

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 8-K/A

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): January 5, 2005

QUANTUM CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

1650 Technology Drive, Suite 800, San Jose, CA

(Address of principal executive offices)

1-13449

(Commission File Number)

95110

(Zip Code)

94-2665054

(IRS Employer Identification No.)

408-944-4000

(Registrant's telephone number, including area code)

Not Applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.01 Completion of Acquisition or Disposition of Assets.

As previously reported in a Current Report on Form 8-K filed on January 10, 2005, Certance Holdings ("Certance Holdings") became a wholly owned subsidiary of Quantum on January 5, 2005, pursuant to an Agreement and Plan of Merger, which was filed as Exhibit 10.1 to the Current Report on Form 8-K filed by the Registrant on October 25, 2004.

The total purchase price for the acquisition was approximately \$60 million in cash.

This Amendment No. 1 to the Current Report on Form 8-K filed on January 10, 2005 is being filed to include financial statements of Certance Holdings as required by Item 9.01(a) of Form 8-K, and pro forma financial information as required by Item 9.01(b) of Form 8-K.

Item 9.01 Financial Statements and Exhibits.

(a) Financial statements of businesses acquired.

The following financial statements of Certance Holdings and related entities are being filed with this report as Exhibit 99.1:

- (1) Report of Independent Registered Public Accounting Firm
- (2) Consolidated Balance Sheets as of July 2, 2004 and June 27, 2003
- (3) Consolidated Income Statements for the years ended July 2, 2004, June 27, 2003, and June 28, 2002
- (4) Consolidated Statements of Cash Flows for the years ended July 2, 2004, June 27, 2003 and June 28, 2002
- (5) Consolidated Statements of Shareholder's Equity for the years ended July 2, 2004, June 27, 2003 and June 28, 2002
- (6) Notes to Consolidated Financial Statements.

The following financial statements of Certance Holdings and related entities are being filed with this report as Exhibit 99.2:

- (1) Consolidated Balance Sheets as of December 31, 2004 (unaudited) and July 2, 2004
- (2) Consolidated Income Statements for the six months ended December 31, 2004 (unaudited) and January 2, 2004 (unaudited)
- (3) Consolidated Statements of Cash Flows for the six months ended December 31, 2004 (unaudited) and January 2, 2004 (unaudited)
- (4) Notes to Consolidated Financial Statements.

(b) Pro forma condensed combined financial statements

The following pro forma financial information is being filed with this report as Exhibit 99.3

- (1) Unaudited pro forma condensed combined balance sheet as of December 26, 2004
- (2) Unaudited pro forma condensed combined statements of operations for the nine months ended December 26, 2004 and the year ended March 31, 2004
- (3) Notes to unaudited pro forma condensed combined financial statements.

(c) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm
99.1	Financial statements listed in Item 9.01 (a)
99.2	Financial statements listed in Item 9.01 (a)
99.3	Financial statements listed in Item 9.01 (b)

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

By: /s/EDWARD J. HAYES, JR.

Edward J. Hayes, Jr.
Executive Vice President and
Chief Financial Officer

Dated: March 9, 2005

<u>Exhibit No.</u>	<u>Description</u>
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm
99.1	Financial statements listed in Item 9.01 (a)
99.2	Financial statements listed in Item 9.01 (a)
99.3	Financial statements listed in Item 9.01 (b)

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Form S-3 Nos. 333-29525, 333-103680 and 333-109587) and the Registration Statements (Form S-8 Nos. 333-30623, 333-30627, 333-32691, 333-58193, 333-65043, 333-83219, 333-84851, 333-89249, 333-42358, 333-44706, 333-64350, 333-98235, 333-108015, 333-113098 and 333-120632) pertaining to the 1986 Stock Option Plan; 1993 Long-Term Incentive Plan; 1996 Board of Directors Stock Option Plan; ATL Products, Inc. 1996 Stock Incentive Plan; ATL Products, Inc. 1997 Stock Incentive Plan; Employee Stock Purchase Plan; Meridian Data, Inc. 1987 Meridian Data Incentive Stock Option Plan; 1988 Incentive Stock Plan; 1995 Director Option Plan; 1997 Incentive Stock plan; 2003 Nonemployee Director Equity Incentive Plan and Supplemental Stock Option Plan of Quantum Corporation of our report dated July 23, 2004, except for Note 5, as to which the date is February 25, 2005, with respect to the consolidated financial statements of Certance Holdings as of July 2, 2004 and June 27, 2003, and the related consolidated statements of income, cash flows and shareholder's equity for each of the three years in the period ended July 2, 2004, included in this Current Report on Form 8-K/A.

/s/ Ernst & Young LLP

Orange County, California
March 4, 2005

Certance Holdings

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholder
Certance Holdings

We have audited the accompanying consolidated balance sheets of Certance Holdings as of July 2, 2004 and June 27, 2003, and the related consolidated statements of income, cash flows and shareholder's equity for each of the three years in the period ended July 2, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Certance Holdings at July 2, 2004 and June 27, 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended July 2, 2004, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Orange County, California
July 23, 2004,
except for Note 5 as to which the date is
February 25, 2005

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Certance Holdings
Consolidated Balance Sheets
(In thousands, except share and per share amounts)

	<u>July 2, 2004</u>	<u>June 27, 2003</u>
ASSETS		
Cash and cash equivalents	\$ 23,745	\$ 19,062
Short-term investments	10,000	-
Accounts receivable, net	29,728	24,241
Receivables from affiliates	-	6,451
Inventories	24,950	25,511
Other current assets	3,321	2,687
Deferred tax assets	2,805	3,258
	<u>94,549</u>	<u>81,210</u>
Total current assets	94,549	81,210

Property, equipment and leasehold improvements, net	8,165	9,675
Other assets	3,422	2,825
Total assets	\$ 106,136	\$ 93,710
LIABILITIES		
Accounts payable	\$ 16,827	\$ 18,019
Accounts payable to affiliates	630	-
Accrued employee compensation	5,352	5,302
Accrued expenses	5,174	5,521
Current portion of accrued warranty	3,722	4,507
Accrued income taxes	2,822	310
Total current liabilities	34,527	33,659
Long-term portion of accrued warranty	2,906	3,701
Other non-current liabilities	1,079	906
Total liabilities	38,512	38,266
Commitments and contingencies		
SHAREHOLDER'S EQUITY		
Preferred shares, 22,500,000 designated		
Series A shares, \$0.0001 par value, 20,000,000 authorized, issued and outstanding, liquidation preference of \$1.60 per share	2	2
Common shares, \$0.0001 par value, 30 million authorized, none issued or outstanding	-	-
Additional paid-in capital	43,930	43,925
Retained earnings	23,692	11,517
Total shareholder's equity	67,624	55,444
Total liabilities and shareholder's equity	\$ 106,136	\$ 93,710

See accompanying notes.

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Certance Holdings
Consolidated Income Statements
(In thousands, except per share amounts)

	Years Ended		
	July 2, 2004	June 27, 2003	June 28, 2002
Product revenue	\$ 207,199	\$ 213,027	\$ 243,129
Royalty revenue	18,378	9,939	5,309
Total revenue	225,577	222,966	248,438
Operating expenses:			
Cost of revenue	159,469	160,592	190,763
Product development	30,484	33,481	29,384
Marketing and administration	21,174	19,936	18,719
Amortization of intangible assets	-	-	1,088

Restructuring expenses	1,097	–	–
Total operating expenses	212,224	214,009	239,954
Income from operations	13,353	8,957	8,484
Interest income	193	150	180
Other income (expense), net	544	673	(19)
Income before provision for income taxes	14,090	9,780	8,645
Provision for income taxes	1,915	2,923	1,223
Net income	\$ 12,175	\$ 6,857	\$ 7,422
Net income per share:			
Basic	\$ 0.61	\$ 0.34	\$ 0.37
Diluted	\$ 0.60	\$ 0.34	\$ 0.37
Number of shares used in per share calculations:			
Basic	20,000	20,000	20,000
Diluted	20,317	20,000	20,000

See accompanying notes.

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Certance Holdings
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended		
	July 2, 2004	June 27, 2003	June 28, 2002
OPERATING ACTIVITIES:			
Net income	\$ 12,175	\$ 6,857	\$ 7,422
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,784	4,808	9,000
Deferred income taxes	72	2,067	(2,742)
Loss on disposal of property, equipment and leasehold improvements	–	–	33
Other, net	5	7	14
Changes in operating assets and liabilities:			
Accounts receivable, net	(5,487)	2,372	1,404
Receivables from affiliates	7,081	1,670	14,618
Inventories	561	2,538	2,216
Other assets	(850)	(412)	(2,947)
Accounts payable	(1,192)	444	(9,935)
Accrued income taxes	2,512	(2,170)	(9,607)
Accrued expenses, employee compensation and warranty	(1,704)	(2,696)	(1,512)
Other, net	–	–	(333)
Net cash provided by operating activities	17,957	15,485	7,631
INVESTING ACTIVITIES:			
Acquisition of property, equipment and leasehold improvements	(3,274)	(3,686)	(4,484)
Purchases of short-term investments	(10,900)	–	–
Proceeds from sale of short-term investments	900	–	–
Cash acquired in business acquisition	–	–	1,277
Proceeds from sale of property, equipment and leasehold improvements	–	–	156
Net cash used in investing activities	(13,274)	(3,686)	(3,051)

Net increase in cash and cash equivalents	4,683	11,799	4,580
Cash and cash equivalents at the beginning of the year	19,062	7,263	2,683
Cash and cash equivalents at the end of the year	\$ 23,745	\$ 19,062	\$ 7,263

See accompanying notes.

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Certance Holdings
Consolidated Statements of Shareholder's Equity
(In thousands)

	Common Shares		Preferred Shares		Additional Paid-in Capital	Retained Earnings	Total
	Shares	Amount	Shares	Amount		(Accumulated Deficit)	
Balance at June 29, 2001	–	\$ –	20,000	\$ 2	\$ 48,120	\$ (2,762)	\$ 45,360
Push down adjustment by New SAC related to SFAS 109	–	–	–	–	(4,216)	–	(4,216)
Amortization of deferred compensation related to New SAC restricted share plan	–	–	–	–	14	–	14
Net income and other comprehensive income	–	–	–	–	–	7,422	7,422
Balance at June 28, 2002	–	–	20,000	2	43,918	4,660	48,580
Amortization of deferred compensation related to New SAC restricted share plan	–	–	–	–	7	–	7
Net income and other comprehensive income	–	–	–	–	–	6,857	6,857
Balance at June 27, 2003	–	–	20,000	2	43,925	11,517	55,444
Amortization of deferred compensation related to New SAC restricted share plan	–	–	–	–	5	–	5
Net income and other comprehensive income	–	–	–	–	–	12,175	12,175
Balance at July 2, 2004	–	\$ –	20,000	\$ 2	\$ 43,930	\$ 23,692	\$ 67,624

See accompanying notes.

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Certance Holdings

Notes to Consolidated Financial Statements

1. Basis of Presentation and Summary of Significant Accounting Policies

Nature of Operations – Certance Holdings (the “Company”), a Cayman Islands limited liability company, was formed in August 2000, to be a holding company for the Seagate Removable Storage Solutions Operating Business (“SRSS Business”) of Seagate Technology, Inc. (“Seagate Delaware”). On November 22, 2000, all the operating assets and liabilities of Seagate Delaware, including all the operating assets and liabilities of the SRSS Business were acquired by New Suez Acquisition Company (“New SAC”), a Cayman Islands limited liability company, in a series of transactions which are referred to throughout these financial statements as the “November 2000 transactions.” Prior to November 22, 2000, the Company did not have significant operations. The Company is wholly owned, on an outstanding shares basis, by New SAC.

The Company designs, markets and supports a product line of tape drives that use removable tape cartridges that store and protect large volumes of data inexpensively and reliably. Tape drives are used in both enterprise and desktop computer systems needing dedicated backup storage that combines high capacity, portability, low cost and reliability. Typically tape drives are used less frequently and data is often migrated from rigid disc drives to tape drives because tape drives are less expensive. However, tape drives take longer to retrieve data. The Company also manufactures tape heads for use in its own products and for sale to other OEM companies that manufacture and sell tape

drives.

Basis of Presentation – The consolidated statements of income include all revenues and expenses attributable to the Company including allocations of certain administration, finance and management costs from New SAC and its subsidiaries. Such costs were proportionately allocated to the Company based on detailed inquiries and estimates of time incurred by New SAC and its subsidiaries' corporate marketing and general administrative departmental managers. In addition, certain of New SAC's operations are shared locations involving activities that pertain to the Company as well as to other businesses owned by New SAC. Costs incurred in shared locations are allocated based on specific identification, or where specific identification is not possible, such costs are allocated between the Company and other businesses owned by New SAC based on the volume of activity, head count, square footage, and other methodologies that management believes are reasonable. Management believes that the foregoing allocations were made on a reasonable basis. All support activities performed by New SAC and its subsidiaries were transitioned to the Company as of July 2, 2004.

Basis of Consolidation – The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated.

