneously as part of a single transaction, and no delivery shall be deemed to have been made until all such deliveries have been made.

3. Representations and Warranties of SyQuest. Except as set forth in the Schedule of Exceptions attached hereto, SyQuest hereby represents and warrants to Fletcher on the date hereof and on the Closing Date and on each Warrant Exercise Date (as defined in the Warrant Certificate) as follows:

a. SyQuest has been duly incorporated and is validly existing in good standing under the laws of Delaware, or, after the Closing Date if another entity has succeeded SyQuest in accordance with the terms hereof, under the laws of one of the United States.

b. The execution, delivery and performance of this Agreement and the Warrant Certificate by SyQuest have been duly authorized by all requisite corporate action and no further consent or authorization of SyQuest, its Board of Directors or its stockholders is required. This Agreement and the Warrant Certificate have been duly executed and delivered by SyQuest and, when duly authorized, executed and delivered by Fletcher, will be valid and binding agreements enforceable against SyQuest in accordance with their terms, subject to bankruptcy, insolvency, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights generally and to general principles of equity.

c. SyQuest has full corporate power and authority necessary to execute and deliver this Agreement and the Warrant Certificate and to perform its obligations hereunder and thereunder.

d. No consent, approval, authorization or order of any court, governmental agency or other body is required for execution and delivery by SyQuest of this Agreement and the Warrant Certificate or the performance by SyQuest of any of its obligations hereunder or thereunder, other than, with respect to any Warrant Exercise Date, any consent, approval, authorization or order which has been received on or prior to such date.

e. Neither the execution and delivery by SyQuest of this Agreement and the Warrant Certificate nor the performance by SyQuest of any of its obligations hereunder or thereunder:

(1) violates, conflicts with, results in a breach of, or constitutes a default (or an event which with the giving of notice or the lapse of time or both would be reasonably likely to constitute a default) under (A) the Certificate of Incorporation or by-laws of SyQuest or any of its subsidiaries or any Certificate of Designation relating to any securities of SyQuest or any of its subsidiaries, (B) any decree, judgment, order, law, treaty, rule, regulation or determination of which SyQuest is aware (after due inquiry) of any court, governmental agency or body, or arbitrator having jurisdiction over SyQuest or any of its subsidiaries or any of their respective properties or assets, (C) the terms of any bond, debenture, note or any other evidence of indebtedness, or any agreement, stock option or other similar plan, indenture, lease, mortgage, deed of trust or other instrument to which SyQuest or any of its subsidiaries is a party, by which SyQuest or any of its subsidiaries is bound, or to which any of the properties or assets of SyQuest or any of its subsidiaries is subject, (D) the terms of any "lock-up" or similar provision of any underwriting or similar agreement to which SyQuest or any of its subsidiaries is a party or (E) any rules of the National Association of Securities Dealers, Inc. applicable to SyQuest or the transactions contemplated hereby; or

(2) results in the creation or imposition of any lien, charge or encumbrance upon (A) any Initial Share, the Warrant or any Warrant Share or (B) any of the properties or assets of SyQuest or any of its subsidiaries.

f. SyQuest has validly reserved 1,875,000 shares for issuance pursuant to the Warrant. When issued to Fletcher against payment therefor in accordance with the terms of this Agreement and the Warrant Certificate, each Initial Share, the Warrant and each Warrant Share:

(1) will have been duly and validly authorized, duly and validly issued, fully paid and non-assessable;

(2) will be free and clear of any security interests, liens, claims or other encumbrances (other than those resulting solely from actions by Fletcher); and

(3) will not have been issued or sold in violation of any preemptive or other similar rights of the holders of any securities of SyQuest.

g. The Initial Shares have been, and upon notice of issuance the Warrant Shares will be, duly listed and admitted for trading on the NASDAQ National Market ("NASDAQ") or, following the Closing Date, listed and registered on a national securities exchange (as defined in the United States Securities Exchange Act of 1934, as amended (the "Exchange Act")). On the Closing Date, SyQuest shall continue to satisfy all quantitative maintenance criteria of the NASDAQ.

h. SyQuest is a Reporting Issuer within the meaning of Regulation S, *provided, however*, that the representations and warranties contained in this Section 3(h) shall not be required to be given in respect of any Warrant Exercise Date if the provisions of Section 3A are applicable and SyQuest is in full compliance therewith and Fletcher is permitted to resell the Common Stock thereunder.

i. On the Closing Date, there is no pending or, to the best knowledge of SyQuest, threatened action, suit, proceeding or investigation before any court, governmental agency or body, or arbitrator having

jurisdiction over SyQuest or any of its affiliates that would materially affect the execution by SyQuest of, or the performance by SyQuest of its obligations under, this Agreement or the Warrant Certificate, *provided, however*, that the representations and warranties contained in this Section 3(i) shall not apply to any action, threatened action, suit, proceeding or investigation initiated by Fletcher.

j. SyQuest has timely filed all filings with the United States Securities and Exchange Commission (the "SEC") under the Securities Act or under Section 13(a) or 15(d) of the Exchange Act (each, an "SEC Filing") required to be filed by SyQuest pursuant to such acts and no SEC Filing, or press release containing information material to the business of SyQuest as a whole, contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements, in the light of the circumstances under which they were made, not misleading.

k. Since the date of SyQuest's most recent SEC Filing, there has not been, and SyQuest is not aware of any development that might be reasonably likely to result in, any material adverse change in the condition, financial or otherwise, or in the business affairs or business prospects of SyQuest, whether or not arising in the ordinary course of business, except as disclosed in such SEC Filing, provided, however, that
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the representations and warranties contained in this Section 3(k) shall not be required to be given in respect of any Warrant Exercise Date; and

provided further that (i) the parties hereto acknowledge that Fletcher has
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neither requested of nor received from SyQuest any non-public information relating to SyQuest or the business affairs or business prospects of SyQuest and (ii) without limiting Fletcher's reliance on any of the representations, warranties, covenants and agreements of SyQuest contained herein, Fletcher assumes the risk that the knowledge of any of the non-public information described in proviso (i) of this Section 3(k) might have materially influenced Fletcher's decision to enter into and perform this Agreement. As of the Closing Date, SyQuest is not aware of any development that might result in SyQuest not satisfying all quantitative maintenance criteria of the NASDAQ.

l. The offer and sale of the Initial Shares, the Warrant and the Warrant Shares to Fletcher pursuant to this Agreement and the Warrant Certificate will, subject to compliance by Fletcher with the applicable representations and warranties contained in Section 4 hereof and with the

applicable covenants and agreements contained in Section 6 hereof, be made in accordance with the provisions and requirements of Regulation S and any applicable state law, provided, however, that the representations and
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warranties contained in this Section 3(l) shall not be required to be given in respect of any Warrant Exercise Date if the provisions of Section 3A are applicable and SyQuest is in full compliance therewith and Fletcher is permitted to resell the Common Stock thereunder.

m. Neither SyQuest nor any of its affiliates nor any person acting on its or their behalf has engaged or will engage in any Directed Selling Efforts with respect to the Initial Shares, the Warrant or the Warrant Shares, and all such persons understand and have complied and will otherwise comply with the requirements of Regulation S.

n. The transactions contemplated by this Agreement and the

Warrant are not part of a plan or scheme on the part of SyQuest, any of its subsidiaries or any person acting on its or their behalf to evade the registration provisions of the Securities Act.

o. Reserved.

p. Except for securities proposed to be sold for an aggregate purchase price of approximately $20 million to Beijing Legend Group Ltd. and its affiliates (the "BLC Transaction"), on the Closing Date, neither SyQuest nor any of its affiliates has offered to sell or sold any Common Stock or any securities convertible into or exchangeable or exercisable for Common Stock in reliance upon Regulation S at any time during the past 12 months and there are no outstanding convertible or exchangeable securities that have been offered or sold in reliance upon Regulation S, except, in each case the Initial Shares, the Warrant and the Warrant Shares sold pursuant hereto.

