**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

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**Form 10-Q**

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**[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 28, 2003

OR

**[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ________ to________

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Commission File Number 1-13449

# QUANTUM CORPORATION

Incorporated Pursuant to the Laws of the State of Delaware

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IRS Employer Identification Number 94-2665054

1650 Technology Drive, Suite 800, San Jose, California 95110

(408) 944-4000

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Indicate by check mark 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 check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes_X_ No___

As of the close of business on November 11, 2003, approximately 178.0 million shares of Quantum Corporation's common stock were issued and outstanding.

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**QUANTUM CORPORATION**

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**PART I—FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**QUANTUM CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**(In thousands, except per-share data)**
**(Unaudited)**

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **September 28, 2003** | **September 29, 2002** | **September 28, 2003** | **September 29, 2002** |
| Product revenue | $ 162,642 | $ 159,850 | $ 329,829 | $ 316,737 |
| Royalty revenue | 32,233 | 44,603 | 67,261 | 90,166 |
| Total revenue | 194,875 | 204,453 | 397,090 | 406,903 |
| Cost of revenue | 136,718 | 144,843 | 275,420 | 284,704 |
| Gross margin | 58,157 | 59,610 | 121,670 | 122,199 |
| Operating expenses: | | | | |
| Research and development | 26,196 | 29,385 | 53,127 | 55,011 |
| Sales and marketing | 24,801 | 27,045 | 48,972 | 53,135 |
| General and administrative | 12,931 | 17,652 | 27,122 | 39,714 |
| Goodwill impairment | — | 58,689 | — | 58,689 |
| Special charges | 3,100 | 14,096 | 3,576 | 14,720 |
| | 67,028 | 146,867 | 132,797 | 221,269 |
| Loss from operations | (8,871) | (87,257) | (11,127) | (99,070) |
| Equity investment write-downs | — | — | — | (17,061) |
| Interest and other income | 2,913 | 2,429 | 5,046 | 5,026 |
| Interest expense | (5,399) | (6,422) | (11,554) | (12,262) |
| Loss on debt extinguishment | (2,565) | — | (2,565) | — |
| Loss before income taxes | (13,922) | (91,250) | (20,200) | (123,367) |
| Income tax provision (benefit) | 24,186 | 819 | 27,254 | (3,966) |
| Loss from continuing operations | (38,108) | (92,069) | (47,454) | (119,401) |
| Discontinued operations: | | | | |
| Loss from NAS discontinued operations, net of income taxes | — | (19,375) | — | (28,628) |
| Loss from discontinued operations | — | (19,375) | — | (28,628) |
| Loss before cumulative effect of an accounting change | (38,108) | (111,444) | (47,454) | (148,029) |
| Cumulative effect of an accounting change | — | — | — | (94,298) |

| | | | | |
|---|---|---|---|---|
| Net loss | $ (38,108) | $ (111,444) | $ (47,454) | $ (242,327) |
| Loss per share from continuing operations | | | | |
| Basic | $ (0.22) | $ (0.59) | $ (0.27) | $ (0.76) |
| Diluted | $ (0.22) | $ (0.59) | $ (0.27) | $ (0.76) |
| Loss per share from discontinued operations | | | | |
| Basic | $ — | $ (0.12) | $ — | $ (0.18) |
| Diluted | $ — | $ (0.12) | $ — | $ (0.18) |
| Cumulative effect per share of an accounting change | | | | |
| Basic | $ — | $ — | $ — | $ (0.60) |
| Diluted | $ — | $ — | $ — | $ (0.60) |
| Net loss per share | | | | |
| Basic | $ (0.22) | $ (0.71) | $ (0.27) | $ (1.55) |
| Diluted | $ (0.22) | $ (0.71) | $ (0.27) | $ (1.55) |
| Weighted average common and common equivalent shares | | | | |
| Basic | 174,903 | 156,932 | 174,228 | 156,687 |
| Diluted | 174,903 | 156,932 | 174,228 | 156,687 |

See accompanying notes to Condensed Consolidated Financial Statements.



**QUANTUM CORPORATION**
**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(In thousands)**

| | September 28, 2003 (Unaudited) | March 31, 2003 (1) |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 156,433 | $ 221,734 |
| Short-term investments | 116,358 | 97,055 |
| Accounts receivable, net of allowance for doubtful accounts of $10,285 and $8,927 | 112,968 | 133,760 |
| Inventories | 63,674 | 66,305 |
| Deferred income taxes | 35,378 | 46,370 |
| Service inventories | 48,756 | 49,104 |
| Other current assets | 27,232 | 26,080 |
| Total current assets | 560,799 | 640,408 |
| Long-term assets: | | |
| Property and equipment, net | 41,092 | 54,522 |
| Goodwill | 44,179 | 40,916 |
| Purchased technology, net | 51,107 | 57,485 |
| Other intangible assets, net | 18,666 | 21,959 |
| Other long-term assets | 12,640 | 10,606 |
| Receivable from Maxtor Corporation | — | 95,833 |
| Total long-term assets | 167,684 | 281,321 |
| | $ 728,483 | $ 921,729 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 78,215 | $ 104,495 |
| Accrued warranty | 44,503 | 49,582 |

| | | |
|---|---|---|
| Short-term debt | 976 | — |
| Other accrued liabilities | 94,315 | 99,899 |
| Total current liabilities | 218,009 | 253,976 |
| Long-term liabilities: | | |
| Deferred income taxes | 35,378 | 25,091 |
| Convertible subordinated debt | 160,000 | 287,500 |
| Total long-term liabilities | 195,378 | 312,591 |
| Stockholders' equity: | | |
| Common stock | 250,131 | 243,426 |
| Retained earnings | 64,965 | 111,736 |
| Total stockholders' equity | 315,096 | 355,162 |
| | $ 728,483 | $ 921,729 |

(1) Derived from the March 31, 2003 audited Consolidated Financial Statements included in the Annual Report on Form 10-K of Quantum Corporation for fiscal year 2003.

See accompanying notes to Condensed Consolidated Financial Statements.



**QUANTUM CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(In thousands)**
**(Unaudited)**

| | Six Months Ended, | |
|---|---|---|
| | **September 28, 2002** | **September 29, 2002** |
| Cash flows from operating activities: | | |
| Loss from continuing operations including cumulative effect of an accounting change | $ (47,454) | $ (213,699) |
| Adjustments to reconcile loss from continuing operations to net cash provided by (used in) operating activities: | | |
| Cumulative effect of an accounting change | — | 94,298 |
| Depreciation | 13,926 | 19,004 |
| Amortization | 10,528 | 6,516 |
| Goodwill write-down | — | 58,689 |
| Deferred income taxes | 21,279 | (10,259) |
| Compensation related to stock incentive plans | 259 | 890 |
| Equity investment write-down | — | 17,061 |
| Impairment of former manufacturing facility | 2,335 | — |
| Changes in assets and liabilities: | | |
| Accounts receivable | 20,792 | 25,925 |
| Inventories | 2,631 | 5,552 |
| Accounts payable | (26,280) | 18,860 |
| Accrued warranty | (5,079) | (2,899) |
| Income taxes payable | 615 | (10,313) |
| Other assets and liabilities | 910 | (1,062) |
| Net cash provided by (used in) operating activities of continuing operations | (5,538) | 8,563 |
| Net cash used in operating activities of discontinued operations | — | (8,489) |

| | | |
|---|---|---|
| Net cash provided by (used in) operating activities | (5,538) | 74 |
| Cash flows from investing activities: | | |
| Purchases of short-term investments | (876,658) | (187,050) |
| Proceeds from sale of short-term investments | 857,587 | 99,200 |
| Proceeds from sale of equity securities | — | 11,000 |
| Investment in SANlight Inc. (net of cash acquired) | — | (126) |
| Purchases of property and equipment | (7,301) | (10,409) |
| Net cash used in investing activities of continuing operations | (26,372) | (87,385) |
| Net cash used in investing activities of discontinued operations | — | (21) |
| Net cash used in investing activities | (26,372) | (87,406) |
| Cash flows from financing activities: | | |
| Receipt of 7% convertible subordinated notes allocated to Maxtor Corporation | 95,833 | — |
| Settlement of 7% convertible subordinated notes | (287,500) | — |
| Issuance of 4.375% convertible subordinated notes (net of commissions and expenses) | 155,207 | — |
| Principle payments of short-term debt | — | (38,709) |
| Proceeds from issuance of common stock, net | 3,069 | 3,034 |
| Net cash used in financing activities of continuing operations | (33,391) | (35,675) |
| Net cash provided by financing activities of discontinued operations | — | 73 |
| Net cash used in financing activities | (33,391) | (35,602) |
| Decrease in cash and cash equivalents from continuing operations | (65,301) | (114,497) |
| Decrease in cash and cash equivalents from discontinued operations | — | (8,437) |
| Net decrease in cash and cash equivalents | (65,301) | (122,934) |
| Cash and cash equivalents at beginning of period | 221,734 | 343,878 |
| Cash and cash equivalents at end of period | $ 156,433 | $ 220,944 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the year for: | | |
| Interest | $ 19,362 | $ 11,377 |
| Income taxes | $ 3,840 | $ 21,816 |
| Notes payable issued for achievement of certain earn out provisions of M4 Data (Holdings) Ltd. acquisition | $ 976 | $ — |
| Common stock issued for achievement of certain earn out provisions of Benchmark Storage Innovations Inc. acquisition | $ 3,591 | $ — |

See accompanying notes to Condensed Consolidated Financial Statements.



**QUANTUM CORPORATION**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1: Description of Business**

Quantum Corporation (“Quantum” or the “Company”) (NYSE: DSS) is organized and operates in two data storage business segments: the DLT group (“DLTG”) and the Storage Solutions group (“SSG”). DLTG designs, develops, manufactures, licenses, services, and markets DLTtape and Super DLTtape drives, and DLTtape and Super DLTtape media cartridges. The SSG business consists of tape automation systems and service and includes enhanced backup solutions.

Until the beginning of fiscal year 2002, Quantum Corporation operated its business through two separate business groups: the DLT & Storage Systems group (“DSS”) and the Hard Disk Drive group (“HDD”). On March 30, 2001, Quantum’s stockholders approved the disposition of HDD to Maxtor Corporation (“Maxtor”). On April 2, 2001, each authorized share of HDD common stock was exchanged for 1.52 shares of Maxtor common stock.

Since the sale of HDD, Quantum’s business has included the two business segments described above: DLTG and SSG.

In April 2001, Quantum completed the acquisition of M4 Data (Holdings) Ltd., (“M4 Data”) a privately held data storage company based in the United Kingdom, to leverage M4 Data’s complementary high performance and scalable tape automation products and technologies. In November 2002, Quantum completed the acquisition of Benchmark Storage Innovations, Inc. (“Benchmark”), a privately held company. The acquisition enabled Quantum to expand its tape business by adding Benchmark’s complementary products. In March 2003, Quantum completed the acquisition of the remaining outstanding shares of SANlight Inc. (“SANlight”) that it did not already own. The acquisition provided Quantum with software technology and expertise that it can leverage in its enhanced backup solutions.

Quantum sold its Network Attached Storage (“NAS”) business, which was part of SSG, to SNAP Appliance, Inc. (formerly known as Broadband Storage, Inc.), a privately held company, in October 2002. Quantum engaged in the NAS business following the acquisition of Meridian Data, Inc., in September 1999 and of certain assets of Connex in August 2001.

**Note 2: Pro Forma Stock Compensation Expense**

In accordance with Statement of Financial Accounting Standard (“SFAS”) No. 123, *Accounting for Stock-Based Compensation*, Quantum elected to continue to account for its stock-based compensation plans under APB Opinion No. 25, and related interpretations, and disclose the pro forma effects of its employee stock options on net loss and net loss per share.

Pro forma net loss and net loss per share information, as required by SFAS No. 123, has been determined as if Quantum had accounted for its employee stock options under the fair value method of SFAS No. 123. The estimated fair value of the options is amortized to expense over the vesting period of the option.

The following table presents the effect on reported net loss and net loss per share of accounting for employee stock options under the fair value method:



| (In thousands, except per-share data) | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | September 28, 2003 | September 29, 2002 | September 28, 2003 | September 29, 2002 |
| Reported net loss | $ (38,108) | $ (111,444) | $ (47,454) | $ (242,327) |
| Add back employee stock option expense | 100 | 341 | 259 | 890 |
| Option fair value amortization | (4,673) | (3,952) | (9,431) | (11,516) |
| Pro forma net loss | $ (42,681) | $ (115,055) | $ (56,626) | $ (252,953) |
| Reported net loss per share | $ (0.22) | $ (0.71) | $ (0.27) | $ (1.55) |
| Net effect per share of option fair value amortization | (0.03) | (0.02) | (0.05) | (0.07) |
| Basic and diluted pro forma net loss per share | $ (0.25) | $ (0.73) | $ (0.32) | $ (1.62) |

The weighted-average grant date fair values reported below have been estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

| | Stock Option Plans Three Months Ended | | Stock Purchase Plan Three Months Ended | |
|---|---|---|---|---|
| | September 28, 2003 | September 29, 2002 | September 28, 2003 | September 29, 2002 |
| Option life (in years) | 2.08 | 3.01 | 1.50 | 1.33 |
| Risk-free interest rate | 1.68% | 1.48% | 1.48% | 2.19% |
| Stock price volatility | 0.81 | 0.68 | 0.68 | 0.69 |
| Dividend yield | – | – | – | – |

| | Stock Option Plans Six Months Ended | | Stock Purchase Plan Six Months Ended | |
|---|---|---|---|---|

| | September 28, 2003 | September 29, 2002 | September 28, 2003 | September 29, 2002 |
|---|---|---|---|---|
| Option life (in years) | 2.15 | 3.01 | 1.50 | 1.33 |
| Risk-free interest rate | 1.65% | 1.48% | 1.48% | 2.19% |
| Stock price volatility | 0.80 | 0.68 | 0.68 | 0.69 |
| Dividend yield | – | – | – | – |

The following is a summary of weighted-average grant date fair values:

| (In thousands, except per-share data) | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | September 28, 2003 | September 29, 2002 | September 28, 2003 | September 29, 2002 |
| Options granted under the Long-Term Incentive Plan, Supplemental Plan and Stock Options Plans | $ 1.31 | $ 1.04 | $ 1.33 | $ 1.98 |
| Restricted stock granted under the Long-Term Incentive Plan | n/a | n/a | n/a | $ 7.52 |
| Shares granted under the Stock Purchase Plan | $ 1.02 | $ 2.13 | $ 1.02 | $ 2.13 |



**Note 3: Basis of Presentation**

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of Quantum and its majority-owned subsidiaries. All material intercompany balances and transactions have been eliminated. The interim financial statements reflect all adjustments, consisting only of normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the results for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for the full fiscal year. Certain items previously reported in specific financial statement captions have been reclassified to conform to the current period's classification. Such reclassifications have not impacted previously reported net loss amounts. The Condensed Consolidated Balance Sheet as of March 31, 2003, has been derived from the audited financial statements at that date, but does not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. The accompanying financial statements should be read in conjunction with the audited financial statements of Quantum for the fiscal year ended March 31, 2003, included in its Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Quantum sold its NAS business on October 28, 2002. Quantum engaged in the NAS business following the acquisition of Meridian Data, Inc. in September 1999 and of certain assets of Connex in August 2001. As a result of this disposition, the Condensed Consolidated Financial Statements and related notes have been restated to present the results of the NAS business as discontinued operations. Accordingly, in the Condensed Consolidated Statements of Operations, the operating results of the NAS business have been classified as "Loss from NAS discontinued operations, net of income taxes", for the three and six-month periods ended September 29, 2002. The cash flows from the NAS business have been presented as net cash flows from discontinued operations in the Condensed Consolidated Statements of Cash Flows for the six-month period ended September 29, 2002.

**Note 4: Discontinued Operations**

Disposition of the NAS Business

Quantum was previously engaged in the business of developing, manufacturing, and selling network attached storage solutions for the desktop, workgroups and enterprises. These NAS products consisted primarily of server appliances that incorporated hard disk drives and an operating system designed to meet the requirements of entry, workgroup, and enterprise computing environments, where multiple computer users access shared data files over a local area network.

On October 7, 2002, Quantum entered into an agreement with a privately held third party to sell certain assets and assign certain contract rights related to its NAS business. The NAS assets that were sold included inventories for resale to customers, service inventories, fixed assets and intellectual property. The proceeds from the sale included approximately $4.7 million in cash, $3.9 million in restricted equity securities of the buyer with an option to acquire additional equity securities, a secured promissory note for $2.4 million issued by the buyer and the assumption by the buyer of $1.6 million of warranty liability in connection with the prior installed base of NAS products. The sale was completed on October 28, 2002. The secured promissory note was settled in the first quarter of fiscal year 2004.



The following table summarizes the results of the NAS business:

| (In thousands) | Three Months Ended | Six Months Ended |
|---|---|---|
| | September 29, 2002 | September 29, 2002 |
| Revenue | $ 10,681 | $ 19,709 |
| Gross margin | 942 | 860 |
| Operating expenses | 21,615 | 35,371 |
| Loss from operations | (20,673) | (34,511) |
| Loss before income taxes | (20,675) | (34,536) |
| Income tax benefit | (1,300) | (5,908) |
| Net loss | (19,375) | (28,628) |

The losses from operations in the three and six-month periods ended September 29, 2002 include an impairment charge of $16.4 million. In the second quarter of fiscal year 2003, Quantum determined that the sale of the NAS business was probable and wrote down the assets held for sale to fair value less cost to sell. The fair value of the assets held for sale was determined to be the proceeds from the sale. The resulting impairment charge related mainly to completed technology arising from the acquisitions of Meridian Data Inc. and certain assets of Connex.

The loss from operations in the six-month period ended September 29, 2002 includes special charges of $4.3 million incurred in the first quarter of fiscal year 2003 related to the consolidation of sales and marketing activities within SSG. These charges primarily relate to severance benefits for approximately 60 NAS employees who were terminated as a result of this restructuring plan.

**Note 5: Cumulative Effect of an Accounting Change**

SFAS No. 142, *Goodwill and Other Intangible Assets,* which requires companies to discontinue the amortization of goodwill and certain intangible assets with an indefinite useful life, became effective for Quantum on April 1, 2002. Accordingly, goodwill and intangible assets deemed to have an indefinite useful life must be reviewed for impairment upon adoption of SFAS No. 142 and annually thereafter, or more frequently when indicators of impairment exist.

The assessment of impairment conducted in the first quarter of fiscal year 2003, the quarter in which Quantum adopted SFAS No. 142, required Quantum to identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units. At the time of adoption, SSG was the only business unit with goodwill. The fair values of the reporting units underlying SSG were estimated using both a discounted cash flow and market approach methodology. The reporting units' carrying amounts exceeded their fair values, indicating that the reporting units' goodwill was impaired, therefore requiring Quantum to perform the second step of the transitional impairment test. In the second step, Quantum compared the implied fair values of the reporting units' goodwill, determined by allocating the reporting units' fair values to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with SFAS No. 141, *Business Combinations*.

Upon adoption of SFAS No. 142 in the first quarter of fiscal year 2003, Quantum recorded a non-cash accounting change adjustment of $94.3 million, reflecting a reduction to the carrying value of its goodwill, as a cumulative effect of an accounting change in the accompanying Condensed Consolidated Statements of Operations.

Note 6, *Goodwill and Intangible Assets*, provides additional disclosure on the impact to Quantum's financial statements as a result of applying SFAS No. 141 and SFAS No. 142.



**Note 6: Goodwill and Intangible Assets**

The following table provides a summary of the change in the carrying amount of goodwill:

| (In thousands) | Goodwill |
|---|---|
| Balance as of March 31, 2003 | $ 40,916 |
| Additional goodwill resulting from the achievement of certain earn out provisions of the Benchmark acquisition agreement | 3,591 |
| Reversal of excess accrual for severance liabilities related to Benchmark acquistion | (328) |
| Balance as of September 28, 2003 | $ 44,179 |

The following tables provide a summary of the carrying amounts of intangible assets:

| (In thousands) | September 28, 2003 | | |
|---|---|---|---|
| | Gross Amount | Accumulated Amortization | Net Amount |
| Purchased technology | $ 84,600 | $ (33,493) | $ 51,107 |
| Trademarks | 22,560 | (8,397) | 14,163 |
| Non-compete agreements | 2,556 | (1,830) | 726 |
| Customer lists | 14,100 | (11,454) | 2,646 |
| Other | 4,143 | (3,012) | 1,131 |
| | $ 127,959 | $ (58,186) | $ 69,773 |

| | March 31, 2003 | | |
|---|---|---|---|
| | Gross Amount | Accumulated Amortization | Net Amount |
| Purchased technology | $ 84,600 | $ (27,115) | $ 57,485 |
| Trademarks | 22,560 | (6,914) | 15,646 |
| Non-compete agreements | 2,556 | (1,566) | 990 |
| Customer lists | 14,100 | (10,308) | 3,792 |
| Other | 4,133 | (2,602) | 1,531 |
| | $ 127,949 | $ (48,505) | $ 79,444 |



The total amortization expense related to intangible assets is provided in the table below:

| (In thousands) | Three Months Ended | | Six Months Ended | | |
|---|---|---|---|---|---|
| | September 28, 2003 | September 29, 2002 | September 28, 2003 | September 29, 2002 | Amortized by |
| Purchased technology | $ 3,189 | $ 1,821 | $ 6,378 | $ 3,641 | September 2008 |
| Trademarks | 741 | 500 | 1,483 | 833 | September 2008 |
| Customer lists | 573 | 573 | 1,146 | 1,147 | September 2008 |
| Other | 337 | – | 674 | – | February 2005 |
| | $ 4,840 | $ 2,894 | $ 9,681 | $ 5,621 | |

The total expected future amortization related to intangible assets is provided in the table below:

| (In thousands) | Amortization |
|---|---|
| Six months ended March 31, 2004 | $ 8,801 |
| Fiscal year 2005 | 17,434 |
| Fiscal year 2006 | 16,253 |
| Fiscal year 2007 | 14,025 |
| Fiscal year 2008 | 9,699 |
| Fiscal year 2009 | 3,561 |
| Total | $ 69,773 |

## Note 7: Inventories

Inventories consisted of the following:

| (In thousands) | September 28, 2003 | March 31, 2003 |
|---|---|---|

| | | |
|---|---|---|
| Materials and purchased parts | $ 25,628 | $ 32,415 |
| Work in process | 4,575 | 4,264 |
| Finished goods | 33,471 | 29,626 |
| | $ 63,674 | $ 66,305 |



**Note 8: Service Inventories**

Service inventories consisted of the following:

| (In thousands) | September 28, 2003 | March 31, 2003 |
|---|---|---|
| Component parts | $ 16,377 | $ 13,688 |
| Finished units | 32,379 | 35,416 |
| | $ 48,756 | $ 49,104 |

**Note 9: Accrued Warranty and Indemnifications**

The following table details the change in the accrued warranty balance:

| (In thousands) | Accrued Warranty |
|---|---|
| Balance at March 31, 2003 | $ 49,582 |
| Additional warranties issued | 12,056 |
| Adjustments for warranties issued in prior fiscal years | 4,311 |
| Costs of repair | (21,446 ) |
| Balance at June 29, 2003 | $ 44,503 |

Quantum warrants its products against defects for periods ranging from one to three years. A provision for estimated future costs and estimated returns for credit relating to warranty is recorded when products are shipped and revenue recognized. Quantum's estimate of future costs to satisfy warranty obligations is primarily based on estimates of future failure rates and its estimates of future costs of repair including materials consumed in the repair, and labor and overhead or outside service amounts necessary to perform the repair.

The estimates of future product failure rates are based on both historical product failure data and anticipated future failure rates. If future actual failure rates differ from its estimates, Quantum records the impact in subsequent periods. Similarly, the estimates of future costs of repair are based on both historical data and anticipated future costs. If future actual costs to repair were to differ from its estimates, Quantum would record the impact of these unforeseen cost differences in subsequent periods.

Indemnifications

Under its normal terms and conditions of sale, Quantum may provide its customers with certain standard indemnifications regarding the safety of its products and the intellectual property used in its products. Quantum did not record a liability associated with these guarantees, as Quantum has little or no history of costs associated with such indemnification requirements. Contingent liabilities associated with product liability may be mitigated by insurance coverage that Quantum maintains.



**Note 10: Net Loss Per Share**

The following tables set forth the computation of basic and diluted net loss per share:

| (in thousands, except per-share data) | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | September 28, 2003 | September 29, 2002 | September 28, 2003 | September 29, 2002 |
| Loss from continuing operations | $ (38,108) | $ (92,069) | $ (47,454) | $ (119,401) |
| Loss from discontinued operations | — | (19,375) | — | (28,628) |
| Cumulative effect of an accounting change | — | — | — | (94,298) |
| Net loss | $ (38,108) | $ (111,444) | $ (47,454) | $ (242,327) |
| Loss per share from continuing operations | $ (0.22) | $ (0.59) | $ (0.27) | $ (0.76) |
| Loss per share from discontinued operations | — | (0.12) | — | (0.18) |
| Cumulative effect per share of an accounting change | — | — | — | (0.60) |
| Basic and diluted net loss per share | $ (0.22) | $ (0.71) | $ (0.27) | $ (1.55) |
| Weighted average shares outstanding used in computing basic and diluted net income per share | 174,903 | 156,932 | 174,228 | 156,687 |

The computations of diluted net loss per share for all periods presented exclude the effect of the 7% convertible subordinated notes issued in July 1997 and redeemed in August 2003, which were convertible into 6.2 million shares of Quantum common stock (21.587 shares per $1,000 note), because the effect would have been antidilutive. The computations of diluted net loss per share for the three and six-month periods ended September 28, 2003, exclude the effect of the 4.375% convertible subordinated notes issued in July 2003, which are convertible into 36.8 million shares of Quantum common stock (229.885 shares per $1,000 note), because the effect would have been antidilutive.

Options to purchase 36.6 million shares and 37.5 million shares of Quantum common stock were outstanding at September 28, 2003, and September 29, 2002, respectively, but were not included in the computation of diluted net loss per share for the three and six-month periods ended September 28, 2003, and September 29, 2002, respectively, because the effect would have been antidilutive.

## Note 11: Common Stock Repurchase

At September 28, 2003, there was approximately $87.9 million remaining on Quantum's authorization to repurchase Quantum common stock. No stock repurchases were made during the six months ended September 28, 2003. Quantum's ability to repurchase common stock is restricted under its credit facilities.



## Note 12: Credit Agreements, Short-Term Debt and Convertible Subordinated Debt

Quantum's debt includes the following:

| (In thousands) | September 28, 2003 | March 31, 2003 |
|---|---|---|
| Convertible subordinated debt | $ 160,000 | $ 287,500 |
| Short-term debt | 976 | — |
| | $ 160,976 | $ 287,500 |
| Weighted average interest rate | 4.38% | 7.00% |

Convertible subordinated debt

In July 1997, Quantum issued $287.5 million of 7% convertible subordinated notes. The notes had a maturity date of August 1, 2004, and were convertible at the option of the holder at any time prior to maturity, unless previously redeemed, into shares of Quantum common stock and Maxtor common stock. The notes were classified as long-term and were convertible into 6.2 million shares of Quantum common stock (or 21.587 shares per $1,000 note), and 4.7 million shares of Maxtor common stock (or 16.405 shares per $1,000 note). Quantum recorded a receivable from Maxtor of $95.8 million for the principal portion of the debt previously attributed to the HDD group and for which Maxtor agreed to reimburse Quantum for both principal and associated interest payments. On August 21, 2003, Quantum redeemed all these 7% convertible subordinated notes at 101% of the aggregate principal amount. The aggregate redemption price of the notes was $290.4 million, which included a premium paid of $2.9 million. On August 14, 2003, Quantum received $96.8 million from Maxtor, which represents the full amount for Maxtor's portion of the debt plus the premium on their portion of the notes due in 2004.

On July 30, 2003, Quantum issued $160.0 million in aggregate principal amount of 4.375% convertible subordinated notes due 2010, in a private placement transaction. The notes are unsecured obligations subordinated in right of payment to all of Quantum's existing and future senior indebtedness. The notes mature on August 1, 2010, and are convertible at the option of the holder at any time prior to maturity, unless previously converted, into 36.8 million shares of Quantum common stock at a conversion price of $4.35 per share. Quantum cannot redeem the notes prior to August 5, 2008. Quantum received net proceeds from the notes of $155.2 million, after deducting commissions and expenses. Quantum used the net proceeds from the sale of the notes plus a portion of available cash to redeem its 7% convertible subordinated notes due in 2004.

Short-term debt

Quantum acquired all the outstanding stock of M4 Data on April 12, 2001 for approximately $58.0 million in consideration, including $41.4 million in debentures. The debenture holders called and received payment from Quantum for this $41.4 million in fiscal year 2003. The purchase agreement also included additional contingent consideration to be paid annually from 2002 through 2005 based on future revenues, which may result in additional debentures being issued and this occurred in the first quarter of fiscal year 2004. The debentures of $1.0 million that were issued in the first quarter of fiscal year 2004 based on revenues in the preceding fiscal year are immediately callable by the holders.

The notes are unsecured obligations subordinated in right of payment to all of Quantum's existing and future senior indebtedness. The debentures do not contain financial covenants, reporting covenants or cross default provisions.

Credit lines

In December 2002, Quantum entered into a secured senior credit facility with a group of five banks, providing a $100.0 million revolving credit line that expires in June 2004. Also in December 2002, Quantum entered into a $50.0 million synthetic lease that contains the same financial covenants as the revolving credit line. As of September 28, 2003, $90.4 million of this revolving credit line is committed to standby letters of credit, of which $50.0 million secures Quantum's obligation to the lessor under its synthetic lease (see below and Note 18, *Commitments and Contingencies*). Borrowings under the revolving credit line bear interest at either the London interbank offering rate or a base rate, plus a margin determined by a leverage ratio with option periods of one to six months. The credit facility is secured by a blanket lien on all of the assets of Quantum and contains certain financial and reporting covenants, which Quantum is required to satisfy as a condition of the credit line. In previous quarters Quantum violated certain of these financial covenants and received waivers or amendments for such violations. There is also a cross default provision between this facility and the synthetic lease facility such that a default on one facility constitutes a default on the other facility.



In July 2003, Quantum amended the credit agreement and synthetic lease to, among other things, change the EBITDA (as defined by the credit facility agreement) covenant thresholds for the first and second quarters of fiscal year 2004. The July amendment also allowed Quantum to use up to $50.0 million of its cash, in addition to the net proceeds from its new convertible notes offering, to redeem its existing convertible subordinated notes. As of September 28, 2003, Quantum was in compliance with all of the credit line covenants.

For a discussion of the potential impacts should Quantum violate any financial or reporting covenant in future quarters on the unsecured senior credit facility or the synthetic lease, see Management's Discussion and Analysis section under Liquidity and Capital Resources titled "General Outlook".

**Note 13: Litigation**

On August 7, 1998, Quantum was named as one of several defendants in a patent infringement lawsuit filed in the U.S. District Court for the Northern District of Illinois, Eastern Division. The plaintiff, Papst Licensing GmbH, owns numerous United States patents, which Papst alleges are infringed by hard disk drive products that were sold by HDD. In October 1999 the case was transferred to a federal district court in New Orleans, Louisiana, where it has been joined with other lawsuits involving Papst for purposes of coordinated discovery under multi-district litigation rules. The other lawsuits have Maxtor, Minebea Limited, and IBM as parties. The outcome of this patent infringement lawsuit is uncertain. Quantum currently cannot estimate the extent of the potential damages in the Papst dispute against it because the complaint by Papst asserts an unspecified amount of damages. As part of Quantum's disposition of HDD to Maxtor, Maxtor has agreed to assume the defense of the Papst claims against HDD and has also agreed to indemnify Quantum with respect to litigation relating to this dispute. Nevertheless, if Papst prevails and Maxtor were unable for any reason to indemnify Quantum in accordance with the merger agreement, Quantum's resulting liability could have a materially adverse impact on Quantum's results of operations and financial position.

On April 14, 2003, Quantum filed a patent infringement complaint in the U.S. District Court in the Northern District of California against Storage Technologies, Inc. ("StorageTek"). The suit alleges that StorageTek has engaged in the unlawful manufacture and sale within the

United States of tape and tape drive products that infringe two separate Quantum patents. The suit seeks a permanent injunction against StorageTek as well as the recovery of monetary damages, including treble damages for willful infringement. On April 15, 2003, StorageTek filed suit against Quantum in the U.S. District Court in Colorado, alleging that Quantum infringes two patents relating to the use of an optical servo system in a tape drive. The suit seeks a permanent injunction against Quantum as well as the recovery of monetary damages, including treble damages for willful infringement. Quantum believes that StorageTek's claims are without merit, that the patents are invalid and Quantum intends to defend the lawsuit vigorously. Given the early stages and inherent uncertainty of the litigation, Quantum currently cannot estimate the extent of the potential damages in the StorageTek dispute.

On August 8, 2003, a class action lawsuit was filed against Quantum in the Superior Court of the State of California for the County of San Francisco. Hitachi Maxell, Ltd., Maxell Corporation of America, Fuji Photo Film Co., Ltd., and Fuji Photo Film U.S.A., Inc. are named in the lawsuit as codefendants. The plaintiff, Franz Inc., alleges violation of California antitrust law, violation of California unfair competition law, and unjust enrichment and charges, among other things, that the defendants entered into agreements and conspired to monopolize the market and fix prices for data storage tape compatible with DLT tape drives. Quantum denies the allegations of the complaint and intends to defend vigorously the claims asserted by Franz. Franz seeks an order that the lawsuit be maintained as a class action and that defendants be enjoined from continuing the violations alleged in the complaint. Franz also seeks compensatory damages, treble damages, statutory damages, attorneys' fees, costs, and interest. Given the early stages and inherent uncertainty of the litigation, Quantum currently cannot estimate the extent of the potential damages in the litigation.



**Note 14: Special Charges**

Fiscal year 2004 special charges

In the first and second quarters of fiscal year 2004, Quantum implemented plans to reduce costs in an effort to return to profitability. The restructuring charges that resulted from these cost reduction efforts followed the outsourcing of certain of Quantum's manufacturing to Jabil in fiscal year 2003, plans to outsource manufacturing of certain automation products in the U.K, and other headcount reductions. These plans to reduce costs impacted both of Quantum's operating segments, DLTG and SSG, as well as corporate functions.

*DLTG cost reductions*

In the first and second quarters of fiscal year 2004, charges of $0.3 million and $0.4 million, respectively, were recorded for severance benefits for eight and nine employees, respectively, located at Quantum's facility in Colorado Springs, Colorado. These costs result from plans to reduce procurement activities following the outsourcing of certain manufacturing to Jabil and reductions following the integration of the Benchmark acquisition.

In addition, in the second quarter of fiscal year 2004, Quantum incurred a non-cash charge of $2.3 million to write down its former manufacturing facility in Malaysia to its appraised value, following Quantum's vacating of this facility as part of the outsource of certain manufacturing to Jabil.

