Form 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the quarterly period ended September 26, 1999

OR

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

For the transition period from to

Commission File Number 0-12390

QUANTUM CORPORATION

Incorporated Pursuant to the Laws of the State of Delaware

IRS Employer Identification Number 94-2665054

500 McCarthy Blvd., Milpitas, California 95035

(408) 894-4000

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

Yes X No

As of the close of business on October 24, 1999, Quantum Corporation had 164,766,625 shares of DLT & Storage Systems group common stock outstanding and 83,574,022 shares of Hard Disk Drive group common stock outstanding.

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QUANTUM CORPORATION

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

QUANTUM CORPORATION

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)
(unaudited)

<CAPTION>

	Three Months Ended		Six Months Ended	
	September 26, 1999	September 27, 1998	September 26, 1999	September 27, 1998
<S>	<C>	<C>	<C>	<C>
Revenue	$ 1,125,124	$ 1,164,711	$ 2,208,359	$ 2,267,734
Cost of revenue - on net sales	932,719	972,822	1,836,035	1,909,473
Cost of revenue - special charge	57,068	--	57,068	--
Gross profit	135,337	191,889	315,256	358,261
Operating expenses:				
Research and development	92,453	82,640	182,886	166,938
Sales and marketing	55,459	45,386	108,680	83,723
General and administrative	30,570	21,494	59,714	38,895
Purchased in-process research and development	37,000	--	37,000	--
Special charge	2,338	--	2,338	--
	217,820	149,520	390,618	289,556
Income (loss) from operations	(82,483)	42,369	(75,362)	68,705
Other income (expense):				
Interest income and other, net	7,110	6,133	19,557	14,836
Interest expense	(7,218)	(6,725)	(14,426)	(13,227)
Loss from investee	--	(17,114)	--	(41,350)
	(108)	(17,706)	5,131	(39,741)
Income (loss) before income taxes	(82,591)	24,663	(70,231)	28,964

Income tax provision (benefit)	(19,938)	7,399	(15,859)	8,689
Net income (loss)	$ (62,653)	$ 17,264	$ (54,372)	$ 20,275
DLT & Storage Systems group:				
Net income	$ 21,060	$ 52,143	$ 72,525	$ 95,708
Net income per share:				
Basic	$ 0.13	$ 0.34	$ 0.44	$ 0.62
Diluted	$ 0.12	$ 0.33	$ 0.42	$ 0.59
Weighted average common shares:				
Basic	165,378	151,527	166,019	155,122
Diluted	173,080	162,695	173,029	161,223
Hard Disk Drive group:				
Net loss	$ (83,687)	$ (34,878)	$ (126,871)	$ (75,432)
Net loss per share:				
Basic	$ (1.01)	$ (0.46)	$ (1.53)	$ (0.97)
Diluted	$ (1.01)	$ (0.46)	$ (1.53)	$ (0.97)
Weighted average common shares:				
Basic	82,883	75,763	83,107	77,561
Diluted	82,883	75,763	83,107	77,561

<FN>

See accompanying notes to condensed consolidated financial statements.
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</TABLE>

QUANTUM CORPORATION

<TABLE>

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

<CAPTION>

	September 26, 1999	March 31, 1999
	(unaudited)	
<S>	<C>	<C>
Assets		
Current assets:		
Cash and cash equivalents	$ 689,010	$ 772,368
Marketable securities	34,634	24,426
Accounts receivable, net of allowance for doubtful accounts of $10,421 and $12,130	592,258	646,557
Inventories	273,647	271,986
Deferred taxes	107,701	107,701
Other current assets	149,951	104,835
Total current assets	1,847,201	1,927,873
Property and equipment, net of accumulated depreciation of $267,542 and $291,617	271,630	271,928
Intangible assets, net	292,348	225,567
Other assets	46,620	58,228
	$ 2,457,799	$2,483,596

Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 377,364	$ 406,369
Accrued warranty	93,158	76,905
Accrued compensation	68,900	73,605
Income taxes payable	26,004	33,411
Current portion of long-term debt	1,072	1,024
Other accrued liabilities	151,834	90,691
Total current liabilities	718,332	682,005
Deferred taxes	78,345	67,340
Long-term debt	48,412	56,961
Convertible subordinated debt	287,500	287,500
Stockholders' equity:		
Common stocks	936,867	886,434
Retained earnings	449,833	504,206
Accumulated other comprehensive loss	(77)	(850)
Treasury stock, at cost	(61,413)	-
Total stockholders' equity	1,325,210	1,389,790
	$ 2,457,799	$2,483,596

<FN>
See accompanying notes to condensed consolidated financial statements.
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QUANTUM CORPORATION

<TABLE>

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

<CAPTION>

<S>	Six Months Ended September 26, 1999 <C>	September 27, 1998 <C>
Cash flows from operating activities:		
Net income (loss)	$ (54,372)	$ 20,275
Adjustments to reconcile net income (loss) to net cash provided by operations:		
Special charge	58,385	--
Purchased in-process research and development	37,000	--
Depreciation	48,496	45,341
Amortization	13,872	7,312
Loss from investee	--	41,350
Deferred income taxes	405	1,003
Compensation related to stock plans	1,640	3,443
Changes in assets and liabilities:		
Accounts receivable	54,663	74,914
Inventories	(520)	19,236
Accounts payable	(31,120)	(48,895)
Income taxes payable	(7,407)	(11,693)
Accrued warranty	15,668	(1,721)
Other assets and liabilities	(36,972)	16,497
Net cash provided by operating activities	99,738	167,062
Cash flows from investing activities:		
Purchases of marketable securities	(33,406)	(48,798)
Maturities of marketable securities	33,314	91,131
Acquisition of intangible assets	(2,500)	--
Investment in property and equipment	(49,909)	(57,442)
Net cash used in investing activities	(52,501)	(15,109)
Cash flows from financing activities:		
Proceeds from long-term credit facilities	10,000	--
Principal payments on long-term credit facilities	(18,501)	(457)
Purchases of treasury stock	(145,652)	(264,220)
Proceeds from issuance of common stock, net	23,558	20,020

Net cash used in financing activities	(130,595)	(244,657)
Decrease in cash and cash equivalents	(83,358)	(92,704)
Cash and cash equivalents at beginning of period	772,368	642,150
Cash and cash equivalents at end of period	$ 689,010	$ 549,446
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 12,981	$ 12,472
Income taxes, net of (refunds)	$ 18,341	$ (7,816)
Tangible and intangible assets acquired for shares of DSSG and HDDG common stock, net of cash acquired and liabilities assumed	$ 104,698	$ --

<FN>
See accompanying notes to condensed consolidated financial statements.
</FN>
</TABLE>

QUANTUM CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Quantum Corporation ("Quantum" or the "Company") and its majority owned subsidiaries. All material intercompany balances and transactions have been eliminated. The interim financial statements reflect all adjustments, consisting only of normal recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for the full fiscal year. Certain prior period amounts have been reclassified to conform to the current period's presentation. The condensed consolidated balance sheet as of March 31, 1999 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The accompanying financial statements should be read in conjunction with the audited financial statements of Quantum Corporation for the fiscal year ended March 31, 1999 included in its Annual Report on Form 10-K and Registration Statement on Form S-4 (SEC File No. 333-75153) filed with the Securities and Exchange Commission.

2. Recapitalization

On July 23, 1999, the Company's stockholders approved a tracking stock proposal. As a result, Quantum's Certificate of Incorporation has been amended and restated (the "Restated Certificate of Incorporation"), effective as of the close of business on August 3, 1999, designating two new classes of Quantum Corporation common stock, DLT & Storage Systems group ("DSSG") common stock, $.01 par value per share and Hard Disk Drive group ("HDDG") common stock, $.01 par value per share. On August 3, 1999, each authorized share of Quantum common stock, $.01 par value per share, was exchanged for one share of DSSG stock and one-half share of HDDG stock. These two securities are intended to track separately the performance of the DLT & Storage Systems group and the Hard Disk Drive group.

3. Inventories

Inventories consisted of the following:
(In thousands)

	September 26, 1999	March 31, 1999
Materials and purchased parts	$ 60,550	$ 62,342
Work in process	37,002	27,531
Finished goods	176,095	182,113
	$273,647	$271,986

4. Net income (loss) per share

As a result of the recapitalization, the Company has two tracking stocks, DSSG common stock and HDDG common stock, that are intended to reflect the performance of Quantum's two business groups. Accordingly, the net income (loss) per share for each group presented below has been calculated in accordance with the Restated Certificate of Incorporation.

<TABLE>
The following table sets forth the computation of basic and diluted net income per share for DSSG:

<CAPTION>

(In thousands, except per share data)	Three Months Ended September 26, 1999	Three Months Ended September 27, 1998	Six Months Ended September 26, 1999	Six Months Ended September 27, 1998
<S>	<C>	<C>	<C>	<C>
Numerator:				
Numerator for basic net income per share - income available to common stockholders	$ 21,060	$ 52,143	$ 72,525	$ 95,708
Effect of dilutive securities:				
7% convertible subordinated notes	--	2,013	--	--
Numerator for diluted net income per share - income available to common stockholders	$ 21,060	$ 54,156	$ 72,525	$ 95,708
Denominator:				
Denominator for basic net income per share - weighted average shares	165,378	151,527	166,019	155,122
Effect of dilutive securities:				
Outstanding options	7,702	4,962	7,010	6,101
7% convertible subordinated notes	--	6,206	--	--
Denominator for diluted net income per share - adjusted weighted average shares	173,080	162,695	173,029	161,223
Basic net income per share	$ 0.13	$ 0.34	$ 0.44	$ 0.62
Diluted net income per share	$ 0.12	$ 0.33	$ 0.42	$ 0.59

</TABLE>

The computation of diluted net income per share for the three and six months ended September 26, 1999, and the six months ended September 27, 1998, excluded the effect of the 7% convertible subordinated notes issued in July 1997, which are convertible into 6,206,152 shares of DSSG common stock, or 21.587 shares per $1,000 note, because the effect would have been antidilutive.

<TABLE>
The following table sets forth the computation of basic and diluted net loss per share for HDDG:

<CAPTION>

(In thousands, except per share data)	Three Months Ended September 26, 1999	Three Months Ended September 27, 1998	Six Months Ended September 26, 1999	Six Months Ended September 27, 1998
<S>	<C>	<C>	<C>	<C>
Numerator:				
Numerator for basic and diluted net loss per share - loss available to common stockholders	$ (83,687)	$ (34,878)	$ (126,871)	$ (75,432)
Denominator:				
Denominator for basic and diluted net loss per share - weighted average shares	82,883	75,763	83,107	77,561

Basic and diluted net loss per share	$ (1.01)	$ (0.46)	$ (1.53)	$ (0.97)

</TABLE>

The computation of diluted net loss per share for the three and six months ended September 26, 1999 and September 27, 1998 excluded the effect of the 7% convertible subordinated notes issued in July 1997, which are convertible into 3,103,076 shares of HDDG common stock, or 10.793 shares per $1,000 note, because the effect would have been antidilutive.

Options to purchase 15,234,101 and 10,390,490 shares of HDDG common stock were outstanding at September 26, 1999 and September 27, 1998, respectively. However, the corresponding weighted average outstanding options were not included in the computation of diluted net loss per share for the three and six months ended September 26, 1999 and September 27, 1998 because the effect would have been antidilutive.

5. Stockholders' Equity

In September 1999, the Company issued 4.1 million DSSG shares and 2 million HDDG shares to the stockholders of Meridian Data, Inc. ("Meridian") to complete the acquisition of Meridian as a wholly owned subsidiary of the Company. In part, the Company reissued DSSG and HDDG shares held as treasury stock to complete the acquisition. The difference between the cost of the treasury stock and the value at which the shares were reissued resulted in a $3.5 million addition to paid-in-capital in the quarter ended September 26, 1999. For additional information regarding the Meridian acquisition, refer to Note 7 of the Notes to Condensed Consolidated Financial Statements.

In May 1999, the Board of Directors authorized the Company to repurchase a combined total of up to $200 million of Quantum's common stocks through the open market from time to time. In part, the intent of the repurchase was to minimize the dilutive impact of the shares issued to complete the acquisition of Meridian. During the six months ended September 26, 1999, the Company repurchased 7.2 million shares of DSSG common stock and 2.2 million shares of HDDG common stock for a combined total of $146 million.

In October 1999, the Board of Directors authorized an increase in the Company's stock repurchase program, increasing the previously authorized amount of $200 million to a total of $600 million. The increase is intended primarily for repurchase of the Company's DSSG common stock.

6. Litigation

On August 7, 1998, the Company was named as one of several defendants in a patent infringement lawsuit filed in the U.S. District Court for the Northern District of Illinois, Eastern Division. The plaintiff, Papst Licensing GmbH, owns at least 24 U.S. patents which it asserts that the Company has infringed. The Company has studied many of these patents before and, of the patents it has studied, believes that defenses of patent invalidity and non-infringement can be asserted. However, Quantum has not completed a full study of all the patents asserted by Papst and there can be no assurance that the Company has not infringed these or other patents owned by Papst. The final results of this litigation, as with any litigation, are uncertain. In addition, the costs of engaging in litigation with Papst will be substantial.

The Company is also subject to other legal proceedings and claims that arise in the ordinary course of its business. While management currently believes the amount of ultimate liability, if any, with respect to these actions will not materially affect the financial position, results of operations, or liquidity of the Company, the ultimate outcome of any litigation is uncertain. Were an unfavorable outcome to occur, the impact could be material to the Company.

7. Business Combination

On September 10, 1999, the Company's DLT & Storage Systems group completed the acquisition of Meridian. Meridian is a developer and manufacturer of network attached storage solutions utilizing both conventional hard disk drive and optical disk technologies for the PC local area network environment. The acquisition has been accounted for as a purchase at a total cost of $115 million. The acquisition was completed with the issuance of 4.1 million shares of DSSG common stock and 2 million shares of HDDG common stock valued at $74 million and $18 million, respectively, on the date of acquisition in exchange for all outstanding shares of Meridian, the conversion of outstanding Meridian stock options into options to purchase 630,000 shares of DSSG common stock and 315,000 shares of HDDG common stock valued at $8 million and $2 million, respectively, and the assumption of Meridian liabilities and other acquisition costs of approximately $13 million. At the date of acquisition, Meridian had $11 million of cash and marketable securities and a net operating loss carryforward for U.S. federal income tax purposes of approximately $46 million. Meridian's results of operations are included in the financial statements as of the date of acquisition, and the assets and liabilities acquired were recorded based on their fair values as of the date of acquisition. Pro forma results of operations have not been presented because the effect of the acquisition was not material.

The excess of the purchase price over the fair value of the net tangible assets acquired has been allocated to the following identifiable intangible assets: goodwill, trademarks, workforce in place, developed technology and in-process research and development. As of the acquisition date, technological feasibility of the in-process technology has not been established and the technology has no alternative future use. Therefore, the Company has expensed the amount of the purchase price allocated to in-process research and development, estimated at $37 million as of the date of acquisition. This amount and the other components of the purchase price allocation are preliminary. The remaining identifiable intangible assets, valued at $77 million, will be amortized on a straight-line basis over periods ranging from five to ten years.

The amount of the purchase price allocated to in-process research and development was determined by estimating the stage of development of each in-process research and development project at the date of acquisition, estimating cash flows resulting from the expected revenue generated from such projects, and discounting the net cash flows back to their present value using a discount rate of 21%, which represents a premium to the Company's cost of capital. The expected revenue assumes an average compound annual revenue growth rate of 64% during calendar years 1999 through 2007. Expected total revenue from the purchased in-process projects peak in calendar year 2005 and then begin to decline as other new products are expected to be introduced. These projections are based on management's estimates of market size and growth, expected trends in technology and the expected timing of new product introductions. If products are not successfully developed, the Company may not realize the value assigned to the in-process research and development projects. In addition, the value of the other acquired intangible assets may also become impaired.