q. Capitalization. As of the date hereof, the authorized capital stock of SyQuest consists of 60,000,000 shares of Common Stock, and 4,000,000 shares of Preferred Stock, par value $.001 per share, of SyQuest ("Preferred Stock"). As of October 31, 1996, (i) 13,867,370 shares of Common Stock and 48,956 shares of Preferred Stock were issued and outstanding, (ii) 16,903,356 shares of Common Stock were reserved for issuance upon exercise of outstanding stock options, convertible Preferred Stock, warrants or other rights (based, with respect to 12,468,118 shares of Common Stock, on a conversion price of $5.7503 per share of Common Stock) and (iii) 1,225,000 shares of Common Stock were held in the treasury

of SyQuest. All the outstanding shares of Common Stock are, and all shares which may be issued pursuant to stock options, warrants or other convertible rights will be, when issued and paid for in accordance with the respective terms thereof, duly authorized, validly issued, fully paid and nonassessable and free of any preemptive rights in respect thereof. As of the date hereof, except as set forth above, and except for shares of Common Stock or other securities issued upon conversion, exchange, exercise or purchase associated with the securities, options, warrants, rights and other instruments referenced above from October 31, 1996 to the date hereof, (i) no shares of capital stock or other voting securities of SyQuest were outstanding, (ii) no equity equivalents, interests in the ownership or earnings of SyQuest or other similar rights were outstanding and (iii) there were no existing options, warrants, calls, subscriptions or other rights or agreements or commitments relating to the capital stock of SyQuest or any of its subsidiaries or obligating SyQuest or any of its subsidiaries to issue, transfer, sell or redeem any shares of capital stock, or other equity interest in, SyQuest or any of its subsidiaries or obligating SyQuest or any of its subsidiaries to grant, extend or enter into any such option, warrant, call, subscription or other right, agreement or commitment. In October 1996, SyQuest issued and sold 30,000 shares of its Preferred Stock substantially on the terms set forth in the Certificates of Designation and securities purchase agreements filed with SyQuest's Current Report on Form 8-K/A filed by SyQuest with the SEC on November 1, 1996, including the payment to an escrow account for the benefit of SyQuest of an aggregate of $30 million in cash.

3A. Registration Provisions.

a. If, at any time after the date hereof, there is any determination of application of, or change in, any law or regulation relating to the issuance and resale of the Initial Shares, the Warrant or the Warrant Shares, including any interpretation or revision by the SEC or action by the United States government relating to Regulation S or any successor or revision to Regulation S, and such determination, change, interpretation, successor provision or revision imposes a Restricted Period applicable to any security issued or issuable hereunder or under the Warrant that is greater than that in effect on the date of this Agreement, or would materially impair the ability of Fletcher or any of its affiliates to offer, sell or otherwise dispose of any such security pursuant to Regulation S as contemplated hereby, or requires any such offer, sale or other disposition to be registered under the Securities Act, then upon the written request of Fletcher (a "Registration Request"), SyQuest shall, as promptly as practicable thereafter and at its own expense, file a registration statement (the "Registration Statement") under the Securities Act covering the

sale or resale of all such securities (each a "Covered Security") and shall use its best efforts to cause such registration statement to be declared effective as promptly as possible; provided that Fletcher shall have provided such information and cooperation in connection therewith as SyQuest may reasonably request. Upon the ef-fectiveness of such Registration Statement (A) SyQuest shall issue such securities to Fletcher in accordance with the terms hereof and (B) the provisions of Sections 3(l), (m) and (o), 4(e), (f), (g), (h), (i) and (j), 5(a), (b), (c) and (d), 6 (collectively, the "Specified Provisions"), 7(a) and (b) (to the extent applicable to the Specified Provisions), 8(b), (c) and (d) (to the extent applicable to the Specified Provisions) shall thereafter be of no force and effect with respect to the issuance of such Covered Securities.

b. In the case of the registration effected by SyQuest pursuant to this Section 3A registration provisions, SyQuest will use its best efforts to: (i) keep such registration effective until the earlier of (A) the third anniversary of the issuance of each Covered Security, (B) such date as all of the Covered Securities shall have been sold by Fletcher or (C) such time as all of the Covered Securities held by Fletcher can be sold by Fletcher or any of its affiliates within a three-month period without compliance with the registration requirements of the Securities Act pursuant to Rule 144 under the Securities Act ("Rule 144"); (ii) prepare and file with the SEC such amendments and supplements to the Registration Statement and the prospectus used in connection with the Registration Statement (as so amended and supplemented from time to time, the "Prospectus") as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all Covered Securities by Fletcher or any of its affiliates; (iii) furnish such number of Prospectuses and other documents incident thereto, including any amendment of or supplement to the Prospectus, as Fletcher from time to time may reasonably request; (iv) cause all Covered Securities that are Common Stock to be listed on each securities exchange and quoted on each quotation service on which similar securities issued by SyQuest are then listed or quoted; (v) provide a transfer agent and registrar for all Covered Securities and a CUSIP number for all Covered Securities; (vi) otherwise use its best efforts to comply with all applicable rules and regulations of the SEC; and (vii) file the documents required of SyQuest and otherwise use its best efforts to obtain and maintain requisite blue sky clearance in (A) all jurisdictions in which any of the Covered Securities are originally sold and (B) all other states specified in writing by Fletcher, provided, however, that as to this clause (B), SyQuest shall not be required to qualify to do business or consent to service of process in any state in which it is not now so qualified or has not so consented.

c. SyQuest shall furnish to Fletcher upon request a reasonable number of copies of a supplement to or an amendment of such

Prospectus as may be necessary in order to facilitate the public sale or other disposition of all or any of the Covered Securities by Fletcher or any of its affiliates pursuant to the Registration Statement.

d. With a view to making available to Fletcher and its affiliates the benefits of Rule 144 and Form S-3 under the Securities Act, SyQuest covenants and agrees to: (i) make and keep available adequate current public information (within the meaning of Rule 144(c)) concerning SyQuest, until the earlier of (A) the third anniversary of the issuance of each Covered Security or (B) such date as all of the Covered Securities shall have been resold by Fletcher or any of its affiliates; (ii) maintain its status as a Reporting Issuer and file with the SEC in a timely manner all reports and other documents required of SyQuest for use of Form S-3; and (iii) furnish to Fletcher upon request, as long as Fletcher owns any Covered Securities, (A) a written statement by SyQuest that it has complied with the reporting requirements of the Securities Act and the Exchange Act, (B) a copy of the most recent annual or quarterly report of SyQuest, and (C) such other information as may be reasonably requested in order to avail Fletcher and its affiliates of Rule 144 or Form S-3 with respect to such Covered Securities.

e. Notwithstanding anything else in this Section 3A, if, at any time during which a Prospectus is required to be delivered in connection with the sale of any Covered Securities, SyQuest determines in good faith that a development has occurred or a condition exists as a result of which the Registration Statement or the Prospectus contains a material misstatement or omission, SyQuest will immediately notify Fletcher thereof by telephone and in writing. Upon receipt of such notification, Fletcher and its affiliates will immediately suspend all offers and sales of any Covered Securities pursuant to the Registration Statement. In such event, SyQuest will amend or supplement the Registration Statement as promptly as practicable and will take such other steps as may be required to permit sales of the Covered Securities thereunder by Fletcher and its affiliates in accordance with applicable federal and state securities laws. SyQuest will promptly notify Fletcher after it has determined in good faith that such sales have become permissible in such manner and will promptly deliver copies of the Registration Statement and the Prospectus (as so amended or supplemented) to Fletcher in accordance with paragraph (b) of this Section 3A. Notwithstanding the foregoing, (A) under no circumstances shall SyQuest be entitled to exercise its right to suspend sales of any Covered Securities pursuant to the Registration Statement more than two times in any twelve-month period, (B) the period during which such sales may be suspended (each a "Blackout Period") shall not exceed thirty days and (C) no Blackout Period may commence less than 30 days after the end of the preceding Blackout Period.