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Certance Holdings

Notes to Consolidated Financial Statements (continued)

1. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Fiscal Year – The Company operates and reports financial results on a fiscal year of 52 or 53 weeks ending on the Friday closest to June 30. Accordingly, fiscal year 2004 included 53 weeks and ended on July 2, 2004, and fiscal years 2003 and 2002 included 52 weeks and ended on June 27, 2003 and June 28, 2002, respectively. All references to years in these notes represent fiscal years unless otherwise noted.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Company regularly evaluates estimates and assumptions related to its revenue recognition, sales returns and allowances, sales program accruals, warranty reserves, inventory reserves and deferred income tax asset valuation allowances. The Company bases its estimates and assumptions on historical experience and on various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

Revenue Recognition, Sales Returns and Allowances and Sales Incentive Programs – The Company's revenue recognition policy complies with Staff Accounting Bulletin ("SAB") No. 101, *Revenue Recognition in Financial Statements* ("SAB 101") as well as the recently issued SAB No. 104, *Revenue Recognition* ("SAB 104"). Product returns are estimated and accrued in accordance with Statement of Financial Accounting Standards ("SFAS") No. 48, *Revenue Recognition when Right of Return Exists* ("SFAS 48").

The Company's distribution customers are on either a consignment model, under which revenue is recognized when distributors sell products to end-users, or a sell-in model, under which revenue is recognized when products are sold to distributors. Whether a particular customer is on a consignment model or a sell-in model depends on the Company's contractual arrangements with that customer. If the contract with the distribution customer provides that title and risk of loss remain with the Company until the distribution customer sells the Company's products to its customers, the distribution customer is on a consignment model. The customer is on a sell-in model, by contrast, if the contract provides that the distribution customer assumes title and risk of loss at the time the Company's products are shipped to the distribution customer and all criteria for recognizing revenue under SAB 101, SAB 104 and SFAS 48 have been satisfied. During fiscal year 2003, the Company began to defer recognition of sales on estimated excess inventory located at sell-in model distributors. For this purpose, excess inventory is the amount of inventory that exceeds the distributors' inventory requirements based on management's estimates. In management's opinion, there was no excess inventory in the distribution channel at July 2, 2004. Revenue and gross margin associated with this deferral totaled \$2,500,000 and \$1,000,000, respectively, at June 27, 2003.

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Certance Holdings

Notes to Consolidated Financial Statements (continued)

1. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Estimated reductions to revenue for sales incentive programs, such as price protection, and sales growth bonuses, are recorded when revenue is recorded. These estimates are based on various factors, including estimated future price erosion, distributor sell-through levels, program participation and claim submittals. Marketing development programs, when granted, are either recorded as a reduction to revenue or as an addition to marketing expense depending on the contractual nature of the program and whether the conditions of Emerging Issues Task Force ("EITF") Issue No. 01-9, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)* have been met.

Cash, Cash Equivalents, and Short-term Investments – Cash and cash equivalents include items such as money market funds and commercial paper with maturity periods of three months or less when purchased. Short-term investments consist of auction rate debt securities issued by municipal agencies that have remaining maturities in excess of ten years. Because short-term investments are available for use in current operations, they are classified as current assets without regard to the securities' contractual maturity dates. The Company has classified its entire investment portfolio as available-for-sale. Available-for-sale securities are classified as cash equivalents or short-term investments and are stated at fair value with unrealized gains and losses included in accumulated other comprehensive income, which is a component of shareholder's equity. The amortized cost and the fair value of the Company's available for sale securities were equal, resulting in no unrealized gains or losses at July 2, 2004 or June 27, 2003. The cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion are included in interest income. Realized gains and losses are included in other income (expense). The cost of securities sold is based on the specific identification basis.

Accounts Receivable – The Company does not accrue interest income on accounts receivable. The allowance for non-collection of accounts receivable is based upon the expected collections of specifically identified significant or past due accounts receivable. In addition, general reserves for non-collection are based on historical losses and general economic conditions. Trade receivables are charged against the allowance when cost beneficial, legal means of collection have been pursued to their conclusion.

Accounts Payable to Affiliates – Accounts payable to affiliates is presented net of receivables from affiliates because the right of offset exists amongst the entities owned directly and indirectly by New SAC.

Inventory – Inventories are valued at the lower of standard cost (which approximates actual cost using the first-in, first-out method) or market value. Market value is based upon an estimated average selling price reduced by estimated cost of completion. Given the volatility of the markets in which the Company does business, the Company makes adjustments to the value of inventory based

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Certance Holdings

Notes to Consolidated Financial Statements (continued)

1. Basis of Presentation and Summary of Significant Accounting Policies (continued)

on estimates of potentially excess and obsolete inventory after considering forecasted demand and forecasted average selling prices.

Property, Equipment, and Leasehold Improvements – Equipment, buildings and leasehold improvements are stated at cost. Equipment and buildings are depreciated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated life of the asset or the remaining term of the lease.

Income Taxes – The Company utilizes the liability method of accounting for income taxes as set forth in SFAS No. 109, *Accounting for Income Taxes* ("SFAS 109"). Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax bases of assets and liabilities using enacted tax rates. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized.

Foreign Currency Translation – The U.S. dollar is the functional currency for the Company's foreign operations. Gains and losses on the remeasurement into U.S. dollars of amounts denominated in foreign currencies are included in net income for those operations whose functional currency is the U.S. dollar. Aggregate exchange losses included in the determination of net income for fiscal years 2004, 2003 and 2002, was (\$102,000), (\$178,000) and (\$66,000), respectively. Exchange losses are recorded in other income (expense), net in the consolidated statements of income.

Product Warranty – The Company warrants its products against defects in design, materials and workmanship generally for two to four years depending upon the capacity category of the tape drive or tape component (head) with the higher capacity products being warranted for the longer periods. A provision for estimated future costs relating to warranty expense, net of anticipated recoveries from component manufacturers, is recorded to cost of revenue at the time revenue is recognized. The warranty provision considers product failure rates and trends, estimated repair cost and probable return rates.

Shipping and Handling Costs – Shipping and handling costs incurred to procure components for the Company's products or to ship products to company owned distribution facilities are included in the cost of inventory and are expensed to cost of revenue when product revenue is recognized.

Advertising Expense – The cost of advertising is expensed as incurred. Advertising costs for fiscal years 2004, 2003 and 2002 were \$2,445,000, \$2,233,000, and \$1,153,000, respectively.

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Certance Holdings

Notes to Consolidated Financial Statements (continued)

1. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Stock-Based Compensation – The Company accounts for employee stock-based compensation utilizing the intrinsic value method, in compliance with Accounting Principles Board Opinion (“APBO”) No. 25, *Accounting for Stock Issued to Employees* (“APBO 25”) and related interpretations. Under APBO 25, the Company generally recognizes no expense with respect to options granted.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123, *Accounting for Stock-Based Compensation* (“SFAS 123”), as amended by SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure* (“SFAS 148”). Pro forma information is calculated as if the Company had accounted for its stock options under the fair value method of SFAS 123. The fair value of the Company’s stock options was estimated using the minimum value option valuation model. The minimum value option valuation model was developed for use in estimating the fair value of options for non-public companies. Because the Company’s stock options granted to employees have characteristics significantly different from those of traded options, in management’s opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options granted to employees.

The fair value of the Company’s stock options granted to employees was estimated assuming no expected dividends and the following weighted average assumptions:

	Fiscal year 2004	Fiscal year 2003	Fiscal year 2002
Stock Option Plan Shares			
Expected life (in years)	10.0	10.0	10.0
Risk-free interest rate	4.3%	4.2%	4.5%

The weighted average fair value of stock options granted under the Company’s option plan was \$0.59, \$0.54 and \$0.58 in fiscal years 2004, 2003 and 2002, respectively.

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Certance Holdings

Notes to Consolidated Financial Statements (continued)

1. Basis of Presentation and Summary of Significant Accounting Policies (continued)

For purposes of pro forma disclosures, the estimated fair value of the options is amortized over the options’ vesting period, generally four years. Cumulative pro forma expenses related to canceled options are reversed in the period of cancellation. The Company’s pro forma information follows:

	Fiscal year 2004	Fiscal year 2003	Fiscal year 2002
	(In thousands, except per share amounts)		
Net income, as reported	\$ 12,175	\$ 6,857	\$ 7,422
SFAS 123 compensation expense, net of tax benefit	(470)	(415)	(379)
Pro forma net income	\$ 11,705	\$ 6,442	\$ 7,043
Net income per share, as reported:			
Basic	\$ 0.61	\$ 0.34	\$ 0.37
Diluted	\$ 0.60	\$ 0.34	\$ 0.37
Pro forma net income per share:			
Basic	\$ 0.59	\$ 0.32	\$ 0.35
Diluted	\$ 0.58	\$ 0.32	\$ 0.35

Impact of Recently Issued Accounting Standards – In November 2002, the EITF reached a consensus on Issue No. 00-21 (“EITF 00-21”), *Revenue Arrangements with Multiple Deliverables*. EITF 00-21 provides guidance on how to account for certain arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF 00-21 apply to revenue

arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of EITF 00-21 did not have a significant impact on the Company's consolidated financial position, results of operations, or cash flows.

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, *Consolidation of Variable Interest Entities* ("FIN 46"). FIN 46 requires the primary beneficiary of a variable interest entity ("VIE") to consolidate the entity and also requires majority and significant variable interest investors to provide certain disclosures. A VIE is an entity in which the equity investors do not have a controlling interest, equity investors participate in losses or residual interests of the entity on a basis that differs from their respective ownership interests, or the investors do not have sufficient equity at risk to finance the entity's activities without receiving additional subordinated financial support from the other parties. The provisions of FIN 46 are effective immediately for all arrangements entered into with new VIEs created after

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Certance Holdings

Notes to Consolidated Financial Statements (continued)

1. Basis of Presentation and Summary of Significant Accounting Policies (continued)

January 31, 2003. For arrangements entered into with VIEs created prior to January 31, 2003, the provisions of FIN 46 were adopted in the second quarter of fiscal year 2004. The Company reviewed its investments and other arrangements to determine whether any of its investee companies are VIEs and did not identify any significant VIEs that would need to be consolidated.

In December 2003, the FASB issued a revision to SFAS No. 132, *Employers' Disclosure About Pensions and Other Postretirement Benefits* ("SFAS 132-R"). SFAS 132-R requires additional disclosures about plan assets, investment strategies, plan obligations and cash flows in annual financial statements and requires the disclosure of the components of net periodic benefit cost in interim financial statements. The Company adopted the additional disclosure requirements in the third quarter of fiscal year 2004. Because the revisions only effect disclosure requirements, the adoption of SFAS 132-R had no impact on the Company's consolidated financial position, results of operations or cash flows.

Financial Instruments— The Company's financial instruments consist primarily of cash, cash equivalents, short-term investments, accounts receivable and accounts payable. Due to their short-term nature, or frequent interest resetting and credit guarantee features, the carrying value of the financial assets and liabilities presented in the consolidated balance sheets approximates fair value.

Concentration of Credit Risk— The Company's customer base for tape drive products and tape components is concentrated with a small number of systems manufacturers and distributors.

Financial instruments, which potentially subject the Company to concentrations of credit risk, are primarily accounts receivable, cash equivalents, and short-term investments. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers. The Company places its cash equivalents and short-term investments in investment-grade, short-term debt instruments with credit agency ratings of A or above, and limits the amount of credit exposure to any one commercial issuer.

Supplier Concentration— Certain of the raw materials used by the Company in the manufacture of its products are available from a limited number of suppliers. Shortages could occur in these essential materials due to an interruption of supply or increased demand in the industry.

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Certance Holdings

Notes to Consolidated Financial Statements (continued)

2. Net Income Per Share

Each Series A preferred stock owned by New SAC is convertible into a common share on a one-to-one basis, is entitled to receive dividends and distributions ratably with holders of the common shares, and has voting rights on an "as if converted to common shares" basis. After giving effect to shareholder distributions to date, the Series A preferred shares have a preference of \$1.60 per share in the event of a liquidation, dissolution or winding-up of the Company. For the purpose of computing basic and diluted net income per share, in periods when the Company has net income, the Series A preferred shares have been included in the denominator because the Series A preferred shares and common shares have equal dividend rights and inclusion of the Series A preferred shares is dilutive.

The following table sets forth the computation of basic and diluted net income per share:

Fiscal year 2004	Fiscal year 2003	Fiscal year 2002
---------------------------------	---------------------------------	---------------------------------

(In thousands, except per share amounts)

Numerator:			
Net income	\$ 12,175	\$ 6,857	\$ 7,422
Denominator (1):			
Denominator for basic net income per share - weighted average number of common and preferred shares outstanding during the period	20,000	20,000	20,000
Common share equivalents, calculated using the treasury stock method	317	-	-
Denominator for diluted net income per share	<u>20,317</u>	<u>20,000</u>	<u>20,000</u>
Basic net income per share	<u>\$ 0.61</u>	<u>\$ 0.34</u>	<u>\$ 0.37</u>
Diluted net income per share	<u>\$ 0.60</u>	<u>\$ 0.34</u>	<u>\$ 0.37</u>

(1) For fiscal years 2003 and 2002 the denominator is the same for both the basic and diluted computations as there were no incremental shares attributable to outstanding options to purchase common shares because the estimated average fair value of the Company's common shares did not exceed the exercise prices of any of the outstanding options to purchase common shares during these periods. For fiscal year 2004, options to purchase 151,000 shares were excluded from the calculation of diluted net earnings per share because the exercise price of these options was greater than the estimated average fair value of the Company's common shares.