*SSG cost reductions*

In the first and second quarters of fiscal year 2004, charges of $0.1 million and $0.5 million, respectively, were recorded for severance benefits for three and 20 employees, respectively, located in the U.K., mostly reflecting initial steps in the plan to eliminate an automation product manufacturing site in the U.K.

In the second quarter of fiscal year 2004, Quantum reversed special charges of $0.5 million on its statement of operations. Of this $0.5 million, $0.2 million was recorded in the first quarter of fiscal year 2002 for vacant facility costs at a facility in Irvine, California, and the remaining $0.3 million was recorded in the second quarter of fiscal year 2003 related to severance charges for site and function consolidation activities. The facility charges were reversed as a result of a change in the underlying leasing assumptions and the severance charges were reversed due to costs being lower than originally anticipated.

*Corporate severance*

In the second quarter of fiscal year 2004, a charge of $0.4 million was recorded for separation costs related to an executive officer, one of numerous steps to reduce operating costs.

Fiscal year 2003 special charges

*DLT group cost reductions*

In the second quarter of fiscal year 2003, a charge of $3.2 million was recorded for headcount reductions as part of the integration of Benchmark under a plan to have no net increase in headcount, which caused a reduction to DLTG existing headcount. The charge relates to severance benefits for approximately 75 employees.

*SSG cost reductions*

In the first quarter of fiscal year 2003, a charge of $1.1 million was recorded to reduce SSG's costs through a consolidation of sales and marketing activities within SSG. The charge primarily relates to severance benefits for approximately 30 employees who were terminated as a result of this restructuring plan.

In the second quarter of fiscal year 2003, a charge of $7.2 million was recorded to reduce SSG's costs and the actions include outsourcing sub-assembly manufacturing of Quantum's P-Series enterprise tape libraries, consolidating the number of research and development sites for disk-based backup and tape automation, and centralizing sales and marketing support functions. The charge reflects severance benefits for approximately 140 employees, fixed asset write-offs and vacant facility charges.



*Corporate severance*

In the second quarter of fiscal year 2003, a charge of $3.7 million was recorded primarily for separation costs related to Quantum's former Chief Executive Officer, who remains on Quantum's Board of Directors.

*European operations reorganization*

In the first quarter of fiscal year 2003, Quantum reversed a charge of $0.4 million on its statement of operations related to special charges recorded in the second quarter of fiscal year 2002 for the closure of its Geneva, Switzerland sales office. Quantum reversed the special charge because the landlord was able to sublease the space to a new tenant on terms more favorable than originally anticipated.

The following two tables show the activity for the six months ended September 28, 2003 and the estimated timing of future payouts for the following cost reduction projects (for a complete discussion of Quantum's special charge activity in prior years, refer to Note 8 in Quantum's Annual Report on Form 10-K for the year ended March 31, 2003):

Discontinuation of Manufacturing in Colorado Springs

| **(In thousands)** | **Facilities** |
|---|---|
| **Balance March 31, 2003** | **$ 2,384** |
| Cash payments | (306) |
| **Balance June 29, 2003** | **$ 2,078** |
| Cash payments | (306) |
| **Balance September 28, 2003** | **$ 1,772** |
| Estimated timing of future payouts: | |
| Fiscal Year 2004 | $ 612 |
| Fiscal Year 2005 to 2008 | 1,160 |
| | **$ 1,772** |

The cash payments in the three months ended September 28, 2003 represented vacant facilities lease payments of $0.3 million. The remaining special charge accrual reflects a vacant space accrual of $1.8 million related to Quantum's facility in Colorado Springs, Colorado, which will be paid over the lease term through the third quarter of fiscal year 2008.



Other Restructuring Programs

| **(In thousands)** | **Severance and Benefits** | **Facilities** | **Other** | **Total** |
|---|---|---|---|---|
| **Balance at March 31, 2003** | **$ 1,338** | **$ 1,464** | **$ 886** | **$ 3,688** |
| DLTG special charges | 296 | — | 47 | 343 |
| SSG special charges | 133 | — | — | 133 |
| Cash payments | (839) | (245) | (8) | (1,092) |
| Non-cash charges | — | — | (47) | (47) |
| **Balance at June 29, 2003** | **$ 928** | **$ 1,219** | **$ 878** | **$ 3,025** |
| DLTG special charges | 349 | — | — | 349 |
| SSG special charges | 487 | — | — | 487 |

| | | | | |
|---|---|---|---|---|
| Corporate severance | 432 | — | — | 432 |
| Facility impairment | — | 2,335 | — | 2,335 |
| Cash payments | (1,182) | (253) | (878) | (2,313) |
| Non-cash charges | — | (2,335) | — | (2,335) |
| Restructuring charge benefit | (339) | (164) | — | (503) |
| **Balance at September 28, 2003** | **$ 675** | **$ 802** | **$ —** | **$ 1,477** |
| Estimated timing of future payouts: | | | | |
| Fiscal Year 2004 | $ 675 | $ 288 | $ — | $ 963 |
| Fiscal Year 2005 to 2006 | — | 514 | — | 514 |
| | **$ 675** | **$ 802** | **$ —** | **$ 1,477** |

The cash payments in the three months ended September 28, 2003 represented severance payments of $1.2 million, vacant facilities lease payments of $0.3 million and settlement of a contract cancellation fee totaling $0.9 million. The $1.5 million remaining special charge accrual at September 28, 2003 is comprised of obligations for severance and vacant facilities. The severance charges will be paid during the third quarter of fiscal year 2004 and the facilities charges relating to vacant facilities in Irvine, California, will be paid over the lease term through the third quarter of fiscal year 2006.

### Note 15: Comprehensive Loss

Total comprehensive loss, net of tax, if any, for the three and six months ended September 28, 2003, and September 29, 2002, are presented in the following table:

| | **Three Months Ended** | | **Six Months Ended** | |
|---|---|---|---|---|
| **(in thousands)** | **September 28, 2003** | **September 29, 2002** | **September 28, 2003** | **September 29, 2002** |
| Net loss | $ (38,108) | $ (111,444) | $ (47,454) | $ (242,327) |
| Foreign currency translation adjustment | (242) | (108) | 686 | 1,214 |
| Total comprehensive loss | $ (38,350) | $ (111,552) | $ (46,768) | $ (241,113) |



### Note 16: Business Segment Information

Quantum’s reportable segments are DLTG and SSG. These reportable segments are each managed separately and they distribute and involve the manufacture of distinct products with different production processes. DLTG consists of tape drives and media. SSG consists of tape automation systems and service, and includes enhanced backup solutions. Quantum directly markets its products to computer manufacturers and through a broad range of distributors, resellers and systems integrators.

Quantum evaluates segment performance based on operating income (loss) including the allocation of corporate expenses. Quantum does not allocate interest and other income, interest expense, or taxes to operating segments. Additionally, Quantum does not allocate all assets by operating segment, only those assets included in the table below:

| **(In thousands)** | **Three Months Ended** | | | | | |
|---|---|---|---|---|---|---|
| | **September 28, 2003** | | | **September 29, 2002** | | |
| | **DLTG** | **SSG** | **Total** | **DLTG** | **SSG** | **Total** |
| Total revenue | $ 135,152 | $ 64,628 | $ 199,780 | $ 162,944 | $ 51,135 | $ 214,079 |
| Inter-segment revenue | (4,905) | – | (4,905) | (9,626) | – | (9,626) |
| Revenue from external customers | 130,247 | 64,628 | 194,875 | 153,318 | 51,135 | 204,453 |
| Cost of revenue | 86,903 | 49,815 | 136,718 | 107,634 | 37,209 | 144,843 |
| Gross margin | 43,344 | 14,813 | 58,157 | 45,684 | 13,926 | 59,610 |
| Research and development | 17,731 | 8,465 | 26,196 | 20,113 | 9,272 | 29,385 |
| Sales and marketing | 9,556 | 15,245 | 24,801 | 13,269 | 13,776 | 27,045 |
| General and administrative | 8,175 | 4,756 | 12,931 | 10,705 | 6,947 | 17,652 |
| Goodwill impairment | – | – | – | – | 58,689 | 58,689 |
| Special charges | 2,982 | 118 | 3,100 | 6,026 | 8,070 | 14,096 |

| | DLTG | SSG | Total | DLTG | SSG | Total |
|---|---|---|---|---|---|---|
| Total operating expenses | 38,444 | 28,584 | 67,028 | 50,113 | 96,754 | 146,867 |
| Operating income (loss) | $ 4,900 | $ (13,771) | $ (8,871) | $ (4,429) | $ (82,828) | $ (87,257) |

| (In thousands) | Six Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | September 28, 2003 | | | September 29, 2002 | | |
| | DLTG | SSG | Total | DLTG | SSG | Total |
| Total revenue | $ 281,281 | $ 130,580 | $ 411,861 | $ 322,570 | $ 101,144 | $ 423,714 |
| Inter-segment revenue | (14,771) | – | (14,771) | (16,811) | – | (16,811) |
| Revenue from external customers | 266,510 | 130,580 | 397,090 | 305,759 | 101,144 | 406,903 |
| Cost of revenue | 175,891 | 99,529 | 275,420 | 213,578 | 71,126 | 284,704 |
| Gross margin | 90,619 | 31,051 | 121,670 | 92,181 | 30,018 | 122,199 |
| Research and development | 35,386 | 17,741 | 53,127 | 37,534 | 17,477 | 55,011 |
| Sales and marketing | 18,852 | 30,120 | 48,972 | 25,111 | 28,024 | 53,135 |
| General and administrative | 17,377 | 9,745 | 27,122 | 25,943 | 13,771 | 39,714 |
| Goodwill impairment | – | – | – | – | 58,689 | 58,689 |
| Special charges | 3,325 | 251 | 3,576 | 5,346 | 9,374 | 14,720 |
| Total operating expenses | 74,940 | 57,857 | 132,797 | 93,934 | 127,335 | 221,269 |
| Operating income (loss) | $ 15,679 | $ (26,806) | $ (11,127) | $ (1,753) | $ (97,317) | $ (99,070) |

| | As of | | | | | |
|---|---|---|---|---|---|---|
| (In thousands) | September 28, 2003 | | | March 31, 2003 | | |
| | DLTG | SSG | Total | DLTG | SSG | Total |
| Accounts receivable, net | $ 70,235 | $ 42,733 | $ 112,968 | $ 91,415 | $ 42,345 | $ 133,760 |
| Inventories | 21,040 | 42,634 | 63,674 | 22,131 | 44,174 | 66,305 |
| Service inventories | 33,191 | 15,565 | 48,756 | 35,760 | 13,344 | 49,104 |
| Property, plant and equipment, net | 29,758 | 11,334 | 41,092 | 40,200 | 14,322 | 54,522 |
| Goodwill and intangibles, net | 40,842 | 73,110 | 113,952 | 39,861 | 80,499 | 120,360 |



## Note 17: Stock Incentive Plans

Stock Option Plans

Quantum has Stock Option Plans (the “Plans”) under which options to purchase 51.0 million shares of Quantum common stock were reserved for future issuance at September 28, 2003 to employees, officers and directors of Quantum. Options under the Plans are granted at prices determined by the Board of Directors, but at prices not less than the fair market value of the underlying common stock on the date of grant. Options currently expire no later than ten years from the date of grant and generally vest ratably over one to four years.

A summary of activity relating to Quantum’s Plans follows:

| | Options (000s) | Weighted Average Exercise Price |
|---|---|---|
| Outstanding at March 31, 2003 | 33,174 | $ 7.46 |
| Granted | 6,073 | $ 3.01 |
| Canceled | (2,447) | $ 8.59 |
| Exercised | (206) | $ 2.27 |
| Outstanding at September 28, 2003 | 36,594 | $ 6.68 |

| | | | |
|---|---|---|---|
| Exercisable at September 28, 2003 | 18,572 | $ | 8.76 |

The following tables summarize information about options outstanding and exercisable at September 28, 2003:

| Range of Exercise Prices | Options Outstanding at September 28, 2003 (000s) | Weighted Average Exercise Price | Remaining Contractual Life (Years) |
|---|---|---|---|
| $ 0.96 – $ 2.97 | 12,759 | $ 2.63 | 0.13 |
| $ 2.98 – $ 6.70 | 9,183 | $ 5.71 | 7.88 |
| $ 6.75 – $ 9.56 | 6,417 | $ 8.76 | 5.06 |
| $ 9.60 – $14.94 | 6,522 | $ 11.12 | 6.77 |
| $15.00 – $24.11 | 1,713 | $ 17.27 | 4.37 |
| | 36,594 | | |

| Range of Exercise Prices | Options Exercisable at September 28, 2003 (000s) | Weighted Average Exercise Price |
|---|---|---|
| $ 0.96 – $ 2.97 | 2,640 | $ 2.44 |
| $ 2.98 – $ 6.70 | 3,853 | $ 6.21 |
| $ 6.75 – $ 9.56 | 5,709 | $ 8.77 |
| $ 9.60 – $14.94 | 4,660 | $ 11.31 |
| $15.00 – $24.11 | 1,710 | $ 17.28 |
| | 18,572 | |

The effect on reported net loss and net loss per share of accounting for employee stock options under the fair value method is disclosed in Note 2, *Pro Forma Stock Compensation Expense*.



**Note 18: Commitments and Contingencies**

Synthetic Lease

In August 1997, Quantum entered into a five-year synthetic lease agreement with a group of financial institutions (the “lessor”) for the construction and lease of a campus facility in Colorado Springs, Colorado, comprised of three buildings. The campus was the center of DLTG’s operations until the transfer in fiscal year 2002 of tape drive production to Penang, Malaysia. The Colorado Springs facility now houses only administrative and procurement resources and testing operations within one of the three buildings. The lease has been accounted for as an operating lease in accordance with SFAS No. 13, *Accounting for Leases*.

In December 2002, Quantum renegotiated this lease, which now expires in December 2007. The total minimum lease payments from the third quarter of fiscal year 2004 until the scheduled expiration date in December 2007 are estimated to be approximately $4.2 million and approximate the lessor’s debt interest service costs. The minimum lease payments will fluctuate depending on short-term interest rates.

The lease is secured by a standby letter of credit issued under Quantum’s revolving line of credit and a blanket lien on all of the assets of Quantum. The revolving line of credit expires in June 2004 and at that time Quantum will be required to post cash collateral to secure the lease, unless other financial arrangements are made that are acceptable to the lessor.

There is a cross default provision between this facility and the credit line facility (refer to Note 12, *Credit Agreements, Short-Term Debt and Convertible Subordinated Debt*) such that a default on one facility constitutes a default on the other facility. If an event of default was to occur in the future and Quantum was unable to obtain a waiver, or amend the lease, for such non-compliance, the lessor could terminate the lease. This could result in Quantum immediately having to purchase the facilities, or find a third party to purchase them, potentially at a substantial discount to their current appraised value.

At the end of the lease term, Quantum must undertake one of the following options:

(1) Quantum may renew the lease if the lessor accepts a renewal at its discretion;

(2) Quantum may purchase the facility for $50.0 million, which is known as the “stipulated sales price”; or

(3) If Quantum has paid all sums owing under the lease and is not otherwise in default under the lease or the credit line facility at the end of the stated lease term, Quantum may find a third party to purchase the facility. In such event, Quantum has guaranteed to the lessor any shortfall between the net proceeds from the sale of the property to a third party and the stipulated sales price, up to a maximum amount payable equal to 87.7% of the stipulated sales price, or $43.9 million.

At any time during the lease term, Quantum may purchase (or find a third party to purchase) the facility for the stipulated sales price. If Quantum defaults under the lease, its only option is to purchase the facility for the stipulated sales price.

For a more comprehensive discussion of the potential impacts should Quantum violate any financial or reporting covenant in future quarters on the unsecured senior credit facility or the synthetic lease, see Management's Discussion and Analysis section under Liquidity and Capital Resources titled "General Outlook".

Debentures contingently issuable in connection with the acquisition of M4 Data

The agreement to acquire M4 Data included additional contingent consideration to be paid annually from 2002 through 2005 based on revenues, which may result in additional debentures being issued. Debentures of $0.4 million and $1.0 million were issued in fiscal years 2003 and 2004, respectively, based on revenues in the preceding fiscal year.

Commitments to purchase inventory

DLTG outsourced tape drive manufacturing to a contract manufacturer, Jabil Circuit Inc. ("Jabil"), during the third quarter of fiscal year 2003. SSG has also increased its use of contract manufacturers for certain manufacturing functions. Under these arrangements, the contract manufacturer procures inventory to manufacture products based upon a forecast of demand provided by Quantum. Quantum is responsible for the financial impact on the contract manufacturer of any reduction or product mix shift in the forecast relative to materials that the contract manufacturer had already purchased under a prior forecast. Such a variance in forecasted demand could require a cash payment for finished goods in excess of current demand or for costs of excess or obsolete inventory.

At September 28, 2003, Quantum had issued non-cancelable purchase orders for $33.2 million to purchase finished goods from its contract manufacturers, and had not incurred any significant liability for finished goods in excess of current demand or for the costs of excess or obsolete inventory.



Related to the disposition of HDD to Maxtor

Tax allocations under a tax sharing and indemnity agreement with Maxtor are the subject of a dispute. This agreement between Quantum and Maxtor entered into in connection with the disposition of HDD provided for the allocation of certain liabilities related to taxes and the indemnification by Maxtor of Quantum with respect to certain liabilities relating to taxes and attributable to the conduct of business prior to the disposition of HDD. Maxtor and Quantum presently disagree as to the amounts owed under this agreement. The parties are in negotiations to resolve this matter, and no litigation has been initiated to date. However, there can be no assurance that Quantum will be successful in asserting its position. If disputes under this agreement cannot be resolved favorably, Quantum may incur significant liabilities and costs, including litigation costs, as well as costs to settle the related obligations. An unfavorable settlement or litigation outcome could have a material and adverse effect on Quantum's results of operations and financial condition.

**Note 19: Income Taxes**

The tax expense recorded for the three months ended September 28, 2003 was $24.2 million compared to a tax expense of $0.8 million for the three months ended September 29, 2002. The tax provision for the three months ended September 28, 2003 reflects foreign withholding taxes incurred, no tax benefit for current period net operating losses and a $21.3 million charge to provide a valuation allowance against Quantum's beginning of the year balance of net deferred tax assets. The tax expense recorded in the three months ended September 29, 2002 reflected tax benefits recorded on operating losses and special charges, offset by a tax charge related to the repatriation of offshore earnings connected with the outsourcing of Quantum's tape drive manufacturing in Malaysia.

The tax expense recorded for the six months ended September 28, 2003 was $27.3 million compared to a tax benefit of $4.0 million for the six months ended September 29, 2002. The tax provision recorded in the six months ended September 28, 2003 reflects foreign withholding taxes incurred, no tax benefit on current period net operating losses and a $21.3 million charge to provide a valuation allowance against Quantum's net deferred tax assets. The tax benefit recorded in the six months ended September 29, 2002 reflected write-downs of equity investments, special charges and a tax charge related to the repatriation of offshore earnings connected with the outsourcing of Quantum's tape drive manufacturing in Malaysia.

Due to the prevailing economic environment that has resulted in weakened IT spending, intense competition, Quantum's history of net losses, and its difficulty in predicting future results, Quantum believes that it cannot rely on projections of future taxable income to realize the deferred tax assets. Accordingly, the company recorded a valuation allowance of $21.3 million against its net deferred tax assets for the quarter ended September 28, 2003.

**Note 20: <u>Recent Accounting Pronouncements</u>**

<u>Accounting for Revenue Arrangements with Multiple Deliverables</u>

In November 2002, the Emerging Issues Task Force ("EITF") reached a consensus regarding EITF Issue 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables*. The consensus addresses not only when and how an arrangement involving multiple deliverables should be divided into separate units of accounting but also how the arrangement's consideration should be allocated among separate units. Quantum's adoption of EITF Issue 00-21 in the second quarter of fiscal year 2004 has not had a material impact on Quantum's financial statements.

<u>Consolidation of Variable Interest Entities</u>

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation (FIN) No. 46, *Consolidation of Variable Interest Entities.* FIN No. 46 requires that if a business enterprise has a controlling interest in a variable interest entity (also known as a special purpose entity), the assets, liabilities and results of operations of the variable interest entity should be included in the Consolidated Financial Statements of the business enterprise. FIN No. 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies at the end of the first fiscal year or interim period ending after December 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The synthetic lease disclosed in Note 18, *Commitments and Contingencies,* is subject to FIN 46 and Quantum is in the process of evaluating the financial statement impact, if any, of adoption of FIN No. 46.



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## Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements in this report usually contain the words "will," "estimate," "anticipate," "expect", "believe" or similar expressions and variations or negatives of these words. All forward-looking statements including, but not limited to, (1) our expectation that we will continue to derive a substantial majority of our revenue from products based on our tape technology, (2) our belief that we will take continued steps to reduce our operating costs, (3) our intention to provide a broader range of autoloaders and libraries from the desktop computer to the data center and expand our sales channels to sell our tape automation products to more customers, (4) our intention to pursue product initiatives in order to improve gross margins, increase operating efficiencies and effectiveness, and reduce operating costs, (5) our belief that strong competition in the tape drive and tape media markets will result in further price erosion and lower margins, (6) our expectation that we will realize annual cost savings from our current restructuring programs of approximately $29 million, (7) our expectation that any debentures that we issue after the date of this Quarterly Report on Form 10-Q in connection with our acquisition of M4 Data will total approximately $1 million annually through fiscal 2005, (8) our expectation that our future contractual cash obligations as of September 28, 2003 total approximately $289 million, (9) our belief that our existing cash and capital resources will be sufficient to meet all currently planned expenditures and sustain our operations for the next 12 months, (10) our expectation that we will make additional acquisitions in the future, (11) our intention to continue to invest in the development, promotion and sale of storage solutions, (12) our expectation that we will continue to devote considerable management and financial resources to improving existing products and introducing new ones, and (13) our belief that our total foreign exchange rate exposure is not significant, are inherently uncertain as they are based on management's expectations and assumptions concerning future events, and they are subject to numerous known and unknown risks and uncertainties. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. As a result, our actual results may differ materially from the forward-looking statements contained herein. Factors that could cause actual results to differ materially from those described herein include, but are not limited to, (1) the amount of orders received in future periods; (2) our ability to timely ship our products; (3) uncertainty regarding IT spending and the corresponding uncertainty in the demand for tape drives and tape automation products; (4) our continued receipt of media royalties from media manufacturers at or above historical levels; (5) a continued trend toward centralization of storage; (6) our ability to achieve anticipated pricing, cost and gross margin levels, particularly on tape drives, given continuing price and cost pressures; (7) the successful execution of our strategy to expand our businesses into new directions; (8) our ability to successfully introduce new products; (9) our ability to achieve and capitalize on changes in market demand; (10) acceptance of, and demand for, our products; (11) our ability to maintain supplier relationships; and (12) those factors discussed under "Trends and Uncertainties" elsewhere in this Quarterly Report on Form 10-Q. Our forward-looking statements are not guarantees of future performance. We disclaim any obligation to update information in any forward-looking statement.

**BUSINESS DESCRIPTION**

Quantum Corporation ("Quantum", the "Company", "us" or "we") (NYSE:DSS), founded in 1980, is a global leader in data protection focused on meeting the needs of business customers with enterprise-wide storage solutions and services. Our DLTtape™ technology allows for backup, archiving, and recovery of mission-critical data. We are also a leader in the design, manufacture and service of automated tape libraries used to manage, store and transfer data. In fiscal year 2003, we expanded into the area of disk-based backup, with a solution that emulates a tape library and is optimized for data protection.

Quantum's stock symbol is DSS and this is the only stock symbol that represents Quantum. In the past, we had two separate classes of common stock. Until the beginning of fiscal year 2002, we operated our business through two separate business groups: the DLT & Storage Systems group ("DSS") and the Hard Disk Drive group ("HDD"), which were represented by two classes of Quantum common stock, DSS common stock and HDD common stock, which were intended to track separately the respective businesses of the Company. Our stockholders approved the tracking stock structure on July 23, 1999, and on August 3, 1999, each authorized share of Quantum common stock was exchanged for one share of DSS common stock and one-half share of HDD common stock. On March 30, 2001, our stockholders approved the disposition of HDD to Maxtor (Maxtor). On April 2, 2001, each authorized share of HDD common stock was exchanged for 1.52 shares of Maxtor common stock. The DSS business now represents Quantum, and as such, DSS is no longer a tracking stock, but is now the only common stock for Quantum Corporation.



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**Business Summary**

Quantum's business consists of two segments: the DLT group and the Storage Solutions group. Our DLT group consists of tape drive and tape media cartridge product lines. Our Storage Solutions group consists of tape automation systems and solutions product lines, service and includes our recently introduced enhanced backup solution.

Our business groups experienced declining revenues, lower gross margins and operating losses in recent years. The factors driving these trends included, among other things, the generally weak economic conditions that persisted between 2000 and 2002 and have resulted in reduced customer spending on Information Technology ("IT"), and increased competition from other computer equipment manufacturers. Because of these trends and the reduced corporate infrastructure that we required following the disposition of HDD to Maxtor, which represented a major corporate realignment for Quantum, we have taken numerous cost reduction actions. These trends continued to impact our first half of fiscal year 2004.

We sold our (NAS) business, which was part of our Storage Solutions group, to SNAP Appliance, Inc., (formerly known as Broadband Storage, Inc.), a privately held company, in October 2002. We engaged in the NAS business following the acquisition of Meridian Data, Inc., in September 1999 and following our acquisition of certain assets of Connex in August 2001.

<u>DLT Group ("DLTG")</u>

In DLTG, we design, develop, license, service, and market DLTtape and Super DLTtape drives (collectively referred to as "tape drives"), as well as DLTtape and Super DLTtape media cartridges (collectively referred to as "tape media cartridges"). The DLTtape drives are targeted at the "value" or "price sensitive" segment of the tape drive market in which we compete. The Super DLTtape drives are targeted at the "performance sensitive" segment of the tape drive market in which we compete. We earn most of our revenue by selling tape drives and the tape media cartridges used by tape drives and earn a significant portion of our media revenue from royalties paid to us by manufacturers who license tape media cartridge technology from us. Super DLTtape technology has a higher storage capacity and transfer rate than DLTtape technology. Both DLTtape and Super DLTtape products are used to back up large amounts of data stored on network servers. DLTtape and Super DLTtape is our half-inch Digital Linear Tape technology that is the leader in mid-range UNIX and NT system backup and archive applications.

DLTtape and Super DLTtape drives store data on DLTtape and Super DLTtape media cartridges, respectively. Historical use of tape drives has shown that drives use many tape media cartridges per year in archival and backup processes. This historical use suggests that the installed base of tape drives will result in continued demand for tape media cartridges. Our tape media cartridges are manufactured and sold by licensed third party manufacturers and directly by us.

We receive a royalty on tape media cartridges sold by our licensees, which, while resulting in lower revenue per unit than tape media cartridges sold directly by Quantum, has historically generated relatively comparable gross margin dollars. We prefer that a substantial portion of tape media cartridge sales occur through this license model because this minimizes our operational risks, asset investments and expenses and provides an efficient distribution channel. Currently, more than 80% of our tape media cartridge unit sales occur through this license model. We believe that the large installed base of tape drives, and our licensing of tape media cartridges, are of strategic importance to us because they contribute to both our direct sales of tape media cartridges and also provide us with royalty income from our licensing partners. Media royalties have been a significant source of our gross margins, operating income and cash flow, and this trend is expected to continue.

On August 29, 2002, we signed an agreement to outsource our DLT and Super DLT tape drive manufacturing and certain of our tape automation manufacturing to Jabil Circuit Inc. ("Jabil").

On November 13, 2002, we completed the acquisition of Benchmark Storage Innovations, Inc. ("Benchmark"), a privately held company. The acquisition has enabled us to expand our tape business by adding Benchmark's complementary products to better serve the data protection needs of both new and existing customers in the value segment of the tape drive business. The acquisition combines our leadership in providing high-performance, high-capacity tape drives with Benchmark's expertise in delivering high-quality tape products at a lower price for more value-oriented customers.

Storage Solutions Group (“SSG”)

In SSG, we design, develop, manufacture, market and sell tape automation systems, solutions, and related service and support. Our tape automation systems, including tape libraries and autoloaders, serve the entire tape library data storage market from desktop computers to enterprise-class computers. We offer a broad line of tape automation systems, which are used to manage, store and transfer data in enterprise networked computing environments.

The recent completion of the Benchmark acquisition enabled us to expand our tape automation business by adding Benchmark’s complementary low cost automation product to our product range.

In April 2001, we completed the acquisition of M4 Data (Holdings) Ltd. (“M4 Data”), a privately held data storage company based in the United Kingdom, to leverage M4 Data’s complementary high performance and scalable tape automation products and technologies to enhance the range of storage solutions offered to our customers.

In March 2003, we completed the acquisition of the remaining outstanding shares of SANlight, which we did not already own. The acquisition provided us with software technology and expertise that we can leverage in our enhanced backup solutions.

**Strategy**

Our strategy includes growing our tape drive and tape automation businesses, generating cash and operating profitably, increasing the efficiency of our operating structure and investing in new product categories for future growth. Our strategy consists of the following four strategic priorities:

1. *Establish Quantum as the undisputed leader in tape drives.* Our goal is to continue to deliver innovative tape drives and solutions to meet growing customer demand. This involves both Super DLTtape drive and Value DLTtape drive products and maintaining compatibility between the two product families.

2. *Significantly grow the tape automation business.* To achieve this goal, we intend to provide a broader range of autoloaders and libraries from the desktop computer to the data center. Further, we intend to expand our sales channels to sell our tape automation products to more customers.

*3. Build a new category of enhanced backup solutions (“EBS”).* The goal of EBS is to improve the data backup process by offering a disk-based storage appliance with integrated storage management software, which enables a company to better leverage its existing infrastructure to significantly accelerate the data backup and restore process.

*4. Build an efficient operational platform.* Our goal is to continue to streamline our processes, optimize our cost structure and focus on reducing expenses in order to improve our operating and financial performance. We intend to pursue product initiatives, including quality programs, system architecture streamlining and supply chain improvement efforts, in order to improve gross margins, as well as other streamlining initiatives to increase operating efficiency and effectiveness and reduce operating costs.



**Products**

Our products include:

DLTG:

We offer tape drive products and tape media cartridges based on DLTtape™ technology, which are targeted to serve workgroup, mid-range and enterprise business needs.

- **Super DLTtape drives**
  The SDLT series includes drives that have native capacities of up to 300 gigabytes (GB) (600 GB compressed) and transfer rates of up to 36 megabytes (MB) per second (72 MB compressed). The SDLT 600 drive uses new Super DLTtape II media cartridges and can back-read cartridges written on the DLT VS160 drive and the SDLT 320 drive. The SDLT 600 also incorporates DLTSage, which is a new architecture-based suite of predictive and preventive maintenance diagnostic offerings that enable users to more simply manage tape storage environments. The DLTSage architecture is built on standards that interface into current storage environments. The SDLT 320 and SDLT 220 drives use Super DLTtape I media cartridges and can back-read cartridges written on most DLTtape and DLTtape VS drives.

- **DLT VS tape drives**
  The family of DLT VS drives includes drives with up to 80 GB of native capacity (160 GB compressed) and sustained data transfer rates of up to 8 MB per second (16 MB compressed). The DLT VS80 drive is compatible with DLTtape IV media cartridges. The DLT VS160 drive uses DLT VS1 media cartridges.

- **Super DLTtape media cartridges**

The Super DLTtape media cartridges are designed and formulated specifically for use with SDLT tape drives. The capacity of a Super DLTtape II media cartridge is up to 300 GB native (600 GB compressed). The capacity of a Super DLTtape I media cartridge is up to 160 GB native (320 GB compressed).

• **DLTtape media cartridges**
The DLTtape and DLTtape VS media cartridges are designed and formulated for use with DLT VS tape drives. The capacity of these media cartridges is up to 80 GB (160 GB compressed).

SSG:

Quantum ATL Tape Libraries™, Autoloaders and enhanced backup solutions automatically manage and protect business-critical data in network environments. Modular solutions maximize customer investment with simple-to-manage systems for workgroup, departmental, mid-range, and enterprise-class applications. Our automated systems are fully compatible with major hardware platforms and are supported by nearly 30 popular data management software applications.

SSG's products are divided into the following two categories to reflect different go-to-market business models.

• **High-Volume Products**

High-volumeproducts are sold mainly through third party distributors, value-added resellers and OEMs, and include the ATL ValueLoader™, the ATL SuperLoader™ and the ATL M1500/M1800.

The ATL SuperLoader tape library is a scalable tape autoloader that provides up to 3.5 terabytes (TB) of capacity and 108GB/hour throughput in a 2U (U is a standard of measure, 1.75" high) rack-mount form factor and is a modular, high-density tape automation solution designed for the workgroup environment. It contains one or two removable active magazines and is available with up to 16 cartridges and a bar code reader for high performance inventory management.

The ATL ValueLoader was added to our product portfolio through the acquisition of Benchmark in the third quarter of fiscal year 2003. The rack-optimized ATL ValueLoader uses a single DLT VS80 or LTO-1 tape drive with an eight-cartridge capacity and provides up to 800GB of data storage and 54GB/hour throughput.

Within our high-volume line are the ATL M1500 and ATL M1800, which are modular automation systems. The ATL M1500 is a modular library that is rack mountable and available in increments of two drives and 21 (DLT and Super DLT) or 25 (LTO) cartridges that easily scale up to 20 drives and 250 cartridges. The ATL M1800 has double the performance and capacity of the M1500 and can accommodate up to four drives and 50 cartridges, and is scalable to 20 drives and 250 cartridges.



• **High-Touch Products**

High-touch products are sold mainly through value-added resellers, OEMs, and direct accounts. These products require a higher level of customer engagement to complete a more complex storage solutions sale and include the ATL M2500, the P-Series libraries, and our DX enhanced backup solution.

The ATL M2500 is an entry-point enterprise-class library that begins with one to six drives and can accommodate up to 100 cartridges. The M2500 is stackable with up to three modules in a standard rack, and utilizing a Stacklink™ feature, it can provide compressed storage capacity of up to 60TB per rack.

P-Series Libraries

The ATL P4000 and the ATL P7000 feature Prism Library Architecture™ and are high-performance storage solutions for the enterprise data center. The ATL P4000 scales to 322 data cartridges and 10 tape drives, providing up to 64TB of capacity and 1.3TB/hour performance. The ATL P7000 scales up to 679 data cartridges and 16 tape drives, providing up to 136TB capacity and 2TB/hour performance. Multiple P-Series libraries can be linked together to form a single library system providing up to 479TB capacity and 10TB/hour performance.

Enhanced Backup Solutions

The Quantum DX30 disk-based enhanced backup solution significantly improves backup and restore times by incorporating RAID-protected* disks into the backup data path. Operating system-independent, the Quantum DX30 stores over 3TB of native capacity within a 4U (7 inch) rack-mounted package, expandable to 10TB of capacity. Because it emulates a tape library, the Quantum DX30 can be rapidly implemented and easily managed with no software modifications or policy changes required.