Upon the commencement of a Blackout Period pursuant to this Section 3A, Fletcher will immediately notify SyQuest of any contracts to sell any Covered Securities (each a "Sales Contract") that Fletcher or any of its affiliates has entered into prior to the commencement of such Blackout Period and that would require delivery of such Covered Securities during such Blackout Period, which notice will contain the aggregate sale price and volume of Covered Securities pursuant to such Sales Contract. Upon receipt of such notice, SyQuest will immediately notify Fletcher of its election either (i) to terminate the Blackout Period and, as promptly as practicable, amend or supplement the Registration Statement or the Prospectus in order to correct the material misstatement or omission and deliver to Fletcher copies of such amended or supplemented Registration Statement and Prospectus in accordance with paragraph (b) of this Section 3A or (ii) to continue the Blackout Period in accordance with this paragraph. If SyQuest elects to continue the Blackout Period, and Fletcher or any of its affiliates is therefore unable to consummate the sale of Covered Securities pursuant to the Sales Contract (such unsold Covered Securities being hereinafter referred to herein as the "Unsold Securities"), SyQuest will promptly indemnify each Fletcher Indemnified Party (as such term is defined in Section 11(a) below) against any Proceeding (as such term is defined in Section 11(a) below) that each Fletcher Indemnified Party may incur arising out of or in connection with

Fletcher's breach or alleged breach of any such Sales Contract, and SyQuest shall reimburse each Fletcher Indemnified Party for any reasonable costs or expenses (including reasonable legal fees) incurred by such party in investigating or defending any such Proceeding (collectively, the "Indemnification Amount"); provided, however, that each Fletcher Indemnified Party shall take all actions reasonably necessary or appropriate to mitigate such Indemnification Amount; and provided further, however, that the Indemnification Amount shall be reduced by an amount equal to the number of Unsold Securities multiplied by the difference between (x) the actual per share price received by Fletcher or any of its affiliates upon the sale of the Unsold Securities (if such sale occurs within three Trading Days of the end of the Blackout Period) or the closing sale price of the Common Stock on NASDAQ or other national securities exchange on which the Common Stock is then listed on the third Trading Day after the end of the Blackout Period (if the Unsold Securities are not sold by Fletcher or any of its affiliates within three Trading Days of the end of the Blackout Period), and (y) the per share sale price for the Unsold Securities provided in the Sales Contract. As used herein, the term "Trading Day" means any day on which SyQuest's Common Stock is quoted on NASDAQ or, if applicable, other national securities exchange.

4. Representations and Warranties of Fletcher. Fletcher hereby represents and warrants to SyQuest on the date hereof and on the Closing Date, and agrees with SyQuest, as follows:

a. Fletcher has been duly incorporated and is validly existing in good standing under the laws of the Cayman Islands.

b. The execution, delivery and performance of this Agreement by Fletcher have been duly authorized by all requisite corporate action and no further consent or authorization of Fletcher, its Board of Directors or its stockholders is required. This Agreement has been duly executed and delivered by Fletcher and, when duly authorized, executed and delivered by SyQuest, will be a valid and binding agreement enforceable against Fletcher in accordance with its terms, subject to bankruptcy, insolvency, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights generally and to general principles of equity.

c. Fletcher understands that no United States federal or state agency has passed on, reviewed or made any recommendation or endorsement of the Initial Shares, the Warrant or the Warrant Shares.

d. In making the decision to purchase the Initial Shares, the

Warrant and the Warrant Shares in accordance with this Agreement, Fletcher has relied solely upon independent investigations made by it and not upon any representations made by SyQuest other than those made in this Agreement.

e. Fletcher understands that the Initial Shares, the Warrant and the Warrant Shares have not been and , subject to Section 3A, will not be registered under the Securities Act and may not be reoffered or resold other than pursuant to such registration or an available exemption therefrom.

f. Fletcher is not a U.S. Person and is not acquiring the Initial Shares, the Warrant or any Warrant Shares for the account or benefit of any U.S. Person, and Fletcher is not an affiliate of SyQuest.

g. At the time the buy orders for the Initial Shares and the Warrant (and any Warrant Shares to be issued during the Restricted Period) were originated, Fletcher was located outside the United States.

h. Neither Fletcher nor any of its affiliates nor anyone acting on its or their behalf has engaged or will engage in any Directed Selling Efforts with respect to the Initial Shares, the Warrant or any Warrant Shares,

and all such persons understand and have complied and will otherwise comply with the requirements of Regulation S.

i. Fletcher:

(1) will not, during the Restricted Period applicable to the Initial Shares, the Warrant and the Warrant Shares, offer or sell any of the foregoing securities (or create or maintain any derivative position equivalent thereto) in the United States, to or for the account or benefit of a U.S. Person or other than in accordance with Regulation S; and

(2) will, after the expiration of the applicable Restricted Period, offer, sell, pledge or otherwise transfer the Initial Shares, the Warrant or any Warrant Shares (or create or maintain any derivative position equivalent thereto) only pursuant to registration under the Securities Act or an available exemption therefrom and, in any case, in accordance with applicable state securities laws; and

(3) will not, for a period of 90-days following the Closing Date, offer or sell the Initial Shares, the Warrant, the Warrant Shares or any other shares of Common Stock (or create or maintain any derivative position equivalent thereto, except for stock index derivatives or derivatives of a group of securities), provided,

however, that the parties hereto expressly agree that Fletcher may pledge the Initial Shares, the Warrant, the Warrant Shares or any other shares of Common Stock pursuant to a bona fide pledge securing a full recourse debt or other obligation and that, subject to compliance with the Securities Act and any other applicable securities law, such a pledgee will have the right to exercise all remedies under such pledge, including a right to foreclose upon the Initial Shares, the Warrant, the Warrant Shares or any other shares of Common Stock, as the case may be.

j. Fletcher is purchasing the Initial Shares, the Warrant and the Warrant Shares for its own account, for the purpose of investment and not with a view to a distribution thereof.

k. The transactions contemplated by this Agreement and the Warrant Certificate are not part of a plan or scheme on the part of Fletcher, any of its affiliates or any person acting on its or their behalf to evade the registration requirements of the Securities Act.

5. Covenants of SyQuest. SyQuest covenants and agrees with Fletcher as follows:

a. For so long as any portion of the Warrant remains outstanding, and in any case for a period of 40 days thereafter, SyQuest will continue to be a Reporting Issuer within the meaning of Regulation S and will maintain the eligibility of the Common Stock for quotation on NASDAQ or listing on a national securities exchange (as defined in the Exchange Act).

b. Except with the written consent of Fletcher, for a period of six months following the date of this Agreement, SyQuest will not offer or sell any Common Stock or any securities convertible into or exchangeable into Common Stock in reliance upon Regulation S, other than the BLC Transaction, and in any event will not take any action which would extend the Restricted Period hereunder.

c. For so long as any portion of the Warrant remains outstanding, and in any case for a period of 40 days thereafter, neither SyQuest nor any of its affiliates nor any person acting on its or their behalf will engage in any Directed Selling Efforts with respect to the Warrant or any Warrant Shares.

d. For so long as any portion of the Warrant remains outstanding, and in any case for a period of 40 days thereafter, SyQuest will ensure that all applicable Offering Restrictions with respect to the Warrant and the Warrant Shares are thoroughly complied with and satisfied.

e. Beginning on the date hereof and for so long as any portion of the Warrant remains outstanding, and in any case for a period of 40 days thereafter, SyQuest will promptly notify Fletcher if there is any public disclosure by SyQuest of material information regarding SyQuest or its financial condition, prospects or results of operation and provide Fletcher with copies of all SEC Filings.

f. Reserved.

g. SyQuest will comply with the terms and conditions of the Warrant as set forth in the Warrant Certificate (as duly amended from time to time by the parties hereto).

h. For so long as any portion of the Warrant remains outstanding, SyQuest shall at all times reserve and keep available, free from preemptive rights, out of its authorized but unissued Common Stock, for

issuance upon exercise of such Warrant, the maximum number of Warrant Shares then so issuable.