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Certance Holdings

Notes to Consolidated Financial Statements (continued)

3. Balance Sheet Information

Available-For-Sale Securities

The following is a summary of available-for-sale securities:

	July 2, 2004		June 27, 2003	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Money market mutual funds	\$ 9,051	\$ 9,051	\$ 7,535	\$ 7,535
Commercial paper	4,797	4,797	-	-
Auction rate debt securities	10,000	10,000	-	-
Total available-for-sale securities	<u>\$ 23,848</u>	<u>\$ 23,848</u>	<u>\$ 7,535</u>	<u>\$ 7,535</u>
Included in cash and cash equivalents	\$ 13,848	\$ 13,848	\$ 7,535	\$ 7,535
Included in short-term investments	10,000	10,000	-	-
	<u>\$ 23,848</u>	<u>\$ 23,848</u>	<u>\$ 7,535</u>	<u>\$ 7,535</u>

Accounts Receivable

Accounts receivable are summarized below:

	July 2, 2004		June 27, 2003	
	(In thousands)			
Accounts receivable	\$ 30,506	\$ 25,453		
Less allowance for doubtful accounts	(778)	(1,212)		

\$	29,728	\$	24,241
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Activity in the allowance for doubtful accounts is as follows:

	Balance at Beginning of Year	Charged to Costs and Expenses	Deductions- Describe (1)	Balance at End of Year
	(In thousands)			
Fiscal year 2004	\$ 1,212	\$ 244	\$ (678)	\$ 778
Fiscal year 2003	\$ 1,229	\$ -	\$ (17)	\$ 1,212
Fiscal year 2002	\$ 2,573	\$ 306	\$ (1,650)	\$ 1,229

(1) Uncollectible accounts written off, net of recoveries.

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Certance Holdings

Notes to Consolidated Financial Statements (continued)

3. Balance Sheet Information (continued)

Accounts Receivable from (Payable to) Affiliates

Accounts receivables from (payable to) affiliates are summarized below:

	July 2, 2004	June 27, 2003
	(In thousands)	
Accounts receivable	\$ 856	\$ 18,811
Accounts payable	(1,486)	(7,339)
Note payable	-	(5,021)
	<u>\$ (630)</u>	<u>\$ 6,451</u>

Inventories

Inventories are summarized below:

	July 2, 2004	June 27, 2003
	(In thousands)	
Components	\$ 4,202	\$ 5,067
Work-in-progress	4,038	4,915
Finished goods	16,710	15,529
	<u>\$ 24,950</u>	<u>\$ 25,511</u>

Property, Equipment and Leasehold Improvements

Property, equipment and leasehold improvements are stated at cost and consist of the following:

	Estimated Useful Life	July 2, 2004	June 27, 2003
		(In thousands)	
Equipment	3 to 4 years	\$ 20,128	\$ 17,051
Building and leasehold improvements	Shorter of lease term or 30 years	2,763	2,628
Construction in progress		805	890
		23,696	20,569
Less accumulated depreciation and amortization		(15,531)	(10,894)
Property, equipment and leasehold improvements, net		\$ 8,165	\$ 9,675

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Certance Holdings

Notes to Consolidated Financial Statements (continued)

3. Balance Sheet Information (continued)

Property, Equipment and Leasehold Improvements (continued)

There are no capitalized leases. Depreciation expense for fiscal years 2004, 2003 and 2002, was \$4,784,000, \$4,808,000 and \$4,103,000, respectively.

Intangible Assets

Goodwill represents the excess of the purchase price of acquired companies over the estimated fair value of the tangible and specifically identified intangible net assets acquired. The Company has recorded no goodwill as a result of the November 2000 transactions. Amortization of purchased intangible assets acquired in the November 2000 transactions was provided on a straight-line basis over 36 months.

In the fourth quarter of fiscal year 2002, certain affiliates of the Company reduced their valuation allowances for deferred tax assets recorded in connection with the November 2000 transactions to reflect the realization of acquired tax benefits in their tax returns. As a result of the application of SFAS 109, the reduction in the valuation allowances of the Company's affiliates resulted in an adjustment to the amount of unamortized negative goodwill that was allocated on a pro rata basis to reduce the purchase price of all remaining long-lived intangible assets acquired in the November 2000 transactions. As a result, the carrying value of all remaining intangible assets, totaling approximately \$6,937,000, was reduced to zero. The adjustment, net of deferred taxes of \$2,721,000, was recorded as a reduction to additional paid-in capital in the consolidated statement of shareholder's equity.

Product Warranty

Significant components of the changes in the product warranty liability are as follows:

	Fiscal year 2004	Fiscal year 2003
	(In thousands)	
Balance at beginning of year	\$ 8,208	\$ 8,111
Warranty costs charged against liability	(4,732)	(3,501)
Liability for product warranties issued	4,329	4,036
Changes related to preexisting warranties, including expirations	(1,177)	(438)
Balance at end of year	\$ 6,628	\$ 8,208

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Certance Holdings

Notes to Consolidated Financial Statements (continued)

3. Balance Sheet Information (continued)

United Kingdom Value Added Tax

At July 2, 2004 and June 27, 2003, the United Kingdom net value added tax liability was \$732,000 and \$1,922,000, respectively, and is included in accrued expenses in the consolidated balance sheets.

Research and Development Agreements

Beginning December 1996, the Company's predecessor entered into a series of agreements with Hewlett Packard and IBM to develop new tape storage technology. The Company is committed to pay for certain costs incurred and is entitled to income received per the terms of the agreements as a result of the development and subsequent licensing of technology under the agreements.

As a result of these agreement, the Company has incurred expenses of \$1,297,000, \$1,438,000, and \$1,338,000 for the fiscal years 2004, 2003, and 2002, respectively, included in cost of revenues, product development expenses, and marketing and administration expenses in the consolidated statements of income, and received royalty income, included in revenue in the consolidated statements of income.

The Company provides funding in advance of expenses being incurred which is maintained in a trust account on behalf of all parties to the agreements. The Company's portion of \$881,000 and \$692,000 in this trust account has been included in the Company's balance sheet at July 2, 2004 and June 27, 2003, respectively.

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Certance Holdings

Notes to Consolidated Financial Statements (continued)

4. Compensation

Stock-Based Benefit Plan

In February 2001, the Board of Directors of the Company adopted the Certance Holdings Share Option Plan (the "Option Plan"). Under the terms of the Option Plan, eligible employees, directors, and consultants can be awarded options to purchase shares of common stock of Certance Holdings. Vesting of options is determined at the date of grant. Substantially all of the option grants vest 25% on the first anniversary of the grant date with the remaining 75% vesting ratably over the next 36 months. Options were granted at fair market value and expire ten years from the date of grant. The weighted average remaining contractual life of options outstanding at July 2, 2004 was 7.1 years. The following is a summary of stock option activity for the Option Plan:

	Option Shares Available for Grant	Options Outstanding		
		Number of Shares	Price Range Per Share	Weighted Average Exercise Price per Share
	(in thousands)	(in thousands)		
Balance June 29, 2001	–	–	\$ –	\$ –
Authorization of shares for grant	5,000	–	–	–
Granted	(5,181)	5,181	1.60	1.60
Canceled	272	(272)	1.60	1.60
Balance June 28, 2002	91	4,909	1.60	1.60
Authorization of shares for grant	500	–	–	–
Granted	(702)	702	1.60	1.60
Canceled	474	(474)	1.60	1.60
Balance June 27, 2003	363	5,137	1.60	1.60
Authorization of shares for grant	1,000	–	–	–
Granted	(822)	822	1.60 – 2.00	1.67
Canceled	260	(260)	1.60	1.60
Balance July 2, 2004	801	5,699	\$ 1.60 – 2.00	\$ 1.61

	Number of Shares	Weighted Average Exercise Price per Share
	(in thousands)	
Options exercisable at: June 28, 2002	1,724	\$ 1.60
June 27, 2003	2,871	\$ 1.60
July 2, 2004	4,028	\$ 1.60

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Certance Holdings

Notes to Consolidated Financial Statements (continued)

4. Compensation (continued)

Post Retirement Health Care Plan

Seagate Technology, a majority owned subsidiary of New SAC that operates the disc drive business of New SAC, sponsors an unfunded post-retirement health care plan ("the Health Plan"), which offers medical coverage to U.S. early retirees and their eligible dependents, including employees of the Company, prior to their eligibility for Medicare benefits. Substantially all U.S. employees of the Company become eligible for these benefits after 15 years of service and attaining age 60 or older. The following table provides a statement of the changes in the Health Plan's benefit obligation and a statement of the funded status of the Health Plan.

	July 2, 2004	June 27, 2003
	(In thousands)	
Change in Benefit Obligation		
Accumulated post-retirement benefit obligation at beginning of year	\$ 801	\$ 644
Service and interest cost	117	103
Participant contributions	19	14
Benefits paid	(58)	(28)
Actuarial (gain) loss	(10)	68
Accumulated post-retirement benefit obligation at end of year	\$ 869	\$ 801
Funded Status of the Plan		
Unrecognized actuarial gain	\$ (99)	\$ (99)
Accrued benefit liability recognized in other non-current liabilities at end of year	968	900
Accumulated post-retirement benefit obligation at end of year	\$ 869	\$ 801

Net periodic benefit cost allocated to the Company for fiscal years 2004, 2003 and 2002 was as follows:

	Fiscal year 2004	Fiscal year 2003	Fiscal year 2002
	(In thousands)		
Service cost	\$ 68	\$ 59	\$ 65
Interest cost	49	44	43
Amortization of actuarial gain	(10)	(11)	(20)

Net periodic benefit cost	\$	107	\$	92	\$	88
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Measurements regarding the Health Plan have been made as of March 31, 2004. Discount rates of 5.75% and 6.25% were used in the determination of the accumulated benefit obligation at July 2, 2004 and June 27, 2003, respectively. The Company's future medical benefit costs were estimated to increase at an annual rate of 11% during fiscal 2005, decreasing to an annual growth rate of 5% in fiscal 2010, and thereafter. The Health Plan's cost is capped at 200% of its fiscal year

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Certance Holdings

Notes to Consolidated Financial Statements (continued)

4. Compensation (continued)

Post Retirement Health Care Plan (continued)

1999 employer cost and, therefore, will not be subject to medical and dental trends after the capped cost is attained. A 1% change in these annual trend rates would not have a significant impact on the accumulated post-retirement benefit obligation at July 2, 2004, or the fiscal 2004 benefit expense. The Company funds the payment of medical claims as they are presented. The cost of benefits provided is partially offset by premiums received from participants. Based on the actuarial assumptions used to value the accumulated post retirement benefit obligation, the Company expects to pay benefits of less than \$100,000 per year for fiscal years 2005 through 2009, and approximately \$635,000 for fiscal years 2010 through 2014 in the aggregate.

Actuarial gains and losses result from changes in assumptions regarding the accumulated benefit obligation. To the extent that the unrecognized actuarial gain or loss exceeds 10% of the accumulated benefit obligation at the beginning of the plan year, the unrecognized portion is amortized as a component of net periodic benefit cost over the average remaining service period of active participants.

The Company is evaluating its decision to continue to offer the Health Plan to its current employees. Should the Company opt out of the Health Plan, the Company would realize a curtailment gain representing a significant portion of the accrued benefit liability recorded in other non-current liabilities in the consolidated balance sheet at July 2, 2004.

Tax Deferred Savings Plan

Qualified employees of the Company are able to participate in a tax-deferred savings plan, the Seagate 401(k) Plan ("the 401(k) plan"), sponsored by Seagate Technology. The 401(k) plan is designed to provide employees with an accumulation of funds at retirement. Qualified employees may elect to make contributions to the 401(k) plan on a monthly basis. The Company may make annual contributions to the 401(k) plan at the discretion of the Board of Directors. For fiscal years 2004, 2003 and 2002 the Company recorded charges for contributions to the 401(k) plan of \$509,000, \$534,000 and \$506,000, respectively.

Deferred Compensation Plan

New SAC maintains a deferred compensation plan for the benefit of eligible employees, including certain employees of the Company. This plan is designed to permit certain discretionary employer contributions in excess of the tax limits applicable to the 401(k) plan and to permit employee deferrals in excess of certain tax limits. Company assets designated to pay benefits under the plan are held by a Rabbi Trust. The Company has adopted the provisions of EITF Issue No. 97-

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Certance Holdings

Notes to Consolidated Financial Statements (continued)

4. Compensation (continued)

Deferred Compensation Plan (continued)

14, *Accounting for Deferred Compensation Arrangements Where Amounts Earned are Held in a Rabbi Trust* ("EITF 97-14"). Under EITF 97-14, the assets and liabilities of a rabbi trust must be accounted for as if they are assets and liabilities of the Company, and all earnings and expenses of the rabbi trust are recorded in the Company's consolidated statements of income.

Employee Profit Sharing and Executive Bonus Plans

The Company allocates a certain percentage of adjusted quarterly pretax profits to its Employee Profit Sharing Plan, which is currently distributed to its employees, excluding certain officers, employed for the full quarter. The Company also allocates a certain percentage of adjusted pretax profits to its Executive Bonus Plan. Distributions to corporate officers under this plan are subject to the discretion of the

Board of Directors. For fiscal years 2004, 2003 and 2002, the Company recorded charges to operations for distributions to employees and corporate officers under these plans of \$2,094,000, \$823,000 and \$984,000, respectively.