8. Special Charge

During the quarter ended September 26, 1999, the Company's Hard Disk Drive group recorded a special charge of $59.4 million. The charge reflected HDDG's strategy to modify the hard disk drive business to more closely align product development and the business' operating model with the requirements of the rapidly growing low-cost PC market. The special charge was associated primarily with the streamlining of HDDG's logistics model in order to create a faster and more flexible fulfillment system, changes in the customer service strategy and consolidation of certain product development programs. Upon full implementation of the plan, HDDG currently expects to realize more than $100 million in cost savings per year, beginning in fiscal year 2001.

The special charge consisted of $26.4 million related to facilities costs, $13.2 million in asset write-offs related to the streamlining of the global logistics model and change in customer service strategy, $7.8 million in severance and benefits for terminated employees, and approximately $12 million in other costs associated with the plan.

The facilities costs noted above include lease payments on facilities to be vacated in and around Milpitas, California and Singapore, the write-off of related leasehold improvements, and other maintenance expenses associated with the vacated facilities. HDDG expects that the affected facilities will be vacated within the next 12 months.

In connection with the charge, HDDG currently expects a workforce reduction of approximately 600 employees. In addition, approximately 100 open requisitions and budgeted positions have been eliminated. The reduction in force primarily affects employees at HDDG's drive configuration centers and warehouses in Milpitas, California and Dundalk, Ireland and employees within the desktop drive business. Approximately 115 of the 600 employees had been terminated as of September 26, 1999. HDDG anticipates that the remaining employees will be terminated by the end of the second quarter of fiscal year 2001.

As of September 26, 1999, HDDG had incurred $1 million in cash expenditures associated with employee severance and benefits. HDDG expects to incur additional cash expenditures associated with employee severance and benefits, facilities costs and other costs associated with the plan of approximately $35 million.

<TABLE>
The following table summarizes activity related to the special charge for the quarter ended September 26, 1999:

<CAPTION>
(In thousands)   Severance

	And Benefits	Facilities Costs	Inventory	Other Costs	Total
Special charge	$ 7,833	$ 26,359	$ 13,214	$ 12,000	$ 59,406
Cash payments	(1,021)	--	--	--	(1,021)
Balance at September 26, 1999	$ 6,812	$ 26,359	$ 13,214	$ 12,000	$ 58,385

9. Comprehensive Income (Loss)

Accumulated other comprehensive loss on the condensed consolidated balance sheets consists of foreign currency translation adjustments. Total comprehensive income (loss) for the three and six months ended September 26, 1999 and September 27, 1998, is presented in the following table:

(In thousands)

	Three Months Ended		Six Months Ended	
	September 26, 1999	September 27, 1998	September 26, 1999	September 27, 1998
Net income (loss)	$(62,653)	$ 17,264	$(54,372)	$ 20,275
Other comprehensive income -- foreign currency translation adjustments	1,693	1,188	773	183
Comprehensive income (loss)	$(60,960)	$ 18,452	$(53,599)	$ 20,458

10. Business Segment Information

Quantum Corporation's reportable segments are its two business groups, the Hard Disk Drive group and the DLT & Storage Systems group, as further described in their separate financial statements. The Hard Disk Drive group consists of desktop and high-end hard disk drives. The DLT & Storage Systems group consists of DLTtape(TM) drives and media, autoloaders and libraries, network attached storage systems and solid state storage systems. The Company directly markets its products to computer manufacturers and through a broad range of distributors, resellers, and systems integrators.

The Company evaluates segment performance based on net profit or loss not including non-recurring gains or losses. Segment assets include those items that can be specifically identified with or reasonably allocated to a particular segment. Results for the Company's reportable segments for the three and six months ended September 26, 1999 and September 27, 1998 are presented in the following tables:

(In millions)

	Three Months Ended					
	September 26, 1999			September 27, 1998		
	HDDG	DSSG	Total	HDDG	DSSG	Total
Revenue	$ 768	$ 357	$ 1,125	$ 874	$ 291	$ 1,165
Segment profit (loss)	(84)	21	(63)	(35)	52	17

(In millions)

	Six Months Ended					
	September 26, 1999			September 27, 1998		
	HDDG	DSSG	Total	HDDG	DSSG	Total
Revenue	$ 1,521	$688	$ 2,208	$ 1,722	$ 546	$ 2,268
Segment profit (loss)	(127)	73	(54)	(76)	96	20

</TABLE>

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

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements usually contain the words "estimate," "anticipate," "expect," or similar expressions. All forward-looking statements are inherently uncertain as they are based on various expectations and assumptions concerning future events and they are subject to numerous known and unknown risks and uncertainties. These uncertainties could cause actual results to differ materially from those expected for the reasons set forth under Trends and Uncertainties relating to the DLT & Storage Systems group and Trends and Uncertainties relating to the Hard Disk Drive group. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

Business Description

Quantum operates its business through two separate business groups: the DLT & Storage Systems group ("DSSG") and the Hard Disk Drive group ("HDDG") as described in their respective sections of this report.

Results of Operations

Revenue. Revenue in the three and six months ended September 26, 1999 was $1.125 billion and $2.208 billion, respectively, compared to $1.165 billion and $2.268 billion, respectively, for the corresponding periods in fiscal year 1999.

Revenue in the three and six months ended September 26, 1999 reflected increased revenue from sales of DLTtape drives, tape libraries, and increased DLTtape media royalties, offset by lower revenue from sales of desktop and high-end hard disk drives. Revenue from tape libraries and DLTtape media royalties reached record highs in the three and six month periods. The increase in DLTtape drive revenue reflected an increase in shipments, partially offset by a decline in the average unit price. The increase in tape library revenue reflected an increase in shipments of tape libraries and the acquisition of ATL Products, Inc. in September 1998. The increase in DLTtape media royalties reflected an increase in the sales of DLTtape media cartridges at licensed media manufacturers for which DSSG earns a royalty fee. The increase in sales of DLTtape media cartridges reflects sales of cartridges for use in both new DLTtape drives and to meet the ongoing new media needs of the installed base of DLTtape drives.

While shipments of desktop hard disk drives increased from the first six months of fiscal year 1999, intense competitive pricing pressures resulted in a significantly lower average unit price and reduced desktop hard disk drive revenue. Shipments of high-end hard disk drives increased slightly from the first six months of fiscal year 1999 as HDDG completed a transition to new high-end products, while revenue declined reflecting lower average unit prices.

Sales to our top five customers in the three and six months ended September 26, 1999 represented 48% and 47% of revenue, respectively, compared to 48% for the corresponding periods in fiscal

year 1999. These amounts reflected a retroactive combination of sales to Compaq Computer, Inc. and Digital Equipment Corporation as a result of their merger in June 1998 as well as a retroactive combination of sales to Ingram Micro Inc. and Electronic Resources Limited as a result of the completion of their merger in July 1999. Sales to Hewlett-Packard Company were 12% and 13% of revenue in the three and six months ended September 26, 1999, respectively, compared to 15% of sales in the corresponding periods in fiscal year 1999. Sales to Compaq were 12% of revenue in the three and six months ended September 26, 1999, respectively, compared to 16% of revenue for the corresponding periods in fiscal 1999, including sales to Digital Equipment.

Sales to computer equipment manufacturers and distribution channel customers were 59% and 35% of revenue in the three months ended September 26, 1999, respectively, compared to 65% and 32% in the three months ended September 27, 1998. For the six months ended September 26, 1999, computer equipment manufacturer and distribution channel sales were 59% and 35% of revenue, compared to 64% and 33% of revenue for the corresponding period in fiscal year 1999. The remaining revenue in the three and six months ended September 27, 1998 represented media royalty revenue and in the three and six months ended September 26, 1999 represented media royalty revenue and sales to value added resellers.

Gross Margin Rate. The gross margin rate in the three months ended September 26, 1999 decreased to 12.0% from 16.5% in the three months ended September 27, 1998. The gross margin for the first six months of fiscal year 2000 was 14.3%, compared to 15.8% in the corresponding period in fiscal year 1999.

The gross margin rate in the three and six month periods of fiscal year 2000 reflected the impact of a $57.1 million special charge as discussed below. The gross margin rate excluding the impact of the charge was 17.1% and 16.9% in the three and six-month periods ended September 26, 1999, respectively.

Excluding the impact of the special charge in the three and six month comparative periods, the increase in the gross margin rate reflected increased revenues from DLTtape drives, storage systems and DLTtape media royalties, which have significantly higher margins than our other products. This was partially offset by the decline in gross margins earned on desktop hard disk drives as a result of intense competitive pricing pressures. We expect to experience continued gross margin pressure with respect to desktop hard disk drive products through at least the third quarter of fiscal year 2000.

Research and Development Expenses. Research and development expenses in the three and six months ended September 26, 1999, were $92 million, or 8.2% of revenue, and $183 million, or 8.3% of revenue, respectively, compared to $83 million, or 7.1% of revenue, and $167 million, or 7.4% of revenue, respectively, in the corresponding periods of fiscal year 1999. The increase in research and development expenses reflected the consolidation of ATL's expenses which were not included in the prior year periods, as the acquisition occurred on September 28, 1998, and higher research and development expenses related to new tape drive products and other new information storage products, including Super DLTtape technology.

Sales and Marketing Expenses. Sales and marketing expenses in the three and six months ended September 26, 1999, were $55 million, or 4.9% of revenue, and $109 million, or 4.9% of revenue, respectively, compared to $45 million, or 3.9% of revenue, and $84 million, or 3.7% of revenue, respectively, in the corresponding periods of fiscal year 1999. The increase in sales and marketing expenses reflected the consolidation of ATL's expenses and an increase in marketing and advertising costs associated with the DLTtape products. We expect the amount of sales and marketing expenses to increase in the third quarter of fiscal year 2000.

General and Administrative Expenses. General and administrative expenses in the three and six months ended September 26, 1999 were $31 million, or 2.7% of revenue, and $60 million, or 2.7% of revenue, respectively, compared to $21 million, or 1.8% of revenue, and $39 million, or 1.7% of revenue, respectively, in the corresponding periods of fiscal year 1999. The increase in general and administrative expenses reflected the expansion of DSSG's infrastructure to support increased revenue and earnings, the consolidation of ATL's expenses, the deferral of certain programs in the first quarter of fiscal year 1999, and the implementation of a new HDDG quality program reflected in the first quarter of fiscal year 2000.

Purchased In-process Research and Development Expense. The Company expensed purchased in-process research and development, preliminarily valued at $37 million, as a result of the Meridian acquisition in the three months ended September 26, 1999. For additional information regarding the Meridian acquisition and the costs associated with in-process research and development, refer to Note 7 of the Notes to Condensed Consolidated Financial Statements.

Special Charge. During the three months ended September 26, 1999, the Company's Hard Disk Drive group recorded a special charge of $59.4 million, of which $57.1 million is included in cost of sales and $2.3 million is included in operating expenses. The charge reflected HDDG's strategy to modify the hard disk drive business to more closely align product development and the business's operating model with the requirements of the rapidly growing low-cost PC market. The special charge was associated primarily with the streamlining of HDDG's logistics model in order to create a faster and more flexible fulfillment system, changes in the customer service strategy and consolidation of certain product development programs. Upon full implementation of the plan, HDDG currently expects to realize more than $100 million in cost savings per year, beginning in fiscal year 2001.

The special charge consisted of $26.4 million related to facilities costs, $13.2 million in asset write-offs related to the streamlining of the global logistics model and change in customer service strategy, $7.8 million in severance and benefits for terminated employees, and approximately $12 million in other costs associated with the plan.

Interest and Other Income/Expense. Net interest and other income and expense in the three and six months ended September 26, 1999 was $0.1 million expense and $5.1 million income, respectively, compared to $0.6 million expense and $1.6 million income, respectively, in the corresponding periods of fiscal year 1999. The income for the six months ended September 26,

1999 reflected a $2.6 million gain on the sale of an equity investment in the first quarter of fiscal year 2000.

Loss from Investee. The loss from investee reflected our 49% share in the operating losses of our recording heads joint venture with Matsushita-Kotobuki Electronics Industries, Ltd., which was dissolved in the third quarter of fiscal year 1999. Our share of the loss in the joint venture for the three and six months ended September 27 1998, was $17.1 million and $41.4 million, respectively.

Income Taxes. No tax benefit was recognizable for the charge for purchased in-process research and development related to the acquisition of Meridian. The Company recorded a benefit for income taxes before the charge of $20 million and $16 million for the three months and six months ended September 26, 1999, for an effective tax benefit rate of 44% and 48%, respectively, as compared to 30% for the corresponding periods of fiscal year 1999. The increased tax benefit rate reflects the effect of the larger percentage of HDDG losses as compared to DSSG income.

Liquidity and Capital Resources

Cash, cash equivalents and marketable securities were $724 million at September 26, 1999 compared to $797 million at March 31, 1999. The Company used cash to purchase $146 million of treasury stock, as discussed below and to invest in property and equipment. Sources of cash were a reduction in accounts receivable and the issuance of common stock.

In September 1999, the Company issued 4.1 million DSSG shares and 2 million HDDG shares to the stockholders of Meridian to complete the acquisition of Meridian as a wholly owned subsidiary of the Company. In part, the Company reissued DSSG and HDDG shares held as treasury stock to complete the acquisition. The difference between the cost of the treasury stock and the value at which the shares were reissued resulted in a $3.5 million addition to paid-in-capital in the quarter ended September 26, 1999. For additional information regarding the Meridian acquisition, refer to Note 7 of the Notes to Condensed Consolidated Financial Statements.

In May 1999, the Board of Directors authorized the Company to repurchase a combined total of up to $200 million of Quantum's common stocks through the open market from time to time. In part, the intent of the repurchase was to minimize the dilutive impact of the shares issued to complete the acquisition of Meridian. During the six months ended September 26, 1999, the Company repurchased 7.2 million shares of DSSG common stock and 2.2 million shares of HDDG common stock for a combined total of $146 million.

In October 1999, the Board of Directors authorized an increase in the Company's stock repurchase program, increasing the previously authorized amount of $200 million to a total of $600 million. The increased authorization allows the Company to repurchase Quantum's common stocks through the open market or through other mechanisms. The increase is intended primarily for repurchase of the Company's DSSG common stock.

In December 1998, ATL entered into a senior credit facility that provides a $35 million revolving credit line to ATL. The revolving credit line is co-terminous with our $500 million revolving credit line, expiring in June 2000. As amended, at the option of ATL, borrowings under the revolving credit line bear interest at either the London interbank offered rate plus a margin determined by our total funded

debt ratio, or at a base rate, with option periods of two weeks to six months. At September 26, 1999, $10 million was outstanding on ATL's revolving credit line.

In June 1997, the Company entered into an unsecured senior credit facility that provides a $500 million revolving credit line and expires in June 2000. At our option, borrowings under the revolving credit line bear interest at either the London interbank offered rate plus a margin determined by our total funded debt ratio, or at a base rate, with option periods of one to six months. At September 26, 1999, there was no outstanding balance drawn on this line.

We expect to spend approximately $130 million in fiscal year 2000 for capital equipment and leasehold improvements. These capital expenditures will support the disk drive and tape drive businesses, research and development, and general corporate operations.

We believe that our existing capital resources, including the credit facility and any cash generated from operations, will be sufficient to meet all currently planned expenditures and sustain operations for the next 12 months. However, this belief assumes that operating results and cash flow from operations will meet our expectations.

In fiscal year 1999, the Company entered into a strategic alliance with TiVo, Inc., to supply hard disk drives utilizing Quantum's QuickViewTM technology for integration into TiVo's Personal Video Recorder. As part of the agreement, the Company received warrants to purchase 800,000 shares of TiVo common stock. On September 30, 1999, subsequent to the end of the Company's fiscal second quarter, the Company exercised its warrants immediately prior to TiVo's initial public offering. The Company is not allowed to sell TiVo common stock for a six month period following the initial public offering and will account for its investment as an available for sale security. As a result, any unrealized gain or loss will be shown net of tax, as part of accumulated other comprehensive income/loss in the equity section of the Company's consolidated balance sheet.