6. Covenants of Fletcher. Fletcher hereby covenants and agrees with SyQuest as follows:

a. During any Restricted Period applicable to the Initial Shares, the Warrant or the Warrant Shares, neither Fletcher nor any of its affiliates nor any person acting on its or their behalf will:

(1) offer or sell such initial Shares, Warrant or Warrant Shares other than in an Offshore Transaction;

(2) engage in any Directed Selling Efforts with respect to such Initial Shares, Warrant or Warrant Shares;

(3) offer or sell such Initial Shares, Warrant or Warrant Shares other than: (A) in accordance with Rule 903 or Rule 904 of Regulation S; (B) pursuant to registration under the Securities Act or (C) pursuant to an available exemption therefrom; or

(4) offer or sell such Initial Shares, Warrant or Warrant Shares, to any U.S. Person or for the account or benefit of any U.S. Person.

b. Neither Fletcher nor any of its affiliates nor any person acting on its or their behalf will at any time offer or sell any Initial Shares, the Warrant or any Warrant Shares other than pursuant to registration under the Securities Act or pursuant to an available exemption therefrom.

6A. Legend. The term "Restricted Period," with respect to any security, shall mean the Restricted Period then applicable to such security pursuant to Regulation S (or any applicable successor thereto), provided that, the parties agree that, absent an intervening change in the applicable law, the Restricted Period with respect to the Initial Shares, the Warrant and the Warrant Shares will expire on the 40th day after the Closing Date. SyQuest shall place the following legend on the certificate representing the Initial Shares:

> The securities represented by this certificate were issued on November 13 , 1996 (the "Closing Date") pursuant to the Subscription Agreement dated November 12, 1996 between SyQuest Technology, Inc. ("SyQuest") and Fletcher International Limited. The

> securities represented by this certificate have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), and have been sold in reliance on the exemption from registration provided by Regulation S under the Securities Act ("Regulation S"). Prior to the expiration of a 40-day restricted period beginning on the Closing Date (the "Restricted Period"), the securities represented by this certificate may not be offered or sold, directly or indirectly, within the United States (as defined in Regulation S under the Securities Act), to a U.S. Person (as defined in Regulation S under the Securities Act) or for the account or benefit of a U.S. Person. After the Restricted Period, such securities may be resold in the United States or to a U.S. Person only if they are registered under the Securities Act or an exemption from registration is available.

At any time after the expiration of the Restricted Period in connection with the sale or pledge of any of the Initial Shares, upon the written request of Fletcher accompanied by either (i) a certification of an appropriate officer of Fletcher that in the case of a sale, the proposed purchaser is not a U.S. Person or, in the case of a pledge, such Initial Shares are being pledged pursuant to a bona fide pledge securing a full recourse debt or other obligation, or, (ii) at SyQuest's option, an opinion of counsel reasonably satisfactory to SyQuest to the effect that it is not necessary in connection with the reoffer and resale, or pledge, as the case may be, of such Initial Shares to register such Initial Shares under the Securities Act, SyQuest shall, or shall cause its transfer agent (if any) to, (i) accept from Fletcher the legended certificates representing such Initial Shares and deliver in their place unlegended certificates therefor, unless such legend is required by law and (ii) release, and not subsequently issue, any stop transfer order or other order impeding such sale and delivery of such Initial Shares. At any time after the expiration of the Restricted Period with respect to the Warrant, certificates for any Warrant Shares issued or in respect of transferred shares of Common Stock will not be legended unless required by law, upon satisfaction of the conditions set forth in Section 8 and, if applicable, in the Warrant Certificate.

7. Conditions Precedent to Fletcher's Obligations. The obligations of Fletcher hereunder are subject to the performance by SyQuest of its obligations hereunder and to the satisfaction of the following additional conditions precedent, unless expressly waived in writing by Fletcher:

a. On the Closing Date and on each Warrant Exercise Date (as defined in the Warrant Certificate), (i) the representations and warranties

made by SyQuest in this Agreement shall be true and correct, and (ii) SyQuest shall have complied fully with all the covenants and agreements in this Agreement and the Warrant Certificate; and Fletcher shall have received on each such date a certificate of the Chief Executive Officer and the Chief Financial Officer of SyQuest dated such date and to such effect.

b. On the Closing Date and on each Warrant Exercise Date (as defined in the Warrant Certificate), SyQuest shall have delivered to Fletcher an opinion of counsel reasonably satisfactory to Fletcher, dated the date of delivery, confirming in substance the matters covered in paragraphs (a), (b), (c), (d), (e), (f), (g), (h) and (i) of Section 3 hereof; provided, however, that no such opinion delivered in respect of any Warrant Exercise Date shall be required to cover the matters set forth in paragraph (i) of Section 3 hereof.

c. On the Closing Date, SyQuest shall have delivered to Fletcher the opinion of counsel reasonably satisfactory to Fletcher, dated the Closing Date, to the effect that the offer and sale of the Initial Shares and the Warrant hereunder do not require registration under the Securities Act.

8. Conditions Precedent to SyQuest's Obligations. The obligations of SyQuest hereunder are subject to the performance by Fletcher of its obligations hereunder and to the satisfaction of the following additional conditions precedent, unless expressly waived in writing by SyQuest:

a. On the Closing Date and on each Warrant Exercise Date (as defined in the Warrant Certificate), (i) the representations and warranties made by Fletcher in this Agreement shall be true and correct, and (ii)

Fletcher shall have complied fully with all the covenants and agreements in this Agreement and the Warrant Certificate; and SyQuest shall have received on each such date a certificate of an appropriate officer of Fletcher dated such date and to such effect.

b. On the Closing Date, Fletcher shall have delivered to SyQuest a written certification of an appropriate officer of Fletcher dated such date stating that Fletcher is not a U.S. Person.

c. On each Warrant Exercise Date, Fletcher shall have delivered to SyQuest a written certification of an appropriate officer of Fletcher dated such date stating that Fletcher is not a U.S. Person.

d. On the date of any transfer by Fletcher of the Warrant or any Common Stock during the applicable Restricted Period, Fletcher shall

have delivered to SyQuest a written certification of an appropriate officer of Fletcher dated such date stating that Fletcher is not a U.S. Person and that the Warrant is not being exercised on behalf of a U.S. Person.

e. On the Closing Date, Fletcher shall have delivered to SyQuest the opinion of counsel substantially in the form attached hereto, dated the Closing Date, to the effect that the offer and sale of the Initial Shares and the Warrant hereunder do not require registration under the Securities Act.

9. Fees and Expenses. Each of Fletcher and SyQuest agrees to pay its own expenses incident to the performance of its obligations hereunder, including, but not limited to the fees, expenses and disbursements of such party's counsel, except as is otherwise expressly provided in this Agreement and the Warrant Certificate.

10. Non-Performance.

If, on any Warrant Exercise Date, SyQuest shall fail to deliver the Warrant Shares required to be delivered pursuant to this Agreement and the Warrant Certificate for any reason other than the failure of any condition precedent to SyQuest's obligations hereunder or the failure by Fletcher to comply with its obligations hereunder, then SyQuest shall:

(1) hold Fletcher harmless against any loss, claim or damage arising from or as a result of such failure by SyQuest; and

(2) reimburse Fletcher for all of its reasonable out-of-pocket expenses, including fees and disbursements of its counsel, incurred by Fletcher in connection with this Agreement and the Warrant and the

transactions contemplated herein and therein;

provided, however, that SyQuest shall then be under no further liability to Fletcher except as provided in this Section 10 and Section 11 hereof.