**StorageCare Services**

StorageCare™ services are a group of services that support Quantum products from purchase through product life. StorageCare services include product installation and integration, warranty support, and on-site service agreements.

*RAID denotes Redundant Array of Independent Disks, also known as Redundant Array of Inexpensive Disks.

For more information about our products, please visit our website at *www.quantum.com*.



**CRITICAL ACCOUNTING POLICIES**

Our discussion and analysis of the financial condition and results of operations is based on the Condensed Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these statements requires us to make significant estimates and judgments about future uncertainties that affect reported assets, liabilities, revenues and expenses and related disclosures. We base our estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances. Our reported financial position or results of operations may be materially different under different conditions or when using different estimates and assumptions. In the event that estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current information. We believe that the following accounting policies require our most difficult, subjective or complex judgments, because of the need to make estimates about the effect of matters that are inherently uncertain. The judgments and uncertainties that affect the application of those policies in particular could result in materially different amounts being reported under different conditions or using different assumptions.

**Revenue Recognition**

Revenue from sales of products to OEMs and distributors is recognized when passage of title and risk of ownership are transferred to customers, when persuasive evidence of an arrangement exists, when the price to the buyer is fixed or determinable and collection is reasonably assured. In the period when the revenue is recognized, allowances are provided for estimated future price adjustments, such as volume rebates and price protection, and future product returns. Since we have historically been able to reliably estimate the amount of allowances required for future price adjustments and product returns, we recognize revenue, net of projected allowances, upon shipment to our customers.

These allowances are based on the OEMs' and distributors' master agreements, programs in existence at the time the revenue is recognized, historical information, contractual limits and plans regarding price adjustments and product returns. Revenue from distributor arrangements was a significant portion of our total revenue. If we were unable to reliably estimate the amount of future price adjustments and product returns in any specific reporting period, then we would be required to defer recognition of the revenue until the right to future price adjustments and product returns lapsed and we were no longer under any obligation to reduce the price or accept the return of the product.

Royalty revenue is recognized based on actual licensee sales when such sales incorporate technology licensed from Quantum. Revenue from separately priced extended warranty and product service contracts is deferred and recognized as revenue ratably over the contract period.

**Warranty expense and liability**

We warrant our products against defects for periods ranging from one to three years. A provision for estimated future costs and estimated returns for credit relating to warranty claims is recorded when products are shipped and revenue recognized. Our estimate of future costs to satisfy warranty obligations is primarily based on our estimates of future failure rates and our estimates of future costs of repair including materials consumed in the repair, and labor and overhead amounts necessary to perform the repair.

The estimates of future product failure rates are based on both historical product failure data and anticipated future failure rates. If future actual failure rates differ from our estimates, we will record the impact in subsequent periods. Similarly, the estimates of future costs of repair are based on both historical data and anticipated future costs. If future actual costs to repair were to differ significantly from our estimates, we would record the impact of these unforeseen costs in subsequent periods.

**Inventory Valuation**

We value our inventories that are held for resale to customers at the lower of cost or market. Cost is determined by the first-in, first-out (“FIFO”) method and includes direct material, direct labor, factory overhead and other direct costs. Market is “net realizable value”, which, for finished goods and goods in process, is the estimated selling price, less costs to complete and dispose of the inventory. For raw materials, it is replacement cost or the cost of acquiring similar products from our vendors. While cost is readily determinable, estimates of market value involve significant estimates and judgments about the future.



We initially record our inventory at cost and each quarter evaluate the difference, if any, between cost and market. The determination of the market value of inventories is primarily dependent on estimates of future demand for our products, which in turn is based on other market estimates such as technological change, competitor actions and estimates of future selling prices.

We record write-downs for the amount that cost of inventory exceeds our estimated market value. No adjustment is required when market value exceeds cost.

**Service Inventories**

We value our service inventories at the lower of cost or market. Service inventories consist of both component parts, which are primarily used to repair defective units, and finished units, which are provided for customer use permanently or on a temporary basis while the defective unit is being repaired. Cost is determined by the FIFO method and includes direct material, direct labor, overhead and other direct costs. Market is “net realizable value”, which, for components, is replacement cost or the cost of acquiring similar products from our vendors. For finished goods, market value is the estimated selling price less costs to complete and dispose of the inventories. While cost is readily determinable, the estimates of market involve significant estimates and judgments about the future.

We carry service inventories because we provide product warranty for one to three years and earn revenue by providing enhanced warranty and repair service outside this warranty period. We initially record our service inventories at cost and each quarter evaluate the difference, if any, between cost and market. The determination of the market value of service inventories is dependent on estimates, including the estimated amount of component parts expected to be consumed in the future warranty and out of warranty service, the estimated number of units required to meet future customer needs, the estimated selling prices of the finished units, and the estimated useful lives of finished units.

We record write-downs for the amount that cost of service inventories exceeds our estimated market value. No adjustment is required when market value exceeds cost.

**Goodwill and Intangible Assets**

We have a significant amount of goodwill and intangible assets on our balance sheet related to acquisitions. At September 28, 2003, the net amount of $113.9 million of goodwill and intangible assets represented 16% of total assets.

As a result of adopting SFAS No. 142, *Goodwill and Other Intangible Assets*, on April 1, 2002, we discontinued the amortization of goodwill. Instead, goodwill was reviewed for impairment upon adoption of SFAS No. 142 and will be reviewed annually thereafter, or more frequently when indicators of impairment are present. Refer to Note 5 and Note 6 of the Condensed Consolidated Financial Statements for a discussion of the impact of adopting and applying SFAS No. 142.

Intangible assets are carried and reported at acquisition cost, net of accumulated amortization subsequent to acquisition. The acquisition cost is amortized over the estimated useful lives, which range from three to ten years. Intangible assets are reviewed for impairment whenever events or circumstances indicate impairment might exist, or at least annually, in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets.* Projected undiscounted net cash flows expected to be derived from the use of those assets are compared to the respective net carrying amounts to determine whether any impairment exists. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets.

The determination of the net carrying value of goodwill and intangible assets and the extent to which, if any, there is impairment are dependent on material estimates and judgments on our part, including the useful life over which the intangible assets are to be amortized, and the estimates of the value of future net cash flows, which are based upon further estimates of future revenues, expenses and operating margins.



**Special Charges**

In the past several years, we recorded significant special charges related to the realignment and restructuring of our business operations. These charges represent expenses incurred in connection with certain cost reduction programs that we have undertaken and consist of the cost of involuntary termination benefits, separation benefits, stock compensation charges, facilities charges and other costs of exiting activities.

The charges for severance and exit costs require the use of estimates, primarily related to the number of employees paid severance, the amount of severance and related benefits to be paid, and the cost of exiting facilities, including estimates and assumptions related to future maintenance costs, our ability to secure a sub-tenant, if applicable, and any sublease income to be received in the future.

In the fourth quarter of fiscal year 2003, we became subject to SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, which superseded EITF Issue No. 94-3. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred rather than at the date of an entity's commitment to an exit plan. The statement further establishes fair value as the objective for initial measurement of the liability and that employee benefit arrangements requiring future service beyond a "minimum retention period" be recognized over the future service period. Under SFAS No. 146, if we fail to make accurate estimates regarding these costs or to the timing of the completion of planned activities, we may be required to record additional expenses or expense reductions in the future.

Prior to the fourth quarter of fiscal year 2003, we accounted for special charges under the provisions of EITF Issue No. 94-3. Under that pronouncement, we recorded a liability in the period in which management approved a restructuring plan if:

- Management having the appropriate level of authority approved and committed Quantum to the specific exit plan;
- The period of time to complete the plan indicated that significant changes to the plan of termination were not likely; and
- The plan, if it involved terminations, identified the number of employees and positions to be terminated, and the benefit arrangements were communicated to affected employees.

**Income Taxes**

We account for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*, which requires that deferred tax assets and liabilities be recognized for the effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. SFAS No. 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some or all of the deferred tax asset will not be realized.

Due to the prevailing economic environment that has resulted in weakened IT spending, intense competition, our history of net losses, and our difficulty in predicting future results, Quantum believes that it cannot rely on projections of future taxable income to realize the deferred tax assets. Accordingly, the company recorded a valuation allowance of $21.3 million against its net deferred tax assets for the quarter ended September 28, 2003.

Significant management judgment is required in determining our deferred tax assets and liabilities and valuation allowances for purposes of assessing our ability to realize any future benefit from our net deferred tax assets. We intend to maintain this valuation allowance until sufficient positive evidence exists to support the reversal of the valuation allowance. Our income tax expense recorded in the future will be reduced to the extent that sufficient positive evidence materializes to support a reversal of, or decrease in, our valuation allowance.



**RESULTS OF OPERATIONS**

The results of DLTG and SSG, the two segments that represent Quantum, are presented as "Results of Continuing Operations". The results of operations of the NAS business, sold on October 28, 2002, are separately presented as "Results of Discontinued Operations".

The financial statements for our second quarter of fiscal year 2004 included in this Form 10-Q differ by immaterial amounts from the financial statements included with our earlier press release issued on October 23, 2003. These differences result from a determination made as we completed work in connection with the preparation of the financial statements for the quarter that approximately $0.5 million of sales could not be recognized as revenue in the quarter. The effect of these adjustments was to reduce revenue and gross margin dollar contribution, and to increase the net loss, by $0.5 million, $0.3 million and $0.2 million, respectively. Net loss per share remained at the originally announced 22 cents. In addition, there were immaterial balance sheet adjustments, including increases to accounts payable, service inventories and inventories.

## Results of Continuing Operations

### Revenue

| (Dollars in thousands) | Three Months Ended September 28, 2003 | Three Months Ended September 29, 2002 | Increase, (decrease) | % increase/ decrease |
|---|---|---|---|---|
| Tape drives | $ 86,527 | $ 69,730 | $ 16,797 | 24.1 % |
| Tape media | 16,392 | 48,611 | (32,219) | -66.3 % |
| Tape royalty | 32,233 | 44,603 | (12,370) | -27.7 % |
| DLTG | 135,152 | 162,944 | (27,792) | -17.1 % |
| SSG | 64,628 | 51,135 | 13,493 | 26.4 % |
| Inter-group elimination* | (4,905 ) | (9,626 ) | 4,721 | 49.0 % |
| | $ 194,875 | $ 204,453 | $ (9,578) | -4.7 % |

| (Dollars in thousands) | Six Months Ended September 28, 2003 | Six Months Ended September 29, 2002 | Increase, (decrease) | % increase/ decrease |
|---|---|---|---|---|
| Tape drives | $ 177,642 | $ 138,789 | $ 38,853 | 28.0 % |
| Tape media | 36,378 | 93,615 | (57,237) | -61.1 % |
| Tape royalty | 67,261 | 90,166 | (22,905) | -25.4 % |
| DLTG | 281,281 | 322,570 | (41,289) | -12.8 % |
| SSG | 130,580 | 101,144 | 29,436 | 29.1 % |
| Inter-group elimination* | (14,771 ) | (16,811 ) | 2,040 | 12.1 % |
| | $ 397,090 | $ 406,903 | $ (9,813) | -2.4 % |

* Represents inter-group sales of tape drives for incorporation into tape automation systems, for which the sales are included in SSG revenue.

Revenue in the three months ended September 28, 2003 was $194.9 million compared to $204.5 million in the three months ended September 29, 2002. Revenue in the six months ended September 28, 2003 was $397.1 million compared to $406.9 million in the six months ended September 29, 2002. The overall decrease in both the three and six-month comparisons reflects decreased DLTG revenue, slightly offset by an increase in SSG revenue.

*DLTG Revenue:*

DLTG revenue decreased $27.7 million, or 17.1 percent, to $135.2 million in the three months ended September 28, 2003, compared to $162.9 million in the three months ended September 29, 2002. DLTG revenue decreased $41.3 million, or 12.8 percent, to $281.3 million in the six months ended September 28, 2003, compared to $322.6 million in the six months ended September 29, 2002. The main causes for the decreases in revenue were a decrease in tape media revenue, and to a lesser extent, tape media royalty revenue, partially offset by an increase in tape drive revenue.



Tape media revenue for direct sales of Quantum-branded media in the three months ended September 28, 2003 was $16.4 million, down $32.2 million, or 66.3 percent, from $48.6 million in the three months ended September 29, 2002. Tape media revenue for the six months ended September 28, 2003 was $36.4 million, down $57.2 million, or 61.1 percent, from $93.6 million in the six months ended September 29, 2002. The majority of the decline in tape media revenue for the three and six-month comparisons was due to lower unit sales volume, and to a lesser extent, due to lower average unit prices.

Tape media royalty revenue in the three months ended September 28, 2003 was $32.2 million, down $12.4 million, or 27.7 percent, from $44.6 million in the three months ended September 29, 2002. Tape media royalty revenue in the six months ended September 28, 2003 was $67.3 million, down $22.9 million, or 25.4 percent, from $90.2 million in the six months ended September 29, 2002. The majority of the decline in tape media royalty revenue for the three and six-month comparisons was due to lower average unit prices, and to a lesser extent, a decrease in overall media market unit sales.

The decline in media sales volume reflects the impact on demand for our products from competition and the effect of lower tape drive unit sales in recent years. This weaker demand trend has also resulted in lower-than-expected media prices, further reducing royalties, which are based on our licensees' media revenue. Our research indicates that in the three months ended June 29, 2003, media price erosion was more rapid than expected by our resellers, and that, as a consequence, these resellers reduced their inventories during this same quarter to mitigate the risk of holding higher-priced products. This contributed further to the reduction in media sales volume and royalty revenue.

Tape drive revenue increased $16.8 million, or 24.1 percent, to $86.5 million in the three months ended September 28, 2003, compared to $69.7 million in the three months ended September 29, 2002. Tape drive revenue increased $38.8 million, or 28.0 percent, to $177.6 million in the six months ended September 28, 2003, compared to $138.8 million in the six months ended September 29, 2002. The increase in tape drive revenue for the three and six-month comparisons resulted from an increase in tape drive unit volume, reflecting sales of tape drive products added to our product family with the acquisition of Benchmark in the third quarter of fiscal year 2003, partially offset by lower average unit prices due to competitive pricing in the markets in which we compete.

*SSG Revenue:*

Storage solutions revenue in the three months ended September 28, 2003 was $64.6 million, up $13.5 million, or 26.4 percent, compared to $51.1 million in the three months ended September 29, 2002. Storage solutions revenue in the six months ended September 28, 2003 was $130.6 million, up $29.5 million, or 29.1 percent, compared to $101.1 million in the six months ended September 29, 2002. The increase in revenue reflected our expanded product line and also improved OEM sales. Revenue from sales of the ValueLoader, which we added to our product family and began selling with the acquisition of Benchmark, contributed the majority of this increase. Increased unit shipments of our SuperLoader and M-series products also contributed to the increase in revenue. Service and support revenues in these periods were roughly flat.



## Gross Margin and Gross Margin Rate

| (Dollars in thousands) | Three Months Ended September 28, 2003 | Three Months Ended September 29, 2002 | Increase, (decrease) |
|---|---|---|---|
| DLTG gross margin | $ 43,344 | $ 45,684 | $ (2,340) |
| SSG gross margin | 14,813 | 13,926 | 887 |
| Quantum gross margin | $ 58,157 | $ 59,610 | $ (1,453) |
| DLTG gross margin rate | 32.1% | 28.0% | 4.1% |
| SSG gross margin rate | 22.9% | 27.2% | -4.3% |
| Quantum gross margin rate* | 29.8% | 29.2% | 0.6% |

| (Dollars in thousands) | Six Months Ended September 28, 2003 | Six Months Ended September 29, 2002 | Increase, (decrease) |
|---|---|---|---|
| DLTG gross margin | $ 90,619 | $ 92,181 | $ (1,562) |
| SSG gross margin | 31,051 | 30,018 | 1,033 |
| Quantum gross margin | $ 121,670 | $ 122,199 | $ (529) |
| DLTG gross margin rate | 32.2% | 28.6% | 3.6% |
| SSG gross margin rate | 23.8% | 29.7% | -5.9% |
| Quantum gross margin rate* | 30.6% | 30.0% | 0.6% |

*Includes the impact of eliminating inter-group revenue.

*DLTG Gross Margin Rate:*

The DLTG gross margin rate in the three months ended September 28, 2003 increased to 32.1% from 28.0% in the three months ended September 29, 2002, an overall increase of 4.1 percentage points. The DLTG gross margin rate in the six months ended September 28, 2003 increased to 32.2% from 28.6% in the six months ended September 29, 2002, an overall increase of 3.6 percentage points. These improvements in gross margin rate mainly reflect the impact of outsourced manufacturing as well as a favorable sales mix shift that resulted from increased shipments of higher-margin SDLT products and value segment drives from the acquisition of Benchmark. This increase in gross margin rate, however, was partially offset by the materially downward trend in media revenues and royalties, which lowered the gross margin dollar contribution we received from our media business.

*SSG Gross Margin Rate:*

The SSG gross margin rate in the three months ended September 28, 2003, decreased to 22.9% from 27.2% in the three months ended September 29, 2002. The SSG gross margin rate in the six months ended September 28, 2003 decreased to 23.8% from 29.7% in the six months ended September 29, 2002. The decline of 4.3 percentage points and 5.9 percentage points in the three and six-month comparisons, respectively, mainly resulted from lower average unit prices, slightly offset by higher unit sales volumes primarily contributed by the sales of ValueLoader subsequent to the acquisition of Benchmark in the third quarter of fiscal year 2003.



**Operating Expenses**

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | September 28, 2003 | | September 29, 2002 | | Decrease | |
| | | % of segment revenue | | % of segment revenue | | % of segment revenue |
| DLTG | $ 35,462 | 26.2% | $ 44,087 | 27.1% | $ (8,625) | -0.9% |
| SSG | 28,466 | 44.0% | 29,995 | 58.7% | (1,529) | -14.7% |
| Total Quantum | $ 63,928 | 32.8% | $ 74,082 | 36.2% | $ (10,154) | -3.4% |

| | Six Months Ended | | | | | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | September 28, 2003 | | September 29, 2002 | | Decrease | |
| | | % of segment revenue | | % of segment revenue | | % of segment revenue |
| DLTG | $ 71,615 | 25.5% | $ 88,588 | 27.5% | $ (16,973) | -2.0% |
| SSG | 57,606 | 44.1% | 59,272 | 58.6% | (1,666) | -14.5% |
| Total Quantum | $ 129,221 | 32.5% | $ 147,860 | 36.3% | $ (18,639) | -3.8% |

Operating expenses in the three months ended September 28, 2003 were $63.9 million, or 32.8 percent of revenue, down $10.2 million or 3.4 percentage points of revenue from the three months ended September 29, 2002. Operating expenses in the six months ended September 28, 2003 were $129.2 million, or 32.5 percent of revenue, down $18.6 million or 3.8 percentage points of revenue from the six months ended September 29, 2002.

Research and Development Expenses

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | September 28, 2003 | | September 29, 2002 | | Increase/ (decrease) | |
| | | % of segment revenue | | % of segment revenue | | % of segment revenue |
| DLTG | $ 17,731 | 13.1% | $ 20,113 | 12.3% | $ (2,382) | 0.8% |
| SSG | 8,465 | 13.1% | 9,272 | 18.1% | (807) | -5.0% |
| Total Quantum | $ 26,196 | 13.4% | $ 29,385 | 14.4% | $ (3,189) | -1.0% |

| (Dollars in thousands) | Six Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | September 28, 2003 | | September 29, 2002 | | Increase/ (decrease) | |
| | | % of segment revenue | | % of segment revenue | | % of segment revenue |
| DLTG | $ 35,386 | 12.6% | $ 37,534 | 11.6% | $ (2,148) | 1.0% |
| SSG | 17,741 | 13.6% | 17,477 | 17.3% | 264 | -3.7% |
| Total Quantum | $ 53,127 | 13.4% | $ 55,011 | 13.5% | $ (1,884) | -0.1% |



Research and development expenses in the three months ended September 28, 2003 were $26.2 million, or 13.4 percent of revenue, a decrease of $3.2 million from $29.4 million, or 14.4 percent of revenue, in the three months ended September 29, 2002. Research and development expenses in the six months ended September 28, 2003 were $53.1 million, or 13.4 percent of revenue, a decrease of $1.9 million from $55.0 million, or 13.5 percent of revenue, in the six months ended September 29, 2002.

*DLTG Research and Development Expenses:*

DLTG's research and development expenses decreased $2.4 million to $17.7 million in the three months ended September 28, 2003, compared to $20.1 million in the three months ended September 29, 2002. DLTG's research and development expenses decreased $2.1 million to $35.4 million in the six months ended September 28, 2003, compared to $37.5 million in the six months ended September 29, 2002. The decrease in research and development expenses was mainly due to overall reduced product development costs and cost reduction actions. The increase in research and development expenses as a percentage of revenue in the three and six-month comparisons reflected lower DLTG revenue in fiscal year 2004 compared to the corresponding period in fiscal year 2003.

*SSG Research and Development Expenses:*

SSG's research and development expenses decreased $0.8 million to $8.5 million in the three months ended September 28, 2003, compared to $9.3 million in the three months ended September 29, 2002. SSG's research and development expenses increased $0.2 million to $17.7 million in the six months ended September 28, 2003, compared to $17.5 million in the six months ended September 29, 2002. The decrease in research and development expense in the three months ended September 28, 2003 was mainly due to the closure of M4 engineering facilities and reduced employee headcount. The decrease in research and development expenses as a percentage of revenue reflected higher revenue in the three and six-month periods of fiscal year 2004 compared to the corresponding periods in fiscal year 2003.

Sales and Marketing Expenses

| (Dollars in thousands) | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | September 28, 2003 | | September 29, 2002 | | Increase/ (decrease) | |
| | | % of segment revenue | | % of segment revenue | | % of segment revenue |
| DLTG | $ 9,556 | 7.1% | $ 13,269 | 8.1% | $ (3,713) | -1.0% |
| SSG | 15,245 | 23.6% | 13,776 | 26.9% | 1,469 | -3.3% |
| Total Quantum | $ 24,801 | 12.7% | $ 27,045 | 13.2% | $ (2,244) | -0.5% |

| (Dollars in thousands) | Six Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | September 28, 2003 | | September 29, 2002 | | Increase/ (decrease) | |
| | | % of segment revenue | | % of segment revenue | | % of segment revenue |
| DLTG | $ 18,852 | 6.7% | $ 25,111 | 7.8% | $ (6,259) | -1.1% |
| SSG | 30,120 | 23.1% | 28,024 | 27.7% | 2,096 | -4.6% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total Quantum | $ 48,972 | 12.3% | $ 53,135 | 13.1% | $ (4,163) | -0.8% |

Sales and marketing expenses in the three months ended September 28, 2003 were $24.8 million, or 12.7 percent of revenue, a decrease of $2.2 million from $27.0 million, or 13.2 percent of revenue, in the three months ended September 29, 2002. Sales and marketing expenses in the six months ended September 28, 2003 were $49.0 million, or 12.3 percent of revenue, a decrease of $4.1 million from $53.1 million, or 13.1 percent of revenue, in the six months ended September 29, 2002.



*DLTG Sales and Marketing Expenses:*

DLTG's sales and marketing expenses decreased $3.7 million to $9.6 million in the three months ended September 28, 2003, compared to $13.3 million in the three months ended September 29, 2002. DLTG's sales and marketing expenses decreased $6.2 million to $18.9 million in the six months ended September 28, 2003, compared to $25.1 million in the six months ended September 29, 2002. The decrease in sales and marketing expenses both in terms of revenue and actual spending reflected lower spending on channel development programs, cost reduction actions and lower DLTG revenue.

*SSG Sales and Marketing Expenses:*

SSG's sales and marketing expenses increased $1.4 million to $15.2 million in the three months ended September 28, 2003, compared to $13.8 million in the three months ended September 29, 2002. SSG's sales and marketing expenses increased $2.1 million to $30.1 million in the six months ended September 28, 2003, compared to $28.0 million in the six months ended September 29, 2002. The increase in sales and marketing expenses for the three and six months ended September 28, 2003 was mainly due to increased employee headcount, slightly offset by reduced marketing programs. The decrease in sales and marketing expenses as a percentage of revenue reflected higher revenue in the three and six-month periods of fiscal year 2004 compared to the corresponding periods in fiscal year 2003.

General and Administrative Expenses

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| **(Dollars in thousands)** | **September 28, 2003** | | **September 29, 2002** | | **Increase/ (decrease)** | |
| | | **% of segment revenue** | | **% of segment revenue** | | **% of segment revenue** |
| DLTG | $ 8,175 | 6.0% | $ 10,705 | 6.6% | $ (2,530) | -0.6% |
| SSG | 4,756 | 7.4% | 6,947 | 13.6% | (2,191) | -6.2% |
| Total Quantum | $ 12,931 | 6.6% | $ 17,652 | 8.6% | $ (4,721) | -2.0% |

| | Six Months Ended | | | | | |
|---|---|---|---|---|---|---|
| **(Dollars in thousands)** | **September 28, 2003** | | **September 29, 2002** | | **Increase/ (decrease)** | |
| | | **% of segment revenue** | | **% of segment revenue** | | **% of segment revenue** |
| DLTG | $ 17,377 | 6.2% | $ 25,943 | 8.0% | $ (8,566) | -1.8% |
| SSG | 9,745 | 7.5% | 13,771 | 13.6% | (4,026) | -6.1% |
| Total Quantum | $ 27,122 | 6.8% | $ 39,714 | 9.8% | $ (12,592) | -3.0% |

General and administrative expenses in the three months ended September 28, 2003 were $12.9 million, or 6.6 percent of revenue, a decrease of $4.8 million from $17.7 million, or 8.6 percent of revenue, in the three months ended September 29, 2002. General and administrative expenses in the six months ended September 28, 2003 were $27.1 million, or 6.8 percent of revenue, a decrease of $12.6 million from $39.7 million, or 9.8 percent of revenue, in the six months ended September 29, 2002.

*DLTG General and Administrative Expenses:*

DLTG's general and administrative expenses decreased $2.5 million to $8.2 million in the three months ended September 28, 2003, compared to $10.7 million in the three months ended September 29, 2002. DLTG's general and administrative expenses decreased $8.5 million to $17.4 million in the six months ended September 28, 2003, compared to $25.9 million in the six months ended September 29, 2002. The decrease in general and administrative expenses in the three months comparison was mainly due to legal costs incurred in connection with a dispute with Maxtor in the three months ended September 29, 2002, reduced headcount and cost reduction actions, slightly offset by additional legal costs related to lawsuits with StorageTek incurred in the three months ended September 28, 2003. The decrease in general and administrative expenses in the six months' comparison is mainly due to the settlement of lawsuits related to Imation in the three months ended June 30, 2002 and to legal costs incurred in the six months ended September 29, 2002 related to a dispute with Maxtor.



*SSG General and Administrative Expenses:*

SSG's general and administrative expenses decreased by $2.1 million to $4.8 million in the three months ended September 28, 2003, compared to $6.9 million in the three months ended September 29, 2002. SSG's general and administrative expenses decreased by $4.1 million to $9.7 million in the six months ended September 28, 2003, compared to $13.8 million in the six months ended September 29, 2002. The majority of the decrease in the level of general and administrative expenses in both the three and six month comparisons was a result of reduced headcount and cost reductions actions.

**Special Charges**

Fiscal year 2004 special charges

In the first and second quarters of fiscal year 2004, we implemented plans to reduce costs in an effort to return to profitability. The restructuring charges that resulted from these cost reduction efforts followed the outsourcing of certain of our manufacturing to Jabil in fiscal year 2003, plans to outsource manufacturing of certain automation products in the U.K, and other headcount reductions. These plans to reduce costs impacted both of our operating segments, DLTG and SSG, as well as corporate functions.

*DLTG cost reductions*

In the first and second quarters of fiscal year 2004, charges of $0.3 million and $0.4 million, respectively, were recorded for severance benefits for eight and nine employees, respectively, located at our facility in Colorado Springs, Colorado. These costs result from plans to reduce procurement activities following the outsourcing of certain manufacturing to Jabil and reductions following the integration of the Benchmark acquisition.

In addition, in the second quarter of fiscal year 2004, we incurred a non-cash charge of $2.3 million to write down our former manufacturing facility in Malaysia to its appraised value, following Quantum's vacating of this facility as part of the outsource of certain manufacturing to Jabil.

*SSG cost reductions*

In the first and second quarters of fiscal year 2004, charges of $0.1 million and $0.5 million, respectively, were recorded for severance benefits for three and 20 employees, respectively, located in the U.K., mostly reflecting initial steps in the plan to eliminate an automation product manufacturing site in the U.K.

In the second quarter of fiscal year 2004, we reversed special charges of $0.5 million on our statement of operations. Of this $0.5 million, $0.2 million was recorded in the first quarter of fiscal year 2002 for vacant facility costs at a facility in Irvine, California, and the remaining $0.3 million was recorded in the second quarter of fiscal year 2003 related to severance charges for site and function consolidation activities. The facility charges were reversed as a result of a change in the underlying leasing assumptions and the severance charges were reversed due to costs being lower than originally anticipated.

*Corporate severance*

In the second quarter of fiscal year 2004, a charge of $0.4 million was recorded for separation costs related to an executive officer, one of numerous steps to reduce operating costs.



Fiscal year 2003 special charges

*DLT group cost reductions*

In the second quarter of fiscal year 2003, a charge of $3.2 million was recorded for headcount reductions as part of the integration of Benchmark under a plan to have no net increase in headcount, which caused a reduction to DLTG existing headcount. The charge relates to severance benefits for approximately 75 employees.

*SSG cost reductions*

In the first quarter of fiscal year 2003, a charge of $1.1 million was recorded to reduce SSG's costs through a consolidation of sales and marketing activities within SSG. The charge primarily relates to severance benefits for approximately 30 employees who were terminated as a result of this restructuring plan.

In the second quarter of fiscal year 2003, a charge of $7.2 million was recorded to reduce SSG's costs and the actions include outsourcing sub-assembly manufacturing of Quantum's P-Series enterprise tape libraries, consolidating the number of research and development sites for disk-based backup and tape automation, and centralizing sales and marketing support functions. The charge reflects severance benefits for approximately 140 employees, fixed asset write-offs and vacant facility charges.

*Corporate severance*

In the second quarter of fiscal year 2003, a charge of $3.7 million was recorded primarily for separation costs related to our former Chief Executive Officer, who remains on Quantum's Board of Directors.

*European operations reorganization*

In the first quarter of fiscal year 2003, we reversed a charge of $0.4 million on our statement of operations related to special charges recorded in the second quarter of fiscal year 2002 for the closure of our Geneva, Switzerland sales office. We reversed the special charge because the landlord was able to sublease the space to a new tenant on terms more favorable than originally anticipated.

The following two tables show the activity for the six months ended September 28, 2003 and the estimated timing of future payouts for the following major cost reduction projects (for a discussion of our special charge activity in prior years, refer to Note 8 in our Annual Report on Form 10-K for the year ended March 31, 2003):

Discontinuation of Manufacturing in Colorado Springs

| **(In thousands)** | **Facilities** |
|---|---|
| **Balance March 31, 2003** | **$ 2,384** |
| Cash payments | (306) |
| **Balance June 29, 2003** | **$ 2,078** |
| Cash payments | (306) |
| **Balance September 28, 2003** | **$ 1,772** |
| Estimated timing of future payouts: | |
| Fiscal Year 2004 | $ 612 |
| Fiscal Year 2005 to 2008 | 1,160 |
| | **$ 1,772** |

The cash payments in the three months ended September 28, 2003 represented vacant facilities lease payments of $0.3 million. The remaining special charge accrual reflects a vacant space accrual of $1.8 million related to our facility in Colorado Springs, Colorado, which will be paid over the lease term through the third quarter of fiscal year 2008.



Other Restructuring Programs

| **(In thousands)** | **Severance and Benefits** | **Facilities** | **Other** | **Total** |
|---|---|---|---|---|
| **Balance at March 31, 2003** | **$ 1,338** | **$ 1,464** | **$ 886** | **$ 3,688** |
| DLTG special charges | 296 | — | 47 | 343 |
| SSG special charges | 133 | — | — | 133 |
| Cash payments | (839) | (245) | (8) | (1,092) |
| Non-cash charges | — | — | (47) | (47) |
| **Balance at June 29, 2003** | **$ 928** | **$ 1,219** | **$ 878** | **$ 3,025** |
| DLTG special charges | 349 | — | — | 349 |
| SSG special charges | 487 | — | — | 487 |
| Corporate severance | 432 | — | — | 432 |
| Facility impairment | — | 2,335 | — | 2,335 |
| Cash payments | (1,182) | (253) | (878) | (2,313) |
| Non-cash charges | — | (2,335) | — | (2,335) |

| | | | | |
|---|---|---|---|---|
| Restructuring charge benefit | (339) | (164) | — | (503) |
| **Balance at September 28, 2003** | **$ 675** | **$ 802** | **$ —** | **$ 1,477** |
| Estimated timing of future payouts: | | | | |
| Fiscal Year 2004 | $ 675 | $ 288 | $ — | $ 963 |
| Fiscal Year 2005 to 2006 | — | 514 | — | 514 |
| | **$ 675** | **$ 802** | **$ —** | **$ 1,477** |

The cash payments in the three months ended September 28, 2003 represented severance payments of $1.2 million, vacant facilities lease payments of $0.3 million and settlement of a contract cancellation fee totaling $0.9 million. The $1.5 million remaining special charge accrual at September 28, 2003 is comprised of obligations for severance and vacant facilities. The severance charges will be paid during the third quarter of fiscal year 2004 and the facilities charges relating to vacant facilities in Irvine, California, will be paid over the lease term through the third quarter of fiscal year 2006.

We expect to realize annual cost savings from the restructuring programs detailed in the above two tables of approximately $29 million, resulting mainly from employee reductions and reduced facility costs. Of this $29 million, approximately $20 million of the savings is expected to consist of reduced cost of revenue, with the remaining savings to come from reduced operating expenses. However, many factors, including reduced sales volume and price reductions, which have impacted gross margins in the past, and the addition of, or increase in, other operating costs, may offset some or all of these anticipated savings.

### Goodwill and Amortization of Intangible Assets

SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets,* became effective for us on April 1, 2002. Under SFAS No. 142,goodwill and intangible assets deemed to have indefinite lives are no longer amortized but will be subject to annual impairment tests. With the adoption of SFAS No. 142, we ceased amortization of goodwill as of April 1, 2002. Our initial impairment test of goodwill was conducted in the first quarter of fiscal year 2003 and resulted in a non-cash accounting change adjustment of $94.3 million, reflecting a reduction in the carrying amount of our goodwill. This charge is reflected as a cumulative effect of an accounting change in our Condensed Consolidated Statements of Operations and reflected deterioration in the market values of comparable companies, and to a lesser extent, a reduction in anticipated future cash flows of SSG due to the slump in spending in the IT industry. The fair value of the SSG reporting entity was calculated using a combination of a discounted cash flow analysis involving projected data, and a comparable market approach, which was a comparison with companies also in the tape automation sector.