Year 2000

The year 2000 computer issue refers to the possibility that computer systems may not be able to distinguish the year 2000 from the year 1900. Two other date-related issues may contribute to the year 2000 problem: (1) certain systems have associated special values with date fields (for example, 9/9/99), and (2) these same systems may fail to recognize that year 2000 is a leap year. Because of the pervasive use and dependency on computer technology in all facets of modern commerce, year 2000 issues present a potentially vast risk to companies, including us. For example, there are potential disruptions or failures of our products and operations and of the products and operations of our suppliers, customers and service providers. Because the year 2000 issue can impact us indirectly through our suppliers, service providers and customers, an assessment and prediction of the impact of the year 2000 issue from external parties on our company is difficult.

We have determined that all critical internal systems are year 2000 compliant as we continue to implement plans to address year 2000 issues both within and outside Quantum. In addressing the year 2000 issues and risks, we have focused our efforts on our enterprise-wide and departmental operations, products, critical suppliers (including service providers) and key customers. Within Quantum, these efforts are intended to encompass all major categories of computer systems and operating equipment used by us, including those utilized in manufacturing, research and development, sales, finance and human resources. To ensure year 2000 compliance for all of our systems, we have adopted an approach based on the U.S. General Accounting Office Year 2000 Assessment Guide. The approach utilizes a multi-phased model, with major phases consisting of inventory, assessment, resolution, testing and certification:

- In the inventory phase we are listing and reviewing for criticality and risk all hardware, software, equipment, infrastructure, and desktop tools and applications.

- In the assessment phase, we are determining whether we are converting, replacing or eliminating the impacted system or application.

- In the resolution phase, we are developing and carrying out a formal plan.

- Under stringent procedures in the testing phase, we are validating the system and application on its functionality to perform seamlessly in the year 2000.

- In the certification phase, we are documenting and verifying all test results.

Within each of the major categories of computer systems and operating equipment, we prioritize our year 2000 issues and risks on three levels:

- The critical level reflects short-term failure which would have a severe impact on our business operations and result in significant downtime or a manual effort to perform the required functions. Without this system or application, our business could not function.

- Key level applications or systems, although required by us, are not mandatory for business survival. We do not expect the failure of key level applications to cause significant disruption to our operations. We can defer the work or devise manual back-up procedures to handle the interim needs.

- o Active level applications, although currently in use, are not required for our normal operations. We do not expect their failure to result in any disruption to our business.

We have made significant progress in our preparedness for year 2000. We have assessed, remedied and certified all critical and key areas of our own operations, which include information technology, operating equipment with embedded chips or software and products. We continue to address active level areas and expect to complete any necessary remediation of these areas by December 1999. In addition, we have completed the assessment, resolution, testing, and certification of critical and key third parties.

We have developed contingency plans for internal systems and third parties and continue to modify these plans as deemed necessary.

Our failure to complete critical corrective actions or implement viable contingency plans in a timely manner could have a material adverse effect on our business, financial condition and operating results.

As indicated above, our risk assessment includes understanding the year 2000 readiness of our suppliers. Our risk assessment process associated with suppliers includes soliciting and analyzing responses to questionnaires distributed to these suppliers, as well as onsite interviews with certain critical suppliers. Critical suppliers include a number of suppliers with operations in China, India and Mexico that are our sole source of certain components for tape drives. We have received 100% of responses from an initial survey sent to suppliers and have received 100% of responses from a second follow-up survey sent to those identified as critical suppliers. To further assess year 2000 readiness, we have conducted on-site visits of our most critical suppliers.

The year 2000 readiness of Matsushita-Kotobuki, our hard disk drive manufacturing partner, is of particular importance. Matsushita-Kotobuki implemented a year 2000 compliance project plan in April 1998, similar in content and structure to that employed by us. We have been informed that all of Matsushita-Kotobuki's critical processes, applications and hardware have been tested and certified for year 2000 compliance. Also, we understand that all key and active processes, applications and hardware are certified as year 2000 compliant. We have performed limited on-site evaluations of Matsushita-Kotobuki operations in Japan, Singapore and Ireland. Additionally, we continue to be in close contact with Matsushita-Kotobuki and we understand that they will keep us updated of any new developments concerning their year 2000 readiness. Our reliance on Matsushita-Kotobuki and other critical suppliers, and therefore, on the proper functioning of their information systems and software, means that any failure by these critical suppliers to address year 2000 issues could have a material adverse impact on our business, financial condition and results of operations. Based on the level of risk assessed of critical suppliers, we have developed contingency plans. However, we do not currently anticipate any significant disruption of service from these critical suppliers.

We are also working closely with key customers to evaluate their readiness for year 2000. The ability of customers to deal with year 2000 issues may affect their operations and their ability to

order and pay for products. We do not currently anticipate that customer order patterns would disrupt our normal course of business.

We believe that third party factors, rather than our internal systems and applications, would be the cause of our most reasonably likely worst case scenario. For example, since we deal extensively with third parties to manufacture and transport products and services, a failure of third party systems could result in a disruption of service, which may result in delays in shipments of our products. For internal systems, we are developing workarounds, which may involve providing manual or other automated processes in lieu of normal procedures.

Our products are inherently year 2000 compliant with the possible exception of certain Meridian products manufactured or released before December 31, 1997. These Meridian products are no longer supported by Quantum. Our families of disk drive products have no internal date clocks, and therefore are not impacted by the year 2000 problem. Our DLTtape drives use a four-character string to describe the year and will not be affected by the year 2000 problem. Additionally, we do not need to make any modifications to any disk or tape drive's internal firmware to accommodate the transition to the year 2000. We consider a disk drive or tape product to be year 2000 compliant when used in accordance with our product information. That product will not generate an error in data related to the year change from December 31, 1999 to January 1, 2000. Furthermore, year 2000 compliant products will correctly handle leap years, including leap years beginning January 1, 2000 and thereafter. However, the assessment of whether a complete computer system operates correctly depends on factors such as the operating system, basic input/output systems, software and components, which companies other than Quantum provide.

Costs incurred to date in addressing the year 2000 issue have been approximately $10.5 million, with $7 million and $3.5 million of this cost in the Hard Disk Drive group and the DLT & Storage Systems group, respectively. Based on assessment and resolution projects underway, we currently expect that the total cost of addressing the year 2000 issue, including both incremental spending and redeployed resources, will not exceed $15 million, with $9.5 million and $5.5 million of this cost in the Hard Disk Drive group and the DLT & Storage Systems group, respectively. However, as the year 2000 efforts continue, we may use third-party vendors or service providers as necessary to assure that we successfully meet program milestones. The use of these third-party vendors or service providers may increase our expected costs. The costs related to the year 2000 effort in fiscal year 2000 are expected to represent approximately 10% of our total information technology budget for the fiscal year. We have not deferred any significant system projects due to the year 2000 program. As our risk assessment and correction activities continue, these costs may change. In addition, our total cost estimate does not include potential costs related to any customer or other claims resulting from our failure to adequately correct year 2000 issues.

Based on assessment and remediation completed to date, we do not expect any significant disruption to our operations or operating results as a result of year 2000 issues. We are taking all steps we believe are appropriate to identify and resolve any year 2000 issues; however, the extent such issues may affect us is uncertain. We cannot assure you that we will be able to assess, identify and correct year 2000 issues in a timely or successful manner. We also cannot assure you that our suppliers, service providers, customers or other third parties will be year 2000 compliant.

The foregoing statements regarding our year 2000 plans and our expectations for resolving these issues and the costs associated therewith are forward-looking statements and actual results could

vary. The severity of the problems to be resolved within Quantum, the year 2000 issues affecting our suppliers and service providers, and the costs associated with third party consultants and software necessary to address these issues could affect our success in addressing year 2000 issues.

Euro Impact

We believe that the adoption of a single currency, the Euro, by eleven European countries will not materially affect our business, information systems or consolidated financial position, operating results or cash flows.

Market Risk Disclosures

For financial market risks related to changes in interest rates and foreign currency exchange rates, reference is made to Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in the Company's Annual Report on Form 10-K for the year ended March 31, 1999.

Item 1. Financial Statements

QUANTUM CORPORATION

DLT & STORAGE SYSTEMS GROUP

<TABLE>

CONDENSED COMBINED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(unaudited)

<CAPTION>

	Three Months Ended September 26, 1999	Three Months Ended September 27, 1998	Six Months Ended September 26, 1999	Six Months Ended September 27, 1998
<S>	<C>	<C>	<C>	<C>
Product revenue	$ 312,074	$ 260,645	$ 603,381	$ 497,304
Royalty revenue	45,024	29,813	84,461	48,856
Total revenue	357,098	290,458	687,842	546,160
Cost of revenue	186,892	158,783	365,986	300,811

Gross profit	170,206	131,675	321,856	245,349
Operating expenses:				
Research and development	30,480	21,979	58,205	43,930
Sales and marketing	26,599	14,866	51,989	27,633
General and administrative	15,238	7,264	29,637	13,711
Purchased in-process research and development	37,000	--	37,000	--
	109,317	44,109	176,831	85,274
Income from operations	60,889	87,566	145,025	160,075
Other income (expense):				
Interest income and other, net	3,687	3,825	10,170	8,190
Interest expense	(4,812)	(4,488)	(9,656)	(8,753)
	(1,125)	(663)	514	(563)
Income before income taxes	59,764	86,903	145,539	159,512
Income tax provision	38,704	34,760	73,014	63,804
Net income	$ 21,060	$ 52,143	$ 72,525	$ 95,708
Net income per share:				
Basic	$ 0.13	$ 0.34	$ 0.44	$ 0.62
Diluted	$ 0.12	$ 0.33	$ 0.42	$ 0.59
Weighted average common shares:				
Basic	165,378	151,527	166,019	155,122
Diluted	173,080	162,695	173,029	161,223

<FN>
See accompanying notes to condensed combined financial statements.
</FN>
</TABLE>

QUANTUM CORPORATION

DLT & STORAGE SYSTEMS GROUP

<TABLE>
CONDENSED COMBINED BALANCE SHEETS
(In thousands)
<CAPTION>

<S>	September 26, 1999 (unaudited) <C>	March 31, 1999 <C>
Assets		
Current assets:		
Cash and cash equivalents	$ 292,618	$ 272,643
Marketable securities	10,155	--
Accounts receivable, net of allowance for doubtful accounts of $3,420 and $2,507	224,969	254,228
Inventories	122,541	124,462
Deferred taxes	35,701	35,594
Other current assets	32,154	8,434
Total current assets	718,138	695,361
Property and equipment, net of accumulated depreciation of $66,157 and $54,630	82,060	73,122
Intangible assets, net	288,791	220,368
Other assets	13,872	24,792
	$1,102,861	$1,013,643
Liabilities and Group Equity		

Current liabilities:		
Accounts payable	$ 84,044	$ 64,025
Accrued warranty	48,678	37,988
Accrued compensation	27,774	22,557
Current portion of long-term debt	715	683
Other accrued liabilities	29,340	32,850
Total current liabilities	190,551	158,103
Deferred taxes	37,955	27,355
Long-term debt	32,275	37,974
Convertible subordinated debt	191,667	191,667
Group equity	650,413	598,544
	$1,102,861	$1,013,643

<FN>
See accompanying notes to condensed combined financial statements.
</FN>
</TABLE>

QUANTUM CORPORATION

DLT & STORAGE SYSTEMS GROUP

<TABLE>
CONDENSED COMBINED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

<CAPTION>

	Six Months Ended September 26, 1999	Six Months Ended September 27, 1998
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	$ 72,525	$ 95,708
Adjustments to reconcile net income to net cash provided by operations:		
Purchased in-process research and development	37,000	--
Depreciation	15,377	12,543
Amortization	11,916	4,736
Deferred income taxes	(107)	--
Compensation related to stock plans	1,096	2,296
Changes in assets and liabilities:		
Accounts receivable	29,623	(50,870)
Inventories	3,062	5,458
Accounts payable	17,904	9,925
Accrued warranty	10,105	3,033
Other assets and liabilities	(21,371)	5,929
Net cash provided by operating activities	177,130	88,758
Cash flows from investing activities:		
Purchases of marketable securities	(39)	--
Acquisition of intangible assets	(2,500)	--
Investment in property and equipment	(19,784)	(16,274)
Net cash used in investing activities	(22,323)	(16,274)
Cash flows from financing activities:		
Proceeds from long-term credit facilities	6,667	--
Principal payments on long-term credit facilities	(12,334)	(304)
Inter-group payment for common stock issued	(2,835)	--
Purchases of treasury stock	(144,094)	(264,220)
Proceeds from issuance of common stock, net	17,764	13,347
Net cash used in financing activities	(134,832)	(251,177)
Increase (decrease) in cash and cash equivalents	19,975	(178,693)
Cash and cash equivalents at beginning of period	272,643	388,910
Cash and cash equivalents at end of period	$ 292,618	$ 210,217
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 8,620	$ 8,315

Income taxes, net of (refunds)	$ 3,866	$ (25,669)
Tangible and intangible assets acquired for shares of DSSG and HDDG common stock, net of cash acquired and liabilities assumed	$ 101,863	$ --

<FN>

See accompanying notes to condensed combined financial statements.

</FN>
</TABLE>

QUANTUM CORPORATION

DLT & STORAGE SYSTEMS GROUP

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS
(unaudited)

1. Basis of presentation

The accompanying unaudited condensed combined financial statements of the DLT & Storage Systems group ("DSSG"), together with the condensed combined financial statements of the Hard Disk Drive group ("HDDG") include all of the accounts in the condensed consolidated financial statements of Quantum. The separate group condensed combined financial statements give effect to the accounting policies applicable with the implementation of the tracking stock proposal. The separate DSSG and HDDG financial statements have been prepared on a basis that management believes to be reasonable and appropriate and include (i) the historical balance sheets, results of operations, and cash flows of businesses that comprise each of the groups, with all significant intragroup transactions and balances eliminated, (ii) in the case of DSSG's financial statements, corporate assets and liabilities of Quantum and related transactions identified with DSSG, including allocated portions of Quantum's debt and selling, general and administrative costs, and (iii) in the case of HDDG's financial statements, corporate assets and liabilities of Quantum and related transactions identified with HDDG, including allocated portions of Quantum's debt and selling, general and administrative costs.

The condensed combined financial statements of the DLT & Storage Systems Group provide DSSG stockholders with financial information about the DLT & Storage Systems group operations. Holders of DSSG stock and HDDG stock are Quantum stockholders and are subject to all of the risks of an investment in Quantum and all of Quantum's businesses, assets and liabilities. Quantum retains ownership and control of all of the assets and operations of each group. Financial effects arising from one group that affect Quantum's consolidated results of operations or financial condition could, if significant, affect the results of operations or financial condition of the other group and the market price of the other group's stock. Any net losses of DSSG or HDDG, and dividends or distributions on, or repurchases of HDDG stock, or repurchases of preferred stock at a price per share greater than par value, will reduce the funds of Quantum legally available for payment of dividends on DSSG stock. As a result, DSSG's condensed combined financial statements should be read in conjunction with Quantum's condensed consolidated financial statements and HDDG's condensed combined financial statements. The condensed combined balance sheet as of March 31, 1999 has been derived from the audited financial statements included in the Registration Statement on Form S-4 (SEC File No. 333-75153) filed with the Securities and Exchange Commission, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

These interim financial statements reflect all adjustments, consisting only of normal recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for the full fiscal year. Certain prior period amounts have been reclassified to conform to the current period's presentation.