11. Indemnification.

a. Indemnification of Fletcher. SyQuest hereby agrees to indemnify Fletcher and each of its officers, directors, employees, agents and affiliates and each person that controls (within the meaning of Section 20 of the Securities Exchange Act of 1934, as amended) any of the foregoing persons (each a "Fletcher Indemnified Party") against any claim, demand, action, liability, damages, loss, cost or expense (including, without limitation, reasonable legal fees) (a "Proceeding"), that it may incur in connection with any of the transactions contemplated hereby arising out of or based upon:

(1) any untrue or alleged untrue statement of a material fact by SyQuest or any of its affiliates or any person acting on its or their behalf or omission or alleged omission to state any material fact necessary in order to make the statements, in the light of the circumstances under which they were made, not misleading by SyQuest or any of its affiliates or any person acting on its or their behalf ;

(2) any of the representations or warranties made by SyQuest herein being untrue or incorrect; and

(3) any breach or non-performance by SyQuest of any of its covenants, agreements or obligations under this Agreement and the Warrant Certificate;

and SyQuest hereby agrees to reimburse each Fletcher Indemnified Party for any reasonable legal or other expenses incurred by such Fletcher Indemnified Party in investigating or defending any such Proceeding;

provided, however, that the foregoing indemnity shall not apply to any Proceeding to the extent that it arises out of or is based upon the gross negligence or wilful misconduct of Fletcher in connection therewith.

b. Indemnification of SyQuest. Fletcher hereby agrees to indemnify SyQuest and each of its officers, directors, employees, agents and affiliates and each person that controls (within the meaning of Section 20 of the Securities Exchange Act of 1934, as amended) any of the foregoing persons (each a "SyQuest Indemnified Party") against any Proceeding, that it may incur in connection with any of the transactions contemplated hereby arising out of or based upon:

(1) any untrue or alleged untrue statement of a material fact by Fletcher or any of its affiliates or any person acting on its or their behalf or omission or alleged omission to state any material fact necessary in order to make the statements, in the light of the circumstances under which they were made, not misleading by Fletcher or any of its affiliates or any person acting on its or their behalf:

(2) any of the representations or warranties made by Fletcher herein being untrue or incorrect; and

(3) any breach or non-performance by Fletcher of any of its covenants, agreements or obligations under this Agreement and the Warrant Certificate;

and Fletcher hereby agrees to reimburse each SyQuest Indemnified Party for any reasonable legal or other expenses incurred by such SyQuest Indemnified Party in investigating or defending any such Proceeding;

provided, however, that the foregoing indemnity shall not apply to any Proceeding to the extent that it arises out of or is based upon the gross negligence or wilful misconduct of SyQuest in connection therewith.

c. Conduct of Claims.

(1) Whenever a claim for indemnification shall arise under this Section, the party seeking indemnification (the "Indemnified Party"), shall notify the party from whom such indemnification is sought (the "Indemnifying Party") in writing of the Proceeding and the facts constituting the basis for such claim in reasonable detail;

(2) Upon delivery of such notice, such Indemnified Party shall have a duty to take all reasonable steps to mitigate any losses, liabilities, costs, charges and expenses relating to any such Proceeding;

(3) Such Indemnifying Party shall have the right to retain the counsel of its choice in connection with such Proceeding and to participate at its own expense in the defense of any such Proceeding;

provided, however, that counsel to the Indemnifying Party shall not (except with the consent of the relevant Indemnified Party) also be counsel to such Indemnified Party. In no event shall the Indemnifying Party be liable for fees and expenses of more than one counsel (in addition to any local counsel) separate from its own counsel for all Indemnified Parties in connection with any one action or separate but similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances; and

(4) No Indemnifying Party shall, without the prior written consent of the Indemnified Parties (which consent shall not be unreasonably withheld), settle or compromise or consent to the entry of any judgment with respect to any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever in respect of which indemnification could be sought under this Section unless such settlement, compromise or consent (A) includes an unconditional release of each Indemnified Party from all liability arising out of such litigation, investigation, proceeding or claim and (B) does not include a statement

as to or an admission of fault, culpability or a failure to act by or on behalf of any Indemnified Party.

12. Survival of the Representations, Warranties, etc. The respective representations, warranties, and agreements made herein by or on behalf of the parties hereto shall remain in full force and effect, regardless of any investigation made by or on behalf of the other party to this Agreement or any officer, director or employee of, or person controlling or under common control with, such party and will survive delivery of and payment for the Initial Shares, the Warrant and any Warrant Shares.

13. Notices. all communications hereunder shall be in writing, and

a. if sent to Fletcher, shall be delivered by hand, sent by registered mail or transmitted and confirmed by facsimile to Fletcher at:

Fletcher International Limited
c/o Midland Bank Trust Corporation (Cayman) Limited
P.O. Box 1109, Mary Street
Grand Cayman, Cayman Islands
British West Indies
Telephone: (809) 949-7755
Facsimile: (809) 949-7634

with a copy to:

Skadden, Arps, Slate, Meagher & Flom LLP

1440 New York Avenue, N.W.
Washington, D.C. 20005
Attention: Stephen W. Hamilton
Telephone: (202) 371-7010
Facsimile: (212) 393-5760

b. registered mail or transmitted and confirmed by facsimile to SyQuest at: if sent to SyQuest, shall be delivered by hand, sent by

SyQuest Technology, Inc.
47071 Bayside Parkway
Fremont, CA 94538
Attention: Chief Financial Officer
Telephone: (510) 226-4000
Facsimile: (510) 226-4114

with a copy to:

Shartsis, Friese & Ginsburg LLP
One Maritime Plaza, 18th Floor
San Francisco, CA 94111
Attention: Douglas L. Hammer
Telephone: (415) 421-6500
Facsimile: (415) 421-2922

14. Miscellaneous

a. This Agreement may be executed in one or more counterparts and it is not necessary that signatures of all parties appear on the same counterpart, but such counterparts together shall constitute but one and the same agreement.

b. This Agreement and the Warrant shall inure to the benefit of and be binding upon the parties hereto, their respective successors and assigns and, with respect to Section 11 hereof, their respective officers, directors, employees, agents, affiliates and controlling persons, and no other person shall have any right or obligation hereunder. SyQuest may not assign this Agreement or the Warrant Certificate.

c. This Agreement and the Warrant Certificate shall be governed by, and construed in accordance with, the internal laws of the State of New York, and each of the parties hereto hereby submits to the non-exclusive jurisdiction of any State or Federal court in the Borough of Manhattan in the City and State of New York and any court hearing any appeal therefrom, over any suit, action or proceeding against it arising out of or based upon this Agreement and the Warrant (a "Related Proceeding"). Each of the parties hereto hereby waives any objection to any Related Proceeding in such courts whether on the grounds of venue, residence or domicile or on the ground that the Related Proceeding has been brought in an inconvenient forum.

d. The provisions of this Agreement and the Warrant Certificate are severable, and if any clause or provision hereof shall be held invalid, illegal or unenforceable in whole or in part, such invalidity or unenforceability shall not in any manner affect any other clause or provision of this Agreement or the Warrant Certificate.

e. The headings of the sections of this document have been inserted for convenience of reference only and shall not be deemed to be a part of this Agreement.

f. This Agreement, including the Warrant Certificate, constitutes the entire agreement, and supersedes all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter of this Agreement and the Warrant Certificate and is not intended to confer upon any person other than the parties any rights or remedies hereunder.

g. The term "affiliate" is used herein as defined in Rule 144(a)(1) under the Securities Act.

15. Time of Essence. Time shall be of the essence in this Agreement and the Warrant.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Agreement, all as of the day and year first above written.

SYQUEST TECHNOLOGY, INC.

By: /s/ EDWARD L. MARINARO

Name: Edward L. Marinaro
Title: Chairman of the Board

FLETCHER INTERNATIONAL LIMITED

By: /s/ TODD J. FLETCHER

Name: Todd J. Fletcher
Title: Vice Chairman

SCHEDULE OF EXCEPTIONS

ANNEX A

(Form of Warrant Certificate)

The Warrant represented by this certificate was issued on November 13, 1996 (the "Closing Date) pursuant to the Subscription Agreement dated November 12, 1996 between SyQuest Technology, Inc. and Fletcher International Limited. Neither the Warrant represented by this certificate nor the securities issuable upon exercise hereof have been registered under the Securities Act of 1933, as amended (the "Act"). The Warrant represented by this certificate may not be exercised by or on behalf of any U.S. Person (as defined in Regulation S under the Act ("Regulation S")) unless the securities issuable upon exercise hereof are registered under the Act or an exemption from such registration is available. The Warrant represented hereby has been issued and sold in reliance on the exemption from registration provided by Regulation S.

Warrant No. __________

Warrant Certificate

SYQUEST TECHNOLOGY, INC.