In the second quarter of fiscal year 2003, we recorded an additional goodwill impairment charge related to our Storage Solutions group of $58.7 million due to a re-evaluation of the Storage Solutions group in light of deterioration in the market values of comparable companies, and to a lesser extent, a reduction in anticipated future cash flows. The continued slump in spending in the IT industry contributed to this decrease in estimated future cash flows.



The amortization expense associated with intangible assets increased by $1.8 million to $4.8 million in the three months ended September 28, 2003 from $3.0 million in the three months ended September 29, 2002. This increase was a result of amortization expense associated with the acquisition of Benchmark completed in the third quarter of fiscal year 2003 and the acquisition of SANlight completed in the fourth quarter of fiscal year 2003.

The following table details this amortization expense by classification within our Condensed Consolidated Statements of Operations:

| **(In thousands)** | **Three Months Ended** | | **Six Months Ended** | |
|---|---|---|---|---|
| | **September 28, 2003** | **September 29, 2002** | **September 28, 2003** | **September 29, 2002** |
| Cost of revenue | $ 2,974 | $ 1,695 | $ 5,948 | $ 3,390 |
| Research and development | 426 | 139 | 853 | 347 |
| Sales and marketing | 1,314 | 1,073 | 2,628 | 1,979 |
| General and administrative | 126 | 126 | 252 | 252 |
| | $ 4,840 | $ 3,033 | $ 9,681 | $ 5,968 |

The following table summarizes our goodwill and intangible assets:

| **(In thousands)** | **September 28, 2003** | **March 31, 2003** |
|---|---|---|
| Intangible assets | $ 144,814 | $ 144,804 |
| Less accumulated amortization | (75,041) | (65,360) |

| | | | | |
|---|---|---|---|---|
| | | 69,773 | | 79,444 |
| Goodwill | | 44,179 | | 40,916 |
| | $ | 113,952 | $ | 120,360 |

Net goodwill and intangible assets at September 28, 2003 and March 31, 2003 represented approximately 16% and 13% of total assets respectively. The goodwill and intangible assets balances, net of amortization, at September 28, 2003 and March 31, 2003, were $113.9 million and $120.4 million, respectively. The following table presents goodwill from acquisitions net of amortization and impairment charges:

| **(In thousands)** | | **September 28, 2003** | | **March 31, 2003** | **Segment** |
|---|---|---|---|---|---|
| Goodwill from acquisition of: | | | | | |
| ATL Products, Inc | $ | 7,711 | $ | 7,711 | SSG |
| M4 Data | | 3,223 | | 3,223 | SSG |
| Benchmark (allocated to DLTG) | | 24,012 | | 21,736 | DLTG |
| Benchmark (allocated to SSG) | | 9,233 | | 8,246 | SSG |
| | $ | 44,179 | $ | 40,916 | |

The $3.3 million increase in goodwill from March 31, 2003 to September 28, 2003 reflects $3.6 million of common stock distributed in relation to the earn out provisions of the Benchmark acquisition agreement, and a $0.3 million reversal of excess accrual of severance liabilities related to the Benchmark acquisition.



Acquired intangible assets are amortized over their estimated useful lives, which range from three to ten years. Management, in estimating the useful lives of intangible assets, considered the following factors:

- The cash flow projections used to estimate the useful lives of the intangible assets showed a trend of growth that was expected to continue for an extended period of time;
- The tape automation products, in particular, have long development cycles and have experienced long product life cycles; and
- The ability to leverage core technology into new tape automation products, and to therefore extend the lives of these technologies.

We assess the recoverability of our long-lived assets, including intangible assets with finite lives, in accordance with SFAS No. 144 by comparing projected undiscounted net cash flows associated with those assets against their respective carrying amounts to determine whether impairment exists. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets. As of September 28, 2003, no such impairment has been identified with respect to our acquired intangible assets.

Goodwill will be reviewed for impairment at least on an annual basis, or more frequently when indicators of impairment are present. Goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its fair value. The fair values of the reporting units underlying SSG and DLTG are estimated using a discounted cash flow methodology. If the reporting units' net book values exceed their fair values, therefore indicating impairment, then we will compare the implied fair values of the reporting units' goodwill to their carrying amounts.

**Interest and Other Income, net, and Equity Investment Write-downs**

| | **Three Months Ended** | | | | | |
|---|---|---|---|---|---|---|
| | **September 28, 2003** | | | **September 29, 2002** | | |
| | | **(in thousands)** | **% of revenue** | | **(in thousands)** | **% of revenue** |
| Interest and other income | $ | 2,913 | 1.5% | $ | 2,429 | 1.2% |
| Interest expense | | (5,399 ) | -2.8% | | (6,422 ) | -3.1% |
| | $ | (2,486 ) | -1.3% | $ | (3,993 ) | -2.0% |
| Loss on debt extinguishment | $ | (2,565 ) | -1.3% | $ | — | 0.0% |

| | **Six Months Ended** | | | | | |
|---|---|---|---|---|---|---|
| | **September 28, 2003** | | | **September 29, 2002** | | |
| | | **(in thousands)** | **% of revenue** | | **(in thousands)** | **% of revenue** |

| | | | | | | |
|---|---|---|---|---|---|---|
| Interest and other income | $ | 5,046 | 1.3% | $ | 5,026 | 1.2% |
| Interest expense | | (11,554) | -2.9% | | (12,262) | -3.0% |
| | $ | (6,508) | -1.6% | $ | (7,236) | -1.8% |
| Loss on debt extinguishment | $ | (2,565) | -0.6% | $ | — | 0.0% |
| Equity investments write-downs | $ | — | 0.0% | $ | (17,061) | -4.2% |

Net interest and other income was a $2.5 million expense in the three months ended September 28, 2003 compared to a $4.0 million expense in the three months ended September 29, 2002. Net interest and other income was a $6.5 million expense in the six months ended September 28, 2003 compared to a $7.2 million expense in the six months ended September 29, 2002. The decrease in net expense in both the three and six-month comparisons mainly reflects the reduced interest expense resulting from the redemption of the $287.5 million 7% convertible subordinated notes and issuance of the $160.0 million convertible subordinated notes at a lower rate of 4.375%. As a result of this redemption, we recorded charges of $2.6 million related to the redemption premium plus write-off of unamortized debt issuance fees. Also as a result of this redemption, we incurred net interest expense of $0.7 million on the 7% convertible subordinated notes during the period in which both the 7% and 4.375% convertible subordinated notes were outstanding.



In the six months ended September 29, 2002, we recorded charges of $17.1 million to write down our equity investments to net realizable value based on other-than-temporary declines in the estimated value of these investments. The portfolio of equity investments on which this write-down was based was sold in the second quarter of fiscal year 2003.

**Income Taxes**

The tax expense recorded for the three months ended September 28, 2003 was $24.2 million compared to a tax expense of $0.8 million for the three months ended September 29, 2002. The tax provision for the three months ended September 28, 2003 reflects foreign withholding taxes incurred, no tax benefit on current period net operating losses and a $21.3 million charge to provide a valuation allowance against our beginning of the year balance of net deferred tax assets. The tax expense recorded in the three months ended September 29, 2002 reflected tax benefits recorded on operating losses and special charges, offset by a tax charge related to the repatriation of offshore earnings connected with the outsourcing of our tape drive manufacturing in Malaysia.

The tax expense recorded for the six months ended September 28, 2003 was $27.3 million compared to a tax benefit of $4.0 million for the six months ended September 29, 2002. The tax provision recorded in the six months ended September 28, 2003 reflects foreign withholding taxes incurred, no tax benefit on current period net operating losses and a $21.3 million charge to provide a valuation allowance against our net deferred tax assets. The tax benefit recorded in the six months ended September 29, 2002 reflected write-downs of equity investments, special charges and a tax charge related to the repatriation of offshore earnings connected with the outsourcing of our tape drive manufacturing in Malaysia.

Due to the prevailing economic environment that has resulted in weakened IT spending, intense competition, our history of net losses, and our difficulty in predicting future results, Quantum believes that it cannot rely on projections of future taxable income to realize the deferred tax assets. Accordingly, the company recorded a valuation allowance of $21.3 million against its net deferred tax assets for the quarter ended September 28, 2003.

Significant management judgment is required in determining our deferred tax assets and liabilities and valuation allowances for purposes of assessing our ability to realize any future benefit from our net deferred tax assets. We intend to maintain this valuation allowance until sufficient positive evidence exists to support the reversal of the valuation allowance. Our income tax expense recorded in the future will be reduced to the extent that sufficient positive evidence materializes to support a reversal of, or decrease in, our valuation allowance.

**Results of Discontinued Operations**

Disposition of the NAS Business

We were previously engaged in the business of developing, manufacturing, and selling network attached storage solutions for the desktop, workgroups and enterprises. These NAS products consisted primarily of server appliances that incorporated hard disk drives and an operating system designed to meet the requirements of entry, workgroup, and enterprise computing environments, where multiple computer users access shared data files over a local area network.

On October 7, 2002, we entered into an agreement with a privately held third party to sell certain assets and assign certain contract rights related to our NAS business. The NAS assets that were sold included inventories for resale to customers, service inventories, fixed assets and intellectual property. The proceeds from the sale included approximately $4.7 million in cash, $3.9 million in restricted equity securities of the buyer with an option to acquire additional equity securities, a secured promissory note for $2.4 million issued by the buyer and the assumption by the buyer of $1.6 million of warranty liability in connection with the prior installed base of NAS products. The sale was completed on October 28, 2002. The secured promissory note was settled in the first quarter of fiscal year 2004.



The following table summarizes the results of the NAS business:

| (In thousands) | Three Months Ended | Six Months Ended |
|---|---|---|
| | September 29, 2002 | September 29, 2002 |
| Revenue | $ 10,681 | $ 19,709 |
| Gross margin | 942 | 860 |
| Operating expenses | 21,615 | 35,371 |
| Loss from operations | (20,673) | (34,511) |
| Loss before income taxes | (20,675) | (34,536) |
| Income tax benefit | (1,300) | (5,908) |
| Net loss | (19,375) | (28,628) |

The losses from operations in the three and six-month periods ended September 29, 2002 include an impairment charge of $16.4 million. In the second quarter of fiscal year 2003, we determined that the sale of the NAS business was probable and wrote down the assets held for sale to fair value less cost to sell. The fair value of the assets held for sale was determined to be the proceeds from the sale. The resulting impairment charge related mainly to completed technology arising from the acquisitions of Meridian Data Inc. and certain assets of Connex.

The loss from operations in the six-month period ended September 29, 2002 includes special charges of $4.3 million incurred in the first quarter of fiscal year 2003 related to the consolidation of sales and marketing activities within SSG. These charges primarily relate to severance benefits for approximately 60 NAS employees who were terminated as a result of this restructuring plan.



## Recent Accounting Pronouncements

### Accounting for Revenue Arrangements with Multiple Deliverables

In November 2002, the Emerging Issues Task Force ("EITF") reached a consensus regarding EITF Issue 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables*. The consensus addresses not only when and how an arrangement involving multiple deliverables should be divided into separate units of accounting but also how the arrangement's consideration should be allocated among separate units. Our adoption of EITF Issue 00-21 in the second quarter of fiscal year 2004 has not had a material impact on our financial statements.

### Consolidation of Variable Interest Entities

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation (FIN) No. 46, *Consolidation of Variable Interest Entities.* FIN No. 46 requires that if a business enterprise has a controlling interest in a variable interest entity (also known as a special purpose entity), the assets, liabilities and results of operations of the variable interest entity should be included in the Consolidated Financial Statements of the business enterprise. FIN No. 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies at the end of the first fiscal year or interim period ending after December 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The synthetic lease disclosed in Note 18, *Commitments and Contingencies,* is subject to FIN 46 and we are in the process of evaluating the financial statement impact, if any, of adoption of FIN No. 46.



## LIQUIDITY AND CAPITAL RESOURCES

| (Dollars in thousands) | As of or for Six Months Ended | |
|---|---|---|
| | September 28, 2003 | September 29, 2002 |
| Cash and short-term investments | $ 272,791 | $ 308,794 |

| | | | | |
|---|---|---|---|---|
| Days sales outstanding (DSO) | | 52.8 | | 53.6 |
| Inventory turns—annualized | | 8.4 | | 6.1 |
| | | | | |
| Net cash provided by (used in) operating activities of continuing operations | $ | (5,538) | $ | 8,563 |
| Net cash used in investing activities of continuing operations | $ | (26,372) | $ | (87,385) |
| Net cash used in financing activities of continuing operations | $ | (33,391) | $ | (35,675) |

**First Half of Fiscal Year 2004 compared to the First Half of Fiscal Year 2003**

Net cash provided by (used in) operating activities:

Net cash from operating activities of continuing operations decreased to $5.5 million used in the first six months of fiscal year 2004 from $8.6 million provided in the first six months of fiscal year 2003. The primary sources of this change are listed in the following table:

| **(In thousands)** | **Six Months Ended** | | |
|---|---|---|---|
| | **September 28, 2003** | **September 29, 2002** | |
| | **cash (used), provided** | **cash (used), provided** | **Change in cash (used), provided** |
| Loss from continuing operations including cumulative effect of an accounting change | $ (47,454) | $ (213,699) | $ 166,245 |
| Non-cash income statement items | 48,327 | 186,199 | (137,872) |
| Adjusted income (loss) from operations | 873 | (27,500) | 28,373 |
| Accounts payable | (26,280) | 18,860 | (45,140) |
| Accounts receivable | 20,792 | 25,925 | (5,133) |
| Inventories | 2,631 | 5,552 | (2,921) |
| Income taxes payable | 615 | (10,313) | 10,928 |
| Other, net | (4,169) | (3,961) | (208) |
| | $ (5,538) | $ 8,563 | $ (14,101) |

Net cash provided by (used in) operating activities of continuing operations decreased by $14.1 million in the six months ended September 28, 2003 compared to the six months ended September 29, 2002. The overall decrease in net cash provided by operating activities was primarily due to the increase in cash used for accounts payable in the six months ended September 28, 2003, while in the six months ended September 29, 2002, cash was provided by accounts payable due to the timing of certain vendor payments due to a systems conversion. The increase in cash used for accounts payable was partially offset by an increase in cash provided by adjusted income from operations of $28.6 million, which reflects decreased operating expenses in the six months ended September 28, 2003 as a result of cost reduction activities, and a decrease in cash used for income tax payments.

Net cash used in investing activities:

Net cash used in investing activities of continuing operations decreased by $61.0 million to $26.4 million in the six months ended September 28, 2003 from $87.4 million used in the six months ended September 29, 2002. The decrease in cash used in investing activities reflects a $68.8 million decrease in the net acquisition of short-term investments and a $3.1 million decrease in purchases of property and equipment, partially offset by  $11.0 million received in the second quarter of fiscal year 2003 for the sale of our portfolio of equity investments.



Net cash used in financing activities:

Net cash used by financing activities of continuing operations decreased by $2.3 million to $33.4 million in the six months ended September 28, 2003 from $35.7 million used in the six months ended September 29, 2002. This decrease mainly reflected the payment of M4 Data debentures of $38.7 million in the six months ended September 29, 2002, partially offset by net cash used of $36.4 million in the six months ended September 28, 2003 related to the redemption of our 7% convertible subordinated notes and issuance of our 4.375% convertible subordinated notes. This $36.4 million cash used, which excludes the net redemption premium for the 7% notes of $1.9 million, consists of the $287.5 million settlement of our 7% convertible subordinated notes, partially offset by $155.2 million provided from the issuance of our 4.375% convertible subordinated notes and the receipt from Maxtor of its $95.8 million portion of the 7% convertible subordinated notes.

Credit lines

In December 2002, we entered into a secured senior credit facility with a group of five banks, providing us with a $100.0 million revolving credit line that expires in June 2004. Also in December 2002, we entered into a $50.0 million synthetic lease that contains the same financial covenants as the revolving credit line. As of September 28, 2003, $90.4 million of this revolving credit line is committed to standby letters of credit, of which $50.0 million secures our obligation to the lessor under our synthetic lease (see below and Note 18, *Commitments and Contingencies*). Borrowings under the revolving credit line bear interest at either the London interbank offering rate or a base rate, plus a margin determined by a leverage ratio with option periods of one to six months. The credit facility is secured by a blanket lien on all of the assets of Quantum and contains certain financial and reporting covenants, which we are required to satisfy as a condition of the credit line. In previous quarters we violated certain financial covenants under this credit agreement and received waivers or amendments for such violations. There is also a cross default provision between this facility and the synthetic lease facility such that a default on one facility constitutes a default on the other facility.

In July 2003, we amended the credit agreement and synthetic lease to, among other things, change the EBITDA (as defined by the credit facility agreement) covenant thresholds for the first and second quarters of fiscal year 2004. The July amendment also allowed us to use up to $50.0 million of our cash, in addition to the net proceeds from our new convertible notes offering, to redeem our existing 7% convertible subordinated notes. As of September 28, 2003, we were in compliance with all of the credit line covenants.

For a discussion of the potential impacts should we violate any financial or reporting covenant in future quarters on the unsecured senior credit facility or the synthetic lease, see the section below titled "General Outlook".

Synthetic Lease Commitment

As described in Note 18, *Commitments and Contingencies*, we have a synthetic lease commitment accounted for as an operating lease in accordance with SFAS No. 13, *Accounting for Leases*, that requires us to maintain specified financial and reporting covenants, which we entered into in August 1997 and renegotiated in December 2002. In January 2003, we amended the lease commitment agreement to change one of the financial measurements in order to facilitate the acquisition of SANlight. There is a cross default provision between this facility and the credit line facility (refer to Note 12, *Credit Agreements, Short-Term Debt and Convertible Subordinated Debt*) such that a default on one facility constitutes a default on the other facility. Any failure to comply with these financial covenants without a bank group grant of a waiver or amendment for such non-compliance would result in the termination of the lease, resulting in the acceleration of our obligation to purchase the leased facilities for the stipulated sales price of approximately $50.0 million. This may result in our immediately having to purchase the facilities, or find a third party to purchase them, potentially at a substantial discount to their current appraised value. As described in greater detail in Note 18, *Commitments and Contingencies*, at the end of the term of the lease we must either renew the lease, purchase the facility for the stipulated sales price of approximately $50.0 million, or find a third party to purchase the facility (as to which third party sale we would guarantee any shortfall below the stipulated sales price up to a maximum amount of $43.9 million payable by us).

For a discussion of the potential impact should we violate any financial or reporting covenant in future quarters on the unsecured senior credit facility or the synthetic lease, see the section below titled "General Outlook".



**Capital Resources**

In July 1997, we issued $287.5 million of 7% convertible subordinated notes. The notes had a maturity date of August 1, 2004, and were convertible at the option of the holder at any time prior to maturity, unless previously redeemed, into shares of Quantum common stock and Maxtor common stock. The notes were classified as long-term and were convertible into 6.2 million shares of Quantum common stock (or 21.587 shares per $1,000 note), and 4.7 million shares of Maxtor common stock (or 16.405 shares per $1,000 note). We recorded a receivable from Maxtor of $95.8 million for the principal portion of the debt previously attributed to the HDD group and for which Maxtor agreed to reimburse us for both principal and associated interest payments. On August 21, 2003, we redeemed all these 7% convertible subordinated notes at 101% of the aggregate principal amount. The aggregate redemption price of the notes was $290.4 million, which included a premium paid of $2.9 million. On August 14, 2003, we received $96.8 million from Maxtor, which represents the full amount for Maxtor's portion of the debt plus the premium on their portion of the notes due 2004.

On July 30, 2003, we issued $160.0 million in aggregate principal amount of 4.375% convertible subordinated notes due 2010, in a private placement transaction. The notes are unsecured obligations subordinated in right of payment to all of our existing and future senior indebtedness. The notes mature on August 1, 2010, and are convertible at the option of the holder at any time prior to maturity, unless previously converted, into 36.8 million shares of Quantum common stock at a conversion price of $4.35 per share. We cannot redeem the notes prior to August 5, 2008. We received net proceeds from the notes of $155.2 million, after deducting commissions and expenses. We used the net proceeds from the sale of these notes, plus a portion of available cash, to redeem our 7% convertible subordinated notes due 2004. The principal amount of the 7% convertible subordinated notes plus the premium of 1%, net of the amount paid to us by Maxtor, was $193.6 million. The shortfall between this amount and the amount ultimately received for the 4.375% convertible subordinated notes was paid from existing cash balances.

At September 28, 2003, there was approximately $87.9 million remaining on our authorization to repurchase Quantum common stock. No stock repurchases were made during the six months ended September 28, 2003. Our ability to repurchase common stock is restricted under our credit facilities.

Debentures payable of $41.4 million were issued as partial consideration for the acquisition of M4 Data in April 2001. The debenture holders called and received payment from Quantum for $38.7 million in the first quarter of fiscal year 2003 and $2.7 million in the third quarter of fiscal year 2003. The purchase agreement included additional contingent consideration to be paid annually from 2002 through 2005 based on future revenues, which may result in additional debentures being issued. Additional debentures of $0.4 million were issued in the first quarter of fiscal year 2003 based on revenues in the preceding fiscal year and were paid to the debenture holders in fiscal year 2003. The additional debentures of $1.0 million that were issued in the first quarter of fiscal year 2004 based on revenues in the preceding fiscal year are immediately callable by the holders. We expect that debentures issued in the future, if any, under the earn out provisions of the acquisition agreement will be approximately $1 million annually through to fiscal year 2005, when the earn out provisions of the acquisition agreement expire.



The table below summarizes our commitments at September 28, 2003:

| (In thousands) | < 1 year | 1 year and < 2 years | 2 years and <3 years | 3 years and beyond | Total |
|---|---|---|---|---|---|
| Convertible subordinated debt | $ – | $ – | $ – | $ 160,000 | $ 160,000 |
| Short-term debt | 976 | – | – | – | 976 |
| Inventory purchase commitment | 33,236 | – | – | – | 33,236 |
| Operating lease-Colorado facility - contingent obligation (1) | – | – | – | 50,000 | 50,000 |
| Other operating leases | 13,604 | 11,096 | 7,213 | 13,341 | 45,254 |
| Total Contractual Cash Obligations | $ 47,816 | $ 11,096 | $ 7,213 | $ 223,341 | $ 289,466 |

(1) Appraised value of the facility, the collateral that would be used to satisfy the contingent obligation, is $50 million.

## General outlook

We continue to drive emphasis on controlling costs and improving gross margins in an effort to return to profitability and generate positive cash flows from operating activities.

We believe that our existing cash and capital resources, including cash we expect to generate from operations, will be sufficient to meet all currently planned expenditures and sustain operations for the next 12 months. This belief is dependent upon our ability to generate acceptable levels of revenue, maintain or improve gross margins, and reduce operating expenses in order to provide net income and positive cash flow from operating activities in the future. This belief also assumes we will not be forced to make any significant cash payments or restriction associated with our credit facilities or synthetic lease.

Generation of net income and positive cash flow from operating activities in a consistent and sustained manner has been a historically important source of our available cash and funding needs and, prospectively, will be required for us to fund our business and to meet our current and long-term obligations. We have taken many actions to offset both the negative impact of increased competition in our product and market segments as well as the negative effects of the prolonged economic downturn between 2000 and 2002. We cannot provide assurance that the actions we have taken in the past or any actions we may take in the future will ensure a consistent, sustainable and sufficient level of net income and positive cash flow from operating activities to fund, sustain or grow our businesses. Certain events that are beyond our control including prevailing economic, competitive, financial and industry conditions, as well as various legal and other disputes, may prevent us from achieving the required financial objectives. Any inability to achieve this consistent and sustainable net income and cash flow profile could result in:

(i) Restrictions on our ability to manage or fund our existing business operations, which could result in significant deterioration in our future results of operations and financial condition.

(ii) Unwillingness on the part of our bank group partners who provide our credit line and synthetic lease (together, the “credit facilities”) to either:

- Renew the credit line facility prior to or at its June 2004 expiration;
- Provide a waiver or amendment for any covenant violations we may experience in future periods, thereby triggering a default under both the credit line and the synthetic lease; and
- Approve any other amendments we might seek to obtain in order to improve our business.



Any lack of renewal, waiver or amendment, if needed, could result in the credit line becoming unavailable to us and any amounts outstanding becoming immediately due and payable on both of our credit facilities. This would include an acceleration in the requirement for Quantum to pay off the lease at its stipulated $50.0 million sales price and in the loss of our remaining standby letters of credit totaling $40.4 million. Any requirement to pay off (or fund) either or both of these two items would substantially restrict or reduce cash available to us.

(iii) Further loss of financial flexibility. Our recent 4.375% convertible debt financing was completed on July 30, 2003, and these convertible notes are due on August 1, 2010. The redemption of our existing 7% convertible notes on August 21, 2003 resulted in a reduction of available cash to Quantum of approximately $38 million. This net cash reduction represents a significant percentage of our available cash to run our operations, thereby reducing our ability to absorb continued losses and cash flow consumption.

Consistent, continued losses would further impair our financial flexibility and could require that we attempt to raise additional funding in the capital markets sooner than we otherwise would have, and on terms less favorable to us, if available at all.

Any of the above mentioned impacts, individually or in combination, could have a material and adverse effect on our results of operations, available cash and cash flows, financial condition, access to capital and liquidity.



**TRENDS AND UNCERTAINTIES**

THE READER SHOULD CAREFULLY CONSIDER THE RISKS DESCRIBED BELOW, TOGETHER WITH ALL OF THE OTHER INFORMATION INCLUDED IN THIS QUARTERLY REPORT ON FORM 10-Q, BEFORE MAKING AN INVESTMENT DECISION. THE RISKS AND UNCERTAINTIES DESCRIBED BELOW ARE NOT THE ONLY ONES FACING QUANTUM. ADDITIONAL RISKS AND UNCERTAINTIES NOT PRESENTLY KNOWN TO US OR THAT ARE CURRENTLY DEEMED IMMATERIAL MAY ALSO IMPAIR OUR BUSINESS AND OPERATIONS. THIS QUARTERLY REPORT ON FORM 10-Q CONTAINS “FORWARD-LOOKING” STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. PLEASE SEE THE BEGINNING OF ITEM TWO OF THIS REPORT FOR ADDITIONAL DISCUSSION OF THESE FORWARD-LOOKING STATEMENTS.

**We are currently not profitable. If we are unable to generate positive cash flow from operating activities, our ability to service our debt and fund our other business requirements, as well as obtain additional capital in the future, could be jeopardized and our business could suffer.**

Our ability to meet our debt service obligations and to fund working capital, capital expenditures, acquisitions, research and development and other general corporate needs will depend upon our future financial performance, which will be subject to financial, business and other factors affecting our operations, many of which are beyond our control. If our losses from operations were to persist at current levels or worsen, we may not have sufficient cash resources to service our debt and maintain access to our debt facilities. We cannot provide assurance that we will generate sufficient cash flow from operations, or that future borrowings will be available on commercially reasonable terms or at all, or available in an amount sufficient to enable us to pay our debt or fund other liquidity needs. If we are unable to generate sufficient cash flow and/or are unable to service our outstanding debt obligations, we may have to reduce or delay capital expenditures planned for replacements, improvements and expansions, and/or sell assets, thereby affecting our ability to remain competitive and adversely affecting our business.

We must devote substantial resources to new product development, manufacturing, and sales and marketing activities to be competitive in our markets. Historically, cash flow from operating activities has provided us with a significant portion of the cash and liquidity that we have required in order to invest in product development, manufacturing and sales activities. Until or unless we return to profitable operations, we will have significantly less liquidity to invest in our business, which could have a material adverse impact on our business, results of operations, liquidity, and financial condition.

**Our credit agreement and synthetic lease contain various covenants that limit our discretion in the operation of our business, which could have an adverse effect on our business, financial condition and results of operations.**

Our credit agreement and synthetic lease contain numerous restrictive covenants that require us to comply with and maintain certain financial tests and ratios, thereby restricting our ability to:

- Incur debt;
- Incur liens;
- Redeem or prepay subordinated debt;
- Make acquisitions of businesses or entities or sell certain assets;
- Make investments, including loans, guarantees and advances;
- Make capital expenditures beyond a certain threshold;
- Engage in transactions with affiliates;
- Pay dividends or engage in stock repurchases; and
- Enter into certain restrictive agreements.

Our ability to comply with covenants contained in our credit agreement or our synthetic lease may be affected by events beyond our control, including prevailing economic, financial and industry conditions. Our failure to comply with our debt-related covenants in one agreement could result in an acceleration of our indebtedness and cross-defaults under other agreements, which may have a material adverse effect on our liquidity and financial condition. Even if we are able to comply with all covenants, the restrictions on our ability to operate our business could harm our business by, among other things, limiting our ability to take advantage of financings, mergers, acquisitions and other corporate opportunities.

Our credit agreement is secured by a pledge of all of our assets. If we were to default under our credit agreement and were unable to obtain a waiver for such a default, the lenders would have a right to foreclose on our assets in order to satisfy our obligations under the credit agreement. Any such action on the part of the lenders against us could have a materially adverse impact on our business, financial condition and results of operations.



**SSG currently operates at a loss and may continue to operate at a loss. If we are unable to make SSG profitable, the losses from this group could materially and adversely affect our business, financial condition and results of operations.**

We have invested, and will continue to invest, in the development, promotion and sale of storage solutions, such as our acquisition of SANlight. Operating expenses associated with SSG revenue are comparatively high, resulting in losses and cash consumption out of proportion to the revenue generated by the group when compared to our tape business. Therefore, we will need to generate significant revenues from SSG or significantly reduce our related operating expenses for the group in order to make SSG profitable. We cannot provide assurance that SSG will ever produce operating income or will ever generate positive cash flow, and, if we are unable to do so, these losses could negatively impact our business, financial condition and operating results.

Goodwill and intangible assets used in SSG were reviewed for possible impairment upon the adoption on April 1, 2002 of SFAS No. 142, *Goodwill and Other Intangible Assets*, and SFAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*. The impairment test conducted relative to goodwill resulted in a $94.3 million charge associated with the adoption of SFAS No. 142 in the first quarter of fiscal year 2003 and a $58.7 million impairment charge in the second quarter of fiscal year 2003. The goodwill and other intangible assets were determined not to be impaired in the first half of fiscal year 2004, based on projections of undiscounted and discounted net cash flows from SSG compared to the carrying value of the goodwill and other intangible assets. However, both tests use financial projections involving significant estimates and uncertainties regarding future revenues, expenses and cash flows. We cannot provide assurance that future net cash flows will be sufficient to avoid further impairment charges. As a result, in the future, we may incur additional impairment charges related to SSG, which would adversely affect the group’s operating income, which could have a materially adverse impact on the results of our operations or our financial condition.

**A large percentage of our sales come from a few customers, and these customers have no minimum or long-term purchase commitments. The loss of, or a significant change in demand from, one or more key customers could materially and adversely affect our business, financial condition and operating results.**

Our sales are concentrated among a few customers. Sales to our top five customers in the first half of fiscal year 2004 represented 49% of total revenue. These sales concentrations do not include revenues from sales of our media that were sold directly to our top five customers by our licensees, for which we earn royalty revenue, or revenues from sales of tape libraries sold directly to our top five customers by our other original equipment manufacturer, or OEM, tape drive customers. Furthermore, customers are not obligated to purchase any minimum product volume and our relationships with our customers are terminable at will.

The merger of Hewlett-Packard Company (or Hewlett-Packard) and Compaq Computer Corporation (or Compaq) during calendar year 2002 significantly increased the concentration of our sales and dependency on a single customer. In the first half of fiscal year 2004 approximately 26% of our revenue was derived from this merged entity, and, therefore, could be materially and adversely affected if Hewlett-Packard were to experience a significant decline in storage revenue whether due to customer loss or integration issues or otherwise. There is an additional risk since the combined entity owns a competing linear tape open, or LTO, brand of tape drive and media. Hewlett-Packard markets both the LTO and Super DLTtape platforms, whereas Compaq had exclusively marketed Super DLTtape for tape backup and archiving. To the extent that the combined Hewlett-Packard and Compaq entity significantly reduces its purchases of DLTtape and Super DLTtape products in favor of LTO products, our tape drive and media revenues, operating results and financial condition would be materially and adversely affected.

If any of our other top five customers were to significantly reduce, cancel or delay their orders from us, our results of operations could be materially adversely affected.



**Competition has increased, and may increasingly intensify, in the tape drive and tape automation markets as a result of competitors introducing competing products based on new technology standards, which could materially and adversely affect our business, financial condition and results of operations.**

We compete with companies that develop, manufacture, market and sell tape drive and tape automation products. Our principal competitors include Certance (U.S.) Holdings (or Certance (formerly known as Seagate Technology (U.S.) Holdings)), Exabyte Corporation (or Exabyte), Hewlett-Packard, International Business Machines Corporation (or IBM), Sony Corporation (or Sony), Advanced Digital Information Corporation, Overland Data Inc. and Storage Technology Corporation (or StorageTek). These competitors are aggressively trying to advance and develop new technologies to compete more successfully with products based on DLTtape and Super DLTtape technology. Hewlett-Packard, IBM and Certance formed a consortium to develop and have developed new LTO products. These products target the high-capacity data backup market and compete with our products based on Super DLTtape technology. This competition has resulted in a trend, which is expected to continue, toward lower prices and lower margins earned on our DLTtape and Super DLTtape drives and media. The lower demand resulting from the adverse economic conditions experienced over recent years has resulted in lower demand in the tape drive and tape automation markets in general, which has also resulted in increased price competition. In addition, the merger between Hewlett-Packard and Compaq has resulted in a larger competitor in the tape drive and tape automation markets with greater resources and a potentially greater market reach with a product that competes directly with our Super DLTtape drives and Super DLTtape media. These factors, when combined with the current environment of intense competition, which has resulted in reduced shipments of our own products, could result in a further reduction in our prices, volumes and margins, which could materially and adversely impact our business, financial condition and results of operations.

**We derive almost all of our revenue from products incorporating tape technology. If competition from alternative storage technologies continues or increases, our business, financial condition and operating results would be materially and adversely harmed.**

We derive almost all of our revenue from products that incorporate some form of tape technology and we expect to continue to derive a substantial majority of our revenue from these products for the foreseeable future. As a result, our future operating results depend on the continued market acceptance of products employing tape drive technology. Our tape products, including tape drives and automation systems, also compete with other storage technologies, such as hard disk drives. Hard disk drives have experienced a trend toward lower prices while capacity and performance have increased. If products incorporating other technologies gain comparable or superior market acceptance, or their costs decline far more rapidly than tape drive and media costs, the competition resulting from these alternative technologies would increase as customers turn toward those alternative technologies with an acceptable price/performance offering relative to tape drives and automation systems. As a result, our business, financial condition and operating results would be materially and adversely affected.

**We have experienced a downward trend in tape media and tape royalty revenues, primarily caused by year-over-year declines in media unit sales, and more recently, declines in media prices, which has had a negative effect on our profits and cash flow. If this trend were to continue or worsen, our business, financial condition and operating results may be even further materially and adversely affected.**

Our royalty and media revenue is dependent on many factors, including the following factors:

- The pricing actions of other media suppliers;
- The size of the installed base of tape drives that use our tape cartridges;
- The performance of our strategic licensing partners, which sell our tape media cartridges;
- The relative growth in units of Super DLTtape drives, the media cartridges for which sell at a higher price than DLTtape cartridges;
- The media consumption habits and rates of end users;
- The pattern of tape drive retirements; and
- The level of channel inventories.