5. Income Taxes

The Company's U.S. subsidiaries which are treated for U.S. tax purposes as a single U.S. taxpayer ("U.S. subsidiary"), are included in certain unitary and combined U.S. state tax returns with certain U.S. affiliates of New SAC and have entered into a tax sharing agreement effective November 23, 2000. Pursuant to the terms of the state tax sharing agreement (the "State Tax Allocation Agreement"), hypothetical state tax returns (with certain modifications) are calculated as if the U.S. subsidiary of the Company was filing on a separate return basis. The Company's U.S. subsidiary is required to reimburse these certain New SAC U.S. affiliates to the extent the Company's U.S. subsidiary utilizes the tax attributes of these U.S. affiliates of New SAC to reduce its separately computed income tax liabilities within 30 days of the close of the fiscal year such affiliates would have otherwise been able to utilize their own tax attributes. If these certain New SAC U.S. affiliates utilize tax attributes of the Company's U.S. subsidiary, the Company's U.S. subsidiary will be reimbursed for those tax attributes within 30 days of the close of the fiscal year during which the Company's U.S. subsidiary would have otherwise been able to utilize the tax attributes to reduce its separately computed tax liability. As of July 2, 2004, there were no outstanding balances for taxes due to or from any New SAC affiliates.

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Certance Holdings

Notes to Consolidated Financial Statements (continued)

5. Income Taxes (continued)

The provision for income taxes consisted of the following:

	Fiscal year 2004	Fiscal year 2003	Fiscal year 2002
	(In thousands)		
Current tax expense (benefit):			
U.S. Federal	\$ 1,317	\$ 543	\$ 2,749
U.S. State	593	126	320
Foreign	(67)	187	896
	<u>1,843</u>	<u>856</u>	<u>3,965</u>
Deferred tax expense (benefit):			
U.S. Federal	(28)	1,663	(2,446)
U.S. State	283	404	(296)
Foreign	(183)	-	-
	<u>72</u>	<u>2,067</u>	<u>(2,742)</u>
Provision for income taxes	<u>\$ 1,915</u>	<u>\$ 2,923</u>	<u>\$ 1,223</u>

Income before provision for income taxes consisted of the following:

	Fiscal year 2004	Fiscal year 2003	Fiscal year 2002
	(In thousands)		
Domestic	\$ 8,398	\$ 4,388	\$ 3,076
Foreign	5,692	5,392	5,569
	<u>\$ 14,090</u>	<u>\$ 9,780</u>	<u>\$ 8,645</u>

The pro forma information assuming a tax provision based on a separate U.S. state return basis is as follows:

**Fiscal year
2004**

(In
thousands)

Income before income taxes		\$ 14,090
Provision for income taxes		1,915
Net income		\$ 12,175

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Certance Holdings

Notes to Consolidated Financial Statements (continued)

5. Income Taxes (continued)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's deferred tax assets and liabilities were as follows:

	July 2, 2004	June 27, 2003
	(In thousands)	
Deferred Tax Assets		
Accrued warranty	\$ 2,723	\$ 3,358
Inventory	441	805
Receivable reserves	249	345
Marketing reserves	1,241	1,118
Accrued compensation and benefits	1,582	1,417
Acquisition related items	1,157	1,259
Other reserves and accruals	237	343
	7,630	8,645
Valuation allowance	(3,358)	(3,663)
Net deferred tax assets	4,272	4,982
Deferred Tax Liabilities		
Depreciation	(454)	(1,092)
Total deferred tax liabilities	(454)	(1,092)
Net deferred tax assets	\$ 3,818	\$ 3,890

Long-term net deferred tax assets of \$1,013,000 and \$632,000, respectively, are included in other assets in the July 2, 2004 and June 27, 2003 consolidated balance sheets.

In fiscal year 2002, the Company reduced to zero the \$6,937,000 net carrying value of long-lived intangibles that were recorded in connection with the November 2000 transactions. The reduction was recorded in accordance with SFAS 109 to reflect tax benefits recognized by other subsidiaries of New SAC in their U.S. income tax returns attributable to acquisition related deferred tax assets that were previously subject to a valuation allowance. The adjustment, net of deferred taxes of \$2,721,000, was recorded as a reduction to additional paid-in capital in the consolidated statement of shareholder's equity.

At July 2, 2004, the Company has recorded \$3,818,000 of net deferred tax assets. Management believes it is more likely than not these deferred tax assets will be realized. The valuation allowance was decreased by \$305,000 and increased by \$749,000 in fiscal year 2004 and 2003, respectively. The valuation allowance was decreased by \$256,000 in fiscal year 2002.

Certance Holdings

Notes to Consolidated Financial Statements (continued)

5. Income Taxes (continued)

The applicable Cayman Islands statutory tax rate was zero for fiscal years 2004, 2003 and 2002. For purposes of the reconciliation between the provision for income taxes at the statutory rate and the effective tax rate, a notional U.S. 35% rate is applied as follows:

	Fiscal year 2004	Fiscal year 2003	Fiscal year 2002
	(In thousands)		
Provision at U.S. notional rate	\$ 4,932	\$ 3,423	\$ 3,026
U.S. state income tax provision, net of U.S. notional income tax benefit	696	530	24
U.S. research and development credits and U.S. foreign tax credit	(1,665)	(221)	(250)
Foreign income taxed at less than U.S. notional rate	(2,242)	(1,700)	(1,325)
Valuation allowance	(305)	749	(256)
Other	499	142	4
	<u>\$ 1,915</u>	<u>\$ 2,923</u>	<u>\$ 1,223</u>

As a result of the sale of the operating assets of Seagate Delaware and the ensuing corporate structure, the Company now consists of a foreign parent holding company with foreign and U.S. subsidiaries. Dividend distributions received by the foreign parent holding company from its U.S. subsidiary may be subject to U.S. withholding taxes if, and when, distributed. Deferred tax liabilities have not been recorded on unremitted earnings of the Company's foreign subsidiaries, as these earnings will not be subject to tax in the Cayman Islands or U.S. federal tax if remitted to the foreign parent holding company.

The Company's Asia Pacific manufacturing operations in Malaysia operate under tax holidays that expire during fiscal years 2006 and 2007. The tax holidays may be extended if specific conditions are met. The Malaysian tax holidays increased net income by approximately \$1,423,000 (\$0.07 per diluted share), \$1,300,000 (\$0.07 per diluted share), and \$1,325,000 (\$0.07 per diluted share for fiscal years 2004, 2003 and 2002, respectively.

Certance Holdings

Notes to Consolidated Financial Statements (continued)

6. Supplemental Cash Flow Information

	Fiscal year 2004	Fiscal year 2003	Fiscal year 2002
	(In thousands)		
Cash transactions:			
Net cash (received) paid for income taxes	\$ (542)	\$ 3,026	\$ 13,572
Non-cash transactions:			
Operations acquired from affiliate (Note 12)	\$ -	\$ -	\$ 16,297
Depreciation	\$ 4,784	\$ 4,808	\$ 4,103
Amortization of intangibles	\$ -	\$ -	\$ 1,088
Amortization of intangibles included in cost of revenue	\$ -	\$ -	\$ 3,809

7. Restructuring

In an effort to continually improve operating efficiency and accelerate time to market, the Company restructured its product development function in the first quarter of 2004. This restructuring resulted in the consolidation of product development activities within the Company's Malaysian and North American operations. Additionally, the Company outsourced certain product development activities. As a result, restructuring charges in the consolidated statement of income for fiscal year 2004 consist of \$1,097,000 in severance and

outplacement costs related to the termination of 33 employees. All restructuring activities had been completed by the end of the first quarter of fiscal year 2004.

8. Business Segment and Geographic Information

The Company develops, manufactures and markets a product line of tape drives. These products include tape drives, tape media, and components such as read and write heads and storage and retrieval software. The Company operates one operating segment under the criteria of SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* ("SFAS 131"), with activities in three geographical areas. The President of the Company has been identified as the Chief Operating Decision maker as defined by SFAS 131. The President evaluates performance and allocates resources based on revenue and gross profit from operations. Gross profit from operations is defined as revenue less cost of revenue.

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Certance Holdings

Notes to Consolidated Financial Statements (continued)

8. Business Segment and Geographic Information (continued)

Long-lived assets consist of property, equipment and leasehold improvements and other assets as recorded by the Company's operations in each area. The following table summarizes operations by geographic area:

	Fiscal year 2004	Fiscal year 2003	Fiscal year 2002
	(In thousands)		
Revenue from external customers: (1)			
United States	\$ 140,725	\$ 142,034	\$ 152,436
Europe and the Middle East	79,674	73,274	83,023
Asia	5,178	7,658	12,979
Total	<u>\$ 225,577</u>	<u>\$ 222,966</u>	<u>\$ 248,438</u>

	July 2, 2004	June 27, 2003
	(In thousands)	
Long-lived assets:		
United States	\$ 6,826	\$ 6,637
Europe	677	426
Asia, primarily Malaysia	4,084	5,437
Total	<u>\$ 11,587</u>	<u>\$ 12,500</u>

(1) Revenue is attributable to geographical areas based on customer location.

9. Supplier and Customer Concentrations

A limited number of customers historically have accounted for a substantial portion of the Company's revenue. Revenue from customers with more than 10% of sales was as follows (as a percentage of net sales):

	Fiscal year 2004	Fiscal year 2003	Fiscal year 2002
Dell Computer Corporation	23%	18%	19%
International Business Machines Corporation	14%	17%	19%
Ingram Micro Inc.	(a)	11%	13%
Tech Data Inc	(a)	10%	(a)

(a) Less than 10% of revenue

Certance Holdings

Notes to Consolidated Financial Statements (continued)

9. Supplier and Customer Concentrations (continued)

Gross accounts receivable from significant customers were as follows:

	July 2, 2004	June 27, 2003
	(In thousands)	
Dell Computer Corporation	\$ 9,963	\$ 6,572
Ingram Micro Inc	\$ 6,067	\$ 2,743
Bell Microproducts Inc.	\$ 4,469	\$ (b)
International Business Machines Corporation	\$ 2,935	\$ 5,219
Tech Data Inc.	\$ (b)	\$ 5,800

(b) Less than 10% of gross accounts receivable

Sales of the Company's products will vary as a result of fluctuations in market demand. Further, the markets in which the Company competes are characterized by rapid technological change, evolving industry standards, declining average selling prices, and technological obsolescence.

Certain of the raw materials and components used by the Company in the manufacture of its products are available from a limited number of suppliers. For example, all of the Company's basic digital audio tape drives are currently purchased from Matsushita Kotobuki Electronics, under an exclusive manufacturing agreement. Additionally, all of the Company's linear tape open heads are manufactured by the Company and the main component of the head, the wafer, is purchased exclusively from a plant in Springtown, Ireland, owned by Seagate Technology.

Certance Holdings

Notes to Consolidated Financial Statements (continued)

10. Equity**Capital Stock**

The Company's authorized share capital is \$5,250 and consists of 30,000,000 common shares, par value \$0.0001, of which no shares were outstanding as of July 2, 2004 or June 27, 2003, and 22,500,000 preferred shares, par value \$0.0001, of which 20 million shares are designated Series A preferred shares. All Series A preferred shares were outstanding as of July 2, 2004 and June 27, 2003. No other preferred shares were issued or outstanding as of July 2, 2004 or June 27, 2003.

Common shares – Holders of common shares are entitled to receive dividends and distributions when and as declared by the Company's Board of Directors. Upon any liquidation, dissolution, or winding up of the Company, after required payments are made to holders of preferred shares, any remaining assets of the Company will be distributed ratably to holders of the common shares. Holders of common shares are entitled to one vote per share on all matters presented to the Company's shareholders. At July 2, 2004, there were 26,500,000 common shares reserved for issuance upon conversion of outstanding preferred shares and upon the exercise of options under the Option Plan.

Preferred shares – The Company's Board of Directors may issue one or more series of preferred shares, at any time and for the consideration determined by the Board of Directors. Holders of the outstanding preferred shares are entitled to receive dividends and distributions when and as declared by the Company's Board of Directors on a basis equal to the Company's common shares and in preference to the common shares in certain situations. Upon any liquidation, dissolution, or winding up of the Company, the holders of Series A preferred shares shall receive, out of any remaining, legally available assets of the Company, a liquidation preference of \$1.60 per Series A preferred share, less the aggregate amount of any distributions or dividends already made per Series A preferred share. After the payment in full of the liquidation preference the holders of Series A preferred shares are entitled to share, ratably with the holders of common shares, in any remaining assets available for distribution. To the extent there are not sufficient remaining assets of the Company to pay the liquidation

preference, holders of preferred shares shall share ratably in the distribution of the Company's remaining assets. Upon payment of the liquidation preference and any other amounts payable on liquidation, dissolution or winding up, on each preferred share, the preferred shares shall be cancelled. Holders of preferred shares will have one vote per share and all such shares are convertible on a one-to-one basis into common shares, subject to adjustment for certain dilutive issuances of common shares.

Certance Holdings

Notes to Consolidated Financial Statements (continued)

11. Commitments and Contingencies

Leases

The Company leases certain property, facilities and equipment under non-cancelable lease agreements. Land and facility leases expire at various dates through 2011 and contain various provisions for rental adjustments including, in certain cases, a provision based on increases in the Consumer Price Index. The majority of the leases require the Company to pay property taxes, insurance and normal maintenance costs.

Future minimum lease payments for operating leases with initial or remaining terms of one year or more at July 2, 2004 were as follows:

	Operating Leases
	(In thousands)
Fiscal year 2005	\$ 1,784
Fiscal year 2006	1,767
Fiscal year 2007	1,789
Fiscal year 2008	567
Fiscal year 2009	538
Thereafter	930
Total minimum lease payments	<u>\$ 7,375</u>

Rental expense for land, facility and equipment operating leases was approximately \$1,977,000, \$2,142,000 and \$2,416,000 for fiscal years 2004, 2003 and 2002, respectively.