This Warrant Certificate certifies that FLETCHER INTERNATIONAL LIMITED ("Fletcher"), or its registered assigns, is the registered holder of one Warrant (the "Warrant") expiring on November 13, 2001 (the "Termination Date") to purchase shares of common stock, par value $.001 per share (the "Common Stock"), of SYQUEST TECHNOLOGY, INC., a Delaware corporation (the "Issuer"). The Warrant entitles the holder to purchase from the Issuer up to the Maximum Amount (as defined below) of Warrant Shares (as defined below) at a per share Exercise Price (as defined below). A "Warrant Share" initially represents one fully paid and nonassessable share of Common Stock, based upon an Exchange Rate

(as defined below) of one-for-one, subject to adjustment pursuant to Section 10 hereof.

The Warrant represented hereby was issued on November 13, 1996 (the "Closing Date") pursuant to the Subscription Agreement dated November 12, 1996 (the "Subscription Agreement"), between the Issuer and Fletcher, and is subject to the terms and conditions thereof. Unless otherwise defined herein, capitalized terms used herein shall have the meanings set forth in the Subscription Agreement. A copy of the Subscription Agreement may be obtained by the registered holder hereof upon written request to the Issuer.

The initial number of Warrant Shares will equal:

$$1{,}500{,}000 \times \left[\frac{8}{X\ 1.15} \qquad 1.35 \right]$$

where X represents the average of the daily volume-weighted average prices of the Common Stock as reported by Bloomberg, L.P. ("Bloomberg") for the eight-month period beginning on the Closing Date and ending on July 12, 1997 (the "Initial Period"); provided that the number of Warrant Shares will not be greater than 1,875,000 or be less than 375,000; provided further that if, on the last date of the Initial Period, Fletcher owns at least 750,000 shares of Common Stock, then the number of Warrant Shares shall be 1,875,000. If a third party merges or consolidates with, or acquires all or substantially all the assets of, the Issuer during the Initial Period, the number of Warrant Shares shall equal 1,875,000. The number of Warrant Shares issuable hereunder as determined in this paragraph is referred to herein as the "Maximum Amount". If the Exchange Rate of each Warrant Share is adjusted as provided in Section 10, the total number of shares of Common Stock issuable hereunder may be greater or fewer than the Maximum Amount.

The exercise price per Warrant Share shall be $5.6875, the last sales price of the Common Stock as reported by Bloomberg on November 12, 1996 (plus transfer taxes, if applicable, the "Exercise Price"). The Exercise Price multiplied by the Exercise Amount (as defined below) at any Exercise Date (as defined below) is referred to as a "Warrant Purchase Price".

The Warrant represented hereby shall have the following additional terms:

1. The Warrant is not exercisable until 65 days (the "Notice Period") after the holder delivers a notice (a "65 Day Notice") to the Issuer designating an aggregate number of Warrant Shares (the "Exercisable Number"). A 65 Day Notice may be given at any time after the Closing Date, provided that the Exercisable Number may not exceed 375,000 during the Initial Period, except, if, during the Initial Period, a third party merges or consolidates with, or acquires all or substantially all the assets of, the Issuer, in which case the Exercisable Number shall equal 1,875,000. If the initial 65 Day Notice does not designate all of the Warrant Shares, the Warrant will become exercisable for some or all of the remaining Warrant Shares upon delivery of one or more 65 Day Notices increasing the Exercisable Number after a further Notice Period. From time to time following the Notice Period, the Warrant represented hereby may be exercised on any Business Day prior to the Termination Date (an "Exercise Date") for any quantity of Warrant Shares, such that the aggregate number of Warrant Shares issued hereunder is less than or equal to the Exercisable Number. To exercise the Warrant, the registered holder must, prior to the Termination Date, surrender this Warrant Certificate to the Issuer at its principal office

with the Exercise Notice attached hereto (an "Exercise Notice") duly completed and signed by the registered holder hereof and stating the total number of Warrant Shares in respect of which the Warrant is then exercised (the "Exercise Amount") and tender the applicable Warrant Purchase Price. In order to exercise the Warrant, the registered holder hereof is required to give written certification that it is not a U.S. Person (as defined in Regulation S) and the Warrant is not being exercised on behalf of a U.S. Person or, at the Issuer's option, deliver an opinion of counsel to the effect that the Warrant and the Warrant Shares have been registered under the Act or are exempt from registration thereunder. The Warrant shall be exercisable only in the minimum amount of 10,000 Warrant Shares and integral multiples of 10,000 Warrant Shares in excess thereof (or such lesser amount as shall constitute the full amount remaining of this Warrant). As used herein the term "Business Day" means any day on which banks in the City of New York and the State of California are open for business.

2. On the Business Day following an Exercise Date (an "Issue Date"), the Issuer shall issue and cause to be delivered to the registered holder hereof at such address as such holder shall specify in the Exercise Notice a certificate or certificates for the number of full Warrant Shares issuable upon the exercise of such Warrant, registered in such holder's name, together with cash (if any)

as provided in paragraph 4. Such certificate or certificates shall be deemed to have been issued and any person so designated to be named therein shall be deemed to have become a holder of record of such Warrant Shares as of such Exercise Date.

3. If on such Issue Date the number of Warrant Shares to be delivered shall be less than the total number of Warrant Shares deliverable hereunder, there shall be issued to the holder hereof or his assignee on such Issue Date a new warrant certificate substantially identical to this Warrant Certificate, except that such new warrant certificate shall evidence the right to purchase the number of Warrant Shares equal to (x) the total number of Warrant Shares deliverable hereunder less (y) the number of Warrant Shares so delivered.

4. The Issuer shall not be required to issue fractional Warrant Shares on the exercise of the Warrant represented hereby. The number of full Warrant Shares which shall be issuable upon the exercise of the Warrant shall be computed on the basis of the aggregate number of Warrant Shares purchasable on exercise of the Warrant so presented. If any fraction of a Warrant Share would, except for the provisions of this paragraph 4, be issuable on the exercise of the Warrant, the Issuer shall pay an amount in cash equal to the last per share sale price of the Common Stock on the day immediately preceding the date the Warrant is presented for exercise, multiplied by such fraction (subject to adjustment pursuant to Section 10).

5. For so long as the Warrant represented hereby has not been exercised in full, the Issuer shall at all times prior to the Termination Date reserve and keep available, free from pre-emptive rights, out of its authorized but unissued Common Stock, for issuance upon exercise of the Warrant represented hereby, the number of shares of Common Stock and any other Capital Stock (as defined below) then so issuable. In furtherance of the foregoing, subject to adjustment pursuant to Section 10, the Issuer shall reserve for issuance hereunder, not less than 1,875,000 shares of Common Stock during the Initial Period, and not less than the Maximum Amount thereafter. In the event the number of shares of Common Stock or other securities issuable in respect of the Warrant Shares exceeds the authorized number of shares of Common Stock or other securities, the Issuer shall promptly take all actions necessary to increase the authorized number, including causing its Board of Directors to call a special meeting of stockholders and recommend such increase.

6. By accepting delivery of this Warrant Certificate, the registered holder hereof covenants and agrees with the Issuer not to exercise or transfer the Warrant or any Warrant Shares except in compliance with the terms of the Subscription Agreement and this Warrant Certificate.

7. By accepting delivery of this Warrant Certificate, the registered holder hereof covenants and agrees with the Issuer that the Warrant may not be sold, assigned, conveyed, encumbered, pledged, hypothecated or in any other manner disposed of or transferred, in whole or in part, unless and until such holder shall deliver to the Issuer (i) written notice thereof and of the name and address of the transferee, (ii) a written agreement, in form and substance reasonably satisfactory to the Issuer, of the transferee to comply with the applicable terms of the Subscription Agreement and this Warrant Certificate and (iii) a written certification of appropriate officers of the transferee that such transferee is not a U.S. Person (as defined in Regulation S) or any person holding on behalf of any U.S. Person or, at the Issuer's option, an opinion of counsel to the effect that such transfer of the Warrant is exempt from registration under the Act. If a portion of the Warrant is transferred, all rights of the registered holder hereunder may be exercised by the transferee (subject to the requirement that such transferee shall (i) be neither a U.S. Person nor exercising on behalf of a U.S. Person or (ii) otherwise provide an opinion of counsel to the effect that the Warrant and the Warrant Shares have been registered under the Act or are exempt from registration thereunder) in respect of the number of Warrant Shares transferred with the portion of the Warrant, provided that any registered holder of the Warrant may deliver a 65 Day Notice, an Exercise Notice or elect the form of consideration pursuant to Section 10 only with respect to the Warrant Shares subject to such holder's portion of the Warrant, and, for purposes of paragraph 10(d), the calculation of the Black-Scholes Warrant Value shall be made by the registered holder(s) of a majority in interest of the Warrant.