2. Inventories

Inventories consisted of the following:
(In thousands)

	September 26, 1999	March 31, 1999
Materials and purchased parts	$ 58,716	$ 60,138
Work in process	26,547	22,154
Finished goods	37,278	42,170
	$122,541	$124,462

======== ========

3. Net income per share

On July 23, 1999, Quantum's stockholders approved the tracking stock proposal and Quantum implemented the tracking stock proposal on August 3, 1999. Accordingly, the net income per share for the periods presented below have been calculated in accordance with the Restated Certificate of Incorporation.

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

<CAPTION>

(In thousands, except per share data)	Three Months Ended September 26, 1999	Three Months Ended September 27, 1998	Six Months Ended September 26, 1999	Six Months Ended September 27, 1998
<S>	<C>	<C>	<C>	<C>
Numerator:				
Numerator for basic net income per share - income available to common stockholders	$ 21,060	$ 52,143	$ 72,525	$ 95,708
Effect of dilutive securities: 7% convertible subordinated notes	--	2,013	--	--
Numerator for diluted net income per share - income available to common stockholders	$ 21,060	$ 54,156	$ 72,525	$ 95,708
Denominator:				
Denominator for basic net income per share - weighted average shares	165,378	151,527	166,019	155,122
Effect of dilutive securities:				
Outstanding options	7,702	4,962	7,010	6,101
7% convertible subordinated notes	--	6,206	--	--
Denominator for diluted net income per share - adjusted weighted average shares	173,080	162,695	173,029	161,223
Basic net income per share	$ 0.13	$ 0.34	$ 0.44	$ 0.62
Diluted net income per share	$ 0.12	$ 0.33	$ 0.42	$ 0.59

</TABLE>

The computation of diluted net income per share for the three and six months ended September 26, 1999, and the six months ended September 27, 1998, excluded the effect of the 7% convertible subordinated notes issued in July 1997, which are convertible into 6,206,152 shares of DSSG common stock, or 21.587 shares per $1,000 note, because the effect would have been antidilutive.

4. Group Equity

In September 1999, Quantum's DLT & Storage Systems group issued 4.1 million DSSG shares and 1.9 million HDDG shares it had acquired (and HDDG issued 0.1 million HDDG shares) to the stockholders of Meridian Data, Inc. ("Meridian") to complete the acquisition of Meridian as a wholly owned subsidiary of Quantum. In part, DSSG reissued DSSG and HDDG shares held as treasury stock to complete the acquisition. The difference between the cost of the treasury stock and the value at which the shares were reissued resulted in a $3.5 million addition to paid-in-capital in the quarter ended September 26, 1999. For additional information regarding the Meridian acquisition, refer to Note 5 of the Notes to Condensed Combined Financial Statements.

In May 1999, the Board of Directors authorized Quantum to repurchase a combined total of up to $200 million of Quantum's common stocks through the open market from time to time. In part, the intent of the repurchase was to minimize the dilutive impact of the shares issued to complete the acquisition of Meridian. During the six months ended September 26, 1999, DSSG repurchased 7.2 million shares of DSSG common stock and acquired 1.9 million shares of HDDG common stock for $144 million, and HDDG repurchased 0.3 million shares of HDDG common stock for $2 million.

In October 1999, the Board of Directors authorized an increase in Quantum's stock repurchase program, increasing the previously authorized amount of $200 million to a total of $600 million. The increase is intended primarily for repurchase of DSSG common stock.

5. Business Combination

On September 10, 1999, Quantum's DLT & Storage Systems group completed the acquisition of Meridian. Meridian is a developer and manufacturer of network attached storage solutions utilizing both conventional hard disk drive and optical disk technologies for the PC local area network environment. The acquisition has been accounted for as a purchase at a total cost of $115 million. The acquisition was completed with the issuance of 4.1 million shares of DSSG common stock and 2 million shares of HDDG common stock valued at $74 million and $18 million, respectively, on the date of acquisition in exchange for all outstanding shares of Meridian, the conversion of outstanding Meridian stock options into options to purchase 630,000 shares of DSSG common stock and 315,000 shares of HDDG common stock valued at $8 million and $2 million, respectively, and the assumption of Meridian liabilities and other acquisition costs of approximately $13 million. At the date of acquisition, Meridian had $11 million of cash and marketable securities and a net operating loss carryforward for U.S. federal income tax purposes of approximately $46 million. Meridian's results of operations are included in the financial statements as of the date of acquisition, and the assets and liabilities acquired were recorded based on their fair values as of the date of acquisition. Pro forma results of operations have not been presented because the effect of the acquisition was not material.

The excess of the purchase price over the fair value of the net tangible assets acquired has been allocated to the following identifiable intangible assets: goodwill, trademarks, workforce in place, developed technology and in-process research and development. As of the acquisition date, technological feasibility of the in-process technology has not been established and the technology has no alternative future use. Therefore, DSSG has expensed the amount of the purchase price allocated to in-process research and development, estimated at $37 million as of the date of acquisition. This amount and the other components of the purchase price allocation are preliminary. The remaining identifiable intangible assets, valued at $77 million, will be amortized on a straight-line basis over periods ranging from five to ten years.

The amount of the purchase price allocated to in-process research and development was determined by estimating the stage of development of each in-process research and development project at the date of acquisition, estimating cash flows resulting from the expected revenue generated from such projects, and discounting the net cash flows back to their present value using a discount rate of 21%, which represents a premium to Quantum's cost of capital. The expected revenue assumes an average compound annual revenue growth rate of 64% during calendar years 1999 through 2007. Expected total revenue from the purchased in-process projects peak in calendar year 2005 and then begin to decline as other new products are expected to be introduced. These projections are based on management's estimates of market size and growth, expected trends in technology and the expected timing of new product introductions. If products are not successfully developed, DSSG may not realize the value assigned to the in-process research and development projects. In addition, the value of the other acquired intangible assets may also become impaired.

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

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements usually contain the words "estimate," "anticipate," "expect," or similar expressions. All forward-looking statements are inherently uncertain as they are based on various expectations and assumptions concerning future events and they are subject to numerous known and unknown risks and uncertainties. These uncertainties could cause actual results to differ materially from those expected for the reasons set forth under Trends and Uncertainties relating to the DLT & Storage Systems group. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

Business Overview

The DLT & Storage Systems group ("DSSG") designs, develops, manufactures, licenses and markets DLTtape drives, DLTtape media cartridges and storage systems. DSSG's storage systems consist of DLTtape libraries, solid state storage systems, network attached storage servers, CD-ROM/DVD-ROM enterprise networking servers, and a new category of local area network storage appliance which incorporates a DLTtape library.

DLTtape products are used to back up large amounts of data stored on network servers. Digital Linear Tape, or DLTtape, is DSSG's half-inch tape technology that is the de facto industry standard for data back-up in the mid-range network server market. DSSG's DLTtape media cartridges are manufactured primarily by licensed third party manufacturers.

DSSG's tape libraries serve the entire tape library data storage market from desktop computers to enterprise class computers. DSSG's local area network storage appliance is designed for remote site back-up that provides central management and Web based customer service. With the acquisition of Meridian Data, Inc. completed in September, 1999, DSSG has become a leader in the rapidly emerging market for network attached storage appliances with products designed to meet the requirements of entry and workgroup level computing environments where multiple computer users access shared data files over a local area network.

Prior to 1998, DSSG derived revenue from the direct sale of both DLTtape drives and DLTtape media cartridges. Beginning in 1998, DSSG's licensed third party DLTtape media manufacturers also began selling DLTtape media cartridges. DSSG receives a royalty fee on DLTtape media cartridges sold by its licensees which, while resulting in lower revenue than DLTtape media sold directly by DSSG, generates comparable income from operations. DSSG prefers DLTtape media cartridge sales to occur through its license model because this minimizes DSSG's operational risks and expenses and provides a more efficient distribution channel. Currently, over 80% of media sales occur through this license model. DSSG believes that the large installed base of DLTtape drives and its licensing of DLTtape drives and media cartridges give DSSG a unique competitive advantage.

Products

The DLT & Storage Systems group's products include:

DLT:

- DLTtape drives. DSSG offers three tape drive products--the DLT8000, the DLT7000 and the DLT4000. The DLT8000 provides a combination of 40 gigabytes (GB) of native capacity (80GB compressed) and a sustained data transfer rate of 6 megabytes (MB) per second (12MB compressed). The DLT7000 provides a combination of 35GB of native capacity (70GB compressed) and a sustained data transfer rate of 5MB per second (10MB compressed). The DLT4000 provides a combination of 20GB of native capacity (40GB compressed) and a sustained data transfer rate of 1.5MB per second (3MB compressed).

- DLTtape media cartridges. The DLTtape family of half-inch tape media cartridges are designed and formulated specifically for use with DLTtape drives. The capacity of a DLTtape media cartridge is up to 40GB (80GB compressed). DSSG's half-inch tape cartridges take advantage of shorter wavelength recording schemes to enable read compatibility with future generations of DLTtape drives such as those based on Super DLTtape technology.

Storage Systems:

- Tape libraries. DSSG offers a broad line of automated DLTtape libraries that support a wide range of back-up and archival needs from workgroup servers to enterprise-class servers. DSSG's tape libraries range from its tape autoloaders which accommodate a single DLTtape drive and up to 280GB of storage capacity to the P3000 series library which features Prism Library Architecture(TM) and can be configured in multiple units to scale up to 11.4 Terabytes of storage capacity. In addition, DSSG offers WebAdmin(TM), the industry's first Internet browser-based tape library management system, allowing system administrators to monitor widely distributed storage systems at remote locations with point-and-click ease.

- Solid state storage systems. DSSG offers two families of solid state storage systems that are available in capacities ranging from 134MB to 3.2GB and have data access times that are up to 15 times faster than magnetic hard disk drives. Solid state storage systems store data on memory chips which enable significantly faster data access times than magnetic disks used in standard hard disk drives.

- Network attached storage systems. DSSG's Snap! Server (TM) family of network attached storage appliances offers options for 20GB and 40GB of network storage. These products provide the ease of plug-and-play features and can be directly attached to workgroup-level networks, providing instant additional network storage capacity. No special configurations are needed for ordinary use and advanced configuration options enable added value features.

- CD-ROM/DVD-ROM enterprise networking systems. DSSG offers two families of CD-ROM/DVD-ROM workgroup servers--network attached solutions and SCSI attached solutions.

- LANvault (TM) tape backup appliance. DSSG recently announced the introduction of LANvault, a product that incorporates a backup appliance with a DLTtape library, a central management console and a customer service Web portal. This product is intended to meet the

requirements for remote site backup and is designed as a plug-and-play appliance preloaded with industry-standard backup software for ease of installation and use.

Results of Operations

Revenue. Revenue in the three and six months ended September 26, 1999 was $357 million and $688 million, respectively, compared to $290 million and $546 million, respectively, for the corresponding periods in fiscal year 1999. The increase in revenue reflected increased revenue from sales of DLTtape drives, tape libraries and increased DLTtape media royalties. Revenue from tape libraries and DLTtape media royalties reached record highs in the three and six month periods. The increase in DLTtape drive revenue reflected an increase in shipments, partially offset by a decline in the average unit price. The increase in tape library revenue reflected an increase in shipments of tape libraries and the acquisition of ATL Products, Inc. in September 1998. The increase in DLTtape media royalties reflected an increase in the sales of DLTtape media cartridges at licensed media manufacturers for which DSSG earns a royalty fee. The overall increase in sales of DLTtape media cartridges reflects sales of cartridges for use in both new DLTtape drives and to meet the ongoing new media needs of the installed base of DLTtape drives.

<TABLE>
The table below summarizes the components of DSSG's revenue in the three and six months ended September 26, 1999 and September 27, 1998:

<CAPTION>

(in millions)	Three Months Ended		Six Months Ended	
	September 26, 1999	September 27, 1998	September 26, 1999	September 27, 1998
<S>	<C>	<C>	<C>	<C>
DLT drives	$219	$192	$438	$350
DLT media	36	50	64	113
DLT royalty	45	30	84	49
Storage systems	82	18	149	34
Intra-group elimination*	(25)	-	(47)	-
Revenue	$357	$290	$688	$546

<FN>
* Represents intra-group sales of DLTtape drives for incorporation into DSSG's tape libraries.
</FN>
</TABLE>

Sales to the top five customers in the three and six months ended September 26, 1999 represented 47% and 48% of revenue, respectively, compared to 56% and 55% of revenue, respectively, for the corresponding periods in fiscal year 1999. These amounts reflected a retroactive combination of sales to Compaq and Digital Equipment as a result of their merger in June 1998. Sales to Compaq were 18% and 20% of revenue in the three and six months ended September 26, 1999, respectively, compared to 27% and 26% of revenue, respectively, in the corresponding periods in fiscal year 1999, including sales to Digital Equipment. Sales to Hewlett Packard were 16% and 15% of revenue in the three and six months ended September 26, 1999, respectively, compared to 14% and 13% of revenue, respectively, in the corresponding periods in fiscal year 1999.

Sales to computer equipment manufacturers and distribution channel customers were 62% and 18% of revenue in the three months ended September 26, 1999, respectively, compared to 72% and 18% of revenue in the three months ended September 27, 1998. For the six months ended September 26,

1999, computer equipment manufacturer and distribution channel sales were 65% and 15% of revenue, compared to 73% and 18% of revenue in the corresponding period of fiscal year 1999. The remaining revenue in the three and six months ended September 27, 1998 represented media royalty revenue and in the three and six months ended September 26, 1999, represented media royalty revenue and sales to value-added resellers.

Gross Margin Rate. The gross margin rate in the three months ended September 26, 1999, was 47.7%, compared to 45.3% in the three months ended September 27, 1998. The gross margin rate for the first six months of fiscal year 2000 was 46.8% compared to 44.9% for the corresponding period of fiscal year 1999. The increase in the gross margin rate reflected an increase in the proportion of overall revenue represented by DLTtape media royalty revenue partially offset by a decline in the gross margin rate earned on DLTtape drives.

Research and Development Expenses. Research and development expenses in the three and six months ended September 26, 1999, were $30 million, or 8.5% of revenue, and $58 million, or 8.5% of revenue, respectively, compared to $22 million, or 7.6% of revenue, and $44 million, or 8.0% of revenue, respectively, in the corresponding periods in fiscal year 1999. The increase in research and development expenses reflected the combining of ATL's expenses which were not included in the prior year periods, as the acquisition occurred on September 28, 1998, and higher research and development expenses related to new tape drive products and other new information storage products, including Super DLTtape technology.

Sales and Marketing Expenses. Sales and marketing expenses in the three and six months ended September 26, 1999, were $27 million, or 7.4% of revenue, and $52 million, or 7.6% of revenue, respectively, compared to $15 million, or 5.1% of revenue, and $28 million, or 5.1% of revenue, respectively, in the corresponding periods in fiscal year 1999. The increase in sales and marketing expenses reflected the increased level of sales, the combining of ATL's expenses, and an overall increase in marketing and advertising costs associated with DLTtape products. DSSG expects the amount of sales and marketing expenses to increase in the third quarter of fiscal year 2000 as a result of including a full quarter of expenses relating to the Meridian acquisition.

General and Administrative Expenses. General and administrative expenses in the three and six months ended September 26, 1999, were $15 million, or 4.3% of revenue, and $30 million, or 4.3% of revenue, respectively, compared to $7 million, or 2.5% of revenue, and $14 million, or 2.5% of revenue, respectively, in the corresponding periods of fiscal year 1999. The increase in general and administrative expenses reflected the expansion of DSSG's infrastructure to support increased revenue and earnings, the combining of ATL's expenses, and the amortization of intangible assets, particularly goodwill. DSSG expects the amount of general and administrative expenses to increase in the third quarter of fiscal year 2000 as a result of including a full quarter of amortization of intangible assets acquired as part of the Meridian acquisition.