Competition from other tape technologies has had a significant negative impact on our income from media as well as on our sales of tape drives. If this competition continues or intensifies, it would further erode media pricing and result in further reduced sales of Super DLTtape and DLTtape drives, which would lower the installed base of tape drives that utilize tape media. Since our royalty and media revenue is dependent upon media pricing and the quantity of media consumed by the installed base of our tape drives, reduced media prices, or a reduced installed tape drive base, would result in further reductions in our media and royalty revenue. This would materially and adversely affect our business, financial condition and results of operations.



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**We do not control licensee pricing or licensee sales of tape media cartridges. To the extent that our licensees significantly lower prices on the media products that they sell, such reduced pricing would lower our royalty revenue, which would materially and adversely affect our business, financial condition and operating results.**

We receive a royalty fee based on sales of tape media cartridges by Fuji Photo Film Co., Ltd. (or Fuji), Hitachi Maxell, Ltd. (or Maxell), Imation Corporation (or Imation) and Sony. Under our license agreements with these companies, each of the licensees determines the pricing and number of units of tape media cartridges that it sells. As a result, our royalty revenue varies depending on the level of sales and prices set by the licensees. In addition, lower prices set by licensees could require us to lower our prices on direct sales of tape media cartridges, which would reduce our revenue and margins on this product. As a result, lower prices on our tape media cartridges would reduce both our direct and our indirect royalty revenue, which would materially and adversely affect our business, financial condition and operating results.

**Our operating results depend on new product introductions, which may not be successful, in which case, our business, financial**

**condition and operating results may be materially and adversely affected.**

To compete effectively, we must continually improve existing products and introduce new ones, such as the DX30, our first disk-based enhanced backup solution. We have devoted and expect to continue to devote considerable management and financial resources to these efforts. We cannot provide assurance that:

- We will introduce any of these new products in the time frame we are forecasting;
- We will not experience technical, quality, performance-related or other difficulties that could prevent or delay the introduction of, and market acceptance of, these new products;
- Our new products will achieve market acceptance and significant market share, or that the markets for these products will grow as we have anticipated;
- Our new products will be successfully or timely qualified with our customers by meeting customer performance and quality specifications because a successful and timely customer qualification must occur before customers will place large product orders; or
- We will achieve high volume production of these new products in a timely manner, if at all.

**We anticipate taking continued steps towards reducing our cost structure. We may be unable to reduce our cost structure to a level appropriate in relation to our future sales and therefore these anticipated cost reductions may be disproportionate to our sales, thereby materially and adversely affecting our business, financial condition and operating results.**

We have recognized significant restructuring charges during the past four years in order to reduce our cost of sales and operating expenses in light of adverse economic and industry conditions that occurred during this period. We anticipate taking continued steps to reduce our operating costs. These and other possible restructurings caused by changes in our business and industry will require us to make additional cash payments that can adversely affect our liquidity if large enough. We may be unable to reduce our cost of sales and operating expenses at a rate and to a level consistent with a future potential adverse sales environment and therefore these anticipated restructuring charges may be disproportionate to sales, thereby materially and adversely affecting our business, financial condition and operating results.



**Our reliance on a limited number of third party suppliers could result in significantly increased costs and delays in the event these suppliers experience shortages or quality problems, and, as a result, our business, financial condition and operating results may be materially and adversely affected.**

We depend on a limited number of suppliers for components and sub-assemblies, including recording heads, media cartridges and integrated circuits, all of which are essential to the manufacture of tape drives and tape automation systems.

We currently purchase the DLTtape and Super DLTtape media cartridges that we sell primarily from Imation, Fuji and Maxell. We cannot provide assurance that Imation, Fuji or Maxell will continue to supply an adequate number of high quality media cartridges in the future. If component shortages occur, or if we experience quality problems with component suppliers, shipments of products could be significantly delayed and/or costs significantly increased, and as a result, our business, financial condition and operating results could be materially and adversely affected. In addition, we qualify only a single source for many components and sub-assemblies, which magnifies the risk of future shortages.

Furthermore, the main supplier of tape heads for our products is located in China. Political instability, trade restrictions, changes in tariff or freight rates, or currency fluctuations in China could result in increased costs and delays in shipment of our products and could materially and adversely impact our business, financial condition and operating results.

**We rely heavily on distributors and other resellers to market and sell our products and to maintain acceptable levels of customer satisfaction. We do not control their business operations. If one or more distributors were to experience a significant deterioration in its financial condition or its business relationship with us, this could disrupt the distribution of our products and reduce our revenue, which could materially and adversely affect our business, financial condition and operating results.**

In certain product and geographic segments we heavily utilize distributors and value added resellers to perform the functions necessary to market and sell our products. To fulfill this role, the distributor must maintain an acceptable level of financial stability, creditworthiness and the ability to successfully manage business relationships with the customers it serves directly. Under our distributor agreements with these companies, each of the distributors determines the type and amount of our products that it will purchase from us and the pricing of the products that it sells to its customers. If the distributor is unable to perform in an acceptable manner, we may be required to reduce the amount of sales of our product to the distributor or terminate the relationship. We may also incur financial losses for product returns from distributors or for the failure or refusal of distributors to pay obligations owed to us. For instance, on May 7, 2003, Digital Storage, Inc., one of our media distributors, filed for Chapter 11 bankruptcy protection. As a result of this bankruptcy, we recorded a net bad debt charge of $1.8 million. Either scenario could result in fewer of our products being available to the affected market segments, reduced levels of customer satisfaction and/or increased expenses, which could in turn have a material and adverse impact on our business, results of operations and financial condition.

**If we fail to protect our intellectual property or if others use our proprietary technology without authorization, our competitive position may suffer.**

Our future success and ability to compete depends in part on our proprietary technology. We rely on a combination of copyright, patent, trademark and trade secrets laws and nondisclosure agreements to establish and protect our proprietary technology. We currently hold 149 United States patents and have 137 United States patent applications pending. However, we cannot provide assurance that patents will be issued with respect to pending or future patent applications that we have filed or plan to file or that our patents will be upheld as valid or will prevent the development of competitive products or that any actions we have taken will adequately protect our intellectual property rights. We generally enter into confidentiality agreements with our employees, consultants, resellers, customers and potential customers, in which we strictly limit access to, and distribution of, our software, and further limit the disclosure and use of our proprietary information. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain or use our products or technology. Our competitors may also independently develop technologies that are substantially equivalent or superior to our technology. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the United States.



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**Third party infringement claims could result in substantial liability and significant costs, and, as a result, our business, financial condition and operating results may be materially and adversely affected.**

From time to time, third parties allege our infringement of and need for a license under their patented or other proprietary technology. For instance, see Note 13 for a description of StorageTek's patent infringement suit against us. While we currently believe the amount of ultimate liability, if any, with respect to these actions will not materially affect our financial position, results of operations, or liquidity, the ultimate outcome of any litigation is uncertain. Adverse resolution of any third party infringement claim could subject us to substantial liabilities and require us to refrain from manufacturing and selling certain products. In addition, the costs incurred in intellectual property litigation can be substantial, regardless of the outcome. As a result, our business, financial condition and operating results may be materially and adversely affected.

**Pursuant to our synthetic lease, we have an obligation for a guaranteed value to the lessor at the end of the lease term, which could result in our being required to make a significant cash payment to the lessor, and if we are required to do so, our business, financial condition and results of operations could be materially and adversely impacted.**

We have a synthetic lease for our Colorado Springs facility, which is accounted for as an operating lease in accordance with SFAS No. 13, *Accounting for Leases*. At the end of the lease term, we may renew the lease, purchase the facility, or cause the facility to be sold to a third party, subject to our obligation to the lessor for the guaranteed value. The proceeds of a sale to a third party would be used to satisfy the $50.0 million obligation to the lessor at the end of the lease term. In the event of sale to a third party, we would be liable for any shortfall between the net proceeds resulting from the sale of the facility and our $50.0 million obligation to the lessor, up to a maximum of $43.9 million. In the event of a default on our obligation to the lessor, we would be liable for the entire $50.0 million. These obligations that would arise from either a sale to a third party or a default could have a material adverse impact on our financial condition and liquidity.

In the past we incurred both a period expense and a cash charge because of a decline in the appraised value of this facility. We have the facility independently appraised on a periodic basis. Any future declines in the appraised value of the facility would result in both a period expense and a cash charge, which could be material and adverse to our financial condition.

Our synthetic lease requires us to maintain specified financial covenants. If we fail to comply with these financial covenants and are unable to obtain a waiver, or amend the lease, for such future non-compliance, it would cause us to default under our credit agreement and synthetic lease and the lessor could terminate the lease, resulting in the acceleration of our obligation to purchase the leased facility at either the full $50.0 million value or the $43.9 million guaranteed value, either of which could have a material adverse effect on our financial condition and liquidity.

**In previous quarters we violated certain financial covenants under our credit agreement and synthetic lease. If in the future we violate financial covenants, it could materially and adversely impact our financial condition and liquidity.**

In April 2000, we entered into an unsecured senior credit agreement with a group of nine banks, providing a $187.5 million revolving credit line that would have expired in April 2003. In previous quarters we violated certain financial covenants under this credit agreement and received waivers or amendments for such violations. In December 2002, we terminated this facility and entered into a secured senior credit agreement with a group of five banks, providing a $100.0 million revolving credit line that expires in June 2004. As of September 28, 2003, $90.4 million of this credit line was committed to standby letters of credit, of which $50.0 million secures our obligation to the lessor under our synthetic lease. In December 2002, we also entered into a synthetic lease that contained the same financial covenants as our credit agreement. In July 2003, we amended our credit agreement and our synthetic lease to, among other things, change certain financial covenants and events of default and allow for redemption of our 7% Convertible Subordinated Notes due 2004. We violated the EBITDA covenant in the first quarter of fiscal year 2004, for which we obtained an amendment.

If in the future we violate any financial or reporting covenant in our credit agreement and receive a notice of default letter from our bank group, our credit line could become unavailable, and any amounts outstanding could become immediately due and payable. If we were unsuccessful in securing a waiver of such violation or an amendment to our credit agreement, we might have to restrict $90.4 million of our cash to cover the outstanding standby letters of credit issued under the credit agreement. This would have a material and adverse impact on our liquidity.

If we violate any financial or reporting covenants in our credit agreement, it would cause a corresponding violation under our synthetic lease. Absent a waiver or an amendment to our synthetic lease, such a violation would be cause for default under that agreement. For more information regarding our synthetic lease please refer to the immediately preceding risk factor.

Without the availability of the credit agreement, we will have to rely on operating cash flows and debt or equity arrangements other than the credit agreement, if such alternative funding arrangements are available to us at all, in order to maintain sufficient liquidity. If we were not able to obtain sufficient cash from our operations or from these alternative funding sources under such circumstances, our operations, financial condition and liquidity would be materially and adversely affected.



**We have engaged in and may in the future engage in acquisitions of companies, technologies or products, and the failure to integrate any such acquisitions could harm our business, financial condition and operating results.**

As a part of our business strategy, we have in the past and expect in the future to make additional acquisitions of, or significant investments in, complementary companies, products or technologies. For instance, as part of this acquisition strategy, during the third quarter of fiscal year 2003, we acquired Benchmark, whose business is complementary to many Quantum products and technologies. Any future acquisitions, as well as the success of our Benchmark acquisition, would be accompanied by the risks commonly encountered in acquisitions of companies. These risks include, among others:

- Difficulties in assimilating its operations and personnel;
- Diversion of management’s attention from ongoing business concerns;
- The potential inability to maximize our financial and strategic position through the successful incorporation of acquired technology and rights into our products and services;
- Insufficient revenues to offset increased expenses associated with the acquisition;
- Maintenance of uniform standards, controls, procedures and policies;
- Impairment of existing relationships with employees, suppliers and customers as a result of the integration of new personnel;
- Difficulties in entering markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions;
- The possibility that we may not receive a favorable return on our investment, the original investment may become impaired, and/or incur losses from these investments;
- Dissatisfaction or performance problems with an acquired company;
- The cost associated with acquisitions; and
- Assumption of unknown liabilities or other unanticipated adverse events or circumstances.

We cannot provide assurance that we will be able to successfully integrate any business, products, technologies or personnel that we may acquire in the future, and our failure to do so could harm our business, financial condition and operating results.

**We outsourced DLT and Super DLTtape drive manufacturing to Jabil during the third quarter of fiscal year 2003. SSG has increased its use of contract manufacturers for certain manufacturing functions as well. Our ability to meet customer demand depends on our ability to obtain timely deliveries of products and parts from our suppliers. If we cannot obtain these products and parts in such a manner, such a delay could materially and adversely impact our business, financial condition and results of operations.**

We face the following risks as a result of our decision to outsource manufacturing to Jabil:

- *Sole source of product supply.* Jabil is our sole source of supply for most of our DLTtape and Super DLTtape drives and certain tape automation products. Because we are relying on one supplier, we are at greater risk of experiencing component shortages or other delays in customer deliveries that could result in customer dissatisfaction and lost sales, which could materially damage customer relationships and result in lost revenue.

- *Cost and purchase commitments.* We may not be able to control the costs we would be required to pay Jabil for the products they manufacture for us. Jabil procures inventory to build our products based upon a forecast of customer demand that we provide. We would be responsible for the financial impact on Jabil of any reduction or product mix shift in the forecast relative to materials that Jabil had already purchased under a prior forecast. Such a variance in forecasted demand could require us to pay Jabil for finished goods in excess of current customer demand or for excess or obsolete inventory. As a result, we could experience reduced gross margins and larger operating losses based on these purchase commitments.

- *Quality.* We will have limited control over the quality of products produced by Jabil. Therefore, the quality of the products may not be acceptable to our customers and could result in customer dissatisfaction, lost revenue, and increased warranty costs.



In addition to Jabil, we have outsourced a significant portion of our manufacturing to other contract manufacturers. We face similar risks in relation to these products as those set forth above, in particular the risks of component shortages or other delays in customer deliveries that could result in customer dissatisfaction and lost sales, increased costs for products manufactured for us and the risk that the quality of the products may not be acceptable to us or to our customers, any or all of which could have a material adverse effect on our business.

**A significant portion of the consideration for the disposition of the material assets of our NAS business was restricted stock issued by the buyer, a privately held company.**

A portion of the consideration for the sale of the material operating assets of our NAS business was equity securities recorded with a $3.9 million carrying value. The equity securities are "restricted securities", as defined in Rule 144 under the Securities Act and, therefore, are subject to substantial restrictions on the sale or disposition of such shares, many of which are contingent on or governed by matters solely within the control of the privately held company. Because of the nature of the privately held issuer as well as the restrictions on our ability to transfer these equity securities, there is no public market for these securities.

We generally record our investments in equity securities of early development stage companies on a cost basis, adjusted for other than temporary impairment. The restricted stock we received as a result of the NAS disposition could lose value and become worthless if the buyer fails to profitably achieve its business plans or is not able to obtain adequate funding to do so. Because there is no market in these equity securities, we would not be able to hedge or otherwise mitigate any losses on these securities. If the buyer is not successful in achieving its business plan, we could be required to write down some or all of the value of these assets, which could have a material and adverse impact on our financial condition and results of operations.

**Tax allocations under a tax sharing and indemnity agreement with Maxtor are the subject of a dispute between us and Maxtor. In the event this dispute is not resolved favorably, we could incur significant costs that could have a material adverse effect on our business, financial condition and operating results.**

The tax sharing and indemnity agreement between us and Maxtor entered into in connection with the disposition of HDD provided for the allocation of certain liabilities related to taxes. Maxtor and we presently disagree about the amounts owed by each party under that agreement. The parties are in negotiations to resolve this matter, and no litigation has been initiated to date. However, there can be no assurance that we will be successful in asserting our position. If disputes regarding contested amounts cannot be resolved favorably, we may incur significant liabilities and costs, including litigation costs, as well as costs to settle the related obligations. An unfavorable settlement or litigation outcome could have a material adverse effect on our business, financial condition and operating results.

**Maxtor's failure to perform under the indemnification provisions of a tax sharing and indemnity agreement entered into with us providing for payments to us that relate to tax liabilities, penalties, and interest resulting from the conduct of our business prior to the HDD disposition date could have a material adverse effect on our business, financial condition and operating results.**

Under a tax sharing and indemnity agreement between us and Maxtor entered into in connection with the disposition of HDD, Maxtor has agreed to assume responsibility for payments related to certain taxes, penalties, and interest resulting from the conduct of business by the Quantum DSS group for all periods before our issuance of tracking stock and the conduct of the Quantum HDD group for all periods before the disposition of HDD to Maxtor. If audit adjustments are successfully asserted with respect to such conduct, and if Maxtor fails to indemnify us under this obligation or is not able to pay the reimbursement in full, we would nevertheless be obligated, as the taxpayer, to pay the tax. As a result, we could experience a material adverse effect on our business, financial condition and operating results.

If Maxtor were unable to pay its share of any obligations, we would be required to pay and that could have a material adverse impact on our results of operations and financial position.



**Maxtor's failure to perform under the agreements in connection with contingent liabilities would harm our business, financial condition and operating results.**

We may have contingent liabilities for some obligations assumed by Maxtor, including real estate and litigation, and Maxtor's failure to perform under these obligations could result in significant costs to us that could have a materially adverse impact on our business, financial condition and operating results.

**The disposition of HDD may be determined not to be tax-free, which would result in us or our stockholders, or both, incurring a substantial tax liability, which could materially and adversely affect our business, financial condition and results of operations.**

Maxtor and Quantum have agreed not to request a ruling from the Internal Revenue Service, or any state tax authority confirming that the structure of the combination of Maxtor with HDD will not result in any federal income tax or state income or franchise tax to Quantum or the previous holders of HDD common stock. Instead, Maxtor and we have agreed to effect the disposition and the merger on the basis of an opinion from Ernst & Young LLP, our tax advisor, and a tax opinion insurance policy issued by a syndicate of major insurance companies to us covering up to $340 million of tax loss caused by the disposition and merger.

If the disposition of HDD is determined not to be tax-free and the tax opinion insurance policy does not fully cover the resulting tax liability, we or our stockholders or both could incur substantial tax liability, which could materially and adversely affect our business, financial condition and results of operations.

**The tax opinion insurance policy issued in conjunction with the disposition of HDD does not cover all circumstances under which the disposition could become taxable to us, and as a result, we could incur an uninsured tax liability, which could materially and adversely affect our business, financial condition and results of operations.**

In addition to customary exclusions from its coverage, the tax opinion insurance policy does not cover any federal or state tax payable by us if the disposition becomes taxable to us as a result of:

- A change in relevant tax law;
- An acquisition representing a 50% or greater interest in Quantum which began during the one-year period before and six-month period following the disposition, whether or not approved by our board of directors; or
- An acquisition representing a 50% or greater interest in Maxtor which began during the one-year period before and six-month period following the disposition, whether or not approved by Maxtor's board of directors.

If any of these events occur, we could incur uninsured tax liability, which could materially and adversely affect our business, financial condition and results of operations.



**If we incur an uninsured tax liability as a result of the disposition of HDD, our financial condition and operating results could be negatively affected.**

If the disposition of HDD were determined to be taxable to Quantum, we would not be able to recover an amount to cover the tax liability either from Maxtor or under the insurance policy in the following circumstances:

- If the tax loss were not covered by the policy because it fell under one of the exclusions from the coverage under the tax opinion insurance policy described above, insurance proceeds would not be available to cover the loss.

- If the tax loss were caused by our own acts or those of a third party that made the disposition taxable (for instance, an acquisition of control of Quantum which began during the one-year period before and six-month period following the closing), Maxtor would not be obligated to indemnify us for the amount of the tax liability.

- If Maxtor were required to reimburse us for the amount of the tax liability according to its indemnification obligations under the HDD disposition, but was not able to pay the reimbursement in full, we would nevertheless be obligated, as the taxpayer, to pay the tax.

In any of these circumstances, the tax payments due from us could be substantial. In order to pay the tax, we would have to either deplete our existing cash resources or borrow cash to cover our tax obligation. Our payment of a significant tax prior to payment from Maxtor under Maxtor's indemnification obligations, or in circumstances where Maxtor has no payment obligation, could harm our business, financial condition and operating results.

**Our stock price could become more volatile if certain institutional investors were to increase or decrease the number of shares they own. In addition, there are other factors and events that could affect the trading prices of our common stock.**

Three institutional investors own approximately 47% of our common stock. If any or all of these investors were to decide to purchase additional shares or to sell some or all of the Quantum DSS shares they currently own, that may cause our stock price to be more volatile.

Trading prices of our common stock may fluctuate in response to a number of other events and factors, such as:

- General economic conditions;
- Changes in interest rates;
- Fluctuations in the stock market in general and market prices for high technology companies in particular;
- Quarterly variations in our operating results;

- New products, services, innovations and strategic developments by our competitors or us, or business combinations and investments by our competitors or us;
- Changes in financial estimates by us or securities analysts and recommendations by securities analysts; and
- Changes in our capital structure, including issuance of additional debt or equity to the public.

Any of these events and factors may cause our stock price to rise or fall and may adversely affect our business and financing opportunities.

**Our historical financial information may not be representative of our future results solely as a tape drive and storage solutions business**.

Our historical financial information does not necessarily reflect what our financial position, operating results, and cash flows would have been had we existed solely as a tape drive and storage solutions business during the periods presented. In addition, the historical information is not necessarily indicative of what our operating results, financial position and cash flows will be in the future.

**Our quarterly operating results could fluctuate significantly, and past quarterly operating results should not be used to predict future performance.**

Our quarterly operating results have fluctuated significantly in the past and could fluctuate significantly in the future. As a result, our past quarterly operating results should not be used to predict future performance. Quarterly operating results could be materially and adversely affected by a number of factors, including, but not limited to:

- An inadequate supply of tape media cartridges;
- Customers canceling, reducing, deferring or rescheduling significant orders as a result of excess inventory levels, weak economic conditions or other factors;
- Declines in network server demand;
- Failure to complete shipments in the last month of a quarter during which a substantial portion of our products are typically shipped; or
- Increased competition.

If we fail to meet our projected quarterly results, our business, financial condition and results of operations may be materially and adversely harmed.



**A significant portion of our manufacturing and sales operations occurs in foreign locations; we are increasingly exposed to risks associated with conducting our business internationally.**

We manufacture and sell our products in a number of different markets throughout the world. As a result of our global manufacturing and sales operations, we are subject to a variety of risks that are unique to businesses with international operations of a similar scope, including the following:

- Adverse movement of foreign currencies against the U.S. dollar (in which our results are reported);
- Import and export duties and value-added taxes;
- Import and export regulation changes that could erode our profit margins or restrict our exports;
- Potential restrictions on the transfer of funds between countries;
- Inflexible employee contracts in the event of business downturns; and
- The burden and cost of complying with foreign laws.

In addition, our suppliers have operations in several emerging or developing economies that have a potential for higher risk than in the developed markets. The risks associated with these economies include, but are not limited to, political risks and natural disasters. In particular, with one of our outsourced manufacturers located in Malaysia, a significant portion of our product manufacturing may be subject to such political and climactic risks. Political instability, including the threat of terrorism, or a natural disaster in Malaysia or any other foreign market in which we operate could materially and adversely affect our business, financial condition and results of operations.

**We are exposed to fluctuations in foreign currency exchange rates and an adverse change in foreign currency exchange rates relative to our position in such currencies could have a materially adverse impact on our business, financial condition and results of operations.**

We do not use derivative financial instruments for speculative purposes. Our goal is to hedge our foreign currency-denominated transactions in a manner that substantially offsets the effects of changes in foreign currency exchange rates. Presently, we use foreign currency obligations to match and offset net currency exposures associated with certain assets and liabilities denominated in non-functional currencies. Corresponding gains and losses on the underlying transaction generally offset the gains and losses on these foreign currency obligations. We have used in the past, and may use in the future, foreign currency forward contracts to hedge our exposure to foreign currency exchange rates. To the extent that we have assets or liabilities denominated in a foreign currency that are inadequately hedged or not hedged at all, we may be subject to foreign currency losses, which could be significant.

Our international operations can act as a natural hedge when both operating expenses and sales are denominated in local currencies. In these instances, although an unfavorable change in the exchange rate of a foreign currency against the U.S. dollar would result in lower sales when translated to U.S. dollars, operating expenses would also be lower in these circumstances. Also, since an insignificant amount of our current sales are denominated in currencies other than the U.S. dollar, we do not believe that our total foreign exchange rate exposure is significant. Nevertheless, an increase in the rate at which a foreign currency is exchanged for U.S. dollars would require more of that particular foreign currency to equal a specified amount of U.S. dollars than before such rate increase. In such cases, and if we were to price our products and services in that particular foreign currency, we would receive fewer U.S. dollars than we would have received prior to such rate increase for the foreign currency. Likewise, if we were to price our products and services in U.S. dollars while competitors priced their products in a local currency, an increase in the relative strength of the U.S. dollar would result in our prices being uncompetitive in those markets. Such fluctuations in currency exchange rates could materially and adversely affect our business, financial condition and results of operations.



**We must maintain appropriate levels of service inventories. If we have too little service inventory, we may experience increased levels of customer dissatisfaction. If we have too much service inventory, we may incur financial losses.**

We maintain levels of service inventories to satisfy future warranty obligations and also to earn service revenue to repair products for which the warranty has expired. We estimate the required amount of service inventories based on historical usage and forecasts of future warranty requirements, including estimates of failure rates and costs to repair, and out of warranty revenue. Given the significant levels of judgment inherently involved in the process, we cannot provide assurance that we will be able to maintain appropriate levels of service inventories to satisfy customer needs and to avoid financial losses from excess inventory charges. If we are unable to maintain appropriate levels of service inventories, our business, financial condition and results of operations maybe materially and adversely impacted.

**Many of our facilities are located near known earthquake fault zones, and the occurrence of an earthquake or other disasters could cause damage to our facilities and equipment, which could require us to curtail or cease operations.**

Many of our facilities are located in Northern and Southern California, near known earthquake fault zones and are, therefore, vulnerable to damage from earthquakes. In October 1989, a major earthquake that caused significant property damage and a number of fatalities struck Northern California. In addition, in 1994, a major earthquake that caused significant property damage and a number of fatalities struck Southern California. We and our suppliers are also vulnerable to damage from other types of disasters, including fire, floods, power loss, communications failures, terrorism and similar events. If any disaster were to occur, our ability to operate our business at our facilities could be seriously, or completely, impaired. The insurance we maintain may not be adequate to cover our losses resulting from disasters or other business interruptions.



## Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to a variety of risks, including changes in interest rates, foreign currency fluctuations and impairment in equity security values.

Market Interest Rate Risk

Changes in interest rates affect interest income earned on our cash equivalents and short-term investments, and interest expense on short-term and long-term borrowings.

Our cash equivalents and short-term investments consist primarily of short-term fixed income funds and money market funds. The main objective of these investments is to maintain principal while maximizing return, without significantly increasing risk. A hypothetical 100 basis point parallel decrease in the interest rate curve would result in an approximate $2.7 million annual decrease in interest income.

In April 2000, we entered into an unsecured senior credit facility with a group of banks providing a $187.5 million revolving credit line that would have expired in April 2003. In December 2002, we terminated this facility and entered into a secured senior credit facility with a group of five banks, providing us with a $100.0 million revolving credit line that expires in June 2004. Our credit facilities are comprised of a $100.0 million revolving line of credit expiring in June 2004, a synthetic lease expiring in December 2008 and $160.0 million of 4.375% convertible subordinated notes due 2010 (refer to note 12, *Credit Agreements, Short-Term Debt and Convertible Subordinated Debt*). The borrowings under the revolving credit line and synthetic lease bear interest at either the London interbank offered rate or a base rate, plus a margin determined by a leverage ratio with option periods of one to six months.

We do not enter into derivative transactions related to our cash equivalents or short-term investments, nor our existing or anticipated liabilities.

Foreign Currency Exchange Rate Risk

As a multinational corporation, we are exposed to changes in foreign exchange rates. These exposures may change over time and could have a material adverse impact on our financial results. Currently, we do not utilize foreign currency forward contracts to manage the risk of exchange rate fluctuations because we believe that we have a natural hedge through our worldwide operating structure. We do not anticipate any material effect on our consolidated financial position utilizing our current hedging strategy.

Equity Security Risk

We hold equity investments in companies in the high-technology industry sector that are not currently publicly traded. These investments are recorded at cost, adjusted for other than temporary impairment and are included in other long-term assets. We do not attempt to reduce or eliminate exposure on these securities. At September 28, 2003, the carrying value of these investments was $4.2 million.

A 20 percent impairment charge would result in an approximate $0.8 million decrease in the fair value of our equity investments.



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**Item 4. Controls and Procedures**

(a) **Evaluation of disclosure controls and procedures.** Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

(b) **Changes in internal control over financial reporting.** There was no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



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## QUANTUM CORPORATION

## PART II - OTHER INFORMATION

**Item 1. Legal proceedings**

The information contained in Note 13 to the Condensed Consolidated Financial Statements is incorporated into this Part II, Item 1 by reference.

**Item 5. Other information**

During the quarter ended September 28, 2003, certain audit-related and tax services were performed by Ernst & Young LLP that were pre-approved by Quantum's Audit Committee.

**Item 6. Exhibits and reports on Form 8-K.**

**(a) Exhibits**

| **Exhibit Number** | **Exhibit** |
|---|---|
| 3.1(1) | Amended and Restated Certificate of Incorporation of Registrant |
| 3.2(6) | Certificate of Designation for the Series B Participating Junior Preferred Stock |
| 3.3(2) | Amended and Restated By-laws of Registrant, as amended |
| 3.4 (3) | Amendment to Amended and Restated By-laws of Registrant, effective April 23, 2003 |
| 4.1(4) | Amended and Restated Preferred Shares Rights Agreement between the Registrant and Harris Trust and Savings Bank |

| | |
|---|---|
| 4.2(5) | First Amendment to the Amended and Restated Preferred Shares Rights Agreement and Certification Of Compliance With Section 27 Thereof, dated as of October 28, 2002 |
| 4.3(5) | Stockholder Agreement, dated as of October 28, 2002, by and between Registrant and Private Capital Management |
| 10.1(6) | Indenture, dated as of July 30, 2003, between the Company and U.S. Bank National Association |
| 10.2(6) | Form of Note (included in Exhibit 10.1) |
| 10.3(6) | Resale Registration Rights Agreement, dated as of July 30, 2003, between the Company, Lehman Brothers Inc., Morgan Stanley & Co. Incorporated and McDonald Investments Inc. |
| 10.4(6) | Notice of Transfer |
| 10.5*** | Amendment, dated as of April 1, 2003, to Master Supply and Intellectual Property License Agreement, dated December 10, 2002, between Registrant and Jabil Circuit, Inc. |
| 10.6 | First Amendment, dated as of January 31, 2003, to Participation Agreement, dated as of December 17, 2002, by and among Registrant, as Lessee, Selco Service Corporation, as Lessor, Comerica Bank-California, Fleet National Bank and Keybank National Association, as Participants, and Keybank National Association, as Agent for the Participants |
| 10.7 | First Amendment, dated as of January 31, 2003, to Credit Agreement (18-Month), dated as of December 17, 2002, by and among Registrant, each Lender, and Keybank National Association, as Administrative Agent, Issuing Lender and Lender |



| | |
|---|---|
| 10.8 | Second Amendment, dated as of July 21, 2003, to Participation Agreement, dated as of December 17, 2002, by and among Registrant, as Lessee, Selco Service Corporation, as Lessor, Comerica Bank-California, Fleet National Bank and Keybank National Association, as Participants, and Keybank National Association, as Agent for the Participants |
| 10.9 | Second Amendment, dated as of July 21, 2003, to Credit Agreement (18-Month), dated as of December 17, 2002, by and among Registrant, each Lender, and Keybank National Association, as Administrative Agent, Issuing Lender and Lender |
| 10.10 | Employment Agreement, dated as of September 25, 2003, between Registrant and Jerald L. Maurer |
| 10.11 | Separation Agreement, dated as of July 23, 2003, between Registrant and Barbara H. Nelson |
| 10.12 (7) | Nonemployee Director Equity Incentive Plan, effective September 3, 2003 |
| 24 | Power of Attorney (see signature page) |
| 31.1 | Certification of the Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of the Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 |

***Confidential treatment has been requested for omitted portions.

1. Incorporated by reference to Registrant's Annual Report on Form 10-K for fiscal year ended March 31, 2001 filed with the Securities and Exchange Commission on June 29, 2001.
2. Incorporated by reference to Registrant's Annual Report on Form 10-K for fiscal year ended March 31, 2000 filed with the Securities and Exchange Commission on June 28, 2000.
3. Incorporated by reference to Registrant's Annual Report on Form 10-K for fiscal year ended March 31, 2003 filed with the Securities and Exchange Commission on June 30, 2003.
4. Incorporated by reference to Registrant's Registration Statement on Form S-4, Amendment No.2, filed with the Securities and Exchange Commission on June 10, 1999.

5. Incorporated by reference to Registrant's Form 10-Q for the quarterly period ended September 29, 2002 filed with the Securities and Exchange Commission on November 13, 2002.
6. Incorporated by reference to Registrant's Registration Statement on Form S-3, filed with the Securities and Exchange Commission on October 9, 2003.
7. Incorporated by reference to Registrant's Schedule 14A, filed with the Securities and Exchange Commission on July 21, 2003.



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(b) **Reports on Form 8-K**

The Company filed the following Current Reports on Form 8-K during the three months ended September 28, 2003:

On July 10, 2003, Quantum Corporation filed a Current Report on Form 8-K to revise revenue and earnings expectations for the fiscal first quarter ended June 29, 2003.

On June 30, 2003, Quantum Corporation filed a Current Report on Form 8-K announcing the filing of its annual report on Form 10-K for the fiscal year 2003, ended March 31, 2003.

On July 22, 2003, Quantum Corporation filed a Current Report on Form 8-K, to report its operating results for the fourth quarter of fiscal year 2003.

On July 30, 2003, Quantum Corporation filed a Current Report on Form 8-K, announcing that it intended to offer $160 million aggregate principal amount of convertible subordinated notes through an offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933.



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## SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**QUANTUM CORPORATION**
(Registrant)

Date: November 12, 2003 By: /s/ Michael J. Lambert

Michael J. Lambert
Executive Vice President, Finance
and Chief Financial Officer

**Exhibit 10.5**

# AMENDMENT TO
# MASTER SUPPLY AND INTELLECTUAL PROPERTY LICENSE AGREEMENT

THIS AMENDMENT (the "Amendment") to that certain Master Supply and Intellectual Property License Agreement (the "Agreement"), dated and made effective on December 10, 2002, is made and entered into as of this first day of April, 2003, by and between Quantum Corporation, a Delaware corporation, having its principal place of business at 501 Sycamore Drive, Milpitas, California, 95035, and its wholly-owned subsidiaries and Affiliates (collectively "Quantum") and Jabil Circuit, Inc., a Delaware corporation, having its principal place of business at 10560 Ninth Street North, St. Petersburg, Florida, 33716 and its wholly-owned subsidiaries and Affiliates (collectively "Jabil").