Capital Expenditures

The Company's commitments for construction of facility improvements and equipment approximated \$997,000 at July 2, 2004.

Contingencies

The Company relies on a combination of patents, trademarks, copyright and trade secret laws, confidentiality procedures and licensing arrangements to protect its intellectual property rights. There can be no assurance that there will not be any disputes regarding the Company's intellectual property rights.

Specifically, there can be no assurance that any patents held by the Company will not be invalidated. Additionally, competitors of the Company may be able to design around the Company's patents.

Certance Holdings

Notes to Consolidated Financial Statements (continued)

11. Commitments and Contingencies (continued)

Contingencies (continued)

To preserve its intellectual property rights, the Company believes it may be necessary to initiate litigation with one or more third parties, including, but not limited to, those the Company has notified of possible patent infringement. In addition, one or more of these parties may bring suit against the Company. Any litigation, whether as a plaintiff or as a defendant, would likely result in significant expense to the

Company and divert the efforts of the Company's technical and management personnel, whether or not such litigation is ultimately determined in favor of the Company.

On April 30, 2004, Certance LLC, one of the Company's subsidiaries, was sued for alleged violations of the Illinois Consumer Fraud and Deceptive Practices Act and for unjust enrichment. The lawsuit is pending in the Circuit Court, Third Judicial Circuit, Madison County, Illinois. The complaint seeks to certify the action as appropriate for class treatment by certifying a class of all purchasers of tape drive systems such as those alleged by the complaint. At this time it is unclear which device the plaintiff acquired or the size of any putative class. The relief sought includes damages, currently unspecified, equitable relief, including the return of any monies wrongfully obtained, and attorneys' fees and costs. Management believes the action against Certance LLC lacks merit and intends to defend the complaint and any effort to certify the action for class treatment vigorously.

The Company is involved in other legal matters arising in the normal course of business. In the opinion of management, these matters are not expected to have a material impact on the Company's consolidated financial position, results of operations, or cash flows.

Product Liability Indemnification Obligations

The Company has entered into agreements with customers and suppliers that include limited intellectual property and other manufacturing related indemnification obligations that are customary in the industry. These guarantees generally require the Company to compensate the other party for certain damages and costs incurred as a result of third party intellectual property and other product liability claims arising from these transactions. The nature of the indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to its customers and suppliers. Historically, the Company has not made any significant indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification obligations.

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Certance Holdings

Notes to Consolidated Financial Statements (continued)

11. Commitments and Contingencies (continued)

Environmental Matters

The Company's operations are subject to comprehensive U.S. and foreign laws and regulations relating to the protection of the environment, including those governing discharges of pollutants into the air and water, the management and disposal of hazardous substances and wastes and the cleanup of contaminated sites. Some of the Company's operations require environmental permits and controls to prevent and reduce air and water pollution, and these permits are subject to modification, renewal and revocation by issuing authorities.

The Company believes that its operations are currently in substantial compliance with all environmental laws, regulations and permits. Some environmental laws, such as the U.S. federal superfund law and similar state statutes, can impose liability for the entire cost of cleanup of contaminated sites upon any of the current or former site owners or operators or upon parties who sent waste to these sites, regardless of whether the owner or operator owned the site at the time of the release of hazardous substances or the lawfulness of the original disposal activity. The Company has been identified as a potentially responsible party at three superfund sites. While the Company's ultimate costs in connection with these sites are difficult to predict, the Company believes that the probability is remote that the losses to the Company arising from this environmental matter would be material to the Company's financial position, cash flows or results of operations.

Indemnification Agreement

On March 29, 2000, New SAC entered into an indemnification agreement with Seagate Delaware and VERITAS, an affiliate prior to the November 2000 transactions. Under the indemnification agreement, New SAC and its subsidiaries jointly and severally agreed to indemnify Seagate Delaware, VERITAS, and their affiliates from and against specified losses relating to taxes for specified periods that were the subject of an Internal Revenue Service investigation, and other liabilities incurred as a result of the ownership and operation by Seagate Delaware and its predecessors or affiliates, other than VERITAS and its subsidiaries, of their business, properties and assets prior to, and certain conduct by New SAC and its affiliates after, the closing of the November 2000 transactions. In addition, Seagate Delaware, VERITAS and their affiliates jointly and severally agreed to indemnify New SAC and its subsidiaries from and against specified losses relating to taxes and other liabilities incurred as a result of their ownership and operation of their businesses, properties and assets prior to, and certain conduct by them after, the closing of the November 2000 transactions.

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Certance Holdings

Notes to Consolidated Financial Statements (continued)

11. Commitments and Contingencies (continued)

Indemnification Agreement (continued)

In July 2002, New SAC and those of its affiliates that are parties to the indemnification agreement, including the Company, entered into a reimbursement agreement for the purpose of allocating the respective liabilities and obligations under the indemnification agreement among themselves. The Company had not recorded any accruals for losses under the indemnification agreement. On March 15, 2004, VERITAS received written notification from the Internal Revenue Service that the review of the open tax periods that are the subject of the indemnification agreement had been settled with no additional tax due. For indemnification obligations other than tax liabilities under the indemnification agreement, the entity that is responsible for causing the indemnification obligation will reimburse the entity that satisfies the obligation on behalf of the other indemnitors to the extent that the claim is attributable to the responsible entity.

Value Added Tax

Certance Distribution (UK) Limited was registered for VAT purposes in the United Kingdom as part of a VAT group which included other Seagate affiliates. As a result, the Company has jointly and severally guaranteed the VAT liability of the group. Accordingly, failure by other members of the group to meet their VAT liabilities could cause the Company to record additional liabilities. The other members of the group filed for their own registration number in fiscal 2004. Any liability that exists as a result of being part of the group is limited to periods that have been filed and are subject to audit by U.K. governmental authorities. Management is of the opinion that no liabilities are likely to arise from the past failures of those companies.

12. Related Party Transactions

For fiscal years 2004, 2003 and 2002, the Company sold products to affiliates totaling approximately \$24,000, \$115,000 and \$266,000, respectively.

The Company purchases product components from affiliates, consisting primarily of wafers, manufactured in Springtown, Ireland, and hard disk drives. For fiscal years 2004, 2003 and 2002 component purchases amounted to \$5,000,000, \$5,453,000 and \$7,746,000, respectively.

Affiliates of the Company have historically provided certain post-product sale customer support. These activities primarily included customer service administration and warranty repair. During fiscal year 2002, the Company purchased the warranty repair inventory related to the Company's products from an affiliate for book value of \$3,587,000. On October 28, 2002, an affiliate sold the product repair and servicing facility that provided the majority of the Company's warranty repair services to a wholly owned subsidiary of an independent third party, Jabil Circuit,

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Certance Holdings

Notes to Consolidated Financial Statements (continued)

12. Related Party Transactions (continued)

Inc ("Jabil"). Jabil has continued as the primary source provider of warranty repair services at costs defined in an annually renewable, non-exclusive service agreement. For fiscal years 2004, 2003 and 2002 the Company paid customer service administration and warranty repair costs of \$153,000, \$1,962,000 and \$4,428,000, respectively, to affiliates.

Historically, Seagate Delaware provided substantial additional operational support and administrative services to the Company. Upon the closing of the stock purchase agreement by New SAC, these services continued to be provided by New SAC or its subsidiaries. The services provided include general management, treasury, tax, financial reporting, benefits administration, insurance, information technology, legal, accounts payable and receivable and credit functions, among others. The Company is charged for these services through corporate expense allocations. The amount of corporate expense allocations depends upon the total amount of allocable costs incurred on behalf of the Company less amounts charged as a specified cost or expense rather than by allocation. Such costs have been proportionately allocated to the Company based on detailed inquiries and estimates of time incurred by New SAC's or its subsidiaries' corporate marketing and general and administrative departmental managers. Management believes that the allocations charged to the Company are reasonable. Allocations charged to the Company's marketing and administrative expenses for fiscal years 2004, 2003 and 2002 were \$1,530,000, \$4,063,000 and \$4,135,000, respectively. In fiscal year 2003, New SAC and its subsidiaries began transitioning the responsibility for certain of these services to the Company. Transition of these services was substantially complete as of July 2, 2004.

In fiscal years 2003 and 2002, the Company paid a commission to an affiliate in exchange for selling activities in Europe and Asia, based on a percentage of sales generated. Commission expense for fiscal years 2003 and 2002 was \$1,524,000 and \$1,397,000, respectively. In fiscal year 2004, the Company hired its own sales force that is responsible for the Europe and Asia regions, and accordingly, no such commissions were paid during fiscal year 2004.

On June 30, 2001, the Company purchased all 50,001 ordinary shares of Seagate Distribution (UK) Limited and the net assets of the Tape Heads Manufacturing Operation (the "Acquired Operations") from affiliated indirect subsidiaries of New SAC, for consideration of approximately \$16,297,000, including a non-interest bearing note payable of \$5,021,000. The purchase price was equal to the book value of the net assets. Accordingly, no goodwill resulted from the transactions. Certain assets, liabilities, revenues and expenses of the Acquired Operations, related to the Company's operations and had been included in the consolidated results of operations, financial position and cash flows of the Company prior to the acquisition. Management believes that the acquisitions had no impact on the comparability of the results of operations for the periods presented. Because there were no payments on the affiliate payable balance that resulted from the purchase, the

Certance Holdings

Notes to Consolidated Financial Statements (continued)

12. Related Party Transactions (continued)

June 30, 2001. The \$5,021,000 note, which was repaid in fiscal year 2004, was denominated in Malaysian Ringgits and was translated to the Company's functional currency at the end of each period at the then current exchange rate. Any gains and losses on translation of the loan were recorded in other income, net in the consolidated statements of income in the periods in which they arose. Payment of the accounts payable portion of the intercompany balance related to the purchase of the Acquired Operations has been netted with changes in receivable from affiliates in the consolidated statement of cash flows for the year ended July 2, 2004.

Seagate Distribution (UK) Limited continues to perform distribution services for subsidiaries of New SAC, unrelated to the business of the Company. In exchange for such distribution services, the Company charged \$1,976,000, \$2,174,000 and \$2,120,000 to other subsidiaries of New SAC for the fiscal years 2004, 2003 and 2002, respectively.

In connection with the establishment of the Company's own corporate identity under the Certance brand name, Seagate Technology agreed in fiscal year 2003 to purchase the right to the Seagate name by reimbursing the Company for up to \$1.5 million in costs associated with the change. The Company incurred \$585,000 and \$847,000 in marketing and administrative costs in fiscal years 2004 and 2003, respectively that were reimbursed by Seagate Technology. The reimbursements are recorded in other income in the consolidated statements of income.

In February 2001, the Board of Directors of New SAC approved the adoption of the New SAC 2001 Restricted Share Plan (the "2001 Restricted Share Plan"). Under the terms of the 2001 Restricted Share Plan, key employees, directors, and consultants of New SAC or any of its subsidiaries, may be awarded restricted ordinary shares of New SAC. Such shares are subject to vesting provisions to be defined at the date of grant and are subject to repurchase by New SAC. 500,000 ordinary shares are available for grant under the plan. New SAC has issued 1,800 restricted ordinary shares, which remain outstanding at July 2, 2004, on behalf of the Company with a total estimated fair value at the date of issuance of less than \$50,000. The Company has recognized, and will continue to recognize, compensation expense over the respective vesting period of the restricted shares based on the estimated fair value of these shares at the date of issuance.

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CERTANCE HOLDINGS

PART I FINANCIAL INFORMATION

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CERTANCE HOLDINGS
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

	December 31, 2004	July 2, 2004
	(Unaudited)	
ASSETS		
Cash and cash equivalents	\$ 36,406	\$ 23,745
Short-term investments	-	10,000
Accounts receivable, net	23,291	29,728
Inventories	21,620	24,950
Other current assets	3,952	3,321
Deferred tax assets	2,676	2,805
	87,945	94,549
Property, equipment and leasehold improvements, net	7,334	8,165
Other assets	2,595	3,422
	97,874	106,136
LIABILITIES		
Accounts payable	\$ 13,941	\$ 16,827
Accounts payable to affiliates	718	630
Accrued employee compensation	3,612	5,352
Accrued expenses	4,290	5,174
Current portion of accrued warranty	2,957	3,722
Accrued income taxes	1,662	2,822
	27,180	34,527
Long-term portion of accrued warranty	1,869	2,906
Other non-current liabilities	263	1,079
	29,312	38,512
Commitments and contingencies		
SHAREHOLDER'S EQUITY		

Preferred shares, 22.5 million designated

Series A shares, \$0.0001 par value,
20 million authorized, issued and outstanding, liquidation
preference of \$1.60 per share

Common shares, \$0.0001 par value,
30 million authorized, none issued or outstanding
Additional paid-in capital
Retained earnings

	2	2
	-	-
	43,933	43,930
	24,627	23,692
	<u>68,562</u>	<u>67,624</u>
	<u>\$ 97,874</u>	<u>\$ 106,136</u>

Total shareholder's equity

Total liabilities and shareholder's equity

See accompanying notes.