Purchased In-process Research and Development Expense. DSSG expensed purchased in-process research and development, preliminarily valued at $37 million, as a result of the Meridian

acquisition in the three months ended September 26, 1999. For additional information regarding the Meridian acquisition and the costs associated with in-process research and development, refer to Note 5 of the Notes to Condensed Combined Financial Statements.

Interest and Other Income/Expense. Net interest and other income and expense in the three and six months ended September 26, 1999 was $1.1 million expense and $0.5 million income, respectively, compared to $0.7 million expense and $0.6 million expense, respectively, in the corresponding periods of fiscal year 1999. The income for the six months ended September 26, 1999 reflected a $2.6 million gain on the sale of an equity investment recognized in the first quarter of fiscal year 2000.

Income Taxes. No tax benefit was recognizable for the charge for purchased in-process research and development related to the acquisition of Meridian. DSSG's effective tax rate for the three and six months ended September 26, 1999, and September 27, 1998, was 40%.

Liquidity and Capital Resources

Operating Activities. DSSG generated cash from operations of $177 million in the six months ended September 26, 1999 compared to $89 million in the six months ended September 27, 1998. The increase primarily reflected higher net income, excluding the non-cash charge for purchased in-process research and development, and collection of accounts receivable.

Investing Activities. Investments in the six months ended September 26, 1999 were $22 million, consisting of investments in property and equipment and acquisition of intangible assets. Investments in the six months ended September 27, 1998 totaled $16 million.

Financing Activities. At September 26, 1999, and March 31, 1999, Quantum's debt allocated to DSSG was $225 million and $230 million, respectively. Debt allocated to DSSG bears interest at a rate equal to the weighted average interest rate of Quantum's total debt, calculated on a quarterly basis. At September 26, 1999, Quantum had total debt of $337 million with an average interest rate of 8.5%. As discussed below, in the six months ended September 26, 1999, DSSG used cash to purchase $144 million of treasury stock.

In September 1999, Quantum's DLT & Storage Systems group issued 4.1 million DSSG shares and 1.9 million HDDG shares it had acquired (and HDDG issued 0.1 million HDDG shares) to the stockholders of Meridian to complete the acquisition of Meridian as a wholly owned subsidiary of Quantum. In part, DSSG reissued DSSG and HDDG shares held as treasury stock to complete the acquisition. The difference between the cost of the treasury stock and the value at which the shares were reissued resulted in a $3.5 million addition to paid-in-capital in the quarter ended September 26, 1999. For additional information regarding the Meridian acquisition, refer to Note 5 of the Notes to Condensed Combined Financial Statements.

In May 1999, the Board of Directors authorized Quantum to repurchase a combined total of up to $200 million of Quantum's common stocks through the open market from time to time. In part, the intent of the repurchase was to minimize the dilutive impact of the shares issued to complete the

acquisition of Meridian. During the six months ended September 26, 1999, DSSG repurchased 7.2 million shares of DSSG common stock and acquired 1.9 million shares of HDDG common stock for $144 million, and HDDG repurchased 0.3 million shares of HDDG common stock for $2 million.

In October 1999, the Board of Directors authorized an increase in Quantum's stock repurchase program, increasing the previously authorized amount of $200 million to a total of $600 million. The increased authorization allows Quantum to repurchase its common stocks through the open market or through other mechanisms. The increase is intended primarily for repurchase of DSSG common stock.

In December 1998, ATL entered into a senior credit facility that provides a $35 million revolving credit line to ATL. The revolving credit line is co-terminous with Quantum's $500 million revolving credit line, expiring in June 2000. As amended, at the option of ATL, borrowings under the revolving credit line bear interest at either London interbank offered rate plus a margin determined by Quantum's total funded debt ratio, or at a base rate, with option periods of two weeks to six months. At September 26, 1999, $10 million was outstanding on this revolving credit line.

In June 1997, Quantum entered into an unsecured senior credit facility that provides a $500 million revolving credit line and expires in June 2000. At Quantum's option, borrowings under the revolving credit line bear interest at either London interbank offered rate plus a margin determined by our total funded debt ratio, or at a base rate, with option periods of one to six months. At September 26, 1999, there was no outstanding balance drawn on this line.

DSSG expects to spend approximately $70 million in fiscal year 2000 for capital equipment and leasehold improvements. These capital expenditures will support the DLTtape product line, production of Super DLTtape products and DSSG's general infrastructure.

DSSG expects its cash flow from operations, together with available financing sources, will be sufficient to meet all currently planned expenditures and sustain operations for the next 12 months. However, this belief assumes that operating results and cash flow from operations will meet our expectations.

Trends and Uncertainties Relating to the DLT & Storage Systems Group

Holders of DSSG stock remain stockholders of one company and, therefore, financial effects on HDDG could adversely affect DSSG

Holders of DSSG stock and HDDG stock are stockholders of a single company. DSSG and HDDG are not separate legal entities. As a result, stockholders will continue to be subject to all of the risks of an investment in Quantum and all of its businesses, assets and liabilities. The issuance of the DSSG stock and the HDDG stock and the allocation of assets and liabilities and stockholders' equity between DSSG and HDDG did not result in a distribution or spin-off to stockholders of any Quantum assets or liabilities and did not affect ownership of our assets or responsibility for our liabilities or those of our subsidiaries. The assets we attribute to one group could be subject to the liabilities of the other group, whether such liabilities arise from lawsuits, contracts or indebtedness that we attribute to the other group. If we are unable to satisfy one group's liabilities out of the assets we attribute to it, we may be required to satisfy those liabilities with assets we attribute to the other group.

Financial effects from one group that affect our consolidated results of operations or financial condition could, if significant, affect the results of operations or financial condition of the other group and the market price of the tracking stock relating to the other group. In addition, net losses of either group and dividends and distributions on, or repurchases of, either class of tracking stock or repurchases of preferred stock at a price per share greater than par value will reduce the funds we can pay on each class of tracking stock under Delaware law. For these reasons, you should read our consolidated financial information with the financial information we provide for each group.

Competition may increase in the tape drive market as a result of large competitors introducing tape drive products based on new technology standards

DSSG competes with companies that develop, manufacture, market and sell tape drive products. DSSG's principal competitors include Exabyte Corporation, Hewlett-Packard, Seagate Technology, Inc., Sony Corporation and StorageTek. These competitors are aggressively trying to develop new tape drive technologies that compete more successfully with DLTtape technology. Hewlett-Packard, IBM and Seagate have formed a consortium to develop new linear tape drive products. DSSG expects products based on this developing technology standard to target the high-capacity data back-up market and to compete with DSSG's products based on Super DLTtape technology. Such competition could have a material adverse impact on DSSG's operating results.

DSSG's operating results depend on new product introductions which may not be successful

To compete effectively, DSSG must improve existing products and introduce new products, such as products based on Super DLTtape technology and network attached storage appliances. DSSG cannot assure you that:

- it will introduce any of these new products in the time frame DSSG currently forecasts;

- it will not experience technical or other difficulties that could prevent or delay the introduction of these new products;

- its new products will achieve market acceptance;

- its new products will be successfully or timely qualified with DSSG's customers by meeting customer performance and quality specifications. A successful and timely customer qualification must occur before customers will place large product orders; or

- it will achieve high volume production of these new products in a timely manner, if at all.

This risk is magnified because DSSG expects technological changes, changes in customer requirements and increasing competition could result in declining sales and gross margins on its existing products.

Reliance on a limited number of third-party suppliers could result in significantly increased costs and delays in the event these suppliers experience shortages or quality problems

DSSG depends on a limited number of suppliers for components and sub-assemblies, including recording heads, media cartridges and integrated circuits, all of which are essential to the manufacture of DLTtape drives and tape libraries. DSSG currently purchases the DLTtape media cartridges it sells primarily from Fuji Photo Film Co., Ltd. and Hitachi Maxell, Ltd. DSSG cannot assure you that Fuji or Maxell will continue to supply adequate high quality media cartridges in the future. If component shortages occur, or if DSSG experiences quality problems with component suppliers, shipments of products could be significantly delayed and/or costs significantly increased. In addition, DSSG qualifies only a single source for many components and sub-assemblies, which magnifies the risk of future shortages.

DSSG's sole supplier of tape heads is located in China and political instability, trade restrictions or currency fluctuations in China could have an adverse impact on DSSG's operating results.

DSSG's sole supplier of tape heads is located in China and political instability, trade restrictions, changes in tariff or freight rates or currency fluctuations in China could result in increased costs, delays in shipment and could have an adverse impact on DSSG's operating results.

DSSG's quarterly operating results could fluctuate significantly and past quarterly operating results should not be used to predict future performance

DSSG's quarterly operating results have fluctuated significantly in the past and could fluctuate significantly in the future. Quarterly operating results could be adversely affected by:

- delayed technology purchases as a result of caution before the year 2000 transition;
- an inadequate supply of DLTtape media cartridges;
- customers canceling, deferring or rescheduling significant orders as a result of excess inventory levels or other factors;
- declines in network server demand; or
- failure to complete shipments in the last month of a quarter during which a substantial portion of DSSG's products are typically shipped.

A majority of sales come from a few customers and these customers have no minimum or long-term purchase commitments

DSSG's sales are concentrated with a few customers. Customers are not obligated to purchase any minimum product volume and DSSG's relationships with its customers are terminable at will. The

loss of, or a significant change in demand from, one or more key customers could materially adversely impact DSSG's operating results.

Unpredictable end-user demand may cause excess inventories which could result in inventory write-downs or losses or insufficient inventories which could have and an adverse impact on DSSG's customer relationships

Unpredictable end-user demand, combined with the computer equipment manufacturer trend toward carrying minimal inventory levels, increases the risk that DSSG will manufacture and custom configure too much or too little inventory for particular customers. Significant excess inventory could result in inventory write-downs and losses while inventory shortages could adversely impact DSSG's relationship with its customers, either of which could adversely impact DSSG's operating results.

DSSG does not control licensee pricing or licensee sales of DLTtape media cartridges and as a result DSSG's royalty revenue may decline

DSSG receives a royalty fee based on sales of DLTtape media cartridges by Fuji and Maxell. Under DSSG's license agreements with Fuji and Maxell, each of the licensees determine the pricing and number of units of DLTtape media cartridges sold by it. As a result, DSSG's royalty revenue will vary depending upon the level of sales and prices set by Fuji and Maxell. In addition, lower licensee pricing could require DSSG to lower its prices on direct sales of DLTtape media cartridges which would adversely impact DSSG's margins for this product.

Third party infringement claims could result in substantial liability and significant costs

From time to time, third parties allege DSSG's infringement of and need for a license under their patented or other proprietary technology. Adverse resolution of any third party infringement claim could subject DSSG to substantial liabilities and require it to refrain from manufacturing and selling certain products. In addition, the costs incurred in intellectual property litigation can be substantial, regardless of the outcome.

Item 1. Financial Statements

QUANTUM CORPORATION

HARD DISK DRIVE GROUP

<TABLE>

CONDENSED COMBINED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(unaudited)

<CAPTION>

	Three Months Ended		Six Months Ended	
	September 26, 1999	September 27, 1998	September 26, 1999	September 27, 1998
<S>	<C>	<C>	<C>	<C>
Revenue	$ 768,214	$ 874,253	$ 1,520,705	$ 1,721,574
Cost of revenue - on net sales	745,989	814,039	1,470,211	1,608,661
Cost of revenue - special charge	57,068	--	57,068	--
Gross profit (loss)	(34,843)	60,214	(6,574)	112,913
Operating expenses:				
Research and development	61,973	60,661	124,681	123,008
Sales and marketing	28,860	30,520	56,691	56,090
General and administrative	15,332	14,230	30,077	25,184
Special charge	2,338	--	2,338	--
	108,503	105,411	213,787	204,282
Loss from operations	(143,346)	(45,197)	(220,361)	(91,369)
Other income (expense):				
Interest income and other, net	3,423	2,307	9,387	6,645
Interest expense	(2,406)	(2,237)	(4,770)	(4,474)
Loss from investee	--	(17,113)	--	(41,350)
	1,017	(17,043)	4,617	(39,179)
Loss before income taxes	(142,329)	(62,240)	(215,744)	(130,548)
Income tax benefit	(58,642)	(27,362)	(88,873)	(55,116)
Net loss	$ (83,687)	$ (34,878)	$ (126,871)	$ (75,432)
Net loss per share:				
Basic	$ (1.01)	$ (0.46)	$ (1.53)	$ (0.97)
Diluted	$ (1.01)	$ (0.46)	$ (1.53)	$ (0.97)
Weighted average common shares:				
Basic	82,883	75,763	83,107	77,561
Diluted	82,883	75,763	83,107	77,561

<FN>
See accompanying notes to condensed combined financial statements.
</FN>
</TABLE>

QUANTUM CORPORATION

HARD DISK DRIVE GROUP

CONDENSED COMBINED BALANCE SHEETS
(In thousands)

	September 26, 1999 (unaudited)	March 31, 1999
Assets		
Current assets:		
Cash and cash equivalents	$ 396,392	$ 499,725
Marketable securities	24,479	24,426
Accounts receivable, net of allowance for doubtful accounts of $7,001 and $9,623	367,289	392,329
Inventories	151,132	147,524
Deferred taxes	72,000	72,107
Other current assets	117,797	96,401
Total current assets	1,129,089	1,232,512
Property and equipment, net of accumulated depreciation of $201,383 and $236,987	189,570	198,806
Intangible assets, net	3,557	5,199
Other assets	32,748	33,436
	$1,354,964	$1,469,953
Liabilities and Group Equity		
Current liabilities:		
Accounts payable	$ 293,320	$ 342,344
Accrued warranty	44,480	38,917
Accrued compensation	41,126	51,048
Income taxes payable	26,004	33,411
Current portion of long-term debt	357	341
Other accrued liabilities	122,494	57,841
Total current liabilities	527,781	523,902
Deferred taxes	40,390	39,985
Long-term debt	16,137	18,987
Convertible subordinated debt	95,833	95,833
Group equity	674,823	791,246
	$1,354,964	$1,469,953

See accompanying notes to condensed combined financial statements.

QUANTUM CORPORATION

HARD DISK DRIVE GROUP

<TABLE>

CONDENSED COMBINED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

<CAPTION>

<S>	Six Months Ended September 26, 1999 <C>	Six Months Ended September 27, 1998 <C>
Cash flows from operating activities:		
Net loss	$(126,871)	$ (75,432)
Adjustments to reconcile net loss to net cash provided by (used in) operations:		
Special charge	58,385	--
Loss from investee	--	41,350
Depreciation	33,119	32,798
Amortization	1,956	2,576
Deferred income taxes	512	1,003
Compensation related to stock plans	544	1,147
Changes in assets and liabilities:		
Accounts receivable	25,040	125,784
Inventories	(3,608)	13,777
Accounts payable	(49,024)	(58,820)
Income taxes payable	(7,407)	(11,693)

Accrued warranty	5,563	(4,754)
Other assets and liabilities	(15,601)	10,568
Net cash provided by (used in) operating activities	(77,392)	78,304
Cash flows from investing activities:		
Purchases of marketable securities	(33,367)	(48,798)
Maturities of marketable securities	33,314	91,131
Investment in property and equipment	(30,125)	(41,168)
Net cash provided by (used in) investing activities	(30,178)	1,165
Cash flows from financing activities:		
Proceeds from long-term credit facilities	3,333	--
Principal payments on long-term credit facilities	(6,167)	(153)
Inter-group proceeds for common stock issued	2,835	--
Purchase of treasury stock	(1,558)	--
Proceeds from issuance of common stock, net	5,794	6,673
Net cash provided by financing activities	4,237	6,520
Increase (decrease) in cash and cash equivalents	(103,333)	85,989
Cash and cash equivalents at beginning of period	499,725	253,240
Cash and cash equivalents at end of period	$ 396,392	$ 339,229
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 4,361	$ 4,157
Income taxes	$ 14,475	$ 17,853

<FN>
See accompanying notes to condensed combined financial statements.
</FN>
</TABLE>

QUANTUM CORPORATION

HARD DISK DRIVE GROUP

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS
(unaudited)

1. Basis of presentation

The accompanying unaudited condensed combined financial statements of the Hard Disk Drive group ("HDDG"), together with the condensed combined financial statements of the DLT & Storage Systems group ("DSSG") include all of the accounts in the condensed consolidated financial statements of Quantum. The separate group condensed combined financial statements give effect to the accounting policies applicable with the implementation of the tracking stock proposal. The separate HDDG and DSSG financial statements have been prepared on a basis that management believes to be reasonable and appropriate and include (i) the historical balance sheets, results of operations, and cash flows of businesses that comprise each of the groups, with all significant intragroup transactions and balances eliminated, (ii) in the case of HDDG's financial statements, corporate assets and liabilities of Quantum and related transactions identified with HDDG, including allocated portions of Quantum's debt and selling, general and administrative costs, and (iii) in the case of DSSG's financial statements, corporate assets and liabilities of Quantum and related transactions identified with DSSG, including allocated portions of Quantum's debt and selling, general and administrative costs.