## RECITALS

NOW, THEREFORE, in consideration of the mutual promises, covenants and other terms and conditions contained in this Amendment and for other good and valuable consideration, the receipt of which is acknowledged by both parties, the parties agree as follows:

1. Amendments.

a) The Agreement is hereby amended and modified so that Section 1.26 is deleted in its entirety and replaced with the following new section:

1.26 a) SSG shall mean Quantum's Storage Solution Group.

b) The "SSG Products" shall mean that subset of the Products produced for SSG including the Superloader, drive Canister Assemblies and M1500 Products.

b) The Agreement is hereby amended and modified so that Section 11.2 is deleted in its entirety and replaced with the following new section:

11.2 **Jabil Parties' Workmanship Warranty**: Jabil warrants that all of the Products supplied to Quantum hereunder shall conform to all applicable Specifications, and that all such Products except for the SSG Products shall be free from defects in Workmanship for a period of ***** and that the SSG Products shall be free from defects in Workmanship for a period of *****. These warranties are extended to, and may only be enforced by, Quantum. In addition, Jabil shall use Commercially Reasonable Efforts to assure that vendor warranties with respect to all materials, parts and components used in the Products extend for the benefit of Quantum, regardless of the length of any such warranty. For the avoidance of doubt, this warranty shall not apply to defects resulting from the design of the Products, or from materials, parts, or components, provided that such materials, parts or components have been purchased by Jabil pursuant to the AVL, or as otherwise approved in writing by Quantum.

2. Terms; No Other Changes. Any capitalized terms contained in this Amendment and not defined in this Amendment have the meanings for such terms as are set forth in the Agreement. Except as expressly provided in this Amendment, the Agreement remains un-amended and unmodified and in full force and effect.

3. General. This Amendment contains the entire agreement between the parties with respect to the subject matter hereof and supersedes any prior agreements, negotiations, or representations between the parties with respect to the subject matter hereof, whether written or oral. This Amendment may be modified only by a subsequent written agreement signed by the parties. If any provision of this Amendment is held to be unenforceable, the remaining provisions will continue unaffected.

4. Governing Law and Dispute Resolution. This Amendment, shall be governed by, and interpreted in accordance with, the laws of the State of Delaware , excluding conflicts of laws principles and any application of the U.N. Convention on Contracts for the International Sale of Goods. Any dispute between the parties relating to the validity, performance, interpretation or construction of this Amendment shall be resolved in accordance with Delaware law and in the federal or state courts of Delaware . The parties to this Amendment hereby irrevocably consent to the personal jurisdiction of the federal and state courts in Delaware for the resolution of all disputes hereunder. Notwithstanding the provisions of this Section, the parties shall have the right to seek relief, including preliminary and permanent injunctive relief, in any court of competent jurisdiction to prevent the unauthorized use, misappropriation, disclosure or infringement of any of intellectual property of the parties or Confidential Information.

*****Confidential treatment has been requested for omitted portions.

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IN WITNESS WHEREOF, the parties have had this Amendment executed by their respective duly authorized officers on the day and date first written above.

Quantum Corporation

By: /s/ Curt Kane
Name: Curt Kane
Title: Vice President DLTG Supply Chain

Quantum Peripherals (Europe) S.A.

By: /s/ Franco Mazzullo
Name: Franco Mazzullo
Title: VP International Sales

Jabil Circuit Inc.

By: /s/ Cory Schuck
Name: Cory Schuck
Title: Business Unit Director

**Exhibit 10.6**

**FIRST AMENDMENT**
**TO**
**PARTICIPATION AGREEMENT**

THIS FIRST AMENDMENT TO PARTICIPATION AGREEMENT (this "Amendment") is dated as of January 31, 2003, by and among QUANTUM CORPORATION, a Delaware corporation, as Lessee (together with its permitted successors and assigns, the "Lessee"); SELCO SERVICE CORPORATION, an Ohio corporation, as Lessor (together with its permitted successors and assigns, the "Lessor"); COMERICA BANK-CALIFORNIA, FLEET NATIONAL BANK and KEYBANK NATIONAL ASSOCIATION as Participants (together with their permitted successors and assigns and SELCO SERVICE CORPORATION, in its capacity as a Participant, each a "Participant" and collectively the "Participants"); and KEYBANK NATIONAL ASSOCIATION (in such capacity, together with its successors in such capacity, the "Agent") for the Participants.

RECITALS

A. Lessee, Lessor, Agent and Participants are parties to a Participation Agreement dated as of December 17, 2002 (the "Participation Agreement").

B. Lessee has requested that the Lessor, Agent and Participants amend the Participation Agreement and certain other of the Operative Documents, and Lessor, Agent and Participants have agreed, subject to satisfaction of the conditions set forth herein, to modify the definition of "Consolidated EBITDA" under the Participation Agreement to permit the addition, for purposes of calculating Lessee's Consolidated EBITDA, of certain in-process research and development charges for Lessee's fiscal quarter ending March 31, 2003 in an amount not to exceed $9,500,000.

C. Each capitalized term used but not otherwise defined herein shall have the meaning ascribed thereto in Appendix 1 to the Participation Agreement, as amended by this Amendment.

NOW, THEREFORE, the parties hereto agree as follows:

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ARTICLE 1
AMENDMENTS TO PARTICIPATION AGREEMENT

This Amendment shall be deemed to be an amendment to the Participation Agreement and shall not be construed in any way as a replacement or substitution therefor. All of the terms and conditions of, and terms defined in, this Amendment are hereby incorporated by reference into the Participation Agreement as if such terms and provisions were set forth in full therein.

1.1 The definition of “Consolidated EBITDA” contained in Appendix 1 to the Participation Agreement is amended and restated in its entirety as follows:

"“Consolidated EBITDA” means the sum of the following, provided that the items contained in (b)-(h) below shall be added to (a) only to the extent they have been deducted in the calculation of Consolidated Net Income and, therefore, form no part of Consolidated Net Income:

(a) Consolidated Net Income, provided that (i) all gains and all losses realized by Lessee and its Subsidiaries upon the sale or other disposition (including, without limitation, pursuant to sale and leaseback transactions) of property or assets that are not sold or otherwise disposed of in the ordinary course of business, or pursuant to the sale of any capital stock of Lessee or any Subsidiary, shall be excluded from such Consolidated Net Income, (ii) net income or net loss of Lessee and its Subsidiaries combined on a “pooling of interests” basis attributable to any period prior to the date of such combination shall be excluded from such Consolidated Net Income, (iii) all items of gain or income that are properly classified as extraordinary in accordance with GAAP or are unusual or non-recurring shall be excluded from such Consolidated Net Income; and

(b) Consolidated Interest Charges; and

(c) The amount of taxes, based on or measured by income, used or included in the determination of such Consolidated Net Income; and

(d) The amount of depreciation and amortization expense deducted in determining such Consolidated Net Income, including any impairment of goodwill as defined under FAS 142; and

(e) Any non-cash stock based compensation charges per GAAP; and

(f) Non-cash charges related to Lessee's sale of the Network Attached Storage business and the outsourcing of its manufacturing operations to Jabil Circuit, Inc., both net of any tax benefits or liabilities created by the same, for the quarters ending September 2002, December 2002 and March 2003; and

(g) Cash charges related to Lessee's facilities and personnel reductions, the sale of the Network Attached Storage business and the outsourcing of its manufacturing operations to Jabil Circuit, Inc., for the quarters ending September 2002 (not to exceed $17,600,000), December 2002 (not to exceed $20,000.000) and March 2003 (not to exceed $5,000,000); and

(h) Non-cash charges for the quarter ending March 31, 2003 for Lessee's in-process research and development (not to exceed $9,500,000)."

1.2 Section IV of Schedule 2 to Exhibit L (Form of Compliance Certificate) is amended and restated in its entirety as follows:

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**"IV. Section 10.2(k)(iv) – Minimum Consolidated EBITDA.**

A. Consolidated EBITDA measured on the last day of any fiscal quarter of Lessee commencing with the fiscal quarter ending December 31, 2002 (each period referred to as a "Quarter"):

| | | |
|---|---|---|
| 1. | Consolidated Net Income for Quarter in accordance with subsection (a) of definition of Consolidated EBITDA in Credit Agreement: | $___________ |
| 2. | Consolidated Interest Charges for Quarter: | $___________ |
| 3. | The amount of taxes, based on or measured by income, used or included in the determination of such Consolidated Net Income for Quarter: | $___________ |
| 4. | The amount of depreciation and amortization expense deducted in determining such Consolidated Net Income for Quarter, including any impairment of goodwill as defined under FAS 142: | $___________ |
| 5. | Any non-cash stock based compensation charges per GAAP for Quarter: | $___________ |
| 6. | Non-cash charges related to the Lessee's sale of the Network Attached Storage business and the outsourcing of its manufacturing operations to Jabil Circuit, Inc., both net of any tax benefits or liabilities created by the same, for the quarters ending September 2002, December 2002 and March 2003: | $___________ |
| 7. | Cash charges related to the Lessee's facilities and personnel reductions, the sale of the Network Attached Storage business and the outsourcing of its manufacturing operations to Jabil Circuit, Inc., for the quarters ending September 2002 (not to exceed $17,600,000), December 2002 (not to exceed $20,000.000) and March 2003 (not to exceed $5,000,000): | $___________ |
| 8. | Non-cash charges for the quarter ending March 31, 2003 for Lessee's in-process research and development (not to exceed $9,500,000): | $___________ |
| 9. | Total Consolidated EBIDTA (sum of Line IV.A.1-IV.A.8) | $___________ |

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ARTICLE 2
CONDITIONS TO EFFECTIVENESS OF AMENDMENT

2.1 The effectiveness of this Amendment is subject to the fulfillment to the satisfaction of the following conditions precedent:

(a) This Amendment duly executed by the Lessee, the Lessor, the Required Participants and the Agent;

(b) A First Amendment to the Lease in the form of Attachment 1, duly executed by Lessor and Lessee and notarized for recording,

(c) A First Amendment to the Deed of Trust in the form of **Attachment 2**, duly executed by Lessor and Agent and notarized for recording;

(d) Agent shall have received appropriate authorization documents, including borrowing resolutions and certificates of incumbency, confirming to its satisfaction that all necessary corporate and organizational actions have been taken to authorize Lessee to enter into this Amendment; and

(e) Agent shall have received such other documents, instruments or agreements as Agent may require to effectuate the intents and purposes of this Amendment.

2.2 In addition, within a reasonable time period not to exceed thirty (30) days after recordation of the amendments described in 2.1(b) and 2.2(c), Lessee shall deliver to the Agent, the Lessor and the Participants (a) such endorsements as the Lessor and the Agent may reasonably request to each of the (i) ALTA owner's title insurance policy issued in connection with the closing of the Participation Agreement, and (ii) ALTA lender's title insurance policy issued in connection with the closing of the Participation Agreement.

ARTICLE 3
REPRESENTATIONS AND WARRANTIES

Lessee hereby represents and warrants to Lessor, Agent and the Participants that:

3.1 After giving effect to the amendment of the Participation Agreement pursuant to this Amendment and the consummation of the transactions contemplated hereby (i) each of the representations and warranties set forth in Section 8.3 of the Participation Agreement and in the other Operative Documents are true and correct in all respects as if made on the date hereof (with references to the Participation Agreement being deemed to include this Amendment), and (ii) there exists no Lease Event of Default or Potential Lease Default under the Operative Documents after giving effect to this Amendment.

3.2 Lessee has full corporate power and authority to execute and deliver this Amendment and the amendments described in 2.1(b) and 2.2(c), and to perform the obligations of its part to be performed under the Participation Agreement as amended hereby and the amendments described in 2.1(b) and 2.2(c). Lessee has taken all necessary action, corporate or otherwise, to authorize the execution and delivery of this Amendment and the amendments described in 2.1(b) and 2.2(c). No consent or approval of any person, no consent or approval of any landlord or mortgagee, no waiver of any lien or similar right and no consent, license, approval or authorization of any governmental authority or agency is or will be required in connection with the execution or delivery by Lessee of this Amendment or the amendments described in 2.1(b) and 2.2(c) or the performance by Lessee of the Participation Agreement as amended hereby.

3.3 This Amendment and the Participation Agreement as amended hereby are, or upon delivery thereof to Agent will be, the legal, valid and binding obligations of Lessee, enforceable against Lessee in accordance with their respective terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally.

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ARTICLE 4
MISCELLANEOUS

4.1 The Participation Agreement, the other Operative Documents and all agreements, instruments and documents executed and delivered in connection with any of the foregoing shall each be deemed to be amended hereby to the extent necessary, if any, to give effect to the provisions of this Amendment. Except as so amended hereby, the Participation Agreement and the other Operative Documents shall remain in full force and effect in accordance with their respective terms.

4.2 Lessee agrees to pay Agent on demand for all reasonable expenses, including reasonable fees and costs of attorneys and costs of recordation and title insurance, incurred by Agent in connection with the preparation, negotiation and execution of this Amendment and any document required to be furnished hereunder.

4.3 This Amendment may be executed in any number of counterparts, each of which shall be an original, but all of which shall together constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the date set forth in the preamble hereto.

QUANTUM CORPORATION, a Delaware corporation, as Lessee

By:_ /s/ Mary Springer________________
Name: Mary Springer
Title: Treasurer

KEYBANK NATIONAL ASSOCIATION, as Agent

By:_ /s/ Robert W. Boswell______________
Name: Robert W. Boswell
Title: Vice President

KEYBANK NATIONAL ASSOCIATION, as Participant

By:_ /s/ Robert W. Boswell______________
Name: Robert W. Boswell
Title: Vice President

FLEET NATIONAL BANK, as Participant

By:_ /s/ Greg Roux__________________
Name: Greg Roux
Title: Managing Director

SELCO SERVICE CORPORATION, as Lessor

By:_ /s/ Donald C. Davis_______________
Name: Donald C. Davis
Title: Vice President

SELCO SERVICE CORPORATION, as Participant

By:_ /s/ Donald C. Davis_______________
Name: Donald C. Davis
Title: Vice President

COMERICA BANK-CALIFORNIA, as Participant

By:_ /s/ Rob Ways___________________
Name: Rob Ways
Title: Vice President

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**ATTACHMENT 1**

**FORM OF FIRST AMENDMENT TO LEASE AGREEMENT**

Prepared by and upon recording return to:

Timothy N. Brown, Esq.
Reed Smith Crosby Heafey LLP
Two Embarcadero Center, Suite 2000
San Francisco, California 94111

**FIRST AMENDMENT TO MASTER LEASE, DEED OF TRUST WITH ABSOLUTE ASSIGNMENT OF LEASES AND RENTS, SECURITY AGREEMENT AND FIXTURE FILING**

THIS FIRST AMENDMENT TO MASTER LEASE, DEED OF TRUST WITH ABSOLUTE ASSIGNMENT OF LEASES AND RENTS, SECURITY AGREEMENT AND FIXTURE FILING (this "Amendment") dated January 31, 2003, is entered into by and between

SELCO SERVICE CORPORATION, an Ohio Corporation (the "Lessor") and QUANTUM CORPORATION, a Delaware corporation (the "Lessee").

RECITALS

A. The Lessor, Lessee, Keybank National Association, as Agent (in such capacity, the "Agent"), and the financial institutions from time to time parties thereto (the "Participants") are parties to the Participation Agreement, dated as of December 17, 2002 (as amended, supplemented or otherwise modified from time to time, the "Participation Agreement").

B. Pursuant to the Participation Agreement, the Lessor and the Lessee executed a Master Lease, Deed of Trust with Absolute Assignment of Leases and Rents, Security Agreement and Fixture Filing ("Lease"), dated December 17, 2002, affecting certain real property located in El Paso County, Colorado, described in Schedule 1 to the Lease. The Lease was recorded on December 23, 2002, in the Official Records of El Paso County, Colorado, as Document Number 202228819.

C. The Lessee now has requested the Lessor, the Participants and the Agent to amend the Participation Agreement in certain respects.

D. Pursuant to the First Amendment to Participation Agreement dated as of the date hereof ("First Amendment to Participation Agreement") among the Lessor, Lessee, the Required Participants and Agent, the parties thereto have agreed to amend the Participation Agreement upon the terms and subject to the conditions set forth therein, including without limitation, the execution, delivery and recordation of this Amendment.

AGREEMENT

1. Definitions. All capitalized terms not otherwise defined in this Amendment shall have the respective meanings given to those terms in Appendix 1 to the Lease, as amended by this Amendment.

2. Amendments to the Lease. The definition of "Consolidated EBITDA" contained in Appendix 1 to the Lease is amended and restated in its entirety as follows:

"“Consolidated EBITDA” means the sum of the following, provided that the items contained in (b)-(h) below shall be added to (a) only to the extent they have been deducted in the calculation of Consolidated Net Income and, therefore, form no part of Consolidated Net Income:

(a) Consolidated Net Income, provided that (i) all gains and all losses realized by Lessee and its Subsidiaries upon the sale or other disposition (including, without limitation, pursuant to sale and leaseback transactions) of property or assets that are not sold or otherwise disposed of in the ordinary course of business, or pursuant to the sale of any capital stock of Lessee or any Subsidiary, shall be excluded from such Consolidated Net Income, (ii) net income or net loss of Lessee and its Subsidiaries combined on a “pooling of interests” basis attributable to any period prior to the date of such combination shall be excluded from such Consolidated Net Income, (iii) all items of gain or income that are properly classified as extraordinary in accordance with GAAP or are unusual or non-recurring shall be excluded from such Consolidated Net Income; and

(b) Consolidated Interest Charges; and

(c) The amount of taxes, based on or measured by income, used or included in the determination of such Consolidated Net Income; and

(d) The amount of depreciation and amortization expense deducted in determining such Consolidated Net Income, including any impairment of goodwill as defined under FAS 142; and

(e) Any non-cash stock based compensation charges per GAAP; and

(f) Non-cash charges related to Lessee's sale of the Network Attached Storage business and the outsourcing of its manufacturing operations to Jabil Circuit, Inc., both net of any tax benefits or liabilities created by the same, for the quarters ending September 2002, December 2002 and March 2003; and

(g) Cash charges related to Lessee's facilities and personnel reductions, the sale of the Network Attached Storage business and the outsourcing of its manufacturing operations to Jabil Circuit, Inc., for the quarters ending September 2002 (not to exceed $17,600,000), December 2002 (not to exceed $20,000.000) and March 2003 (not to exceed $5,000,000); and

(h) Non-cash charges for the quarter ending March 31, 2003 for Lessee's in-process research and development (not to exceed $9,500,000)."

3. Effective Date. This Amendment shall become effective on the date of satisfaction of the conditions set forth in Section 2.1 of the First Amendment to Participation Agreement (the "Effective Date").

4. Effect of this Amendment. On and after the Effective Date, each reference in the Lease and the other Operative Documents to the Lease shall mean the Lease as amended hereby. Except as specifically amended above, (a) the Lease shall remain in full force and effect, and (ii) the execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, alter or affect any provision, condition, or covenant contained in the Lease or the other Operative Documents or affect or impair any rights, powers, or remedies of the Lessor, Agent or the Participants.

5. Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be an original, but all of which shall together constitute one and the same instrument.

IN WITNESS WHEREOF, each of the parties hereto has caused this Amendment to be duly executed by an officer thereunto duly authorized as of the date and year first above written.

**LESSOR:**

**SELCO SERVICE CORPORATION**, as Lessor

By: /s/ Paula Oswald
Name: Paula Oswald
Title: Vice President

**LESSEE:**

**SELCO SERVICE CORPORATION**, as Lessee

By: /s/ Paula Oswald
Name: Paula Oswald
Title: Vice President

[ATTACH NOTARY ACKNOWLEDGMENTS]

STATE OF CALIFORNIA )

) ss.

COUNTY OF SANTA CLARA)

On February 4 , 2003, before me, Kelle R. Strauss, Notary Public ,
Date Name and Title of Officer (e.g. "Jane Doe, Notary Public")

Personally appeared Mary Springer ,
Name of Signer(s)

¨[X] personally known to me – OR – [ ] proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

/s/ Kelle R. Strauss
Signature of Notary Public

Kelle R. Strauss
Commission # 1304965
Notary Public-California
Santa Clara County
My Comm Expires May 18, 2005

**ATTACHMENT 2**

**FORM OF FIRST AMENDMENT TO DEED OF TRUST**

Prepared by and upon recording return to:

Timothy N. Brown, Esq.
Reed Smith Crosby Heafey LLP
Two Embarcadero Center, Suite 2000
San Francisco, California 94111

**FIRST AMENDMENT TO DEED OF TRUST, SECURITY AGREEMENT AND FIXTURE FILING**

THIS FIRST AMENDMENT TO DEED OF TRUST, SECURITY AGREEMENT AND FIXTURE FILING (this "Amendment") dated January 31, 2003, is entered into by and between SELCO SERVICE CORPORATION, an Ohio Corporation (the "Grantor") and KEYBANK NATIONAL ASSOCIATION, as Agent (in such capacity, the "Beneficiary").

RECITALS

A. The Grantor, Quantum Corporation (the "Lessee"), Keybank National Association, as Agent (in such capacity, the "Agent"), and the financial institutions from time to time parties thereto (the "Participants") are parties to the Participation Agreement, dated as of December 17, 2002 (as amended, supplemented or otherwise modified from time to time, the "Participation Agreement").

B. Pursuant to the Participation Agreement, the Grantor executed a Deed of Trust, Security Agreement and Fixture Filing ("Deed of Trust") in favor of Agent as Beneficiary, dated December 17, 2002, affecting the fee interest of Grantor in certain real property located in El Paso County, Colorado, described in Exhibit A to the Deed of Trust. The Deed of Trust was recorded on December 23, 2002, in the Official Records of El Paso County, Colorado, as Document Number 202228823.

C. The Lessee now has requested the Grantor, the Participants and the Agent to amend the Participation Agreement in certain respects.

D. Pursuant to the First Amendment to Participation Agreement dated as of the date hereof ("First Amendment to Participation Agreement") among the Grantor, Lessee, the Required Participants and Agent, the parties thereto have agreed to amend the Participation Agreement upon the terms and subject to the conditions set forth therein, including without limitation, the execution, delivery and recordation of this Amendment.

AGREEMENT

1. Definitions. All capitalized terms not otherwise defined in this Amendment shall have the respective meanings given to those terms in Appendix 1 to the Deed of Trust, as amended by this Amendment.

2. Amendments to the Mortgage. The definition of "Consolidated EBITDA" contained in Appendix 1 to the Deed of Trust is amended and restated in its entirety as follows:

"“Consolidated EBITDA” means the sum of the following, provided that the items contained in (b)-(h) below shall be added to (a) only to the extent they have been deducted in the calculation of Consolidated Net Income and, therefore, form no part of Consolidated Net Income:

(a) Consolidated Net Income, provided that (i) all gains and all losses realized by Lessee and its Subsidiaries upon the sale or other disposition (including, without limitation, pursuant to sale and leaseback transactions) of property or assets that are not sold or otherwise disposed of in the ordinary course of business, or pursuant to the sale of any capital stock of Lessee or any Subsidiary, shall be excluded from such Consolidated Net Income, (ii) net income or net loss of Lessee and its Subsidiaries combined on a “pooling of interests” basis attributable to any period prior to the date of such combination shall be excluded from such Consolidated Net Income, (iii) all items of gain or income that are properly classified as extraordinary in accordance with GAAP or are unusual or non-recurring shall be excluded from such Consolidated Net Income; and

(b) Consolidated Interest Charges; and

(c) The amount of taxes, based on or measured by income, used or included in the determination of such Consolidated Net Income; and

(d) The amount of depreciation and amortization expense deducted in determining such Consolidated Net Income, including any impairment of goodwill as defined under FAS 142; and

(e) Any non-cash stock based compensation charges per GAAP; and

(f) Non-cash charges related to Lessee's sale of the Network Attached Storage business and the outsourcing of its manufacturing operations to Jabil Circuit, Inc., both net of any tax benefits or liabilities created by the same, for the quarters ending September 2002, December 2002 and March 2003; and

(g) Cash charges related to Lessee's facilities and personnel reductions, the sale of the Network Attached Storage business and the outsourcing of its manufacturing operations to Jabil Circuit, Inc., for the quarters ending September 2002 (not to exceed $17,600,000), December 2002 (not to exceed $20,000.000) and March 2003 (not to exceed $5,000,000); and

(h) Non-cash charges for the quarter ending March 31, 2003 for Lessee's in-process research and development (not to exceed $9,500,000)."

3. Effective Date. This Amendment shall become effective on the date of satisfaction of the conditions set forth in Section 2.1 of the First Amendment to Participation Agreement ("Effective Date").

4. Effect of this Amendment. On and after the Effective Date, each reference in the Deed of Trust and the other Operative Documents to the Deed of Trust or Mortgage shall mean the Deed of Trust as amended hereby. Except as specifically amended above, (a) the Deed of Trust shall remain in full force and effect, and (ii) the execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, alter or affect any provision, condition, or covenant contained in the Deed of Trust or the other Operative Documents or

affect or impair any rights, powers, or remedies of the Lessor, Agent or the Participants.

5. Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be an original, but all of which shall together constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned has caused this Amendment to be duly executed and delivered as of the date first above written.

**GRANTOR:**

**SELCO SERVICE CORPORATION**, as Grantor

By: /s/ Paula Oswald
Name: Paula Oswald
Title: Vice President

**BENEFICIARY:**

**KEYBANK NATIONAL ASSOCIATION**, as Agent

By: /s/ Paula Oswald
Name: Paula Oswald
Title: Vice President

[ATTACH NOTARY ACKNOWLEDGMENTS]

STATE OF COLORADO

COUNTY OF BOULDER ss.

On this 10th day of February, 2003, before me, Erin M. Perry a Notary Public in and for the State of Colorado personally appeared Donald C. Davis personally known to me (or proved on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal

Signature /s/ Erin M. Perry

My commission expires 2/22/03 .

**Exhibit 10.7**

**FIRST AMENDMENT**
**TO**
**CREDIT AGREEMENT (18-MONTH)**

THIS FIRST AMENDMENT TO CREDIT AGREEMENT (18-MONTH) (this "Amendment") is dated as of January 31, 2003, by and between **QUANTUM CORPORATION**, a Delaware corporation ("Borrower"), and **KEYBANK NATIONAL ASSOCIATION**, as Administrative Agent, Issuing Lender and Lender, **FLEET NATIONAL BANK**, as Lender, **UNION BANK OF CALIFORNIA, N.A.**, as Lender, **SILICON VALLEY BANK**, as Lender, **COMERICA BANK CALIFORNIA**, as Lender, and each lender from time to time party hereto (collectively, "Lenders").

RECITALS

A. Lenders and Borrower are parties to a Credit Agreement (18-Month) dated as of December 17, 2002 (the "Credit Agreement").

B. Pursuant to the Credit Agreement, Borrower executed and delivered to Lenders certain promissory notes in the aggregate amount of One Hundred Million Dollars ($100,000,000).

C. Borrower has requested, and Administrative Agent and Lenders have agreed subject to satisfactions of the conditions set forth herein, to modify the definition of "Consolidated EBITDA" under the Credit Agreement to permit the addition, for purposes of calculating Borrower's Consolidated EBITDA, of certain in-process research and development charges for Borrower's fiscal quarter ending March 31, 2003 in an amount not to exceed $9,500,000.

D. Each capitalized term used but not otherwise defined herein shall have the meaning ascribed thereto in the Credit Agreement.

NOW, THEREFORE, the parties hereto agree as follows:

ARTICLE 1
AMENDMENTS TO CREDIT AGREEMENT

This Amendment shall be deemed to be an amendment to the Credit Agreement and shall not be construed in any way as a replacement or substitution therefor. All of the terms and conditions of, and terms defined in, this Amendment are hereby incorporated by reference into the Credit Agreement as if such terms and provisions were set forth in full therein.

1.1. The definition of "Consolidated EBITDA" contained in Section 1.01 (Defined Terms) of the Credit Agreement is amended and restated in its entirety as follows:

""Consolidated EBITDA" means the sum of the following, provided that the items contained in (b)-(h) below shall be added to (a) only to the extent they have been deducted in the calculation of Consolidated Net Income and, therefore, form no part of Consolidated Net Income:

(a) Consolidated Net Income, provided that (i) all gains and all losses realized by Borrower and its Subsidiaries upon the sale or other disposition (including, without limitation, pursuant to sale and leaseback transactions) of property or assets that are not sold or otherwise disposed of in the ordinary course of business, or pursuant to the sale of any capital stock of Borrower or any Subsidiary, shall be excluded from such Consolidated Net Income, (ii) net income or net loss of Borrower and its Subsidiaries combined on a "pooling of interests" basis attributable to any period prior to the date of such combination shall be excluded from such Consolidated Net Income, (iii) all items of gain or income that are properly classified as extraordinary in accordance with GAAP or are unusual or non-recurring shall be excluded from such Consolidated Net Income; and

(b) Consolidated Interest Charges; and

(c) The amount of taxes, based on or measured by income, used or included in the determination of such Consolidated Net Income; and

(d) The amount of depreciation and amortization expense deducted in determining such Consolidated Net Income, including any impairment of goodwill as defined under FAS 142; and

(e) Any non-cash stock based compensation charges per GAAP; and

(f) Non-cash charges related to Borrower's sale of the Network Attached Storage business and the outsourcing of its manufacturing operations to Jabil Circuit, Inc., both net of any tax benefits or liabilities created by the same, for the quarters ending September 2002, December 2002 and March 2003; and

(g) Cash charges related to Borrower's facilities and personnel reductions, the sale of the Network Attached Storage business and the outsourcing of its manufacturing operations to Jabil Circuit, Inc., for the quarters ending September 2002 (not to exceed $17,600,000), December 2002 (not to exceed $20,000.000) and March 2003 (not to exceed $5,000,000); and

(h) Non-cash charges for the quarter ending March 31, 2003 for Borrower's in-process research and development (not to exceed $9,500,000)."

1.2. Section IV of Schedule 2 to Exhibit B (Form of Compliance Certificate) is amended and restated in its entirety as follows:

"**IV. Section 7.12(d) – Minimum Consolidated EBITDA**.

A. Consolidated EBITDA measured on the last day of any fiscal quarter of Borrower commencing with the fiscal quarter ending December 31, 2002 (each period referred to as a "Quarter"):

| | |
|---|---|
| 1. Consolidated Net Income for Quarter in accordance with subsection (a) of definition of Consolidated EBITDA in Credit Agreement: | $____________ |
| 2. Consolidated Interest Charges for Quarter: | $____________ |
| 3. The amount of taxes, based on or measured by income, used or included in the determination of such Consolidated Net Income for Quarter: | $____________ |
| 4. The amount of depreciation and amortization expense deducted in determining such Consolidated Net Income for Quarter, including any impairment of goodwill as defined under FAS 142: | $____________ |
| 5. Any non-cash stock based compensation charges per GAAP for Quarter: | $____________ |
| 6. Non-cash charges related to the Borrower's sale of the Network Attached Storage business and the outsourcing of its manufacturing operations to Jabil Circuit, Inc., both net of any tax benefits or liabilities created by the same, for the quarters ending September 2002, December 2002 and March 2003: | $____________ |
| 7. Cash charges related to the Borrower's facilities and personnel reductions, the sale of the Network Attached Storage business and the outsourcing of its manufacturing operations to Jabil Circuit, Inc., for the quarters ending September 2002 (not to exceed $17,600,000), December 2002 (not to exceed $20,000.000) and March 2003 (not to exceed $5,000,000): | $____________ |
| 8. Non-cash charges for the quarter ending March 31, 2003 for Borrower's in-process research and development (not to exceed $9,500,000): | $____________ |
| 9. Total Consolidated EBIDTA (sum of Line IV.A.1-IV.A.8) | $____________ |

ARTICLE 2
CONDITIONS TO EFFECTIVENESS OF AMENDMENT

2.1. The effectiveness of this Amendment is subject to the fulfillment to the satisfaction of KeyBank National Association, as Administrative Agent under the Credit Agreement ("Administrative Agent"), in its sole discretion, of the following conditions precedent:

(a) Borrower shall have executed and delivered to Administrative Agent this Amendment;

(b) The Requisite Lenders shall have executed and delivered to Administrative Agent this Amendment;

(c) Administrative Agent shall have received appropriate authorization documents, including borrowing resolutions and certificates of incumbency, confirming to its satisfaction that all necessary corporate and organizational actions have been taken to authorize Borrower to enter into this Amendment; and

(d) Administrative Agent shall have received such other documents, instruments or agreements as Administrative Agent may require to effectuate the intents and purposes of this Amendment.

ARTICLE 3
REPRESENTATIONS AND WARRANTIES

Borrower hereby represents and warrants to Adminstrative Agent and Lenders that:

3.1. After giving effect to the amendment of the Credit Agreement pursuant to this Amendment and the consummation of the transactions contemplated hereby (i) each of the representations and warranties set forth in Section 5 of the Credit Agreement is true and correct in all respects as if made on the date hereof (with references to the Credit Agreement being deemed to include this Amendment), and

(ii) there exists no Event of Default under the Credit Agreement after giving effect to this Amendment.

3.2. Borrower has full corporate power and authority to execute and deliver this Amendment, and to perform the obligations of its part to be performed under the Credit Agreement as amended hereby. Borrower has taken all necessary action, corporate or otherwise, to authorize the execution and delivery of this Amendment. No consent or approval of any person, no consent or approval of any landlord or mortgagee, no waiver of any lien or similar right and no consent, license, approval or authorization of any governmental authority or agency is or will be required in connection with the execution or delivery by Borrower of this Amendment or the performance by Borrower of the Credit Agreement as amended hereby.

3.3. This Amendment and the Credit Agreement as amended hereby are, or upon delivery thereof to Administrative Agent will be, the legal, valid and binding obligations of Borrower, enforceable against Borrower in accordance with their respective terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally.

## ARTICLE 4
## MISCELLANEOUS

4.1. The Credit Agreement, the other Loan Documents and all agreements, instruments and documents executed and delivered in connection with any of the foregoing shall each be deemed to be amended hereby to the extent necessary, if any, to give effect to the provisions of this Amendment. Except as so amended hereby, the Credit Agreement and the other Loan Documents shall remain in full force and effect in accordance with their respective terms.

4.2. Borrower agrees to pay Administrative Agent on demand for all reasonable expenses, including reasonable fees and costs of attorneys and costs of title insurance, incurred by Administrative Agent in connection with the preparation, negotiation and execution of this Amendment and any document required to be furnished hereunder.

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the date set forth in the preamble hereto.