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CERTANCE HOLDINGS
CONSOLIDATED INCOME STATEMENTS
(In thousands, except per share amounts)
(Unaudited)

	Six Months Ended	
	December 31, 2004	January 2, 2004
Product revenue	\$ 65,749	\$ 104,428
Royalty revenue	14,108	7,057
Total revenue	<u>79,857</u>	<u>111,485</u>
Operating expenses:		
Cost of revenue	56,460	81,681
Product development	14,510	16,068
Marketing and administration	8,764	9,904
Restructuring	-	1,097
Total operating expenses	<u>79,734</u>	<u>108,750</u>
Income from operations	123	2,735
Interest income	203	92
Other income (expense), net	(33)	315
Income before provision for (benefit from) income taxes	293	3,142
Provision for (benefit from) income taxes	(642)	212
Net income and comprehensive income	<u>\$ 935</u>	<u>\$ 2,930</u>
Net income per share:		
Basic	\$ 0.05	\$ 0.15
Diluted	\$ 0.04	\$ 0.15
Number of shares used in per share calculations:		
Basic	20,000	20,000
Diluted	21,101	20,000

See accompanying notes.

CERTANCE HOLDINGS
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

	Six Months Ended	
	December 31, 2004	January 2, 2004
OPERATING ACTIVITIES:		
Net income	\$ 935	\$ 2,930
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,425	2,411
Deferred income taxes	780	(452)
Other non-cash operating activities	3	2
Changes in operating assets and liabilities:		
Accounts receivable, net	6,437	(10,436)
Accounts payable to affiliates	88	13,602
Inventories	3,330	6,735
Other assets	(456)	681
Accounts payable	(2,886)	(358)
Accrued expenses, employee compensation and warranty	(5,242)	(3,204)
Accrued income taxes	(1,160)	1,303
Net cash provided by operating activities	4,254	13,214
INVESTING ACTIVITIES:		
Acquisition of property, equipment and leasehold improvements	(1,593)	(1,474)
Purchases of short-term investments	(4,812)	-
Proceeds from sale of short-term investments	14,812	-
Cash used provided by (used in) investing activities	8,407	(1,474)
Increase in cash and cash equivalents	12,661	11,740
Cash and cash equivalents at the beginning of the period	23,745	19,062
Cash and cash equivalents at the end of the period	\$ 36,406	\$ 30,802

See accompanying notes.

CERTANCE HOLDINGS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation and Significant Accounting Policies

Through January 5, 2005, Certance Holdings (the "Company"), a Cayman Islands limited liability company, was a subsidiary of New Suez Acquisition Company ("New SAC"), a Cayman Islands limited liability company. The Company was wholly owned, on an outstanding shares basis, by New SAC.

On October 20, 2004, New SAC entered into an agreement and plan of merger (the "Merger Agreement") to sell the Company to Quantum Corporation ("Quantum") for \$60,000,000. In connection with the acquisition, all outstanding options were vested and cancelled in exchange for a proportionate share of the merger proceeds, net of the Series A preferred liquidation preference. The acquisition was completed on January 5, 2005. Additionally, pursuant to the Merger Agreement, the Company made cash distributions to New SAC and

option holders of \$34,000,000 at the time of the completion of the acquisition by Quantum.

The accompanying consolidated financial statements are presented on a historical basis and do not reflect the impact of the Quantum acquisition.

The consolidated financial statements have been prepared by the Company and have not been audited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The consolidated financial statements reflect, in the opinion of management, all material adjustments necessary to summarize fairly the consolidated financial position, results of operations and cash flows for such periods. Such adjustments are of a normal recurring nature. The Company believes the disclosures included in the unaudited consolidated financial statements, when read in conjunction with the consolidated financial statements of the Company as of July 2, 2004 and notes thereto, are adequate to make the information presented not misleading.

The Company operates and reports financial results on a fiscal year of 52 or 53 weeks ending on the Friday closest to June 30. The six months ended December 31, 2004 comprised 26 weeks. The six months ended January 2, 2004 comprised 27 weeks. In management's opinion, the additional week in the six months ended January 2, 2004 did not have a material impact on the Company's operating results, as compared to what would have been expected during a 26-week period.

The consolidated financial information included herein may not be indicative of the financial position, results of operations or cash flows of the Company in the future.

The Company's revenue recognition policy complies with Staff Accounting Bulletin ("SAB") No. 101, *Revenue Recognition in Financial Statements* ("SAB 101") and SAB No. 104, *Revenue Recognition* ("SAB 104"). Revenue from sales of products is recognized when persuasive evidence of an arrangement exists including a fixed or determinable price to the buyer, title and risk of loss has transferred to the buyer (typically upon shipment) and collectibility is reasonably assured. Product returns are estimated and accrued in accordance with Statement of Financial Accounting Standards ("SFAS") No. 48, *Revenue Recognition when Right of Return Exists* ("SFAS 48"). The Company's distribution customers are on either a consignment model, under which revenue is recognized when distributors sell products through to end-users, or a sell-in model, under which revenue is recognized when products are sold to distributors.

Whether a particular customer is on a consignment or a sell-in model depends on the Company's

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CERTANCE HOLDINGS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Unaudited)

1. Basis of Presentation and Significant Accounting Policies (continued)

contractual arrangements with that customer. If the contract with the distribution customer provides that title and risk of loss remain with the Company until the customer sells the Company's products to its customers, the distribution customer is on a consignment model. The customer is on a sell-in model, by contrast, if the contract provides that the distribution customer assumes title and risk of loss at the time the Company's products are shipped to the distribution customer and all criteria for recognizing revenue under SAB 101, SAB 104 and SFAS 48 have been satisfied. Substantially all of the Company's distribution channel customers are currently on a sell-in model.

Estimated reductions to revenue for sales incentive programs, such as price protection, sales growth bonuses, and reserves for estimated excess inventory in the distribution channel are recorded when revenue is recorded. Marketing development programs, when granted, are either recorded as a reduction to revenue or as an addition to marketing expense depending on the contractual nature of the program and whether the conditions of Emerging Issues Task Force Issue No. 01-9, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)* have been met.

New Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 151, *Inventory Costs* ("SFAS 151"). SFAS 151 clarifies that certain wasted and excess costs incurred in manufacturing operations must be charged to period expenses, whether or not they are considered unusual in nature. SFAS 151 applies prospectively to costs incurred in fiscal years beginning after June 15, 2005. The application of SFAS 151 is not expected to have a material impact on the Company's consolidated financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123R, *Share-Based Payment* ("SFAS 123R"). SFAS 123R is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees* ("APBO 25"), and its related implementation guidance. SFAS 123R requires the recognition of compensation cost for employee equity awards based on the grant date fair value of those awards. The provisions of SFAS 123R are effective for the Company no earlier than fiscal year 2006. SFAS 123R applies prospectively to grants made after the required effective date. With respect to options outstanding at the effective date, the Company must prospectively apply the provisions of SFAS 123R to the portion of the awards for which service has not been rendered. Management has not considered the impact of the application of SFAS 123R on its consolidated financial position or results of operations, as all options were accelerated and cancelled in exchange for consideration paid in the acquisition by Quantum.

2. Net Income Per Share

As of December 31, 2004, the Company had no outstanding common shares. Each series A preferred share owned by New SAC was convertible into a common share on a one-to-one basis, and was entitled to receive dividends and distributions ratably with holders of the common shares, and had voting rights on an "as if converted to common shares" basis. The Series A preferred shares had a liquidation preference of \$1.60 per share, which was paid to the Series A shareholders from the proceeds of the Quantum acquisition. For the purpose of computing basic and diluted net income per share, the Series A preferred

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CERTANCE HOLDINGS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Unaudited)

2. Net Income Per Share (continued)

shares have been included in the denominator for the six months ended December 31, 2004 and January 2, 2004 because the Series A preferred shares and common shares had equal dividend rights and inclusion of the Series A preferred shares is dilutive. For the six months ended January 2, 2004, the denominator is the same for both the basic and diluted computations as there were no incremental shares attributable to the exercise of stock options (assuming proceeds would be used to purchase treasury stock) because the estimated average fair value for the Company's stock did not exceed the exercise prices of outstanding options to purchase common stock during the period.

The following table sets forth the computation of basic and diluted net income per share (in thousands, except per share data):

	<u>Six Months Ended</u>	
	<u>December</u> <u>31,</u> <u>2004</u>	<u>January</u> <u>2,</u> <u>2004</u>
Numerator:		
Net income	\$ 935	\$ 2,930
Denominator:		
Denominator for basic net income per share - weighted average number of common and preferred shares outstanding during the period	20,000	20,000
Common share equivalents, calculated using the treasury stock method	1,101	-
Denominator for diluted net income per share	<u>21,101</u>	<u>20,000</u>
Basic net income per share	<u>\$ 0.05</u>	<u>\$ 0.15</u>
Diluted net income per share	<u>\$ 0.04</u>	<u>\$ 0.15</u>

3. Stock-Based Compensation

During the six months ended January 2, 2004, the Company granted approximately 466,000 options and cancelled approximately 210,000 options to purchase common shares at a price of \$1.60 per share. During the six months ended December 31, 2004, the Company granted approximately 160,000 options to purchase common shares at prices ranging from \$1.60 - \$2.00 per share and cancelled approximately 99,000 options to purchase common shares at a prices ranging from \$1.60 - \$2.00 per share. As of December 31, 2004, there were approximately 5,760,000 options to purchase common shares outstanding, and no options to purchase common shares had been exercised.

The Company has elected to follow APBO 25 and related interpretations in accounting for employee stock options granted because, as discussed below, the alternative fair value accounting provided for under SFAS 123, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure – an Amendment of FASB Statement No. 123*, requires use of option valuation models that were not developed for use in valuing employee stock options. Under APBO 25, the Company generally recognized no compensation expense with respect to options granted.

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CERTANCE HOLDINGS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Unaudited)

3. Stock-Based Compensation (continued)

Pro forma interim financial information regarding net income and earnings per share, as applicable (Note 2), is presented below as if the Company had accounted for its stock options under the fair value method of SFAS 123. The fair value of the Company's stock options was estimated using the minimum value option valuation model. The minimum value option valuation model was developed for use in estimating the fair value of options for non-public companies. Because the Company's stock options granted to employees have characteristics significantly different from those of traded options, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options granted to employees.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized over the options' vesting period, generally four years. The Company's pro forma information follows (in thousands, except per share data):

	Six Months Ended	
	December 31, 2004	January 2, 2004
Net income, as reported	\$ 935	\$ 2,930
SFAS 123 compensation expense, net of tax benefit	(266)	(218)
Pro forma net income	\$ 669	\$ 2,712
Net income per share, as reported:		
Basic	\$ 0.05	\$ 0.15
Diluted	\$ 0.04	\$ 0.15
Pro forma net income per share:		
Basic	\$ 0.03	\$ 0.14
Diluted	\$ 0.03	\$ 0.14

4. Balance Sheet Information

Research and Development Agreements

In December 1996, the Company's predecessor entered into an agreement with Hewlett Packard ("HP") and International Business Machines Corp. ("IBM") to develop new tape storage technology. Subsequent agreements among the same parties have been entered into, in substantially the same form, for later generations of the same technology. The Company is committed to pay certain costs incurred and is entitled to income received per the terms of the agreements as a result of the development and subsequent licensing of technology under the agreements. The Company provides funding in advance of expenses being incurred, which is maintained in a trust account on behalf of all parties to the agreements. The Company's portion of \$779,000 and \$881,000 in this trust account has been included in the Company's balance sheet at December 31, 2004 and July 2, 2004, respectively. The Company has generated revenues from the sale of products that incorporate the technologies that resulted from these development agreements. Additionally, the Company, HP and IBM share in royalties from the licensing of the developed technology to others.

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CERTANCE HOLDINGS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Unaudited)

4. Balance Sheet Information (continued)

Available-For-Sale Securities

The following is a summary of available-for-sale securities:

December 31, 2004		July 2, 2004	
Amortized Cost	Fair Value	Amortized Cost	Fair Value

	(In thousands)			
Money market mutual funds	\$ 20,585	\$ 20,585	\$ 9,051	\$ 9,051
Commercial paper	-	-	4,797	4,797
Auction rate debt securities	-	-	10,000	10,000
Total available-for-sale securities	\$ 20,585	\$ 20,585	\$ 23,848	\$ 23,848
Included in cash and cash equivalents	\$ 20,585	\$ 20,585	\$ 13,848	\$ 13,848
Included in short-term investments	-	-	10,000	10,000
	\$ 20,585	\$ 20,585	\$ 23,848	\$ 23,848

Accounts Receivable

	December 31, 2004	July 2, 2004
	(In thousands)	
Accounts receivable	\$ 23,934	\$ 30,506
Allowance for doubtful accounts	(643)	(778)
	\$ 23,291	\$ 29,728

Inventories

	December 31, 2004	July 2, 2004
	(In thousands)	
Components	\$ 5,414	\$ 4,202
Work-in-progress	3,484	4,038
Finished goods	12,722	16,710
	\$ 21,620	\$ 24,950

Property, Equipment and Leasehold Improvements

	December 31, 2004	July 2, 2004
	(In thousands)	
Property, equipment and leasehold improvements	\$ 25,152	\$ 23,696
Accumulated depreciation and amortization	(17,818)	(15,531)
	\$ 7,334	\$ 8,165

4. Balance Sheet Information (continued)

Accounts Payable to Affiliates

	December 31, 2004	July 2, 2004
	(In thousands)	
Accounts receivable	\$ 236	\$ 856
Accounts payable	(954)	(1,486)
	\$ (718)	\$ (630)

5. Product Related Liabilities

Product Warranty

The Company warrants its products against defects in design, materials and workmanship generally for two to four years depending upon the capacity category of the tape drive or tape component with the higher capacity products being warranted for the longer periods. A provision for estimated future costs relating to warranty expense, net of anticipated recoveries from component manufacturers, is recorded at the time revenue is recognized. The Company uses a statistical model to estimate product failure rates and trends, repair costs and probable return rates. Should actual experience in any period differ significantly from the Company's estimates, its future results of operations could be materially affected.