The condensed combined financial statements of the Hard Disk Drive group provide HDDG stockholders with financial information about the Hard Disk Drive group operations. Holders of HDDG stock and DSSG stock are Quantum stockholders and are subject to all of the risks of an investment in Quantum and all of Quantum's businesses, assets and liabilities. Quantum retains ownership and control of all of the assets and operations of each group. Financial effects arising from one group that affect Quantum's consolidated results of operations or financial condition could, if significant, affect the results of operations or financial condition of the other group and the market price of the other group's stock. Any net losses of HDDG or DSSG, and dividends or distributions on, or repurchases of DSSG stock, or repurchases of preferred stock at a price per share greater than par value, will reduce the funds of Quantum legally available for payment of dividends on HDDG stock. As a result, HDDG's condensed combined financial statements should be read in conjunction with Quantum's condensed consolidated financial statements and DSSG's condensed combined financial statements. The condensed combined balance sheet as of March 31, 1999 has been derived from the audited financial statements included in the Registration Statement on Form S-4 (SEC File No. 333-75153) filed with the Securities and Exchange Commission, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

These interim financial statements reflect all adjustments, consisting only of normal recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for the full fiscal year. Certain prior period amounts have been reclassified to conform to the current period's presentation.

2. Inventories

Inventories consisted of the following:
(In thousands)

	September 26, 1999	March 31, 1999
Materials and purchased parts	$ 1,834	$ 2,204
Work in process	10,455	5,377
Finished goods	138,843	139,943
	$151,132	$147,524

3. Net income (loss) per share

On July 23, 1999, Quantum's stockholders approved the tracking stock proposal and Quantum implemented the tracking stock proposal on August 3, 1999. Accordingly, the net loss per share for the periods presented below have been calculated in accordance with the Restated Certificate of Incorporation.

<TABLE>
The following table sets forth the computation of basic and diluted net loss per share:

<CAPTION>

(In thousands, except per share data)	Three Months Ended September 26, 1999	Three Months Ended September 27, 1998	Six Months Ended September 26, 1999	Six Months Ended September 27, 1998
<S>	<C>	<C>	<C>	<C>
Numerator:				
Numerator for basic and diluted net loss per share - loss available to common stockholders	$ (83,687)	$ (34,878)	$ (126,871)	$(75,432)
Denominator:				
Denominator for basic and diluted net loss per share - weighted average shares	82,883	75,763	83,107	77,561
Basic and diluted net loss per share	$ (1.01)	$ (0.46)	$ (1.53)	$ (0.97)

</TABLE>

The computation of diluted net loss per share for the three and six months ended September 26, 1999 and September 27, 1998 excluded the effect of the 7% convertible subordinated notes issued in July 1997, which are convertible into 3,103,076 shares of HDDG common stock, or 10.793 shares per $1,000 note, because the effect would have been antidilutive.

Options to purchase 15,234,101 and 10,390,490 shares of HDDG common stock were outstanding at September 26, 1999 and September 27, 1998, respectively. However, the corresponding weighted average outstanding options were not included in the computation of diluted net loss per share for the three and six months ended September 26, 1999 and September 27, 1998 because the effect would have been antidilutive.

4. Group Equity

In May 1999, the Board of Directors authorized Quantum to repurchase a combined total of up to $200 million of Quantum's common stocks through the open market from time to time. In part, the intent of the repurchase was to minimize the dilutive impact of the shares issued to complete the acquisition of Meridian. During the six months ended September 26, 1999, DSSG repurchased 7.2 million shares of DSSG common stock and acquired 1.9 million shares of HDDG common stock for $144 million, and HDDG repurchased 0.3 million shares of HDDG common stock for $2 million.

In October 1999, the Board of Directors authorized an increase in Quantum's stock repurchase program, increasing the previously authorized amount of $200 million to a total of $600 million. The increase is intended primarily for repurchase of DSSG common stock.

5. Litigation

On August 7, 1998, Quantum was named as one of several defendants in a patent infringement lawsuit filed in the U.S. District Court for the Northern District of Illinois, Eastern Division. The plaintiff, Papst Licensing GmbH, owns at least 24 U.S. patents which it asserts that Quantum has infringed. Quantum has studied many of these patents before and, of the patents it has studied, believes that defenses of patent invalidity and non-infringement can be asserted. However, Quantum has not completed a full study of all the patents asserted by Papst and there can be no assurance that Quantum has not infringed these or other patents owned by Papst. The final results of this litigation, as with any litigation, are uncertain. In addition, the costs of engaging in litigation with Papst will be substantial.

Quantum is also subject to other legal proceedings and claims that arise in the ordinary course of its business. While management currently believes the amount of ultimate liability, if any, with respect to these actions will not materially affect the financial position, results of operations, or liquidity of Quantum, the ultimate outcome of any litigation is uncertain. Were an unfavorable outcome to occur, the impact could be material to Quantum.

6. Special Charge

During the quarter ended September 26, 1999, HDDG recorded a special charge of $59.4 million. The charge reflected HDDG's strategy to modify the hard disk drive business to more closely align product development and the business' operating model with the requirements of the rapidly growing low-cost PC market. The special charge was associated primarily with the streamlining of HDDG's logistics model in order to create a faster and more flexible fulfillment system, changes in the customer service strategy and consolidation of certain product development programs. Upon full implementation of the plan, HDDG currently expects to realize more than $100 million in cost savings per year, beginning in fiscal year 2001.

The special charge consisted of $26.4 million related to facilities costs, $13.2 million in asset write-offs related to the streamlining of the global logistics model and change in customer service strategy, $7.8 million in severance and benefits for terminated employees, and approximately $12 million in other costs associated with the plan.

The facilities costs noted above include lease payments on facilities to be vacated in and around Milpitas, California and Singapore, the write-off of related leasehold improvements, and other maintenance expenses associated with the vacated facilities. HDDG expects that the affected facilities will be vacated within the next 12 months.

In connection with the charge, HDDG currently expects a workforce reduction of approximately 600 employees. In addition, approximately 100 open requisitions and budgeted positions have been eliminated. The reduction in force primarily affects employees at HDDG's drive configuration centers and warehouses in Milpitas, California and Dundalk, Ireland and employees within the desktop drive business. Approximately 115 of the 600 employees had been terminated as of September 26, 1999. HDDG anticipates that the remaining employees will be terminated by the end of the second quarter of fiscal year 2001.

As of September 26, 1999, HDDG had incurred $1 million in cash expenditures associated with employee severance and benefits. HDDG expects to incur additional cash expenditures associated with employee severance and benefits, facilities costs and other costs associated with the plan of approximately $35 million.

The following table summarizes activity related to the special charge for the quarter ended September 26, 1999:

(In thousands)	Severance And Benefits	Facilities Costs	Inventory	Other Costs	Total
Special charge	$ 7,833	$ 26,359	$ 13,214	$ 12,000	$ 59,406
Cash payments	(1,021)	--	--	--	(1,021)
Balance at September 26, 1999	$ 6,812	$ 26,359	$ 13,214	$ 12,000	$ 58,385

7. Comprehensive Income (Loss)

Accumulated other comprehensive loss included in group equity on the condensed combined balance sheets of the Hard Disk Drive group consists of foreign currency translation adjustments. Total comprehensive loss for the three and six months ended September 26, 1999 and September 27, 1998 is presented in the following table:

(In thousands)	Three Months Ended September 26, 1999	Three Months Ended September 27, 1998	Six Months Ended September 26, 1999	Six Months Ended September 27, 1998
Net loss	$ (83,687)	$ (34,878)	$(126,871)	$ (75,432)
Other comprehensive income -- foreign currency translation adjustments	1,693	1,188	773	183
Comprehensive loss	$ (81,994)	$ (33,690)	$(126,098)	$ (75,249)

8. Business Units

The Hard Disk Drive group currently has two primary product lines, desktop hard disk drives and high-end hard disk drives. HDDG has two separate business units that support these two product lines. In addition, HDDG participated in the manufacture of recording heads through its 49% equity interest in a recording heads joint venture with Matsushita-Kotobuki Electronics, Ltd., from May 16, 1997 through October 28, 1998 when the joint venture was dissolved.

The desktop business unit designs, develops and markets desktop hard disk drives designed to meet the storage requirements of entry-level to high-end desktop personal computers in home and business environments. The high-end business unit designs, develops and markets high-end hard disk drives designed to meet the storage requirements of network servers, workstations and storage subsystems. In the future, the two HDDG business units may become a single business unit as their markets begin to converge and be reported on a combined basis.

Results for HDDG's business units for the three and six months ended September 26, 1999 and September 27, 1998 are presented in the following table:

(In millions)	Three Months Ended September 26, 1999	Three Months Ended September 27, 1998	Six Months Ended September 26, 1999	Six Months Ended September 27, 1998
Business unit:				
Desktop				
Revenue	$ 661	$ 749	$ 1,298	$ 1,465
Unit operating loss	(133)	(29)	(194)	(48)
High-end				
Revenue	107	125	222	

257

Unit operating loss	(10)	(16)	(26)	(43)
Recording heads				
Loss from investee	--	(17)	--	(41)

</TABLE>

<TABLE>
<CAPTION>

(In millions)	Three Months Ended		Six Months Ended	
	September 26, 1999	September 27, 1998	September 26, 1999	September 27, 1998
<S>	<C>	<C>	<C>	<C>
Loss reconciliation:				
Total unit operating loss	$(143)	$ (45)	$(220)	$ (91)
Loss from investee	--	(17)	--	(41)
Unallocated amounts:				
Interest and other income/(expense)	1	--	4	2
Loss before income taxes	$(142)	$ (62)	$(216)	$(130)

</TABLE>

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

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements usually contain the words "estimate," "anticipate," "expect," or similar expressions. All forward-looking statements are inherently uncertain as they are based on various expectations and assumptions concerning future events and they are subject to numerous known and unknown risks and uncertainties. These uncertainties could cause actual results to differ materially from those expected for the reasons set forth under Trends and Uncertainties relating to the Hard Disk Drive group. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

Business Overview

The Hard Disk Drive group ("HDDG") designs, develops and markets a diversified product portfolio of hard disk drives featuring leading-edge technology. HDDG's hard disk drives are designed for the desktop market and the high-end hard disk drive market which requires faster and higher capacity disk drives--as well as the emerging market for hard disk drives specially designed for consumer electronics applications such as new TV recording devices. HDDG has been the leading volume supplier of hard disk drives for the desktop market for each of the past six years. According to Dataquest, HDDG's market share in the desktop market has grown from 3% in 1990 to an industry leading 22% in 1998.

HDDG designs desktop hard disk drives to meet the storage requirements of entry-level to high-performance desktop PCs in home and business environments. HDDG also designs high-end hard disk drives to store data on large computing systems such as network servers. These high-end hard disk drives are generally used for:

- dedicated sites that store large volumes of data;
- network servers such as those used for Internet and intranet services, online transaction processing and enterprise wide applications;
- high-speed computers used for specialized engineering design software; and
- computer systems incorporating a large number of shared hard disk drives.

HDDG recently introduced two new hard disk drives designed for the developing consumer electronics market. These hard disk drives utilize Quantum QuickView(TM)--HDDG's hard disk drive technology designed for consumer electronics. The use of hard disk drive technology makes it possible to simultaneously record and playback video content and to rapidly and inexpensively access large amounts of video content--capabilities that are not as well suited to competing technologies such as video tape and digital video disk.

Products

Desktop products. HDDG offers two families of desktop hard disk drives--the Quantum FireballTM and Quantum Fireball Plus. The Quantum Fireball family offers 3.5-inch hard disk drives for consumer and commercial PCs, as well as entry-level workstations and network servers. Fireball Plus offers superior performance for power users. HDDG offers the Shock Protection SystemTM and Data Protection SystemTM with its desktop products. These features substantially reduce failure rates and provide increased reliability and performance. HDDG also began offering the second-generation Shock Protection System II with its most recent desktop products. This new feature provides enhanced protection against both operating and non-operating shock. Along with providing enhanced protection against shock during handling and integration, Shock Protection System II guards against kicks and jolts while the PC is running to reduce field failures.

High-end products. HDDG also offers a broad line of high-end 3.5-inch hard disk drives--the Quantum Atlas and Quantum Atlas 10K families. The Quantum Atlas family offers high-capacity hard disk drives for high performance storage-intensive applications such as enterprise servers and storage subsystems. HDDG also offers the Shock Protection System with its high-end products.

<TABLE>
The table below sets forth key performance characteristics for HDDG's current products:

<CAPTION>

Products	Capacity per Disk (GB)	Product Capacity (GB)	Rotational Speed (RPM)	Platform
<S>	<C>	<C>	<C>	<C>
Fireball CR	4.3	4.3 to 13.0	5,400	Desktop PCs--Value, with Ultra ATA/66 interface, Shock Protection System and Data Protection System
Fireball CX	6.8	6.4 to 20.4	5,400	Desktop PCs--Value, with Ultra ATA/66 interface, Shock Protection System and Data Protection System
Fireball lct 8	8.7	4.3 to 26.0	5,400	Desktop PCs--Value, with Ultra ATA/66 interface, Shock Protection System II and Data Protection System
Fireball lct 10	10.0	5.0 to 30.0	5,400	Desktop PCs--Value, with Ultra ATA/66 interface, Shock Protection System II and Data Protection System
Fireball Plus KA	4.5	6.4 to 18.2	7,200	Desktop PCs--Performance, with Ultra ATA/66 interface, Shock Protection System and Data Protection System
Fireball Plus KX	6.8	6.8 to 27.3	7,200	Desktop PCs--Performance, with Ultra ATA/66 interface, Shock Protection System and Data Protection System
Atlas IV	4.5	9.1 to 36.4	7,200	Servers, Workstations and Storage Subsystems, with Ultra 160/m SCSI interface, Shock Protection System
Atlas 10K	3.0	9.1 to 36.4	10,000	Enterprise Servers and Storage Subsystems, with Ultra 160/m SCSI interface or Fibre Channel optional interface, 3-inch media, Shock Protection System

</TABLE>

Results of Operations

Revenue. Revenue in the three and six months ended September 26, 1999 was $768 million and $1.521 billion, respectively, compared to $874 million and $1.722 billion, respectively, for the corresponding periods in fiscal year 1999. The decrease in revenue reflected lower revenue from sales of both desktop and high-end hard disk drives.

- Desktop hard disk drive revenue in the three and six months ended September 26, 1999 was $661 million and $1.298 billion, respectively, compared to $749 million and $1.465 billion, respectively, for the corresponding periods in fiscal year 1999. While shipments of desktop hard disk drives increased from the first six months of fiscal year 1999, intense competitive pricing pressures resulted in significantly lower average unit prices and reduced desktop hard disk drive revenue.