QUANTUM CORPORATION, a Delaware corporation, as Borrower

QUANTUM CORPORATION, a Delaware corporation, as Borrower
By: /s/ Mary Springer
Name: Mary Springer
Title: Treasurer

KEYBANK NATIONAL ASSOCIATION, as Administrative Agent, Letter of Credit Issuing Lender and Lender

By: /s/ Robert W. Boswell
Name: Robert W. Boswell
Title: Vice President

FLEET NATIONAL BANK, as Lender

By: /s/ Greg Roux
Name: Greg Roux
Title: Managing Director

UNION BANK OF CALIFORNIA, N.A., as Lender

By: /s/ Sarabelle Hitchner
Name: Sarabelle Hitchner
Title: Vice President

SILICON VALLEY BANK, as Lender

By: /s/ Kevin Walsh
Name: Kevin Walsh
Title: Vice President

COMERICA BANK CALIFORNIA, as Lender

By: /s/ Rob Ways
Name: Rob Ways
Title: Vice President

**Exhibit 10.8**

**SECOND AMENDMENT**
**TO**
**PARTICIPATION AGREEMENT**

THIS SECOND AMENDMENT TO PARTICIPATION AGREEMENT dated as of December 17, 2002 (this "Amendment") is dated as of July 21, 2003, by and among QUANTUM CORPORATION, a Delaware corporation, as Lessee (together with its permitted successors and assigns, the "Lessee"); SELCO SERVICE CORPORATION, an Ohio corporation, as Lessor (together with its permitted successors and assigns, the "Lessor"); COMERICA BANK-CALIFORNIA, FLEET NATIONAL BANK and KEYBANK NATIONAL ASSOCIATION as Participants (together with their permitted successors and assigns and SELCO SERVICE CORPORATION, in its capacity as a Participant, each a "Participant" and collectively the "Participants"); and KEYBANK NATIONAL ASSOCIATION (in such capacity, together with its successors in such capacity, the "Agent") for the Participants.

RECITALS

A. Lessee, Lessor, Agent and Participants are parties to a Participation Agreement dated as of December 17, 2002, as amended by a First Amendment to Participation Agreement (together, the "Participation Agreement").

B. Lessee has requested that the Lessor, Agent and Participants amend the Participation Agreement and certain other of the Operative Documents, and Lessor, Agent and Participants have agreed, subject to satisfaction of the conditions set forth herein, to add or modify certain definitions and to modify certain covenants of Lessee to: (i) permit an increase in the principal amount of Subordinated Debt of Lessee that may be outstanding for a period of time as specified herein in order to allow Lessee to issue new convertible subordinated notes and use the proceeds therefrom (together with funds required to be provided by Maxtor Corporation pursuant to the Maxtor Reimbursement Agreement (the "Maxtor Funds")) to redeem up to $287,500,000 of the Convertible Subordinated Debentures now outstanding (plus any redemption premium owing in connection with such redemption); (ii) permit Lessee to use up to $50,000,000 of cash to redeem existing Convertible Subordinated Debentures to the extent that the net proceeds of the newly issued convertible subordinated notes are insufficient to redeem up to $287,500,000 of the Convertible Subordinated Debentures now outstanding (plus any redemption premium owing in connection with such redemption) in accordance with the Redemption Notice; (iii) reduce Lessee’s minimum Consolidated EBITDA requirement for the fiscal quarters ending June 29, 2003 and September 30, 2003; and (iv) modify the calculation of Lessee’s Consolidated EBITDA for Lessee’s fiscal quarters ending September 30, 2003, December 31, 2003 and March 31, 2004 to permit Lessee to include in such calculation certain restructuring charges in an amount not to exceed $2,000,000 for the fiscal quarter ending September 30, 2003, and not to exceed $10,000,000 in the aggregate for all such fiscal quarters combined.

C. Each capitalized term used but not otherwise defined herein shall have the meaning ascribed thereto in Appendix 1 to the Participation Agreement, as amended by this Amendment.

NOW, THEREFORE, the parties hereto agree as follows:

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ARTICLE 1
AMENDMENTS TO PARTICIPATION AGREEMENT

This Amendment shall be deemed to be an amendment to the Participation Agreement and shall not be construed in any way as a replacement or substitution therefor. All of the terms and conditions of, and terms defined in, this Amendment are hereby incorporated by reference into the Participation Agreement as if such terms and provisions were set forth in full therein.

1.1 Section 10.2(a)(iv) of the Participation Agreement is amended and restated in its entirety as follows:

“(iv) Indebtedness of Lessee under the Convertible Subordinated Debentures and the New Convertible Subordinated Notes;”

1.2 Section 10.2(a)(x) of the Participation Agreement is amended and restated in its entirety as follows:

"(x) Subordinated Indebtedness of Lessee to any Person, provided that (A) such Indebtedness contains subordination provisions no less favorable to Agent and the Participants than those set forth in Exhibit O or as otherwise approved by the Required Participants and (B) the aggregate principal amount of all Subordinated Debt of Lessee outstanding (including the Convertible Subordinated Debentures and the New Convertible Subordinated Notes) does not exceed $525,000,000 during the Refunding Period and does not exceed $350,000,000 at any other time, and"

1.3 Section 10.2(j) of the Participation Agreement is amended and restated in its entirety as follows:

(j) Certain Indebtedness Payments, Etc. Neither Lessee nor any of its Subsidiaries shall pay, prepay, redeem, purchase, defease or otherwise satisfy in any manner prior to the scheduled payment thereof any Subordinated Debt except as otherwise permitted under this Section 10.2(j); amend, modify or otherwise change the terms of any document, instrument or agreement evidencing Subordinated Debt such that such amendment, modification or change would (i) cause the outstanding aggregate principal amount of all such Subordinated Debt so amended, modified or changed to be increased as a consequence of such amendment, modification or change, (ii) cause the subordination provisions applicable to such Subordinated Debt to be less favorable to Agent and the Participants than those set forth on Exhibit O, (iii) increase the interest rate applicable thereto, or (iv) accelerate the scheduled payment thereof. Lessee shall not cause or permit any of its obligations, except the obligations constituting Senior Indebtedness to constitute "Designated Senior Indebtedness" under the Indenture governing the Convertible Subordinated Debentures or the indenture governing the New Convertible Subordinated Notes (it being understood that the obligations of Lessee under the Operative Documents shall at all times constitute "Designated Senior Indebtedness" under both such indentures). Notwithstanding the foregoing, Lessee at any time:



(1) conduct an exchange offer (whether public, private or on a 3(a)(9) basis) of all or part of the Lessee's Convertible Subordinated Debentures or the New Convertible Subordinated Notes for one or more of the following: (a) new securities ("New Securities") that are subordinated in right of payment to the obligations of Lessee under the Operative Documents at least to the same extent as the existing Convertible Subordinated Debentures or the New Convertible Subordinated Notes, as applicable; provided that (w) the aggregate annual interest obligation of Lessee under the New Securities shall be equal to or less than the aggregate annual interest obligation under the existing Convertible Subordinated Debentures or the New Convertible Subordinated Notes, as applicable, (x) the maturity date of the New Securities shall not be earlier than the maturity date of the existing Convertible Subordinated Debentures or the New Convertible Subordinated Notes, as applicable, (y) the total principal amount of the obligations represented by Lessee's Subordinated Debt shall not be increased by means of any exchange of the New Securities for all or part of the Lessee's Convertible Subordinated Debentures or the New Convertible Subordinated Notes, as applicable, and (z) the New Securities shall not permit any amortization of the principal amount of the obligations represented thereby prior to the maturity of the existing Convertible Subordinated Debentures or the New Convertible Subordinated Notes, as applicable; or (b) new securities issued by Maxtor ("Maxtor Securities"), in the case of the Convertible Subordinated Debentures only; or

(2) redeem up to $287,500,000 of the existing Convertible Subordinated Debentures (plus any redemption premium owing in connection with such redemption) on or before September 30, 2003 in accordance with the redemption notices delivered to the holders thereof by August 15, 2003 ("Redemption Notice") with the Refunding Proceeds and the Maxtor Funds but only if the Refunding Proceeds are placed in trust with the Agent for the duration of the Refunding Period. For purposes of the immediately preceding sentence, if the net proceeds of any New Convertible Subordinated Notes are insufficient to redeem up to $287,500,000 of the Convertible Subordinated Debentures (plus any redemption premium owing in connection with such redemption) in accordance with the Redemption Notice, Lessee shall be permitted to use up to but in no event more than $50,000,000 in cash in order to redeem up to $287,500,000 of the Convertible Subordinated Debentures (plus any redemption premium owing in connection with such redemption) in accordance with this Section 10.02(j).

No exchange or series of exchanges of New Securities or Maxtor Securities for all or any part of Lessee's Convertible Subordinated Debentures pursuant to this Section 10.2(j) shall be deemed to permit any reduction in the amount of Maxtor's reimbursement obligations under the Maxtor Reimbursement Agreement except on a dollar-for-dollar basis to the extent that the obligations represented by Lessee's Convertible Subordinated Debentures are reduced by means of such exchange or series of exchanges. Notwithstanding any provision of this Section 10.2(j) to the contrary, Lessee may (A) convert, or honor a conversion request with respect to, any such Subordinated Debt into Equity Securities of Lessee in accordance with the terms thereof; (B) pay cash to holders of such Subordinated Debt in connection with such a conversion but solely to the extent representing the value of any fractional shares; (C) make payments of interest on such Subordinated Debt not in violation of the Subordination provisions of such Subordinated Debt; (D) pay the redemption premium, if any, owing in connection with any redemption of all or part of the Convertible Subordinated Debentures; (E) pay additional interest in an amount not to exceed 50 basis points per annum of the aggregate principal amount of the New Convertible Subordinated Notes to the extent due under the provisions of the New Convertible Subordinated Notes due to Borrower's failure to register such notes or shares of common stock into which the notes are convertible within the period or to keep such notes or shares registered for or during the periods specified in the indenture for the New Convertible Subordinated Notes or the Registration Rights Agreement; and (F) make other payments, repayments, redemptions, purchases, defeasance or other satisfaction of Subordinated Debt not to exceed $5,000,000 in the aggregate.



1.4 Section 10.2(k)(iv) of the Participation Agreement is amended and restated in its entirety as follows:

"(iv) Minimum Consolidated EBITDA. Permit Consolidated EBITDA, determined as of the last day of any fiscal quarter of Lessee commencing with the fiscal quarter ending December 31, 2002, to be less than the following: (i) for the fiscal quarter ending December 31, 2002, $1.00; (ii) for the fiscal quarter ending March 31, 2003, $18,000,000; (iii) for the fiscal quarter ending June 29, 2003, $9,000,000; (iv) for the fiscal quarter ending September 30, 2003, $9,000,000; (v) for the fiscal quarter ending December 31, 2003, $12,500,000; and (vi) for the fiscal quarter ending March 31, 2004, $13,000,000. For purposes of calculating Lessee's Consolidated EBITDA as of the last day of the fiscal quarters ending September 30, 2003, December 31, 2003 and March 31, 2004 only, there shall be added to Lessee's Consolidated Net Income an amount equal to the actual restructuring charges incurred by Lessee for facility and employee-related charges (to the extent such charges were deducted in calculating Borrower's Consolidated Net Income); provided, however, that (x) the amount of such restructuring charges to be added to Lessee's Consolidated Net Income for Lessee's fiscal quarter ending September 30, 2003 shall not exceed $2,000,000, and (y) the aggregate amount of all such restructuring charges to be added to Lessee's Consolidated Net Income for the Lessee's fiscal quarters ending September 30, 2003, December 31, 2003 and March 31, 2004 shall not exceed $10,000,000 in the aggregate."

1.5 The schedule appended hereto as Attachment 1 is substituted in place of and shall supersede Schedule 2 to the Compliance Certificate set forth in Exhibit L to the Participation Agreement.

1.6 Section 17.1 of the Lease is amended to incorporate the following as a "Lease Event of Default":

"(q) Maxtor fails to pay to Lessee on or before August 1, 2004 all amounts owing pursuant to that certain Reimbursement Agreement between Borrower and Maxtor dated as of April 2, 2001."



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1.7 The following definitions are added to Appendix 1 to the Participation Agreement:

""New Convertible Subordinated Notes" means subordinated, convertible notes to be issued by the Lessee on or before August 15, 2003 that conform to all of the following: (a) in a total principal amount of at least $150,000,000 but not to exceed $225,000,000; (b) bearing interest at a rate not in excess of 5% per annum; (c) subordinated in right of payment to the obligations of Lessee under the Participation Agreement and other Operative Documents at least to the same extent as the existing Convertible Subordinated Debentures and containing subordination provisions no less favorable to Agent and Participants than those set forth in Exhibit O or as otherwise approved by the Required Participants; (d) having a maturity date that is no earlier than seven (7) years after issuance; and (e) permitting no amortization of the principal amount of the obligations represented thereby prior to such maturity date."

""Refunding Period" means a period of sixty (60) days commencing with the first day the New Convertible Subordinated Notes are offered for sale."

""Refunding Proceeds" means all of the proceeds of the issuance and sale of the New Convertible Subordinated Notes net of the costs and fees paid to or deducted by or on behalf of third parties in connection with issuance and sale of the New Convertible Subordinated Notes.

1.8 The definitions of "Investment" and "Subordinated Debt" contained in Appendix 1 to the Participation Agreement are amended and restated in their entirety as follows:

""Investment" means, as to any Person, any investment by such Person, whether by means of the purchase or other acquisition of stock or other securities of any other Person or by means of a loan, creating a debt, capital contribution, guaranty or other debt or equity participation or interest in any other Person. For purposes of covenant compliance, the amount of any Investment shall be the amount actually invested, without adjustment for subsequent increases or decreases in the value of such Investment. Notwithstanding the foregoing, the term "Investment" shall not include purchases of Convertible Subordinated Debentures or New Convertible Subordinated Notes made in compliance with Section 10.2(j) of the Participation Agreement."

""Subordinated Debt" means the Convertible Subordinated Debentures, the New Convertible Subordinated Notes and any other subordinated debt permitted by clause (x) of Section 10.2(a) of the Participation Agreement."



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## ARTICLE 2
## CONDITIONS TO EFFECTIVENESS OF AMENDMENT

2.1 The effectiveness of this Amendment is subject to the fulfillment to the satisfaction of the following conditions precedent:

(a) This Amendment duly executed by the Lessee, the Lessor, the Required Participants and the Agent;

(b) A Second Amendment to the Lease in the form of Attachment 2, duly executed by Lessor and Lessee and notarized for recording,

(c) A Second Amendment to the Deed of Trust in the form of Attachment 3, duly executed by Lessor and Agent and notarized for recording;

(d) Agent shall have received appropriate authorization documents, including borrowing resolutions and certificates of incumbency, confirming to its satisfaction that all necessary corporate and organizational actions have been taken to authorize Lessee to enter into this Amendment; and

(e) Agent shall have received such other documents, instruments or agreements as Agent may require to effectuate the intents and purposes of this Amendment.

2.2 In addition, within a reasonable time period not to exceed thirty (30) days after recordation of the amendments described in 2.1(b) and 2.2(c), Lessee shall deliver to the Agent, the Lessor and the Participants (a) such endorsements as the Lessor and the Agent may reasonably request to each of the (i) ALTA owner's title insurance policy issued in connection with the closing of the Participation Agreement, and (ii) ALTA lender's title insurance policy issued in connection with the closing of the Participation Agreement.

## ARTICLE 3
## REPRESENTATIONS AND WARRANTIES

Lessee hereby represents and warrants to Lessor, Agent and the Participants that:

3.1 After giving effect to the amendment of the Participation Agreement pursuant to this Amendment and the consummation of the transactions contemplated hereby (i) each of the representations and warranties set forth in Section 8.3 of the Participation Agreement and in the other Operative Documents are true and correct in all material respects as if made on the date hereof except to the extent such representations and warranties specifically refer to an earlier date in which case they shall be true and correct in all material respects as of such earlier date (with references to the Participation Agreement being deemed to include this Amendment), and (ii) there exists no Lease Event of Default or Potential Lease Default under the Operative Documents after giving effect to this Amendment.

3.2 Lessee has the corporate power and authority and legal right to make, deliver the amendments described herein, and to perform the obligations of its part to be performed under the Participation Agreement as amended hereby and the amendments described herein. Lessee has taken all necessary action to authorize the execution, delivery and performance of this Amendment and the amendments described herein. No consent or authorization of, filing with, or other act by or in respect of any Governmental Authority is required in connection with the execution, delivery, performance, validity or enforceability of this Amendment or the amendments described herein or the performance by Lessee of the Participation Agreement as amended hereby.

3.3 This Amendment and the Participation Agreement as amended hereby are, or upon delivery thereof to Agent will be, the legal, valid and binding obligations of Lessee, enforceable against Lessee in accordance with their respective terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally.



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## ARTICLE 4
## MISCELLANEOUS

4.1 The Participation Agreement, the other Operative Documents and all agreements, instruments and documents executed and delivered in connection with any of the foregoing shall each be deemed to be amended hereby to the extent necessary, if any, to give effect to the provisions of this Amendment. Except as so amended hereby, the Participation Agreement and the other Operative Documents shall remain in full force and effect in accordance with their respective terms.

4.2 Lessee agrees to pay Agent on demand for all reasonable expenses, including reasonable fees and costs of attorneys and costs of recordation and title insurance, incurred by Agent in connection with the preparation, negotiation and execution of this Amendment and any document required to be furnished hereunder.

4.3 This Amendment may be executed in any number of counterparts, each of which shall be an original, but all of which shall together constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the date set forth in the preamble hereto.

QUANTUM CORPORATION, a Delaware corporation, as Lessee

By: /s/ Mary Springer
Name: Mary Springer
Title: Treasurer

KEYBANK NATIONAL ASSOCIATION, as Agent

By: /s/ Robert W. Boswell
Name: Robert W. Boswell
Title: Vice President

KEYBANK NATIONAL ASSOCIATION, as Participant

By: /s/ Robert W. Boswell
Name: Robert W. Boswell
Title: Vice President

FLEET NATIONAL BANK, as Participant

By: /s/ Greg Roux
Name: Greg Roux
Title: Managing Director

SELCO SERVICE CORPORATION, as Lessor

By: /s/ Donald C. Davis
Name: Donald C. Davis
Title: Vice President

SELCO SERVICE CORPORATION, as Participant

By: /s/ Donald C. Davis
Name: Donald C. Davis
Title: Vice President

COMERICA BANK-CALIFORNIA, as Participant

By: /s/ Rob Ways
Name: Rob Ways
Title: Vice President



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**ATTACHMENT 1**

**FORM OF SECOND AMENDMENT TO LEASE AGREEMENT**

Prepared by and upon recording return to:

Timothy N. Brown, Esq.
Reed Smith Crosby Heafey LLP
Two Embarcadero Center, Suite 2000
San Francisco, California 94111

**SECOND AMENDMENT TO MASTER LEASE, DEED OF TRUST WITH ABSOLUTE ASSIGNMENT OF LEASES AND**

**RENTS, SECURITY AGREEMENT AND FIXTURE FILING**

THIS SECOND AMENDMENT TO MASTER LEASE, DEED OF TRUST WITH ABSOLUTE ASSIGNMENT OF LEASES AND RENTS, SECURITY AGREEMENT AND FIXTURE FILING (this "Amendment") dated as of July ___, 2003, is entered into by and between SELCO SERVICE CORPORATION, an Ohio Corporation (the "Lessor") and QUANTUM CORPORATION, a Delaware corporation (the "Lessee").

RECITALS

A. The Lessor, Lessee, Keybank National Association, as Agent (in such capacity, the "Agent"), and the financial institutions from time to time parties thereto (the "Participants") are parties to the Participation Agreement, dated as of December 17, 2002 (as amended, supplemented or otherwise modified from time to time, the "Participation Agreement").

B. Pursuant to the Participation Agreement, the Lessor and the Lessee executed a Master Lease, Deed of Trust with Absolute Assignment of Leases and Rents, Security Agreement and Fixture Filing ("Lease"), dated December 17, 2002, affecting certain real property located in El Paso County, Colorado, described in Schedule 1 to the Lease. The Lease was recorded on December 23, 2002, in the Official Records of El Paso County, Colorado, as Document Number 202228819.

C. The Lessee now has requested the Lessor, the Participants and the Agent to amend the Participation Agreement in certain respects.

D. Pursuant to the Second Amendment to Participation Agreement dated as of the date hereof ("Second Amendment to Participation Agreement") among the Lessor, Lessee, the Required Participants and Agent, the parties thereto have agreed to amend the Participation Agreement upon the terms and subject to the conditions set forth therein, including without limitation, the execution, delivery and recordation of this Amendment.



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AGREEMENT

1. Definitions. All capitalized terms not otherwise defined in this Amendment shall have the respective meanings given to those terms in Appendix 1 to the Lease, as amended by this Amendment.

2. Amendments to the Lease.

2.1 The following definitions are added to Appendix 1 to the Participation Agreement:

""New Convertible Subordinated Notes" means subordinated, convertible notes to be issued by the Lessee on or before August 15, 2003, that conform to all of the following: (a) in a total principal amount of at least $150,000,000 but not to exceed $225,000,000; (b) bearing interest at a rate note in excess of 5% per annum; (c) subordinated in right of payment to the obligations of Lessee under the Participation Agreement and other Operative Documents at least to the same extent as the existing Convertible Subordinated Debentures and containing subordination provisions no less favorable to Agent and Participants than those set forth in Exhibit O or as otherwise approved by Required Participants; (d) having a Maturity Date that is no earlier than the Business Day next following the maturity date of Lessee's existing Convertible Subordinated Debentures after the date of issuance; and (e) permitting no amortization of the principal amount of the obligations represented thereby prior to the maturity of Lessee's existing Convertible Subordinated Debentures."

""Refunding Period" means a period of sixty (60) days commencing with the first day the New Convertible Subordinated Notes are offered for sale."

""Refunding Proceeds" means all of the proceeds of the issuance of the New Convertible Subordinated Debentures net of the costs and fees paid to third parties in connection with issuance of the New Convertible Subordinated Notes."

2.2 The definitions of "Investments" and "Subordinated Debt" contained in Appendix 1 to the Participation Agreement are amended and restated in their entirety as follows:

""Investment" means, as to any Person, any investment by such Person, whether by means of the purchase or other acquisition of stock or other securities of any other Person or by means of a loan, creating a debt, capital contribution, guaranty or other debt or equity participation or interest in any other Person. For purposes of covenant compliance, the amount of any Investment shall be the amount actually invested, without adjustment for subsequent increases or decreases in the value of such Investment. Notwithstanding the foregoing, the term "Investment" shall not include purchases of Convertible Subordinated Debentures or New Convertible Subordinated Notes made in compliance with Section 10.2(j) of the Participation Agreement."

""Subordinated Debt" means the Convertible Subordinated Debentures, the New Convertible Subordinated Notes and any other subordinated debt permitted by clause (x) of Section 10.2(a) of the Participation Agreement."

2.3 Section 17.1 of the Lease is amended to incorporate the following as a "Lease Event of Default":

"(q) Maxtor fails to pay to Lessee on or before August 1, 2004 all amounts owing pursuant to that certain Reimbursement Agreement between Borrower and Maxtor dated as of April 2, 2001."

3. Effective Date. This Amendment shall become effective on the date of satisfaction of the conditions set forth in Section 2.1 of the Second Amendment to Participation Agreement (the "Effective Date").

4. Effect of this Amendment. On and after the Effective Date, each reference in the Lease and the other Operative Documents to the Lease shall mean the Lease as amended hereby. Except as specifically amended above, (a) the Lease shall remain in full force and effect, and (ii) the execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, alter or affect any provision, condition, or covenant contained in the Lease or the other Operative Documents or affect or impair any rights, powers, or remedies of the Lessor, Agent or the Participants.

5. Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be an original, but all of which shall together constitute one and the same instrument.

IN WITNESS WHEREOF, each of the parties hereto has caused this Amendment to be duly executed by an officer thereunto duly authorized as of the date and year first above written.

**LESSOR:**

**SELCO SERVICE CORPORATION**, as Lessor

By: /s/ Paula Oswald
Name: Paula Oswald
Title: Vice President

**LESSEE:**

**SELCO SERVICE CORPORATION**, as Lessee

By: /s/ Paula Oswald
Name: Paula Oswald
Title: Vice President



**ATTACHMENT 2**

**FORM OF SECOND AMENDMENT TO DEED OF TRUST**

Prepared by and upon recording return to:

Timothy N. Brown, Esq.
Reed Smith Crosby Heafey LLP
Two Embarcadero Center, Suite 2000
San Francisco, California 94111

**SECOND AMENDMENT TO DEED OF TRUST, SECURITY AGREEMENT AND FIXTURE FILING**

THIS SECOND AMENDMENT TO DEED OF TRUST, SECURITY AGREEMENT AND FIXTURE FILING (this "Amendment") dated as of July _____, 2003, is entered into by and between SELCO SERVICE CORPORATION, an Ohio Corporation (the "Grantor") and KEYBANK NATIONAL ASSOCIATION, as Agent (in such capacity, the "Beneficiary").

RECITALS

A. The Grantor, Quantum Corporation (the "Lessee"), Keybank National Association, as Agent (in such capacity, the "Agent"), and the financial institutions from time to time parties thereto (the "Participants") are parties to the Participation Agreement, dated as of December 17, 2002 (as amended, supplemented or otherwise modified from time to time, the "Participation Agreement").

B. Pursuant to the Participation Agreement, the Grantor executed a Deed of Trust, Security Agreement and Fixture Filing ("Deed of Trust") in favor of Agent as Beneficiary, dated December 17, 2002, affecting the fee interest of Grantor in certain real property located in El Paso County, Colorado, described in Exhibit A to the Deed of Trust. The Deed of Trust was recorded on December 23, 2002, in the Official Records of El Paso County, Colorado, as Document Number 202228823.

C. The Lessee now has requested the Grantor, the Participants and the Agent to amend the Participation Agreement in certain respects.

D. Pursuant to the Second Amendment to Participation Agreement dated as of the date hereof ("Second Amendment to Participation Agreement") among the Grantor, Lessee, the Required Participants and Agent, the parties thereto have agreed to amend the Participation Agreement upon the terms and subject to the conditions set forth therein, including without limitation, the execution, delivery and recordation of this Amendment.

AGREEMENT

1. Definitions. All capitalized terms not otherwise defined in this Amendment shall have the respective meanings given to those terms in Appendix 1 to the Deed of Trust, as amended by this Amendment.



2. Amendments to the Mortgage.

2.1 The following definitions are added to Appendix 1 to the Participation Agreement:

""New Convertible Subordinated Notes" means subordinated, convertible notes to be issued by the Lessee on or before August 15, 2003, that conform to all of the following: (a) in a total principal amount of at least $150,000,000 but not to exceed $225,000,000; (b) bearing interest at a rate note in excess of 5% per annum; (c) subordinated in right of payment to the obligations of Lessee under the Participation Agreement and other Operative Documents at least to the same extent as the existing Convertible Subordinated Debentures and containing subordination provisions no less favorable to Agent and Participants than those set forth in Exhibit O or as otherwise approved by Required Participants; (d) having a Maturity Date that is no earlier than the Business Day next following the maturity date of Lessee's existing Convertible Subordinated Debentures after the date of issuance; and (e) permitting no amortization of the principal amount of the obligations represented thereby prior to the maturity of Lessee's existing Convertible Subordinated Debentures."

""Refunding Period" means a period of sixty (60) days commencing with the first day the New Convertible Subordinated Notes are offered for sale."

""Refunding Proceeds" means all of the proceeds of the issuance of the New Convertible Subordinated Notes net of the costs and fees paid to third parties in connection with issuance of the New Convertible Subordinated Notes."

2.2 The definitions of "Investment" and "Subordinated Debt" contained in Appendix 1 to the Participation Agreement are amended and restated in their entirety as follows:

""Investment" means, as to any Person, any investment by such Person, whether by means of the purchase or other acquisition of stock or other securities of any other Person or by means of a loan, creating a debt, capital contribution, guaranty or other debt or equity participation or interest in any other Person. For purposes of covenant compliance, the amount of any Investment shall be the amount actually invested, without adjustment for subsequent increases or decreases in the value of such Investment. Notwithstanding the foregoing, the term "Investment" shall not include purchases of Convertible Subordinated Debentures or New Convertible Subordinated Notes made in compliance with Section 10.2(j) of the Participation Agreement."

""Subordinated Debt" means the Convertible Subordinated Debentures, the New Convertible Subordinated Notes and any other subordinated debt permitted by clause (x) of Section 10.2(a) of the Participation Agreement."

3. Effective Date. This Amendment shall become effective on the date of satisfaction of the conditions set forth in Section 2.1 of the Second Amendment to Participation Agreement ("Effective Date").

4. Effect of this Amendment. On and after the Effective Date, each reference in the Deed of Trust and the other Operative Documents to the Deed of Trust or Mortgage shall mean the Deed of Trust as amended hereby. Except as specifically amended above, (a) the Deed of Trust shall remain in full force and effect, and (ii) the execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, alter or affect any provision, condition, or covenant contained in the Deed of Trust or the other Operative Documents or affect or impair any rights, powers, or remedies of the Lessor, Agent or the Participants.

5. Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be an original, but all of which shall together constitute one and the same instrument.



IN WITNESS WHEREOF, the undersigned has caused this Amendment to be duly executed and delivered as of the date first above written.

**GRANTOR:**

**SELCO SERVICE CORPORATION**, as Grantor

By: /s/ Paula Oswald
Name: Paula Oswald
Title: Vice President

**BENEFICIARY:**

**KEYBANK NATIONAL ASSOCIATION**, as Agent

By: /s/ Paula Oswald
Name: Paula Oswald
Title: Vice President

**Exhibit 10.9**

**SECOND AMENDMENT**
**TO**
**CREDIT AGREEMENT (18-MONTH)**

THIS SECOND AMENDMENT TO CREDIT AGREEMENT (18-MONTH) dated as of December 17, 2002 (this "Amendment") is dated as of July 21, 2003, by and between QUANTUM CORPORATION, a Delaware corporation ("Borrower"), and KEYBANK NATIONAL ASSOCIATION, as Administrative Agent, Letter of Credit Issuing Lender and Lender, FLEET NATIONAL BANK, as Lender, UNION BANK OF CALIFORNIA, N.A., as Lender, SILICON VALLEY BANK, as Lender, COMERICA BANK CALIFORNIA, as Lender, and each lender from time to time party hereto (collectively, "Lenders").

RECITALS

A. Lenders and Borrower are parties to a Credit Agreement (18-Month) dated as of December 17, 2002, as amended by a First Amendment to Credit Agreement (18-Month) dated as of January 31, 2003 (together, the "Credit Agreement").

B. Pursuant to the Credit Agreement, Borrower executed and delivered to Lenders certain promissory notes in the aggregate amount of One Hundred Million Dollars ($100,000,000).

C. Borrower has requested, and Administrative Agent and Lenders have agreed subject to satisfactions of the conditions set forth herein, to amend the Credit Agreement to add or modify certain definitions and to modify certain covenants of Borrower to: (i) permit an increase in the principal amount of Subordinated Debt of Borrower that may be outstanding for a period of time as specified herein in order to allow Borrower to issue new convertible subordinated notes and use the proceeds therefrom (together with funds required to be provided by Maxtor Corporation pursuant to the Maxtor Reimbursement Agreement (the "Maxtor Funds")) to redeem up to $287,500,000 of the Convertible Subordinated Debentures now outstanding (plus any redemption premium owing in connection with such redemption); (ii) permit Borrower to use up to $50,000,000 of cash to redeem the Convertible Subordinated Debentures to the extent that the net proceeds of the newly issued convertible subordinated notes are insufficient to redeem up to $287,500,000 of the Convertible Subordinated Debentures now outstanding (plus any redemption premium owing in connection with such redemption) in accordance with the Redemption Notice; (iii) reduce Borrower's minimum Consolidated EBITDA requirement for the fiscal quarters ending June 29, 2003 and September 30, 2003; and (iv) modify the calculation of Borrower's Consolidated EBITDA for Borrower's fiscal quarters ending September 30, 2003, December 31, 2003 and March 31, 2004 to permit Borrower to include in such calculation certain restructuring charges in an amount not to exceed $2,000,000 for the fiscal quarter ending September 30, 2003, and not to exceed $10,000,000 in the aggregate for all such fiscal quarters combined.

D. Each capitalized term used but not otherwise defined herein shall have the meaning ascribed thereto in the Credit Agreement.

NOW, THEREFORE, the parties hereto agree as follows:

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ARTICLE 1
AMENDMENTS TO CREDIT AGREEMENT

This Amendment shall be deemed to be an amendment to the Credit Agreement and shall not be construed in any way as a replacement or substitution therefor. All of the terms and conditions of, and terms defined in, this Amendment are hereby incorporated by reference into the Credit Agreement as if such terms and provisions were set forth in full therein.

1.1 The following definitions are added to Section 1.01 (Defined Terms):

""New Convertible Subordinated Notes" means subordinated, convertible notes to be issued by the Borrower on or before August 15, 2003 that conform to all of the following: (a) in a total principal amount of at least $150,000,000 but not to exceed $225,000,000; (b) bearing interest at a rate not in excess of 5% per annum; (c) subordinated in right of payment to the obligations of Borrower under the Credit Agreement and other Loan Documents at least to the same extent as the existing Convertible Subordinated Debentures and containing subordination provisions no less favorable to Administrative Agent and Lenders than those set forth in Schedule 7.13 or as otherwise approved by the Requisite Lenders and acknowledged by the Administrative Agent; (d) having a maturity date that is no earlier than seven (7) years after issuance; and (e) permitting no amortization of the principal amount of the obligations represented thereby prior to such maturity date."

""Refunding Period" means a period of sixty (60) days commencing with the first day on which the New Convertible Subordinated Notes are issued."

""Refunding Proceeds" means all of the proceeds of the issuance and sale of the New Convertible Subordinated Notes net of the costs and fees paid to or deducted by or on behalf of third parties in connection with issuance and sale of the New Convertible Subordinated Notes."

1.2 The definitions of "Investment" and "Subordinated Debt" contained in Section 1.01 (Defined Terms) of the Credit Agreement are amended and restated in their entirety as follows:

""Investment" means, as to any Person, any investment by such Person, whether by means of the purchase or other acquisition of stock or other securities of any other Person or by means of a loan, creating a debt, capital contribution, guaranty or other debt or equity participation or interest in any other Person. For purposes of covenant compliance, the amount of any Investment shall be the amount actually invested, without adjustment for subsequent increases or decreases in the value of such Investment. Notwithstanding the foregoing, the term "Investment" shall not include purchases of Convertible Subordinated Debentures or New Convertible Subordinated Notes made in compliance with Section 7.11 of this Agreement."

""Subordinated Debt" means the Convertible Subordinated Debentures, the New Convertible Subordinated Notes and any other subordinated debt permitted by Section 7.01."