Significant components of the changes in the product warranty liability are as follows:

	Six Months Ended	
	December 31, 2004	January 2, 2004
	(In thousands)	
Balance at beginning of period	\$ 6,628	\$ 8,208
Warranty costs charged against liability	(1,015)	(2,303)
Liability for product warranties issued	1,418	2,135
Changes related to preexisting warranties, including expirations	(2,205)	(874)
Balance at end of period	\$ 4,826	\$ 7,166

Product Liability Indemnification Obligations

The Company has entered into agreements with customers and suppliers that include limited intellectual property and other manufacturing related indemnification obligations that are customary in the industry. These guarantees generally require the Company to compensate the other party for certain damages and costs incurred as a result of third party intellectual property and other product liability claims arising from these transactions. The nature of the indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to its customers and suppliers. Historically, the Company has not made any significant indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification obligations.

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CERTANCE HOLDINGS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Unaudited)

6. Income Taxes

The Company consists of a foreign holding company with foreign and U.S. subsidiaries that operate in multiple taxing jurisdictions. As a result, the Company's worldwide income is either subject to varying rates of tax or exempt from tax due to tax holidays in Malaysia. The Malaysian tax holidays expire in fiscal years 2006 and 2007. The benefit of income taxes for the six months ended December 31, 2004 differed from the provision for income taxes that would be derived by applying a notional U.S. 35% rate to income before income taxes primarily due to the effect of the tax benefit related to the aforementioned tax holidays.

The provision for income tax for the six months ended January 2, 2004 differed from the provision for income taxes that would be derived by applying a notional U.S. 35% rate to income before provision for income taxes primarily due to the tax benefit of the aforementioned tax holidays, and due to the use of a lower effective tax rate compared with the tax rate used for the remaining quarters of fiscal year 2004 as a result of a discrete tax benefit related to a restructuring expense recorded in the first quarter of fiscal year 2004.

As of December 31, 2004, the Company has recorded total net deferred tax assets to the extent of recoverable income taxes in the amount of \$3,038,000. Long-term net deferred tax assets of \$362,000 are included in other assets in the December 31, 2004 consolidated balance sheet.

7. Contingencies

Litigation

On April 30, 2004, the Company was sued for alleged violations of the Illinois Consumer Fraud and Deceptive Practices Act and for unjust enrichment. The lawsuit was brought in the Circuit Court, Third Judicial Circuit, Madison County, Illinois. The Complaint sought to certify the action as appropriate for class treatment by certifying a class of all purchasers of tape drive systems such as those alleged by the complaint. At this time, it is unclear which device the plaintiff acquired or the size of any punitive class. The relief sought includes damages, currently unspecified, equitable relief, including the return of any monies wrongfully obtained, and attorneys' fees and costs. Management believes the action against the Company lacks merit and intends to defend the complaint and any effort to certify the action for class treatment vigorously. A motion to refer the action to mandatory and binding arbitration was granted by the court in January 2005. Management does not believe the outcome of this litigation will have a material effect on the Company's financial position, results of operations or cash flows.

Exabyte Corporation filed a complaint against the Company for patent infringement with the United States District Court for the District of Colorado on October 5, 2004. The complaint asserts that the Company's tape storage units, including the DAT 72 drives, infringe an Exabyte patent. Exabyte also alleges inducement and contributory infringement. The Company is in the process of assessing Exabyte's claims and has tendered the action to Matsushita Kotobuki Electronics, Ltd. ("MKE") for MKE's defense and indemnification under certain agreements that the Company has with MKE. MKE has formally assumed the defense and indemnification of this claim. Management does not believe the outcome of this litigation will have a material effect on the Company's financial position, results of operations or cash flows.

By letter of October 22, 2004, Storage Technology Corporation ("StorageTek") offered a license to the Company under three patents. The Company is currently in discussions with StorageTek to resolve this matter.

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CERTANCE HOLDINGS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Unaudited)

7. Contingencies (continued)

Litigation (continued)

The Company is involved in other legal matters arising in the normal course of business. In the opinion of management, these matters are not expected to have a material impact on the Company's consolidated financial position, results of operations, or cash flows.

Environmental Matters

The Company's operations are subject to comprehensive U.S. and foreign laws and regulations relating to the protection of the environment, including those governing discharges of pollutants into the air and water, the management and disposal of hazardous substances and wastes and the cleanup of contaminated sites. Some of the Company's operations require environmental permits and controls to prevent and reduce air and water pollution, and these permits are subject to modification, renewal and revocation by issuing authorities.

The Company believes that its operations are currently in substantial compliance with all environmental laws, regulations and permits. Some environmental laws, such as the U.S. federal superfund law and similar state statutes, can impose liability for the entire cost of cleanup of contaminated sites upon any of the current or former site owners or operators or upon parties who sent waste to these sites, regardless of whether the owner or operator owned the site at the time of the release of hazardous substances or the lawfulness of the original disposal activity. The Company has been identified as a potentially responsible party at three superfund sites. While the Company's ultimate costs in connection with these sites are difficult to predict, the Company believes that the probability is remote that the losses to the Company arising from this environmental matter would be material to the Company's financial position, cash flows or results of operations.

Indemnification Agreement

On March 29, 2000, New SAC entered into an indemnification agreement (the "Indemnification Agreement") with Seagate Technology, Inc., a Delaware Corporation ("Seagate Delaware") and VERITAS, an affiliate prior to the November 22, 2000 acquisition by New SAC of all the operating assets and liabilities of Seagate Delaware and subsequent transfer to the Company of the removable storage solutions operating business (the "November 2000 transactions"). Under the Indemnification Agreement, New SAC and its subsidiaries jointly and severally agreed to indemnify Seagate Delaware, VERITAS, and their affiliates from and against specified losses relating to taxes for specified periods that were the subject of an Internal Revenue Service investigation, and other liabilities incurred as a result of the ownership and operation by Seagate Delaware and its predecessors or affiliates, other than VERITAS and its subsidiaries, of their business, properties and assets prior to, and certain conduct by New SAC and its affiliates after, the closing of the November 2000 transactions. In addition, Seagate Delaware, VERITAS and their affiliates jointly and severally agreed to indemnify New SAC and its subsidiaries from and against specified losses relating to taxes and other liabilities incurred as a result of their ownership and operation of their businesses,

CERTANCE HOLDINGS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Unaudited)

7. Contingencies (continued)

Indemnification Agreement (continued)

In July 2002, New SAC and those of its affiliates that are parties to the Indemnification Agreement, including the Company, entered into a reimbursement agreement for the purpose of allocating the respective liabilities and obligations under the Indemnification Agreement among themselves. The Company had not recorded any accruals for losses under the Indemnification Agreement. On March 15, 2004, VERITAS received written notification from the Internal Revenue Service that the review of the open tax periods that are the subject of the Indemnification Agreement had been settled with no additional tax due. For indemnification obligations other than tax liabilities under the Indemnification Agreement, the entity that is responsible for causing the indemnification obligation will reimburse the entity that satisfies the obligation on behalf of the other indemnitors to the extent that the claim is attributable to the responsible entity.

Pursuant to the terms of the Merger Agreement, the Company and its subsidiaries received a release from VERITAS from obligations under the Indemnification Agreement.

Value Added Tax

Certance Distribution (UK) Limited, one of the Company's subsidiaries, was registered for VAT purposes in the United Kingdom as part of a VAT group which included other Seagate affiliates. As a result, the Company has jointly and severally guaranteed the VAT liability of the group. Accordingly, failure by other members of the group to meet their VAT liabilities could cause the Company to record additional liabilities. The other members of the group filed for their own registration number in fiscal year 2004. Any liability that exists as a result of being part of the group is limited to periods that have been filed and are subject to audit by U.K. governmental authorities. Management is of the opinion that no liabilities are likely to arise from the past failures of those companies.

8. Customer Concentrations

A limited number of customers historically have accounted for a substantial portion of the Company's revenues. Revenues from customers with more than 10% of sales were as follows (as a percentage of net sales):

Six Months Ended	
December	January
31,	2,
2004	2004

Dell Computer Corporation	30%	23%
IBM	13%	18%
HP	13%	(a)

(a) Less than 10%

CERTANCE HOLDINGS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Unaudited)

9. Transactions with Related Parties

In connection with the establishment of the Company's corporate identity under the Certance brand name in the third quarter of fiscal year 2003, Seagate Technology, a majority owned subsidiary of New SAC that operates the disc drive business of New SAC, agreed to repurchase the right to the Seagate name by reimbursing the Company for up to \$1,500,000 in costs associated with the change. The Company incurred \$68,000 and \$353,000 in marketing and administrative expenses in the six months ended December 31, 2004 and January 2, 2004, respectively, which were reimbursed by Seagate Technology. The reimbursements are recorded in other income in the consolidated income statements. Maximum cumulative reimbursements under the agreement had been received as of the end of the first quarter of fiscal year 2005.

10. Restructuring

In an effort to continually improve operating efficiency and accelerate time to market, the Company restructured its product development function in the first quarter of fiscal year 2004. This restructuring resulted in the consolidation of product development activities within the Company's Malaysian and North American operations. Additionally, the Company outsourced certain product development activities. As a result, restructuring charges in the consolidated income statement for the six months ended January 2, 2004 consist of \$1,097,000 in severance and outplacement costs related to the termination of 33 employees. All restructuring activities had been completed by the end of the first quarter of fiscal year 2004.

11. Postretirement Health Benefits

Through an affiliate, the Company provides eligible U.S. retirees and their eligible dependents an unfunded post-retirement health care plan ("the Health Plan"). Substantially all U.S. employees of the Company became eligible for these benefits after 15 years of service and attaining age 60 or older. Benefits under the Health Plan cease when a covered individual becomes eligible for Medicare benefits.

Net periodic benefit cost (gain) allocated to the Company was as follows:

	Six Months Ended	
	December 31, 2004	January 2, 2004
	(In thousands)	
Service cost	\$ 34	\$ 34
Interest cost	25	25
Amortization of actuarial gain	(4)	(6)
Curtailement gain	(816)	-
Net periodic benefit (gain) cost	<u>\$ (761)</u>	<u>\$ 53</u>

The Company funds the payment of medical claims as they are presented. The cost of benefits provided is partially offset by premiums received from participants. Benefit payments, net of premiums received, were immaterial for the six months ended December 31, 2004 and January 2, 2004.

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CERTANCE HOLDINGS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Unaudited)

11. Postretirement Health Benefits (continued)

In connection with its annual review of benefits provided to employees, the Company opted out of the Health Plan effective December 31, 2004. Benefits continue to be provided to participants that were eligible and elected early retirement as of December 31, 2004. As a result, the Company recorded a curtailment gain of approximately \$816,000 representing the accrued benefit liability for current employees that had not yet reached early retirement age or elected early retirement.

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UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

On January 5, 2005, Quantum Corporation, a Delaware corporation (“Quantum”), completed its acquisition of all shares of Certance Holdings and its subsidiaries (“Certance”). The following unaudited pro forma condensed combined financial statements have been prepared to give effect to the completed acquisition, which was accounted for as a purchase.

The unaudited pro forma condensed combined balance sheet as of December 26, 2004, and the unaudited pro forma condensed combined statements of operations for the nine months ended December 26, 2004 and the year ended March 31, 2004 are presented herein.

The unaudited pro forma condensed combined balance sheet was prepared using the historical balance sheets of Quantum as of December 26, 2004 and Certance as of December 31, 2004. The unaudited pro forma condensed combined statements of operations were prepared using the historical statements of operations of Quantum for the nine months ended December 26, 2004 and for the year ended March 31, 2004 and the historical statements of operations of Certance for the nine months ended December 31, 2004 and for the year ended July 2, 2004.

The unaudited pro forma condensed combined balance sheet gives effect to the acquisition as if it had been completed on December 26, 2004, and combines the unaudited condensed balance sheets of Quantum and Certance. The unaudited pro forma condensed combined statements of operations for the year ended March 31, 2004 and the nine months ended December 26, 2004 combine the historical results of Quantum and Certance and gives effect to the acquisition as if it had occurred on April 1, 2003.

The merger will be accounted for under the purchase method of accounting in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 141, Business Combinations. Under the purchase method of accounting, the total estimated purchase price, calculated as described in Note 2 to these unaudited pro forma condensed combined financial statements, is allocated to the net tangible and intangible assets of Certance acquired in connection with the merger, based on their estimated fair values as of the completion of the merger. Management has made a preliminary allocation of the estimated purchase price to the tangible and intangible assets acquired and liabilities assumed based on various preliminary estimates. A final determination of these estimated fair values will be based on the actual net tangible and intangible assets of Certance that exist as of the date of completion of the merger.