- High-end hard disk drive revenue for the three and six months ended September 26, 1999 was $107 million and $222 million, respectively, compared to $125 million and $257 million, respectively, for the corresponding periods in fiscal year 1999. Shipments of high-end hard disk drives increased slightly from the first six months of fiscal year 1999 as HDDG completed a transition to new high-end products, while revenue declined reflecting reduced average unit prices.

Sales to the top five customers in the three and six months ended September 26, 1999 represented 51% and 49% of revenue, respectively, compared to 45% and 47%, respectively, in the corresponding periods in fiscal year 1999. These amounts reflected a retroactive combination of sales to Compaq and Digital Equipment as a result of their merger in June 1998 as well as a retroactive combination of sales to Ingram Micro and Electronic Resources as a result of the completion of their merger in July 1999. Sales to Hewlett-Packard were 10% and 12% of revenue in the three and six months ended September 26, 1999, respectively, compared to 16% of revenue for the corresponding periods in fiscal year 1999. Sales to Dell Computer were 10% of revenue in the three months ended September 26, 1999 and were less than 10% of revenue in the six months ended September 26, 1999 and the corresponding periods in fiscal year 1999. Sales to Ingram Micro were 13% of revenue for the three and six months ended September 26, 1999, and were less than 10% of revenue for the corresponding periods in fiscal year 1999, including sales to Electronic Resources.

Sales to computer equipment manufacturers and distribution channel customers were 57% and 43% of revenue in the three months ended September 26, 1999, respectively, compared to 64% and 36% of revenue in the three months ended September 27, 1998. For the six months ended September 26, 1999, computer equipment manufacturers and distribution channel sales were 56% and 44% of revenue, compared to 62% and 38% for the corresponding period of fiscal year 1999.

Gross Margin Rate. The gross margin rate in the three months ended September 26, 1999 decreased to -4.5% from 6.9% in the three months ended September 27, 1998. The gross margin rate for the first six months of fiscal year 2000 was -0.4%, compared to 6.6% in the corresponding period in fiscal year 1999. The gross margin rate in the three and six month periods of fiscal year 2000 reflected the impact of a $57.1 million special charge as discussed below. The gross margin

rate excluding the impact of the charge was 2.9% and 3.3% in the three and six-month periods ended September 26, 1999.

- The desktop gross margin rate for the three and six months ended September 26, 1999 was -8.6% and -3.7%, respectively, compared to 5.2% and 6.0% for the corresponding periods in fiscal year 1999. Excluding the desktop portion of the special charge of $51.4 million, the gross margin rate was -0.8% and 0.3% for the three and six month periods ended September 26, 1999. Excluding the impact of the special charge, the decrease in the gross margin rate reflected the intense competitive pricing pressures in the desktop market. HDDG expects to experience continued gross margin pressure with respect to desktop hard disk drive products through at least the third quarter of fiscal year 2000.

- The high-end gross margin rate for the three and six months ended September 26, 1999 was 20.6% and 18.5%, respectively, compared to 16.7% and 9.8% for the corresponding periods in year fiscal 1999. Excluding the high-end portion of the special charge of $5.7 million, the gross margin rate was 25.9% and 21.1% in the three and six-month periods ended September 26, 1999. The increase in gross margins reflected the transition to new, higher margin products.

Research and Development Expenses. Research and development expenses in the three and six months ended September 26, 1999, were $62 million, or 8.1% of revenue, and $125 million, or 8.2% of revenue, respectively, compared to $61 million, or 6.9% of revenue, and $123 million, or 7.1% of revenue, respectively, in the corresponding periods in fiscal year 1999.

Sales and Marketing Expenses. Sales and marketing expenses in the three and six months ended September 26, 1999, were $29 million, or 3.8% of revenue, and $57 million, or 3.7% of revenue, respectively, compared to $31 million, or 3.5% of revenue, and $56 million, or 3.3% of revenue, respectively, in the corresponding periods of fiscal year 1999.

General and Administrative Expenses. General and administrative expenses in the three and six months ended September 26, 1999, were $15 million, or 2.0% of revenue, and $30 million, or 2% of revenue, respectively, compared to $14 million, or 1.6% of revenue, and $25 million, or 1.5% of revenue, respectively, in the corresponding periods of fiscal year 1999. The increase in general and administrative expenses for the six month period reflected a deferral of certain programs in the first quarter of fiscal year 1999 and implementation of a new quality program reflected in the first quarter of fiscal year 2000.

Special Charge. During the three months ended September 26, 1999, HDDG recorded a special charge of $59.4 million, of which $57.1 million is included in cost of sales and $2.3 million is included in operating expenses. The charge reflected HDDG's strategy to modify the hard disk drive business to more closely align product development and the business's operating model with the requirements of the rapidly growing low-cost PC market. The special charge was associated primarily with the streamlining of HDDG's logistics model in order to create a faster and more flexible fulfillment system, changes in the customer service strategy and consolidation of certain

product development programs. Upon full implementation of the plan, HDDG currently expects to realize more than $100 million in cost savings per year, beginning in fiscal year 2001.

The special charge consisted of $26.4 million related to facilities costs, $13.2 million in asset write-offs related to the streamlining of the global logistics model and change in customer service strategy, $7.8 million in severance and benefits for terminated employees, and approximately $12 million in other costs associated with the plan.

Interest and Other Income/Expense. Net interest and other income and expense in the three and six months ended September 26, 1999 was $1.0 million and $4.6 million income, respectively, compared to $70 thousand and $2.2 million income, respectively, in the corresponding periods of fiscal year 1999.

Loss from Investee. The loss from investee reflected HDDG's 49% equity share in the operating losses of its recording heads joint venture with Matsushita-Kotobuki, which was dissolved in the third quarter of fiscal year 1999. HDDG's share of the loss in the joint venture for the three and six months ended September 27, 1998 was $17.1 million and $41.4 million, respectively.

Income Taxes. HDDG recorded an effective tax benefit for the three and six months ended September 26, 1999 of 41% as compared to 44% and 42%, respectively, for the corresponding periods in fiscal year 1999. The decrease in the fiscal year 2000 effective tax benefit rate reflects a decreased percentage of foreign earnings taxed at less than the U.S. rate.

Liquidity and Capital Resources

Operating Activities. HDDG used cash of $77 million in operating activities in the six months ended September 26, 1999. HDDG generated cash from operations of $78 million in the six months ended September 27, 1998. The use of cash primarily reflected higher net losses and reduced collections of accounts receivable compared to the prior year period.

Investing Activities. Investments in the six months ended September 26, 1999 were $30 million, which consisted of investments in property and equipment. Net cash provided by investing activities during the six months ended September 27, 1998 totaled $1 million.

Financing Activities. At September 26, 1999, and March 31, 1999, Quantum's debt allocated to HDDG was $112 million and $115 million, respectively. Debt allocated to HDDG bears interest at a rate equal to the weighted average interest rate of Quantum's total debt, calculated on a quarterly basis. At September 26, 1999, Quantum had a total debt of $337 million with an average interest rate of 8.5%. Net cash provided by financing activities during the six months ended September 26, 1999 was $4 million.

In May 1999, the Board of Directors authorized Quantum to repurchase a combined total of up to $200 million of Quantum's common stocks through the open market from time to time. In part, the intent of the repurchase was to minimize the dilutive impact of the shares issued to complete the acquisition of Meridian. During the six months ended September 26, 1999, DSSG repurchased 7.2 million shares of DSSG common stock and acquired 1.9 million shares of HDDG common stock for $144 million, and HDDG repurchased 0.3 million shares of HDDG common stock for $2 million.

In October 1999, the Board of Directors authorized an increase in Quantum's stock repurchase program, increasing the previously authorized amount of $200 million to a total of $600 million. The increased authorization allows Quantum to repurchase its common stocks through the open market or through other mechanisms. The increase is intended primarily for repurchase of DSSG common stock.

In December 1998, ATL entered into a senior credit facility that provides a $35 million revolving credit line to ATL. The revolving credit line is co-terminous with Quantum's $500 million revolving credit line, expiring in June 2000. As amended, at the option of ATL, borrowings under the revolving credit line bear interest at either London interbank offered rate plus a margin determined by Quantum's total funded debt ratio, or at a base rate, with option periods of two weeks to six months. At September 26, 1999, $10 million was outstanding on this revolving credit line.

In June 1997, Quantum entered into an unsecured senior credit facility that provides a $500 million revolving credit line and expires in June 2000. At Quantum's option, borrowings under the revolving credit line bear interest at either London interbank offered rate plus a margin determined by our total funded debt ratio, or at a base rate, with option periods of one to six months. At September 26, 1999, there was no outstanding balance drawn on this line.

HDDG expects to spend approximately $60 million in fiscal year 2000 for capital equipment and leasehold improvements. These capital expenditures will support the development and introduction of new disk drive products.

HDDG expects its cash flow from operations, together with available financing sources, will be sufficient to meet all currently planned expenditures and sustain operations for the next 12 months. However, this belief assumes that operating results and cash flow from operations will meet HDDG's expectations.

In fiscal year 1999, Quantum entered into a strategic alliance with TiVo, Inc., to supply hard disk drives utilizing Quantum's QuickView(TM) technology for integration into TiVo's Personal Video Recorder. As part of the agreement, Quantum received warrants to purchase 800,000 shares of TiVo common stock. On September 30, 1999, subsequent to the end of Quantum's fiscal second quarter, Quantum exercised its warrants immediately prior to TiVo's initial public offering. Quantum is not allowed to sell TiVo common stock for a six month period following the initial public offering and will account for its investment as an available for sale security. As a result, any unrealized gain or loss, net of tax, will be included as part of accumulated other comprehensive income/loss and will be combined with group equity on HDDG's combined balance sheet.

Trends and Uncertainties Relating to the Hard Disk Drive Group

Holders of HDDG stock remain stockholders of one company and, therefore, financial effects on DSSG could adversely affect HDDG

Holders of HDDG stock and DSSG stock are stockholders of a single company. HDDG and DSSG are not separate legal entities. As a result, stockholders will continue to be subject to all of the risks

of an investment in Quantum and all of its businesses, assets and liabilities. The issuance of the HDDG stock and the DSSG stock and the allocation of assets and liabilities and stockholders' equity between HDDG and DSSG did not result in a distribution or spin-off to stockholders of any Quantum assets or liabilities and did not affect ownership of our assets or responsibility for our liabilities or those of our subsidiaries. The assets we attribute to one group could be subject to the liabilities of the other group, whether such liabilities arise from lawsuits, contracts or indebtedness that we attribute to the other group. If we are unable to satisfy one group's liabilities out of the assets we attribute to it, we may be required to satisfy those liabilities with assets we attribute to the other group.

Financial effects from one group that affect our consolidated results of operations or financial condition could, if significant, affect the results of operations or financial condition of the other group and the market price of the tracking stock relating to the other group. In addition, net losses of either group and dividends and distributions on, or repurchases of, either class of tracking stock or repurchases of preferred stock at a price per share greater than par value will reduce the funds we can pay on each class of tracking stock under Delaware law. For these reasons, you should read our consolidated financial information with the financial information we provide for each group.

HDDG's operating results depend on new product introductions which may not be successful

To compete effectively, HDDG must frequently introduce new hard disk drives. HDDG cannot assure you that:

- it will successfully or timely develop or market any new hard disk drives in response to technological changes or evolving industry standards;

- it will not experience technical or other difficulties that could delay or prevent the successful development, introduction or marketing of new hard disk drives;

- it will successfully qualify new hard disk drives, particularly high-end disk drives, with HDDG's customers by meeting customer performance and quality specifications. A successful and timely customer qualification must occur before customers will place large product orders;

- it will quickly achieve high volume production of new hard disk drives; or

- its new products will achieve market acceptance.

These risks are magnified because HDDG expects technological changes, short product life cycles and intense competitive pressures to result in declining sales and gross margins on its current generation products.

HDDG's quarterly operating results could fluctuate significantly and past quarterly operating results should not be used to predict future performance

HDDG's quarterly operating results have fluctuated significantly in the past and may fluctuate significantly in the future. As a result, you should not use HDDG's past quarterly operating results to predict future performance. Quarterly operating results could be adversely affected by:

- the ability of Matsushita-Kotobuki, HDDG's exclusive manufacturer, to quickly achieve high volume production of HDDG's hard disk drives;

- customers canceling, deferring or rescheduling significant orders;

- returns by customers of unsold hard disk drives for credit;

- decline in PC demand; or

- failure to complete shipments in the last month of a quarter during which a substantial portion of HDDG's products are typically shipped.

HDDG's prices and margins are subject to declines due to unpredictable end-user demand and oversupply of hard disk drives

End-user demand for the computer systems which contain HDDG's hard disk drives has historically been subject to rapid and unpredictable fluctuations. As a result, the hard disk drive market tends to experience periods of excess capacity which typically lead to intense price competition. If intense price competition occurs, HDDG may be forced to lower prices sooner and more than expected and transition to new products sooner than expected. For example, in fiscal year 1999 and the second half of fiscal year 1998, as a result of excess inventory in the desktop hard disk drive market, aggressive pricing and corresponding margin reductions materially adversely impacted HDDG's operating results. HDDG experienced similar conditions in the high-end hard disk drive market during most of fiscal years 1998 and 1999.

Growth of the lower priced PC markets is putting downward pressure on HDDG's desktop hard disk drive prices and margins

The recent growth of the lower priced PC market has led to a shift toward lower priced desktop hard disk drives, and to significantly reduced gross margins. HDDG expects the trend toward lower prices and margins on hard disk drives to continue. If HDDG is unable to lower the cost of its desktop hard disk drives accordingly, gross margins will continue to decrease.

Intense competition in the desktop and high-end hard disk drive market could adversely impact HDDG's operating results

In the desktop hard disk drive market, HDDG's primary competitors are Fujitsu Limited, IBM, Maxtor Corporation, Samsung Electronics Co., Ltd., Seagate and

Western Digital Corporation. The

desktop hard disk drive market is characterized by more competitiveness than that seen in the computer industry in general. HDDG's operating results and competitive position could be negatively impacted by the introduction of competitive products with higher performance, higher reliability and/or lower cost than HDDG's products. For example, in the first six months of fiscal year 2000, certain competitors reduced prices for their products significantly. As a result, HDDG's operating results were materially adversely impacted.

In the high-end hard disk drive market, HDDG's primary competitors are Fujitsu, Hitachi, IBM, Seagate and Western Digital. Currently, Seagate and IBM have the largest market share for high-end hard disk drives. Intense technology and pricing competition has led to losses on HDDG's high-end hard disk drive products over the past 10 quarters.

A majority of sales come from a few customers that have no minimum or long-term purchase commitments

HDDG's sales are concentrated with a few customers. Customers are not obligated to purchase any minimum product volume and HDDG's customer relationships are terminable at will. The loss of, or a significant change in demand from, one or more key HDDG customers could have a material adverse impact on HDDG's operating results.

Because HDDG depends on Matsushita-Kotobuki for the manufacture of all hard disk drives, adverse material developments in this critical manufacturing relationship would adversely impact HDDG's operating results

HDDG's relationship with Matsushita-Kotobuki is critical to the Hard Disk Drive group's operating results and overall business performance. HDDG's dependence on Matsushita-Kotobuki includes the following principal risks:

- Quality and Delivery. HDDG relies on Matsushita-Kotobuki to quickly achieve volume production of new hard disk drives at a competitive cost, to meet HDDG's stringent quality requirements and to respond quickly to changing product delivery schedules. Failure of Matsushita-Kotobuki to satisfy these requirements could have a material adverse impact on HDDG's operating results.