8. The Issuer will pay all documentary stamp taxes (if any) attributable to the issuance of Warrant Shares upon the exercise of the Warrant by the registered holder hereof; provided, however, that the Issuer shall not be
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required to pay any tax or taxes which may be payable in respect of any transfer involved in the registration of the Warrant Certificate or any certificates for Warrant Shares in a name other than that of the registered holder of the Warrant Certificate surrendered upon the exercise of a Warrant, and the Issuer shall not be required to issue or deliver the Warrant Certificate or certificates for

Warrant Shares unless or until the person or persons requesting the issuance thereof shall have paid to the Issuer the amount of such tax or shall have established to the satisfaction of the Issuer that such tax has been paid.

9. In case this Warrant Certificate shall be mutilated, lost, stolen or destroyed, the Issuer may in its discretion issue in exchange and substitution for and upon cancellation of the mutilated Warrant Certificate, or in lieu of and substitution for the lost, stolen or destroyed Warrant Certificate, a new Warrant Certificate of like tenor, but only upon receipt of evidence reasonably satisfactory to the Issuer of such loss, theft or destruction of such Warrant Certificate and indemnity, if requested, reasonably satisfactory to the Issuer. Applicants for a substitute Warrant Certificate shall also comply with such other reasonable regulations and pay such other reasonable charges as the Issuer may prescribe.

10. The number of shares of Common Stock (and other Capital Stock or property) (as adjusted from time to time, the "Exchange Rate") issuable in respect of each Warrant Share upon the exercise of the Warrant and the terms and conditions of the Warrant are subject to adjustment by the Issuer, in consultation with the holder hereof, from time to time as follows:

(a) If the Issuer:

1. subdivides its outstanding shares of Common Stock into a greater number of shares;

2. combines its outstanding shares of Common Stock into a smaller number of shares; or

3. issues by reclassification of its Common Stock any shares of its Capital Stock;

then the Exchange Rate in effect immediately prior to such action shall be adjusted so that the registered holder hereof shall thereafter be entitled to receive upon exercise of the Warrant in respect of each Warrant Share the number of shares of Common Stock or other Capital Stock of the Issuer that such holder would have received immediately following such action if such holder had so exercised the Warrant immediately prior to such action.

As used herein, the term "Capital Stock" means, with respect to any corporation, any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests (however designated) in stock issued by that corporation.

Such adjustment shall become effective simultaneously with the effective date of any subdivision, combination or reclassification.

If, after an adjustment, the registered holder hereof would receive upon exercise shares of two or more classes of Capital Stock of the Issuer, the Exchange Rate shall thereafter be subject to adjustment upon the occurrence of an action taken with respect to each such class of Capital Stock as is contemplated hereby with respect to the Common Stock, on terms comparable to those applicable to Common Stock hereunder.

(b) Whenever any of the actions described in this Section 10 are to be taken, the Issuer shall provide the notices required by paragraph 12 hereof.

(c) Reserved.

(d) The Issuer covenants and agrees with the registered holder hereof not to consolidate or merge with or into, or sell, transfer or lease all or substantially all its assets to, any person (any of which, a "Transaction"), unless, at the election of the registered holder hereof (or if such holder does not notify the Issuer of such election within 20 days after being notified of the Transaction, at the election of the Issuer) on the effective date of such Transaction (the "Transaction Date"), either:

1. the Issuer shall have redeemed the Warrant represented hereby by paying to such holder, upon surrender of this Warrant Certificate, a cash payment equal to the Black-Scholes value of the unexercised portion of the Warrant from the effective date of the Transaction until the Warrant Expiration Date (the "Black-Scholes Warrant Value"), computed as of such Transaction Date; or

2. (a) such person shall expressly assume in writing all of the obligations of the Issuer under the Subscription

Agreement and hereunder and deliver notice thereof to the registered holder hereof; and

(b) upon consummation of such Transaction, the Warrant shall automatically become exercisable for the common stock of the acquiror (without regard to the form of acquisition consideration) with similar terms and at an exercise price that would result in a Black-Scholes Warrant Value of the Warrant computed immediately after the Transaction equal to the Black-Scholes Warrant Value of the Warrant computed immediately before the Transaction.

For purposes of this paragraph 10(d), the factors to be used in the calculation of the Black-Scholes Warrant Value are as follows:

Stock Price:	the last sales price of the Common Stock reported by Bloomberg on the last Trading Day prior to the Transaction Date (the "Last Trading Day")
Time To Expiration:	the number of Trading Days between the Last Trading Day and the Termination Date
Exercise Price:	Exercise Price
Volatility:	volatility shown by Bloomberg for the past 260 days at close on the Last Trading Day, unless the Time to Expiration is less than 260 Trading Days, in which case use volatility shown by Bloomberg at close on the Last Trading Day for the number of Trading Days from the Last Trading Day to the Termination Date
Risk-Free Interest Rate:	closing yield as of the Last Trading Day as quoted in the Wall Street Journal for U.S. Treasury bond with a maturity date closest to the Termination Date

Number of Shares Outstanding (N):	total number of shares of Common Stock outstanding as of the Last Trading Day
Exercisable Common Stock (n):	the number of shares of Common Stock exercisable under the Warrant as of the Transaction Date

The Black-Scholes Warrant Value will be calculated using the factors shown above. A preliminary calculation of the Black-Scholes Warrant Value, and, if applicable, the exercise price contemplated by paragraph 10(d)2.(b) hereof, (utilizing then-current values for each factor) will be delivered by Fletcher to SyQuest not later than the tenth day after it receives notice of a Transaction by SyQuest. SyQuest, in turn, will respond within five days with any comments or questions and reach agreement with Fletcher on the preliminary factors. On the Transaction Date, Fletcher, in consultation with SyQuest, will calculate the final Black-Scholes Warrant Value utilizing the then-current values for each factor; such calculation will be utilized to compute the values called for in paragraph 10(d). It shall be a condition to any Transaction that the consideration provided for herein shall be paid in full, in the case of cash, or delivered, in the case of a warrant, all in accordance with the terms hereof, immediately prior to the consummation of the Transaction. As used herein, the term "Trading Day" means any day on which SyQuest's Common Stock is quoted on NASDAQ or, if applicable, other national securities exchange.

(e) After an adjustment to the Exchange Rate hereunder, any subsequent event requiring an adjustment hereunder shall cause an adjustment to the Exchange Rate as so adjusted.

(f) Upon the issuance of any stock dividend or distribution of Common Stock pro rata to all holders of Common Stock, the Exchange Rate shall be adjusted so that the registered holder hereof on the record date for such distribution shall be entitled to receive such dividend or distribution on the same terms as the holders of Common Stock upon exercise hereof.

11. Reserved.

12. Except as provided in the following paragraph, upon any adjustment of the Exchange Rate pursuant to paragraph 10, the Issuer shall promptly thereafter but in any event within 15 days following such adjustment (i) cause to be delivered to the registered holder hereof a certificate of its Chief Financial Officer setting forth the Exchange Rate after such adjustment and setting forth in reasonable detail the method of calculation and the facts upon which such calculations are based, which certificate shall be conclusive evidence of the correctness of the matters set forth therein, and (ii) cause to be delivered to the registered holder hereof at its address appearing on the Warrant Register written notice of such adjustments by first-class mail, postage prepaid. Where appropriate, such notice may be given in advance and included as part of the notice required to be mailed under the other provisions of this paragraph 12.