The unaudited pro forma condensed combined financial statements presented are based on the assumptions and adjustments described in the accompanying notes. The unaudited pro forma condensed combined financial statements are presented for illustrative purposes and do not purport to represent what the financial position or results of operations actually would have been if the events described above occurred as of the dates indicated or what such financial position or results would be for any future periods. The pro forma adjustments are based on preliminary information available at the time of the preparation of this document. The unaudited pro forma condensed combined financial statements and the accompanying notes are based upon the respective historical consolidated and combined financial statements of Quantum and Certance. They should be read in conjunction with the historical financial statements and related notes of Quantum, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in Quantum’s Quarterly Report on Form 10-Q for the fiscal quarter ended December 26, 2004 and Annual Report on Form 10-K for the fiscal year ended March 31, 2004, as well as the historical consolidated financial statements and related notes of Certance, which are attached as Exhibit 99.1 and Exhibit 99.2 to Quantum’s Current Report on Form 8-K/A (Amendment No. 1) dated January 5, 2005 and filed with the Securities and Exchange Commission on March 9, 2005.

QUANTUM CORPORATION
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
DECEMBER 26, 2004
(In thousands)

	Quantum Dec. 26, 2004	Certance Dec. 31, 2004	Pro Forma Adjustments	Pro Forma Combined
Assets				
Current assets:				
Cash and cash equivalents	\$261,862	\$36,406	\$ (34,000) A (62,365) J	\$201,903
Short-term investments	27,825	-	-	27,825
Accounts receivable, net	111,692	23,291	9,231 G	144,214
Inventories	48,315	21,620	1,847 D	71,782
Service Inventories	54,291	-	-	54,291
Deferred tax assets	27,520	2,676	(2,676) E	27,520

Other current assets	26,797	3,952	3,008 H	33,757
Total current assets	<u>558,302</u>	<u>87,945</u>	<u>(84,955)</u>	<u>561,292</u>
Property and equipment, less accumulated depreciation	33,870	7,334	(3,197) D	38,007
Purchased technology and other intangible assets, less accumulated amortization	47,675	-	20,815 F	68,490
Goodwill	45,690	-	-	45,690
Other long-term assets	6,414	2,595	(362) E	8,647
Total long-term assets	<u>133,649</u>	<u>9,929</u>	<u>17,256</u>	<u>160,834</u>
	<u>\$691,951</u>	<u>\$97,874</u>	<u>\$ (67,699)</u>	<u>\$722,126</u>
Liabilities and Stockholders' Equity				
Current liabilities:				
Accounts payable	\$ 61,288	\$14,659	\$ -	\$ 75,947
Accrued warranty	33,874	2,957	-	36,831
Short-term debt	1,511	-	-	1,511
Other accrued liabilities	97,356	9,564	1,909 C (922) H	107,907
Total current liabilities	<u>194,029</u>	<u>27,180</u>	<u>987</u>	<u>222,196</u>
Long-term liabilities:				
Deferred income taxes	27,111	-	-	27,111
Convertible subordinated debt	160,000	-	-	160,000
Other long-term liabilities	-	2,132	-	2,132
Total long-term liabilities	<u>187,111</u>	<u>2,132</u>	<u>-</u>	<u>189,243</u>
Commitments and contingencies				
Stockholders' Equity:				
Capital stock and capital in excess of par value	259,089	43,935	(34,000) A (9,935) J	259,089
Retained earnings	51,722	24,627	(24,627) J (124) F	51,598
Total stockholders' equity	<u>310,811</u>	<u>68,562</u>	<u>(68,686)</u>	<u>310,687</u>
	<u>\$691,951</u>	<u>\$97,874</u>	<u>\$ (67,699)</u>	<u>\$722,126</u>

See accompanying notes to unaudited pro forma condensed combined financial statements.

QUANTUM CORPORATION
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED DECEMBER 26, 2004
(In thousands, except per share data)

	Quantum 9 months ended Dec. 26, 2004	Certance 9 months ended Dec. 31, 2004	Pro Forma Adjustments	Pro Forma Combined
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Product revenue	\$ 466,460	\$ 110,967	\$ -	\$577,427
Royalty revenue	87,668	20,011	-	107,679
Total revenue	<u>554,128</u>	<u>130,978</u>	<u>-</u>	<u>685,106</u>

Cost of revenue	384,040	90,019	2,214	F	476,273
	<u>170,088</u>	<u>40,959</u>	<u>(2,214)</u>		<u>208,833</u>
Gross margin					
Operating expenses:					
Research and development	65,781	21,760	-		87,541
Sales and marketing	64,511	8,183	281	F	72,975
General and administrative	36,541	6,485	(200)	B	42,826
Special charges	10,227	-	-		10,227
	<u>177,060</u>	<u>36,428</u>	<u>81</u>		<u>213,569</u>
Income (loss) from operations	(6,972)	4,531	(2,295)		(4,736)
Interest and other income, net	6,501	496	(1,301)	I	5,696
Interest expense	(8,306)	-	-		(8,306)
	<u>(8,777)</u>	<u>5,027</u>	<u>(3,596)</u>		<u>(7,346)</u>
Income (loss) before income taxes	(8,777)	5,027	(3,596)		(7,346)
Income tax benefit	(8,730)	(1,568)	-		(10,298)
	<u>(47)</u>	<u>6,595</u>	<u>(3,596)</u>		<u>2,952</u>
Net income (loss)	\$	\$	\$		\$
	<u>(47)</u>	<u>6,595</u>	<u>(3,596)</u>		<u>2,952</u>
Net income (loss) per share					
Basic	\$ -	\$ 0.33	N/A		\$ 0.02
Diluted	\$ -	\$ 0.31	N/A		\$ 0.02
Weighted average common and common equivalent shares					
Basic	180,744	20,000	N/A		180,744
Diluted	180,744	21,101	N/A		181,703

See accompanying notes to unaudited pro forma condensed combined financial statements.

QUANTUM CORPORATION
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2004
(In thousands, except per share data)

	Quantum 12 months ended Mar. 31, 2004	Certance 12 months ended Jul. 2, 2004	Pro Forma Adjustments	Pro Forma Combined
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Product revenue	\$ 677,259	\$ 207,199	\$ -	\$ 884,458
Royalty revenue	131,125	18,378	-	149,503
	<u>808,384</u>	<u>225,577</u>	<u>-</u>	<u>1,033,961</u>
Total revenue	808,384	225,577	-	1,033,961
Cost of revenue	556,725	159,469	2,953	F 719,147
	<u>251,659</u>	<u>66,108</u>	<u>(2,953)</u>	<u>314,814</u>
Gross margin				
Operating expenses:				
Research and development	103,471	30,484	-	133,955
Sales and marketing	97,844	12,008	361	F 110,213
General and administrative	54,824	9,166	-	63,990
Special charges	15,212	1,097	-	16,309
	<u>271,351</u>	<u>52,755</u>	<u>361</u>	<u>324,467</u>
Income (loss) from operations	(19,692)	13,353	(3,314)	(9,653)
Interest and other income, net	8,917	737	(1,735)	I 7,919

Interest expense	(17,617)	-	-	(17,617)
Loss on debt extinguishment	(2,565)	-	-	(2,565)
Income (loss) before income taxes	(30,957)	14,090	(5,049)	(21,916)
Income tax provision	32,758	1,915	-	34,673
Net income (loss) from continuing operations	\$ (63,715)	\$ 12,175	\$ (5,049)	\$ (56,589)
Net income (loss) per share from continuing operations				
Basic	\$ (0.36)	\$ 0.61	N/A	\$ (0.32)
Diluted	\$ (0.36)	\$ 0.60	N/A	\$ (0.32)
Weighted average common shares				
Basic	176,037	20,000	N/A	176,037
Diluted	176,037	20,317	N/A	176,037

See accompanying notes to unaudited pro forma condensed combined financial statements.

**NOTES TO UNAUDITED PRO FORMA CONDENSED
COMBINED FINANCIAL STATEMENTS**

Note 1: Basis of Pro Forma Presentation

On January 5, 2005, Quantum Corporation (“Quantum”) acquired all of the issued and outstanding capital stock of Certance Holdings and its subsidiaries (“Certance”) from New Suez Acquisition Company (“New SAC”). The unaudited pro forma condensed combined balance sheet as of December 26, 2004 is based on historical balance sheets of Quantum as of December 26, 2004 and Certance as of December 31, 2004, and has been prepared to reflect the acquisition as if it had been consummated on December 26, 2004.

The unaudited pro forma condensed combined statement of operations for the nine months ended December 26, 2004 combines the historical results of operations of Quantum for the nine months ended December 26, 2004 and Certance for the nine months ended December 31, 2004 and have been prepared to reflect the acquisition as if it had occurred on April 1, 2003. The unaudited pro forma condensed combined statement of operations for the year ended March 31, 2004 combines the historical results of operations of Quantum for the year ended March 31, 2004 and Certance for the year ended July 2, 2004, and have been prepared to reflect the acquisition as if it had occurred on April 1, 2003.

The selected unaudited pro forma condensed combined financial information may not be indicative of the historical results that would have occurred had Quantum and Certance been combined during these time periods or the future results that may be achieved after the merger.

On a combined basis, there were no significant transactions between Quantum and Certance during the periods presented. There are no significant differences between the accounting policies of Quantum and Certance.

The pro forma combined provision for income taxes and the pro forma combined balances of deferred taxes may not represent the amounts that would have resulted had Quantum Corporation and Certance filed consolidated income tax returns during the periods presented. Certance was included in New SAC’s consolidated income tax returns. Income taxes in the condensed combined financial statements herein include income taxes calculated on a stand alone basis.

Note 2: Preliminary Purchase Price

The unaudited pro forma condensed combined financial statements reflect an estimated purchase price of approximately \$62 million, including \$60 million of cash proceeds and approximately \$2 million of acquisition-related costs.

The purchase price for Certance was determined by arms-length negotiation between Quantum’s management and Certance’s former parent, New SAC, taking into account a number of factors, including the value of the assets, the historical and projected financial performance of Certance and the valuations of certain recently acquired companies with comparable businesses and financial performance.

Quantum prepared a preliminary purchase price allocation for the acquisition in the fourth quarter of fiscal year 2005 based on a preliminary valuation of intangible assets, inventory, and fixed assets. In addition, Quantum is in the process of finalizing its exit plans related to certain acquired entities and has recorded a liability based upon preliminary plans approved by Quantum’s management. Quantum expects that these items will be resolved by the end of the fourth quarter of fiscal year 2006. The estimated fair value of the net assets acquired exceeded the

purchase price by approximately \$36 million. This excess was allocated as a pro rata reduction to fixed assets and intangible assets.

Below is a summary of the purchase price, assets acquired and liabilities assumed:

(In thousands)

Consideration:

Cash	\$ 60,000
Acquisition related costs, primarily professional fees	2,365
	<u>\$ 62,365</u>

Assets acquired and liabilities assumed:

Current assets	\$ 65,355
Purchased intangible assets (including in-process R&D of \$0.1 million)	20,939
Other assets	6,370
Current liabilities	(28,167)
Long-term liabilities	(2,132)
	<u>\$ 62,365</u>

Identifiable intangible assets consist of:

(In thousands)

	Estimated Fair Value	Weighted Average Amortization Period	Estimated Annual Amortization
Purchased technology	\$ 19,494	7 years	\$ 2,953
Customer lists	1,280	4 years	320
Backlog	41	3 months	41
In-process R&D	124	-	-
	<u>\$ 20,939</u>		<u>\$ 3,314</u>

Quantum's management has estimated that \$0.1 million of the purchase price represents purchased in-process technology that has not yet reached technological feasibility and has no alternative future use.

Note 3: Pro Forma Net Income (Loss) Per Share

The unaudited pro forma condensed combined statements of operations have been prepared as if the acquisition was completed as of April 1, 2003. The pro forma basic and diluted income per share are based on the weighted average number of shares of Quantum common stock and options (when dilutive, using the treasury stock method) outstanding during each period. The following table shows the adjusted pro forma combined basic and diluted shares at the end of the period presented:

(In thousands)

	<u>Quantum Weighted Average Shares</u>
Shares used in per share calculations for the period ended March 31, 2004:	
Basic and diluted	176,037

Shares used in per share calculations for the nine months ended December 26, 2004:

Basic	180,744
Diluted	181,803

Shares used in computing diluted loss per share for twelve months ended March 31, 2004 exclude common stock equivalents as their inclusion would be anti-dilutive due to the net losses incurred.

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Note 4: Pro Forma Adjustments

The following pro forma adjustments are based on preliminary estimates which may change as additional information is obtained:

- (A) To record dividend distribution of \$34 million to Certance's shareholders prior to acquisition.
- (B) To remove merger related costs of \$0.2 million incurred by Certance.
- (C) To record \$1.9 million estimated exit plan costs related to the acquisition.
- (D) To adjust assets and liabilities to their estimated fair value, including \$1.8 million for inventory and a decrease of \$3.2 million for fixed assets. The cost of sales impact of the write-up of inventory to fair value has been excluded as it is a non-recurring item.
- (E) To remove \$2.7 million for current and \$0.4 million for non-current deferred tax assets of Certance. This is a non recurring adjustment.
- (F) To record \$20.8 million for acquired intangible assets, and amortization thereon. The write-off of in-process-R&D of \$0.1 million has been excluded as it is a non-recurring cost. See Note 2 to unaudited pro forma condensed combined financial statements.
- (G) To record \$9.2 million for fair value adjustment to royalty receivable for royalties due from Certance's licensees.
- (H) To record adjustment to tax refund receivable of \$3 million and income taxes payable of \$0.9 million for option exercises prior to the close of merger.
- (I) To reduce estimated investment income due to lower cash / investment balances as a result of the cash payment by Quantum of \$60 million and cash dividend distribution of \$34 million by Certance, at an assumed interest rate of 1.8%
- (J) To remove the historical equity accounts of Certance and record the purchase price paid by Quantum

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