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1.3 Section 7.01(j) of the Credit Agreement is amended and restated in its entirety as follows:

"(j) Subordinated Debt of Borrower to any Person, provided that (A) such Indebtedness contains subordination provisions no less favorable to Administrative Agent and Lenders than those set forth in Schedule 7.13 or as otherwise approved by Requisite Lenders and (B) the aggregate principal amount of all Subordinated Debt of Borrower outstanding (including the Convertible Subordinated Debentures and the New Convertible Subordinated Notes) does not exceed $525,000,000 during the Refunding Period and does not exceed $350,000,000 at any other time; and (C) the maturity date of the Subordinated Debt shall not be earlier than the Business Day next following the Maturity Date; and"

1.4 Section 7.01(d) of the Credit Agreement is amended and restated in its entirety as follows:

"(d) Indebtedness of Borrower under the Convertible Subordinated Debentures and the New Convertible Subordinated Notes;"

1.5 Section 7.11 of the Credit Agreement is amended and restated in its entirety as follows:

"7.11 Certain Indebtedness Payments, Etc. Neither Borrower nor any of its Subsidiaries shall pay, prepay, redeem, purchase, defease or otherwise satisfy in any manner prior to the scheduled payment thereof any Subordinated Debt except as otherwise permitted under this Section 7.11; amend, modify or otherwise change the terms of any document, instrument or agreement evidencing Subordinated Debt such that such amendment, modification or change would (i) cause the outstanding aggregate principal amount of all such Subordinated Debt so amended, modified or changed to be increased as a consequence of such amendment, modification or change, (ii) cause the subordination provisions applicable to such Subordinated Debt to be less favorable to Administrative Agent and Lenders than those set forth on Schedule 7.13, (iii) increase the interest rate applicable thereto, or (iv) accelerate the scheduled payment thereof. Borrower shall not cause or permit any of its obligations, except the obligations constituting Senior Indebtedness, to constitute "Designated Senior Indebtedness" under the Indenture governing the Convertible Subordinated Debentures or the indenture governing the New Convertible Subordinated Notes (it being understood that the Obligations of Borrower under this Agreement shall at all times constitute "Designated Senior Indebtedness" under both such indentures). Notwithstanding the foregoing, Borrower may at any time:



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(1) conduct an exchange offer (whether public, private or on a 3(a)(9) basis) for all or part of the Borrower's Convertible Subordinated Debentures or the New Convertible Subordinated Notes for one or more of the following: (a) new securities ("New Securities") that are subordinated in right of payment to the obligations of Borrower under the Credit Agreement and other Loan Documents at least to the same extent as the existing Convertible Subordinated Debentures or the New Convertible Subordinated Notes, as applicable; provided that (w) the aggregate annual interest obligation of Borrower under the New Securities shall be equal to or less than the aggregate annual interest obligation under the existing Convertible Subordinated Debentures or the New Convertible Subordinated Notes, as applicable, (x) the maturity date of the New Securities shall not be earlier than the maturity date of the existing Convertible Subordinated Debentures or the New Convertible Subordinated Notes, as applicable, (y) the total principal amount of the obligations represented by Borrower's Subordinated Debt shall not be increased by means of any exchange of the New Securities for all or part of the Borrower's Convertible Subordinated Debentures or the New Convertible Subordinated Notes, as applicable, and (z) the New Securities shall not permit any amortization of the principal amount of the obligations represented thereby prior to the maturity of the existing Convertible Subordinated Debentures or the New Convertible Subordinated Notes, as applicable; or (b) new securities issued by Maxtor ("Maxtor Securities"), in the case of the Convertible Subordinated Debentures only; or

(2) redeem up to $287,500,000 of the existing Convertible Subordinated Debentures (plus any redemption premium owing in connection with such redemption) on or before September 30, 2003 in accordance with the redemption notices delivered to the holders thereof by August 15, 2003 ("Redemption Notice") with the Refunding Proceeds and the Maxtor Funds but only if the Refunding Proceeds are placed in trust with the Administrative Agent for the duration of the Refunding Period. For purposes of the immediately preceding sentence, if the net proceeds of any New Convertible Subordinated Notes are insufficient to redeem up to $287,500,000 of the Convertible Subordinated Debentures (plus any redemption premium owing in connection with such redemption), Borrower shall be permitted to use up to but in no event more than $50,000,000 in cash in order to redeem up to $287,500,000 of the Convertible Subordinated Debentures (plus any redemption premium owing in connection with such redemption) in accordance with this Section 7.11."

No exchange or series of exchanges of New Securities or Maxtor Securities for all or any part, or any redemption, of Borrower’s Convertible Subordinated Debentures pursuant to this Section 7.11 shall be deemed to permit any reduction in the amount of Maxtor's reimbursement obligations under the Maxtor Reimbursement Agreement except on a dollar-for-dollar basis to the extent that the obligations represented by Borrower's Convertible Subordinated Debentures are reduced by means of such exchange or series of exchanges or any redemption. Notwithstanding any provision of this Section 7.11 to the contrary, Borrower may (A) convert, or honor a conversion request with respect to, any such Subordinated Debt into Equity Securities of Borrower in accordance with the terms thereof; (B) pay cash to holders of such Subordinated Debt in connection with such a conversion but solely to the extent representing the value of any fractional shares; (C) make payments of interest on such Subordinated Debt not in violation of the Subordination provisions of such Subordinated Debt; (D) pay the redemption premium, if any, owing in connection with any redemption of all or part of the Convertible Subordinated Debentures; (E) pay additional interest in an amount not to exceed 50 basis points per annum of the aggregate principal amount of the New Convertible Subordinated Notes to the extent due under the provisions of the New Convertible Subordinated Notes due to Borrower's failure to register such notes or shares of common stock into which the notes are convertible within the period or to keep such notes or shares registered for or during the periods specified in the indenture for the New Convertible Subordinated Notes or the Registration Rights Agreement; and (F) make other payments, repayments, redemptions, purchases, defeasance or other satisfaction of Subordinated Debt not to exceed $5,000,000 in the aggregate."



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1.6 Section 7.12(d) of the Credit Agreement is amended and restated in its entirety as follows:

"(d) Minimum Consolidated EBITDA. Permit Consolidated EBITDA, determined as of the last day of any fiscal quarter of Borrower commencing with the fiscal quarter ending December 31, 2002, to be less than the following: (i) for the fiscal quarter ending December 31, 2002, $1.00; (ii) for the fiscal quarter ending March 31, 2003, $18,000,000; (iii) for the fiscal quarter ending June 29, 2003, $9,000,000; (iv) for the fiscal quarter ending September 30, 2003, $9,000,000; (v) for the fiscal quarter ending December 31, 2003, $12,500,000; and (vi) for the fiscal quarter ending March 31, 2004, $13,000,000. For purposes of calculating Borrower’s Consolidated EBITDA as of the last day of the fiscal quarters ending September 30, 2003, December 31, 2003 and March 31, 2004 only, there shall be added to Borrower’s Consolidated Net Income an amount equal to the actual restructuring charges incurred in each such quarter by Borrower for facility and employee-related charges (to the extent such charges were deducted in calculating Borrower’s Consolidated Net Income); *provided, however*, that (x) the amount of such restructuring charges to be added to Borrower’s Consolidated Net Income for Borrower’s fiscal quarter ending September 30, 2003 shall not exceed $2,000,000, and (y) the aggregate amount of all such restructuring charges to be added to the Borrower’s Consolidated Net Income for Borrower’s fiscal quarters ending September 30, 2003, December 31, 2003 and March 31, 2004 combined shall not exceed $10,000,000 in the aggregate.

1.7 The schedule appended hereto as Attachment 1 is substituted in place of and shall supersede Schedule 2 to the Compliance Certificate set forth in Exhibit B to the Credit Agreement.

1.8 Section 8.01 of the Credit Agreement is amended to incorporate the following as an "Event of Default":

"8.01(m) Maxtor fails to pay to Borrower on or before August 1, 2004 all amounts owing pursuant to the Maxtor Reimbursement Agreement.



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## ARTICLE 2
## CONDITIONS TO EFFECTIVENESS OF AMENDMENT

2.1 The effectiveness of this Amendment is subject to the fulfillment to the satisfaction of KeyBank National Association, as Administrative Agent under the Credit Agreement, in its sole discretion, of the following conditions precedent:

(a) Borrower shall have executed and delivered to Administrative Agent this Amendment;

(b) The Requisite Lenders shall have executed and delivered to Administrative Agent this Amendment;

(c) Administrative Agent shall have received appropriate authorization documents, including borrowing resolutions and certificates of incumbency, confirming to its satisfaction that all necessary corporate and organizational actions have been taken to authorize

Borrower to enter into this Amendment; and

(d) Administrative Agent shall have received such other documents, instruments or agreements as Administrative Agent may require to effectuate the intents and purposes of this Amendment.

## ARTICLE 3
## REPRESENTATIONS AND WARRANTIES

Borrower hereby represents and warrants to Administrative Agent and Lenders that:

3.1 After giving effect to the amendment of the Credit Agreement pursuant to this Amendment and the consummation of the transactions contemplated hereby (i) each of the representations and warranties set forth in Section 5 of the Credit Agreement is true and correct in all material respects as if made on the date hereof except to the extent such representations and warranties specifically refer to an earlier date in which case they shall be true and correct in all material respects as of such earlier date (with references to the Credit Agreement being deemed to include this Amendment), and (ii) there exists no Event of Default under the Credit Agreement after giving effect to this Amendment.

3.2 Borrower has the full corporate power and authority and legal right to make, deliver and to perform the obligations of its part to be performed under the Credit Agreement as amended hereby. Borrower has taken all necessary action to authorize the execution, delivery and performance of this Amendment. No consent or authorization of, filing with, or other act by or in respect of any Governmental Authority, is required in connection with the execution, delivery, performance, validity or enforceability of this Amendment or the performance by Borrower of the Credit Agreement as amended hereby. This Amendment has been duly executed and delivered by Borrower, and constitutes a legal, valid and binding obligation of Borrower, enforceable against Borrower in accordance with its terms.

3.3 This Amendment and the Credit Agreement as amended hereby are, or upon delivery thereof to Administrative Agent will be, the legal, valid and binding obligations of Borrower, enforceable against Borrower in accordance with their respective terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally.



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## ARTICLE 4
## MISCELLANEOUS

4.1 The Credit Agreement, the other Loan Documents and all agreements, instruments and documents executed and delivered in connection with any of the foregoing shall each be deemed to be amended hereby to the extent necessary, if any, to give effect to the provisions of this Amendment. Except as so amended hereby, the Credit Agreement and the other Loan Documents shall remain in full force and effect in accordance with their respective terms.

4.2 Borrower agrees to pay Administrative Agent on demand for all reasonable expenses, including reasonable fees and costs of attorneys and costs of title insurance, incurred by Administrative Agent in connection with the preparation, negotiation and execution of this Amendment and any document required to be furnished hereunder.



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IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the date set forth in the preamble hereto.

QUANTUM CORPORATION, a Delaware corporation, as Borrower
By: /s/ Mary Springer
Name: Mary Springer
Title: Treasurer

KEYBANK NATIONAL ASSOCIATION, as Administrative Agent, Letter of Credit Issuing Lender and Lender

By: /s/ Robert W. Boswell
Name: Robert W. Boswell
Title: Vice President

FLEET NATIONAL BANK, as Lender

By: /s/ Greg Roux
Name: Greg Roux
Title: Managing Director

UNION BANK OF CALIFORNIA, N.A., as Lender

By: /s/ Sarabelle Hitchner
Name: Sarabelle Hitchner
Title: Vice President

SILICON VALLEY BANK, as Lender

By: /s/ Kevin Walsh
Name: Kevin Walsh
Title: Vice President

COMERICA BANK CALIFORNIA, as Lender

By: /s/ Rob Ways
Name: Rob Ways
Title: Vice President

**Exhibit 10.10**

# QUANTUM CORPORATION

## JERALD L. MAURER EMPLOYMENT AGREEMENT

This Employment Agreement is made by and between Quantum Corporation, a Delaware Corporation (the "Company"), and you, Jerald L. Maurer, as of September 25, 2003 (the "Effective Date").

1. Duties and Scope of Employment.

(a) Full-Time Employment. As of the Effective Date, and through September 30, 2003, you will remain an Executive Vice President of the Company and a full-time employee. During this time, you will transfer your current responsibilities to other employees at the Company. While a full-time employee, your compensation and benefits will continue as in effect on the Effective Date, subject to any reductions or other modifications to the benefits generally provided to Vice Presidents of the Company.

(b) Part-Time Employment. On October 1, 2003, you will transfer to part-time status, where it is anticipated that you will work approximately 30 hours per week, through September 30, 2005, or such earlier time as your employment is terminated pursuant to Section 3 (the "Termination Date"). Your responsibilities will be as mutually agreed between you and the Company's Chief Executive Officer, and the initial objectives through September 30, 2004 are attached as Exhibit A to this Agreement. While a part-time employee, the Company will: (i) for the first year (October 1, 2003 through September 30, 2004) pay you a base salary at the rate of $120,000 per year and for the second year (October 1, 2004 through September 30, 2005) pay you a base salary at the rate of $80,000 per year; and (ii) continue to provide you employee benefit plans, policies and arrangements that are applicable to other employees of the Company (subject to the terms of such plans, policies and arrangements), as such plans, policies and arrangements and terms may exist from time to time; provided, however that you will not be eligible to participate in any Company bonus plans.

2. Option Matters. Effective as of the date of this agreement, the vesting of the options listed on Exhibit B shall be accelerated, and their exercise periods shall be extended to terminate on September 30, 2007. The terms of the options listed on Exhibit C shall not be altered by this Agreement, except as provided in Section 3(a).

3. Termination. Notwithstanding anything in this Agreement to the contrary, the Company may terminate your employment at any time, with or without Cause.

(a) Termination for Cause. In the event the Company terminations your employment for Cause, you will not be entitled to the acceleration of the vesting of any options payments or benefits specified in Section 3(b). For the purposes of this Section 3, "Cause" means (i) any act of personal dishonesty taken by you in connection with your responsibilities as an employee that is intended to result in your substantial personal enrichment, (ii) your conviction of a felony, (iii) a willful act by you which constitutes gross misconduct injurious to the Company, or (iv) continued violations of your obligations to the Company under the Company's established personnel policies and procedures which are demonstrably willful and deliberate on your part after the Company has delivered to you a written demand for performance that describes the basis for the Company's belief that you have not substantially performed your duties.

(b) Termination Without Cause. In the event the Company terminates your employment without Cause, the vesting of the options listed on Exhibit C shall be accelerated through September 5, 2005.

(c) Medical Benefits. At the Termination Date, you shall be entitled to receive a lump-sum payment equal to 24 multiplied by the Monthly Health Cost. For purposes of this section, "Monthly Health Cost" shall be the monthly amount (if you elected continuation coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended) required to provide you the same level of health coverage as in effect for you on the day immediately preceding the Termination Date.

4. Non-Compete; Non-Solicit; Non-Disparagement.

(a) General. The parties to this Agreement recognize that your services are special and unique and that the level of compensation and the provisions herein for compensation after termination are partly in consideration of and conditioned upon your not competing with the Company, and that your covenant not to compete or solicit as set forth in this Section 5 is essential to protect the business and goodwill of the Company.

(b) Noncompetition. You agree that commencing upon the Termination Date and for one (1) year thereafter (the "Covenant Period"), you will not either directly or indirectly, whether as a director, officer, consultant, employee or advisor or in any other capacity engage in or have any ownership interest in or participate in the financing, operation, management or control of Advanced Digital Information Corporation, Overland Storage, Inc., Storage Technology Corp., Hewlett-Packard Company, International Business Machines Corporation, Certance, LLC or Sony Corporation.

(c) Nonsolicitation. During the Covenant Period, you will not, directly or indirectly, induce or attempt to influence any employee of the Company to leave its employ.

(d) Nondisparagement. During the Covenant Period, you will not, directly or indirectly, disparage, impugn or make any derogatory statements regarding the Company and/or its officers, directors or former or current employees.

(e) Injunctive Relief. You agree that the Company would suffer an irreparable injury if you were to breach the covenants contained in Sections 5(b), (c) or (d) and that the Company would by reason of such breach or threatened breach be entitled to injunctive relief in a court of appropriate jurisdiction and you hereby consent to the entering of such injunctive relief prohibiting you from engaging in such breach.

(f) Scope of Restrictions. If any of the restrictions contained in this Section 5 shall be deemed to be unenforceable by reason of the extent, duration or geographical scope or other provisions thereof, then the parties hereto contemplate that the court shall reduce such extent, duration, geographical scope or other provision hereof and enforce this Section 5 in its reduced form for all purposes in the manner contemplated hereby.

5. Assignment. This Agreement will be binding upon and inure to the benefit of (i) your heirs, executors and legal representatives upon your death, and (ii) any successor of the Company. Any such successor of the Company will be deemed substituted for the Company under the terms of this Agreement for all purposes. For this purpose, "successor" means any person, firm, corporation or other business entity which at any time, whether by purchase, merger or otherwise, directly or indirectly acquires all or substantially all of the assets or business of the Company. None of your rights to receive any form of compensation payable pursuant to this Agreement may be assigned or transferred except by will or the laws of descent and distribution. Any other attempted assignment, transfer, conveyance or other disposition of your right to compensation or other benefits will be null and void.

6. Notices. All notices, requests, demands and other communications called for hereunder shall be in writing and shall be deemed given (i) on the date of delivery if delivered personally, (ii) one (1) day after being sent by a well-established commercial overnight service, or (iii) four (4) days after being mailed by registered or certified mail, return receipt requested, prepaid and addressed to the parties or their successors at the following addresses, or at such other addresses as the parties may later designate in writing:

If to the Company:

Quantum Corporation
1650 Technology Drive, Suite 800
San Jose, California 95110
Attn: Chief Executive Officer

If to you:

at the last residential address known by the Company.

7. Severability. In the event that any provision hereof becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement will continue in full force and effect without said provision.

8. Entire Agreement. This Agreement, your Employee Proprietary Information and Invention Agreement, your Indemnification Agreement and your option agreements (except as modified herein) represent the entire agreement and understanding between you and the Company concerning your employment relationship with the Company, and supersede and replace any and all prior agreements and understandings concerning your employment relationship with the Company, including, but not limited to, your Executive Officer Change of Control Agreement dated April 1, 2003.

9. Arbitration.

(a) General. In consideration of your service to the Company, its promise to arbitrate all employment related disputes, your receipt of compensation and other benefits paid to you by the Company, at present and in the future, you agree that any and all controversies, claims, or disputes with anyone (including the Company and any employee, officer, director, shareholder or benefit plan of the Company in their capacity as such or otherwise) arising out of, relating to, or resulting from your service to the Company under this Agreement or otherwise or the termination of your service with the Company, including any breach of this Agreement, shall be subject to binding arbitration under the Arbitration Rules set forth in California Code of Civil Procedure Section 1280 through 1294.2, including Section 1283.05 (the "Rules") and pursuant to California law. Disputes which you agree to arbitrate, and thereby agree to waive any right to a trial by jury, include any statutory claims under state or federal law, including, but not limited to, claims under Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act of 1990, the Age Discrimination in Employment Act of 1967, the Older Workers Benefit Protection Act, the California Fair Employment and Housing Act, the California Labor Code, claims of harassment, discrimination or wrongful termination and any statutory claims. You further understand that this Agreement to arbitrate also applies to any disputes that the Company may have with you.

(b) Procedure. You agree that any arbitration will be administered by the American Arbitration Association ("AAA") and that a neutral arbitrator will be selected in a manner consistent with its National Rules for the Resolution of Employment Disputes. The arbitration proceedings will allow for discovery according to the rules set forth in the *National Rules for the Resolution of Employment Disputes* or the *California Code of Civil Procedure*. You agree that the arbitrator shall have the power to decide any motions brought by any party to the arbitration, including motions for summary judgment and/or adjudication and motions to dismiss and demurrers, prior to any arbitration hearing. You agree that the arbitrator shall issue a written decision on the merits. You also agree that the arbitrator shall have the power to award any remedies, including attorneys' fees and costs, available under applicable law. You understand the Company will pay for any administrative or hearing fees charged by the arbitrator or AAA except that you shall pay the first $200.00 of any filing fees associated with any arbitration you initiate. You agree that the arbitrator shall administer and conduct any arbitration in a manner consistent with the Rules and that to the extent that the AAA's National Rules for the Resolution of Employment Disputes conflict with the Rules, the Rules shall take precedence.

(c) Remedy. Except as provided by the Rules, arbitration shall be the sole, exclusive and final remedy for any dispute between you and the Company. Accordingly, except as provided for by the Rules, neither you nor the Company will be permitted to pursue court action regarding claims that are subject to arbitration. Notwithstanding, the arbitrator will not have the authority to disregard or refuse to enforce any lawful Company policy, and the arbitrator shall not order or require the Company to adopt a policy not otherwise required by law that the Company has not adopted.

(d) Availability of Injunctive Relief. In addition to the right under the Rules to petition the court for provisional relief, you agree that any party may also petition the court for injunctive relief where either party alleges or claims a violation of this Agreement or any other agreement regarding trade secrets, confidential information, nonsolicitation or Labor Code § 2870. In the event either party seeks injunctive relief, the prevailing party shall be entitled to recover reasonable costs and attorneys' fees.

(e) Administrative Relief. You understand that this Agreement does not prohibit you from pursuing an administrative claim with a local, state or federal administrative body such as the Department of Fair Employment and Housing, the Equal Employment Opportunity Commission or the workers' compensation board. This Agreement does, however, preclude you from pursuing court action regarding any such claim.

(f) Voluntary Nature of Agreement. You acknowledge and agree that you are executing this Agreement voluntarily and without any duress or undue influence by the Company or anyone else. You further acknowledge and agree that you have carefully read this Agreement and that you have asked any questions needed for you to understand the terms, consequences and binding effect of this Agreement and fully understand it, including that you are waiving your right to a jury trial. Finally, you agree that you have been provided an opportunity to seek the advice of an attorney of your choice before signing this Agreement.

10. No Oral Modification, Cancellation or Discharge. This Agreement may be changed or terminated only in writing (signed by you and the Company).

11. Withholding. The Company is authorized to withhold, or cause to be withheld, from any payment or benefit under this Agreement the full amount of any applicable withholding taxes.

12. Governing Law. This Agreement will be governed by the laws of the State of California (with the exception of its conflict of laws provisions).

13. Acknowledgment. You acknowledge that you have had the opportunity to discuss this matter with and obtain advice from your private attorney, have had sufficient time to, and have carefully read and fully understand all the provisions of this Agreement, and are knowingly and voluntarily entering into this Agreement.

IN WITNESS WHEREOF, the undersigned have executed this Agreement on the respective dates set forth below:

| | |
|---|---|
| Date: September 25, 2003 | /s/ Jerald L. Maurer<br>Jerald L. Maurer |
| Date: September 25, 2003 | QUANTUM CORPORATION<br><br>/s/ Shawn Hall<br>Name: Shawn Hall<br>Title: Vice President, General Counsel |

**Exhibit 10.11**

**QUANTUM CORPORATION**

**BARBARA H. NELSON SEPARATION AGREEMENT**

This Agreement is made by and between Quantum Corporation, a Delaware Corporation (the "Company"), and you, Barbara H. Nelson, as of July 23, 2003 (the "Effective Date").

1. Duties and Scope of Employment.

   (a) Full-Time Employment. As of the Effective Date, and through August 31, 2003, you will remain an Executive Vice President of the Company and a full-time employee. During this time, you will transfer your current responsibilities to other employees at the Company. While a full-time employee, your compensation and benefits will continue as in effect on the Effective Date, subject to any reductions or other modifications to the benefits generally provided to Vice Presidents of the Company.

   (b) Part-Time Employment. On September 1, 2003, you will transfer to part-time status, where you may, in your discretion, continue to work through December 31, 2003. Your responsibilities will consist of (i) continuing to supervise any projects you remain responsible for, and (ii) working on special projects and advising the Company's Chief Executive Officer (the "CEO") as requested by the CEO. While a part-time employee, the Company will pay you a base salary at the rate of twenty-five percent (25%) of your base salary as in effect on the Effective Date.

   (c) Medical Benefits. On or about September 1, 2003, the Company will pay the applicable COBRA premiums in a lump-sum payment to continue your medical insurance (as in effect on September 1, 2003) through December 31, 2004.

2. Severance Payment. Subject to your compliance with Section 5 and your entering into and not revoking a release of claims with the Company (in the form provided by the Company), when your employment is terminated on January 1, 2004, or such earlier date following September 1, 2003 that you elect to terminate employment(the "Termination Date"), you will be entitled to a lump-sum severance payment equal to one hundred percent (100%) of your annual base salary (as in effect as of the Effective Date), which payment shall be made as soon as practicable after the Termination Date.

3. Option Vesting. You will continue to vest in your outstanding options through the Termination Date. All unvested option as of the Termination Date will be cancelled on the first business day following the Termination Date. You will have until 90 days following the Termination Dateto exercise any vested options, after which, such vested options will be cancelled.

4. Early Termination. Notwithstanding anything in this Agreement to the contrary, the Company may termination your employment at any time, with or without Cause.

   (a) Termination for Cause. In the event the Company terminations your employment for Cause, you will not be entitled to any of the payments or benefits specified in Section 2. For the purposes of this Section 4, "Cause" means (i) any act of personal dishonesty taken by you in connection with your responsibilities as an employee that is intended to result in your substantial personal enrichment, (ii) your conviction of a felony, (iii) a willful act by you which constitutes gross misconduct injurious to the Company, or (iv) continued violations of your obligations to the Company under the Company's established personnel policies and procedures which are demonstrably willful and deliberate on your part after the Company has delivered to you a written demand for performance that describes the basis for the Company's belief that you have not substantially performed your duties.



   (b) Termination Without Cause. In the event the Company terminates your employment without Cause, the day of the termination of your employment will be deemed the "Termination Date" (as defined in Section 2) for the purposes of interpreting this Agreement, and the Company will provide you the Severance Benefits specified in Section 2.

5. Non-Compete; Non-Solicit; Non-Disparagement .

   (a) General. The parties to this Agreement recognize that your services are special and unique and that the level of compensation and the provisions herein for compensation after termination are partly in consideration of and conditioned upon your not competing with the Company, and that your covenant not to compete or solicit as set forth in this Section 5 is essential to protect the business and goodwill of the Company.

   (b) Noncompetition. You agree that commencing upon the Termination Date and for one (1) year thereafter (the "Covenant Period"), you will not either directly or indirectly, whether as a director, officer, consultant, employee or advisor or in any other capacity engage in or have any ownership interest in or participate in the financing, operation, management or control of Advanced Digital Information Corporation, Overland Storage, Inc., Storage Technology Corp., Hewlett-Packard Company, International Business Machines Corporation, Certance, LLC or Sony Corporation.

   (c) Nonsolicitation. During the Covenant Period, you will not, directly or indirectly, induce or attempt to influence any employee of the Company to leave its employ.

   (d) Nondisparagement. During the Covenant Period, you will not, directly or indirectly, disparage, impugn or make any derogatory statements regarding the Company and/or its officers, directors or former or current employees.

   (e) Injunctive Relief. You agree that the Company would suffer an irreparable injury if you were to breach the covenants contained in Sections 5(b), (c) or (d) and that the Company would by reason of such breach or threatened breach be entitled to injunctive relief in a court of appropriate jurisdiction and you hereby consent to the entering of such injunctive relief prohibiting you from engaging in such breach.



   (f) Scope of Restrictions. If any of the restrictions contained in this Section 5 shall be deemed to be unenforceable by reason of the extent, duration or geographical scope or other provisions thereof, then the parties hereto contemplate that the court shall reduce such extent, duration, geographical scope or other provision hereof and enforce this Section 5 in its reduced form for all purposes in the manner contemplated hereby.

   (g) Effect on Payments and Benefits. You agree that should you violate the terms of this Section 5, (i) you will no longer be entitled to any of the payments or benefits set forth in Section 2, (ii) all of your outstanding options will immediately terminate, and (iii) you will repay the Company the Severance Payment provided pursuant to Section 2(a) on a pro-rated (daily) basis assuming the Severance Payment covers a period of 365 days commencing on the Termination Date.

6. Assignment. This Agreement will be binding upon and inure to the benefit of (i) your heirs, executors and legal representatives upon your death, and (ii) any successor of the Company. Any such successor of the Company will be deemed substituted for the Company under the terms of this Agreement for all purposes. For this purpose, "successor" means any person, firm, corporation or other business entity which at any time, whether by purchase, merger or otherwise, directly or indirectly acquires all or substantially all of the assets or business of the Company. None of your rights to receive any form of compensation payable pursuant to this Agreement may be assigned or transferred except by will or the laws of descent and distribution. Any other attempted assignment, transfer, conveyance or other disposition of your right to compensation or other benefits will be null and void.

7. Notices. All notices, requests, demands and other communications called for hereunder shall be in writing and shall be deemed given (i) on the date of delivery if delivered personally, (ii) one (1) day after being sent by a well-established commercial overnight service, or (iii) four (4) days after being mailed by registered or certified mail, return receipt requested, prepaid and addressed to the parties or their successors at the following addresses, or at such other addresses as the parties may later designate in writing:

If to the Company:

Quantum Corporation
1650 Technology Drive, Suite 800
San Jose, California 95110

Attn: Chief Executive Officer

If to you:

at the last residential address known by the Company.

8. Severability. In the event that any provision hereof becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement will continue in full force and effect without said provision.

9. Entire Agreement. This Agreement, your Employee Proprietary Information and Invention Agreement, your loan agreements and your option agreements (except as modified herein) represent the entire agreement and understanding between you and the Company concerning your employment relationship with the Company, and supersede and replace any and all prior agreements and understandings concerning your employment relationship with the Company.



10. Arbitration.

(a) General. In consideration of your service to the Company, its promise to arbitrate all employment related disputes, your receipt of compensation and other benefits paid to you by the Company, at present and in the future, you agree that any and all controversies, claims, or disputes with anyone (including the Company and any employee, officer, director, shareholder or benefit plan of the Company in their capacity as such or otherwise) arising out of, relating to, or resulting from your service to the Company under this Agreement or otherwise or the termination of your service with the Company, including any breach of this Agreement, shall be subject to binding arbitration under the Arbitration Rules set forth in California Code of Civil Procedure Section 1280 through 1294.2, including Section 1283.05 (the "Rules") and pursuant to California law. Disputes which you agree to arbitrate, and thereby agree to waive any right to a trial by jury, include any statutory claims under state or federal law, including, but not limited to, claims under Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act of 1990, the Age Discrimination in Employment Act of 1967, the Older Workers Benefit Protection Act, the California Fair Employment and Housing Act, the California Labor Code, claims of harassment, discrimination or wrongful termination and any statutory claims. You further understand that this Agreement to arbitrate also applies to any disputes that the Company may have with you.

(b) Procedure. You agree that any arbitration will be administered by the American Arbitration Association ("AAA") and that a neutral arbitrator will be selected in a manner consistent with its National Rules for the Resolution of Employment Disputes. The arbitration proceedings will allow for discovery according to the rules set forth in the *National Rules for the Resolution of Employment Disputes* or the *California Code of Civil Procedure*. You agree that the arbitrator shall have the power to decide any motions brought by any party to the arbitration, including motions for summary judgment and/or adjudication and motions to dismiss and demurrers, prior to any arbitration hearing. You agree that the arbitrator shall issue a written decision on the merits. You also agree that the arbitrator shall have the power to award any remedies, including attorneys' fees and costs, available under applicable law. You understand the Company will pay for any administrative or hearing fees charged by the arbitrator or AAA except that you shall pay the first $200.00 of any filing fees associated with any arbitration you initiate. You agree that the arbitrator shall administer and conduct any arbitration in a manner consistent with the Rules and that to the extent that the AAA's National Rules for the Resolution of Employment Disputes conflict with the Rules, the Rules shall take precedence.

(c) Remedy. Except as provided by the Rules, arbitration shall be the sole, exclusive and final remedy for any dispute between you and the Company. Accordingly, except as provided for by the Rules, neither you nor the Company will be permitted to pursue court action regarding claims that are subject to arbitration. Notwithstanding, the arbitrator will not have the authority to disregard or refuse to enforce any lawful Company policy, and the arbitrator shall not order or require the Company to adopt a policy not otherwise required by law that the Company has not adopted.

(d) Availability of Injunctive Relief. In addition to the right under the Rules to petition the court for provisional relief, you agree that any party may also petition the court for injunctive relief where either party alleges or claims a violation of this Agreement or any other agreement regarding trade secrets, confidential information, nonsolicitation or Labor Code § 2870. In the event either party seeks injunctive relief, the prevailing party shall be entitled to recover reasonable costs and attorneys' fees.



(e) Administrative Relief. You understand that this Agreement does not prohibit you from pursuing an administrative claim with a local, state or federal administrative body such as the Department of Fair Employment and Housing, the Equal Employment Opportunity Commission or the workers' compensation board. This Agreement does, however, preclude you from pursuing court action regarding any such claim.

(f) Voluntary Nature of Agreement. You acknowledge and agree that you are executing this Agreement voluntarily and without any duress or undue influence by the Company or anyone else. You further acknowledge and agree that you have carefully read this Agreement and that you have asked any questions needed for you to understand the terms, consequences and binding effect of this Agreement and fully understand it, including that you are waiving your right to a jury trial. Finally, you agree that you have been provided an opportunity to seek the advice of an attorney of your choice before signing this Agreement.

11. No Oral Modification, Cancellation or Discharge. This Agreement may be changed or terminated only in writing (signed by you and the Company).

12. Withholding. The Company is authorized to withhold, or cause to be withheld, from any payment or benefit under this Agreement the full amount of any applicable withholding taxes.

13. Governing Law. This Agreement will be governed by the laws of the State of California (with the exception of its conflict of laws provisions).

14. Acknowledgment. You acknowledge that you have had the opportunity to discuss this matter with and obtain advice from your private attorney, have had sufficient time to, and have carefully read and fully understand all the provisions of this Agreement, and are knowingly and voluntarily entering into this Agreement.



IN WITNESS WHEREOF, the undersigned have executed this Agreement on the respective dates set forth below:

BARBARA H. NELSON

Date: 07/25/2003

/s/ BARBARA H. NELSON

Barbara H. Nelson

QUANTUM CORPORATION

Date: 07/25/2003

/s/ SHAWN HALL

Name: Shawn Hall
Title: Vice President, General Counsel

**Exhibit 31.1**

**CERTIFICATION PURSUANT TO
SECTION 302(a) OF
THE SARBANES-OXLEY ACT OF 2002**

I, Richard E. Belluzzo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quantum Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting; and

Date: November 12, 2003

/s/ Richard E. Belluzzo

Richard E. Belluzzo
Chief Executive Officer

Exhibit 31.2

**CERTIFICATION PURSUANT TO**
**SECTION 302(a) OF**
**THE SARBANES-OXLEY ACT OF 2002**

I, Michael J. Lambert, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quantum Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting; and

Date: November 12, 2003

/s/ Michael J. Lambert

Michael J. Lambert
Executive Vice President, Finance
and Chief Financial Officer

**Exhibit 32.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Richard Belluzzo, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Quantum Corporation on Form 10-Q for the fiscal quarter ended September 28, 2003 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Quantum Corporation.

By: /s/ Richard E. Belluzzo

Name: Richard E. Belluzzo
Title: Chief Executive Officer

**Exhibit 32.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**
**PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael J. Lambert, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Quantum Corporation on Form 10-Q for the fiscal quarter ended September 28, 2003 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Quantum Corporation.

By: /s/ Michael J. Lambert

Name: Michael J. Lambert
Title: Executive Vice President, Finance
and Chief Financial Officer