- Purchase Forecasts. Matsushita-Kotobuki's production schedule is based on HDDG's forecasts of its purchase requirements, and HDDG has limited rights to modify short-term purchase orders. The failure of HDDG to accurately forecast its requirements or successfully adjust Matsushita-Kotobuki's production schedule could lead to inventory shortages or surpluses.

- Pricing. HDDG negotiates pricing arrangements with Matsushita-Kotobuki on a quarterly basis. Any failure to reach competitive pricing arrangements would have a material adverse impact on HDDG's operating results.

- Capital Commitment. HDDG's future growth will require that Matsushita-Kotobuki continue to devote substantial financial resources to property, plant and equipment to support the manufacture of HDDG's products.

- Manufacturing Capacity. If Matsushita-Kotobuki is unable or unwilling to meet HDDG's manufacturing requirements, an alternative manufacturing source may not be available in the near-term.

Matsushita-Kotobuki depends on a limited number of component and sub-assembly suppliers and component shortages and quality problems or delays from these suppliers could result in increased costs and reduced sales

Matsushita-Kotobuki depends on a limited number of qualified suppliers for components and sub-assemblies, including recording heads, media and integrated circuits, all of which are essential to the manufacture of HDDG's hard disk drives. Matsushita-Kotobuki may qualify only a single source for certain components and sub-assemblies, which can magnify the risk of component shortages. Component shortages have constrained HDDG's sales growth in the past, and HDDG believes that it will periodically experience component shortages. If Matsushita-Kotobuki experiences quality problems with its component suppliers, HDDG's hard disk drive shipments could be significantly delayed or costs could be significantly increased.

Unexpected warranty costs could have a material adverse impact on operating results

HDDG warrants its products against defects for a period of one to five years. Actual warranty costs could have a material adverse impact on HDDG's operating results if the actual unit failure rate or unit repair costs are greater than those for which HDDG established a warranty accrual.

Third party infringement claims could result in substantial liability and significant costs

From time to time, third parties allege HDDG's infringement of and need for a license under their patented or other proprietary technology. For example, in August 1998 Quantum was named as one of several defendants in a patent infringement lawsuit. The plaintiff, Papst Licensing GmbH, owns at least 24 U.S. patents, which it asserts that HDDG has infringed. Adverse resolution of the Papst litigation or any other third party infringement claim could subject HDDG to substantial liabilities and require it to refrain from manufacturing and selling certain products. HDDG cannot assure you that licenses to any technology owned by Papst or any other third party alleging infringement could be obtained on commercially reasonable terms, or at all. In addition, the costs of litigation could be substantial, regardless of the outcome.

HDDG's foreign manufacturing costs could be adversely impacted by fluctuations in currency exchange rates

Matsushita-Kotobuki generally purchases manufacturing components at prices denominated in U.S. dollars. However, significant increases in currency exchange rates against the U.S. Dollar could

increase Matsushita-Kotobuki's manufacturing costs and could result in higher product prices and/or declining margins for HDDG's products.

QUANTUM CORPORATION

PART II - OTHER INFORMATION

Item 1. Legal proceedings

Refer to Note 6 of the Notes to Condensed Consolidated Financial Statements and Note 5 of the Notes to Condensed Combined Financial Statements of the Hard Disk Drive group.

Item 2. Changes in securities - Not Applicable

Item 3. Defaults upon senior securities - Not Applicable

Item 4. Submission of matters to a vote of security holders

A Special Meeting of Stockholders was held on July 23, 1999 to consider and vote on proposals to adopt an Amended and Restated Certificate of Incorporation to create two separate classes of common stock and an Amendment to the Quantum Corporation Employee Stock Purchase Plan to increase the number of shares reserved for issuance thereunder.

The stockholders approved the adoption of the Amended and Restated Certificate of Incorporation and the creation of two separate classes of common stock. The number of votes "For" were 99,276,111; the number of votes "Against" were 18,564,889; and the number of votes "Withheld" were 597,461.

The stockholders also approved the amendment to the Quantum Corporation Employee Stock Purchase Plan to increase the number of shares reserved for issuance thereunder. The number of votes "For" were 97,705,836; the number of votes "Against" were 20,224,106; and the number of votes "Abstain" were 508,519.

The 1999 Annual Meeting of Stockholders was also held on July 23, 1999 to consider and vote on proposals to elect management's candidates for the Board of Directors and to appoint Ernst & Young LLP to serve as Quantum's independent auditors for the fiscal year ending March 31, 2000.

The stockholders elected each of management's candidates for the Board of Directors. The votes were as follows:

	For	Withheld Authority
Stephen M. Berkley	146,151,721	1,350,124
David A. Brown	146,151,721	1,350,124
Michael A. Brown	146,147,276	1,354,569
Robert J. Casale	146,151,721	1,350,124
Edward M. Esber, Jr.	146,151,721	1,350,124
Steven C. Wheelwright	146,151,721	1,350,124

The stockholders also approved the appointment of Ernst & Young LLP to serve as Quantum's independent auditors for the fiscal year ending March 31, 2000. The number of votes "For" were 147,182,511; the number of votes "Against" were 172,989; the number of votes "Abstain" were 146,345.

Item 5. Other information - Not Applicable

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

(a) Exhibits. The exhibits listed on the accompanying index to exhibits immediately following the signature page are filed as part of this report.

(b) Reports on Form 8-K.

None

SIGNATURE

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

QUANTUM CORPORATION
(Registrant)

Date: November 2, 1999

By: /s/ Richard L. Clemmer
Richard L. Clemmer
Executive Vice President, Finance
and Chief Financial Officer

QUANTUM CORPORATION

INDEX TO EXHIBITS

Exhibit Number	Exhibit
10.1	THIRD AMENDMENT TO CREDIT AGREEMENT, dated August 31, 1999, among Quantum Corporation, certain financial institutions (collectively, the "Banks"), and CANADIAN IMPERIAL BANK OF COMMERCE, as administrative agent for the Banks.
27.1	Financial Data Schedule

Footnotes to Exhibits	Footnote
None	

EXECUTION VERSION

THIRD AMENDMENT TO CREDIT AGREEMENT

THIS THIRD AMENDMENT TO CREDIT AGREEMENT (this "Amendment"), dated as of August 31, 1999, is entered into by and among:

(1) QUANTUM CORPORATION, a Delaware corporation ("Borrower");

(2) Each of the financial institutions listed in Schedule I to the Credit Agreement referred to in Recital A below (collectively, the "Banks") that execute this Amendment; and

(3) CANADIAN IMPERIAL BANK OF COMMERCE, as administrative agent for the Banks (in such capacity, "Administrative Agent").

RECITALS

A. Each of (i) Borrower, (ii) the Banks, (iii) Administrative Agent, (iv) ABN AMRO Bank, N.V ("ABN"), and CIBC Inc., as co-arrangers for the Banks, (v) ABN, as syndication agent for the Banks, (vi) Bank of America, N.A. (formerly known as Bank of America National Trust and Savings Association), as documentation agent for the Banks, and (vii) BankBoston, N.A., The Bank of Nova Scotia, Fleet National Bank and The Industrial Bank of Japan, Limited, as co-agents for the Banks, are parties to a Credit Agreement dated as of June 6, 1997, as amended by that certain First Amendment to Credit Agreement dated as of June 26, 1998 and as further amended by that certain Second Amendment to Credit Agreement dated as of December 18, 1998 (as amended, the "Credit Agreement").

B. Borrower has requested Administrative Agent and the Banks to amend the Credit Agreement in certain respects.

C. The Banks executing this Amendment and Administrative Agent are willing so to amend the Credit Agreement upon the terms and subject to the conditions set forth below.

AGREEMENT

NOW, THEREFORE, in consideration of the above recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Borrower and the Banks executing this Amendment and Administrative Agent hereby agree as follows:

1. Definitions, Interpretation. All capitalized terms defined above and elsewhere in this Amendment shall be used herein as so defined. Unless otherwise defined herein, all other capitalized terms used herein shall have the respective meanings given to those terms in the Credit Agreement, as amended by this Amendment. The rules of construction set forth in Section I of the Credit Agreement shall, to the extent not inconsistent with the terms of this Amendment, apply to this Amendment and are hereby incorporated by reference.

2. Amendment to Credit Agreement. Subject to the satisfaction of the conditions set forth in Paragraph 4 below, Subparagraph 5.02(f) of the Credit Agreement is hereby amended by changing clause (iv) thereof to read in its entirety as follows:

(iv) Borrower may purchase Equity Securities pursuant to stock repurchase programs, provided that the aggregate payments under such programs do not exceed (A) during fiscal year 1999, twenty-three percent (23%) of Tangible Net Worth as determined as of the fiscal quarter ending March 31, 1998, (B) during fiscal year 2000, twenty percent (20%) of Tangible Net Worth as determined as of the fiscal quarter ending June 27, 1999, and (C) during all other fiscal years until the Maturity Date, ten percent (10%) of Tangible Net Worth as determined as of the fiscal quarter immediately preceding the date of determination;

3. Representations and Warranties. Borrower hereby represents and warrants to Administrative Agent and the Banks that the following are true and correct on the date of this Amendment and that, after giving effect to the amendment set forth in Paragraph 2 above, the following will be true and correct on the Effective Date (as defined below):

(a) The representations and warranties of Borrower and its Subsidiaries set forth in Paragraph 4.01 of the Credit Agreement and in the other Credit Documents are true and correct in all material respects as if made on such date (except for representations and warranties expressly made as of a specified date, which shall be true and correct in all material respects as of such date);

(b) No Default or Event of Default has occurred and is continuing; and

(c) Each of the Credit Documents is in full force and effect.

(Without limiting the scope of the term "Credit Documents," Borrower expressly acknowledges in making the representations and warranties set forth in this Paragraph 3 that, on and after the date hereof, such term includes this Amendment.)

4. Effective Date. The amendment effected by Paragraph 2 above shall become effective on August 31, 1999 (the "Effective Date"), subject to receipt by Administrative Agent and the Banks on or prior to the Effective Date of the following, each in form and substance satisfactory to Administrative Agent, the Banks executing this Amendment and their respective counsel:

(a) This Amendment duly executed by Borrower, the Majority Banks and Administrative Agent;

(b) A Certificate of the Secretary or an Assistant Secretary of Borrower, dated the Effective Date, certifying that (i) the Certificate of Incorporation and Bylaws of Borrower, in the form delivered to Administrative Agent on the Closing Date, are in full force and effect and have not been amended, supplemented, revoked or repealed since such date, (ii) that the resolution of Borrower, in the form delivered to Administrative Agent on the Closing Date, is in full force and effect and has not been amended,

supplemented, revoked or repealed since such date, and (iii) the incumbency, signatures and authority of the officers of Borrower authorized to execute, deliver and perform the Credit Agreement, this Amendment, the other Credit Documents and all other documents, instruments or agreements relating thereto executed or to be executed by Borrower and indicating each such officer which is an Executive Officer or Authorized Financial Officer; and

(d) Such other evidence as Administrative Agent or any Bank executing this Amendment may reasonably request to establish the accuracy and completeness of the representations and warranties and the compliance with the terms and conditions contained in this Amendment and the other Credit Documents.

5. Effect of this Amendment. On and after the Effective Date, each reference in the Credit Agreement and the other Credit Documents to the Credit Agreement shall mean the Credit Agreement as amended hereby. Except as specifically amended above, (a) the Credit Agreement and the other Credit Documents shall remain in full force and effect and are hereby ratified and confirmed and (b) the execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power, or remedy of the Banks or Administrative Agent, nor constitute a waiver of any provision of the Credit Agreement or any other Credit Document.

6. Miscellaneous.

(a) Counterparts. This Amendment may be executed in any number of identical counterparts, any set of which signed by all the parties hereto shall be deemed to constitute a complete, executed original for all purposes.

(b) Headings. Headings in this Amendment are for convenience of reference only and are not part of the substance hereof.

(c) Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of California without reference to conflicts of law rules.

IN WITNESS WHEREOF, Borrower, Administrative Agent, Syndication Agent, Documentation Agent and the Banks executing this Amendment have caused this Amendment to be executed as of the day and year first above written.

QUANTUM CORPORATION, as Borrower

By: /s/ Andrew Kryder

Name: Andrew Kryder

Title: Vice President,
Finance &
General Counsel

CANADIAN IMPERIAL BANK OF COMMERCE,
as Administrative Agent

By: /s/ Paul J. Chakmak

Name: Paul J. Chakmak

Title: Managing Director,
CIBC World Markets
Corp., AS AGENT

ABN AMRO BANK N.V., as a Bank

By: /s/ Nanci H. Meyer

Name: Nanci H. Meyer

Title: Vice President

By: /s/ Robert N. Hartinger

Name: Robert N. Hartinger

Title: Senior Vice President

BANKBOSTON, N.A., as a Bank

By: /s/ Lee A. Merkle-Raymond

Name: Lee A. Merkle-Raymond

Title: Director

BANK OF AMERICA, N.A., as a Bank

By: /s/ Kevin Mc Mahon

Name: Kevin Mc Mahon

Title: Managing Director

BANQUE NATIONALE DE PARIS, as a Bank

By: /s/ Michael D. McCorriston

Name: Michael D. McCorriston

Title: Vice President

By: /s/ Jennifer Y. Cho

Name: Jennifer Y. Cho

Title: Vice President

CIBC INC., as a Bank

By: /s/ Paul J. Chakmak

Name: Paul J. Chakmak

Title: Managing Director,
CIBC World Markets

Corp., AS AGENT

DEUTSCHE BANK A.G., NEW YORK AND/OR CAYMAN ISLANDS BRANCHES, as a Bank

By: ________________________________
Name: ________________________________
Title: ________________________________

By: ________________________________
Name: ________________________________
Title: ________________________________

FLEET NATIONAL BANK, as a Bank

By: /s/ Mathew M. Glauninger
Name: Mathew M. Glauninger
Title: Senior Vice President

GENERAL ELECTRIC CAPITAL CORPORATION, as a Bank

By: ________________________________
Name: ________________________________
Title: ________________________________

KEYBANK NATIONAL ASSOCIATION, as a Bank

By: /s/ Kevin P. McBride
Name: Kevin P. McBride
Title: Senior Vice President

MELLON BANK, as a Bank

By: /s/ Lawrence C. Ivey
Name: Lawrence C. Ivey
Title: Vice President

PARIBAS, as a Bank

By: /s/ John Kopcha
Name: John Kopcha
Title: Director

By: /s/ Jonathan Leone
Name: Jonathan Leone
Title: Vice President

ROYAL BANK OF CANADA, as a Bank

By:

Name:

Title:

SANWA BANK LIMITED,
LOS ANGELES BRANCH, as a Bank

By: /s/ Peter G. Olson

Name: Peter G. Olson

Title: First Vice President

THE BANK OF NOVA SCOTIA, as a Bank

By: /s/ Chris Osborn

Name: Chris Osborn

Title: Relationship Manager

THE FUJI BANK, LIMITED, as a Bank

By: /s/ Masahito Fukuda

Name: Masahito Fukuda

Title: SVP & GH

THE INDUSTRIAL BANK OF
JAPAN, LIMITED, as a Bank

By: /s/ Ken Iwata

Name: Ken Iwata

Title: Senior Vice President
and Manager

THE MITSUBISHI TRUST AND
BANKING CORPORATION, LOS ANGELES
AGENCY, as a Bank

By: /s/ Toshihiro Hayashi

Name: Toshihiro Hayashi

Title: Senior Vice President

THE SUMITOMO BANK, LIMITED, as a Bank

By: /s/ Azar Shakeri

Name: Azar Shakeri

Title: Vice President

UNION BANK OF CALIFORNIA, N.A.,
as a Bank

By: /s/ Glenn Leyrer

Name: Glenn Leyrer

Title: Vice President

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DSS Group EPS-Diluted	0.42
HDD Group EPS-Basic	(1.53)
HDD Group EPS-Diluted	(1.53)

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