In case:

(a) the Issuer shall authorize the issuance to all holders of shares of Common Stock of rights, options or warrants to subscribe for or purchase shares of Common Stock or of any other subscription rights or warrants; or

(b) of any proposal for a consolidation or merger to which the Issuer is a party, the sale or transfer of all or substantially all of the assets of the Issuer, or any reclassification or change of Common Stock issuable upon exercise of the Warrant (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination), or of a tender offer or exchange offer for shares of Common Stock; or

(c) of the voluntary or involuntary dissolution, liquidation or winding up of the Issuer; or

(d) the Issuer proposes to take any action which would require an adjustment of the Exchange Rate pursuant to paragraph 10;

then the Issuer shall cause to be given to the registered holder hereof at his or her address appearing on the Warrant Register (as defined below), at least 20 days (or 10 days in any case specified in clause (a) above) prior to the applicable record date hereinafter specified, or promptly in the case of events for which there is no record date, by first class mail, postage prepaid, a

written notice stating (i) the date as of which the holders of record of shares of Common Stock to be entitled to receive any such rights, options, warrants or distribution are to be determined, or (ii) the initial expiration date set forth in any tender offer or exchange offer for shares of Common Stock, or (iii) the date on which any such reclassification, consolidation, merger, conveyance, transfer, dissolution, liquidation or winding up is expected to become effective or consummated, and the date as of which it is expected that holders of record of shares of Common Stock shall be entitled to exchange such shares for securities or other property, if any, deliverable upon such reclassification, consolidation, merger, conveyance, transfer, dissolution, liquidation or winding up.

13. The Issuer shall serve as warrant agent (the "Warrant Agent") under this Agreement. The Warrant Agent hereunder shall at all times maintain a register (the "Warrant Register") of the holders of Warrants. Upon 30 days' notice to the registered holder hereof, the Issuer may appoint a new Warrant Agent. Such new Warrant Agent shall be a corporation doing business and in good standing under the laws of the United States or any state thereof, and having a combined capital and surplus of not less than $50,000,000. The combined capital and surplus of any such new Warrant Agent shall be deemed to be the combined capital and surplus as set forth in the most recent annual report of its condition published by such Warrant Agent prior to its appointment; provided that such reports are published at

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least annually pursuant to law or to the requirements of a federal or state supervising or examining authority. After acceptance in writing of such appointment by the new Warrant Agent, it shall be vested with the same powers, rights, duties and responsibilities as if it had been originally named herein as the Warrant Agent, without any further assurance, conveyance, act or deed; but if for any reason it shall be reasonably necessary or expedient to execute and deliver any further assurance, conveyance, act or deed, the same shall be done at the expense of the Issuer and shall be legally and validly executed and delivered by the Issuer.

Any corporation into which the Issuer or any new Warrant Agent may be merged or any corporation resulting from any consolidation to which the Issuer or any new Warrant Agent shall be a party or any corporation to which the Issuer or any new Warrant Agent transfers substantially all of its corporate trust or shareholders services business shall be a successor Warrant Agent under this Agreement without any further act; provided that such corporation (i) would be eligible for appointment as successor to the Warrant Agent under the provisions of this paragraph 13 or (ii) is a wholly owned subsidiary of the Warrant Agent. Any such successor Warrant Agent shall promptly cause notice of its succession as Warrant Agent to be mailed (by first class mail,

postage prepaid) to the registered holder hereof at such holder's last address as shown on the Warrant Register.

This Warrant Certificate shall not be valid unless signed by the Issuer.

IN WITNESS WHEREOF, SyQuest Technology, Inc. has caused this Warrant Certificate to be signed by its duly authorized officer.

Dated: November 13, 1996

SYQUEST TECHNOLOGY, INC.

By: /s/ EDWIN L. HARPER

Name: Edwin L. Harper
Title: President and Chief Executive Officer

FORM OF EXERCISE NOTICE

(To Be Executed Upon Exercise of the Warrant)

[DATE]

SyQuest Technology, Inc.
47071 Bayside Parkway

Fremont, CA 94538
Attention: Chief Financial Officer

Re: Warrant No.

Ladies and Gentlemen:

The undersigned is the registered holder of the above-referenced warrant (the "Warrant") issued by SyQuest Technology, Inc., evidenced by the Warrant Certificate attached hereto, and hereby elects to exercise the Warrant to purchase _________ Warrant Shares (as defined in such Warrant Certificate) and herewith tenders $_____________ by certified or official bank check to the order of SyQuest Technology, Inc. as payment for such Warrant Shares in accordance with the terms of such Warrant Certificate and the Subscription Agreement (as defined in the Warrant Certificate). The undersigned either (i) hereby certifies that it is not a "U.S. Person" (as defined in Regulation S under the Securities Act of 1933, as amended (the "Act")), it is not exercising this Warrant on behalf of any U.S. Person and the Warrant is not being exercised within the United States, or (ii) at the Issuer's option, delivers herewith an opinion of counsel to the effect that the Warrant and the Warrant Shares have been registered under the Act or are exempt from registration thereunder. This exercise notice is accompanied by the certificates required to be delivered pursuant to Section 8 of the Subscription Agreement.

In accordance with the terms of the attached Warrant Certificate, the undersigned requests that certificates for such Warrant Shares be registered in the name of and delivered to the undersigned at the following address:

____
____
____

By providing the above address, the undersigned confirms that, upon exercise of the Warrant, the Warrant Shares will not be delivered within the United States (as defined in Regulation S under the Act) unless (i) in an offering deemed to meet the definition of "offshore transaction" pursuant to paragraph (i)(3) of Rule 902 under the Act or (ii) an opinion of counsel has been provided to the effect that the

Warrant and the Warrant Shares have been registered under the Act or an exemption from such registration is available.

[IF THE NUMBER OF WARRANT SHARES TO BE DELIVERED IS LESS THAN THE TOTAL NUMBER OF WARRANT SHARES DELIVERABLE UNDER THE WARRANT, INSERT THE FOLLOWING -- The undersigned requests that a new warrant certificate substantially identical to the attached Warrant Certificate be issued to the undersigned evidencing the right to purchase the number of Warrant Shares equal to (x) the total number of Warrant Shares deliverable under the Warrant less (y) the number of Warrant Shares to be delivered in connection with this exercise.]

NAME OF REGISTERED HOLDER
[ADDRESS]

By:

Name:
Title:

Exhibit 11.1

SYQUEST TECHNOLOGY, INC.

COMPUTATION OF EARNINGS PER SHARE

	Fiscal Years Ended September 30, 1996/(1)/	1995/(1)/	1994/(1)/
	(in thousands, except per share data)		
Income before cumulative effect of accounting change and extraordinary credit	$(136,651)	$(11,786)	$ 5,059
Cumulative effect of accounting change	--	--	346
Effect of incremental yield embedded in conversion terms	$ (5,733)	$ --	$ --
Net Income	$(142,384)	$(11,786)	$ 5,405
Common and common equivalent shares outstanding:			
Common Stock	11,497	11,063	11,029
Options	--	--	618
Warrants	--	--	--
Common and common equivalent shares used in computing per share amounts	11,497	11,063	11,647
Income per share before cumulative effect of accounting change and extraordinary credit	$ (12.38)	$ (1.07)	$ .43
Cumulative effect of accounting change per share	--	--	.03
Net income per share	$ (12.38)	$ (1.07)	$ .46

/(1)/ Primary and fully diluted income per share are the same.

EXHIBIT 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 33-46460, 33-482273, 33-99224, 33-99372) pertaining to the 1991 Stock Option Plan, the 1992 Non-Employee Director Stock Option Plan and the 1992 Employee Stock Purchase Plan and in the Registration Statement (Form S-3 No. 333-7369) of SyQuest Technology, Inc. of our report dated December 11, 1996 with respect to the consolidated financial statements and schedule of SyQuest Technology, Inc. included in this Annual Report (Form 10-K) for the year ended September 30, 1996.

/s/ Ernst & Young LLP

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