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

Form 10-Q

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

For the quarterly period ended June 27, 2004

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 1-13449

QUANTUM CORPORATION

Incorporated Pursuant to the Laws of the State of Delaware

IRS Employer Identification Number 94-2665054

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

(408) 944-4000

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___

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

As of the close of business on July 29, 2004, approximately 181.9 million shares of Quantum Corporation's common stock were issued and outstanding.

QUANTUM CORPORATION

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

QUANTUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three Months Ended	
	June 27, 2004	**June 29, 2003**
Product revenue	$ 142,382	$ 167,187
Royalty revenue	30,302	35,028
Total revenue	172,684	202,215
Cost of revenue	114,636	138,702
Gross margin	58,048	63,513
Operating expenses:		
Research and development	22,929	26,931
Sales and marketing	23,414	24,171
General and administrative	11,420	14,191
Special charges	6,410	476
	64,173	65,769
Loss from operations	(6,125)	(2,256)
Interest and other income	1,463	2,133
Interest expense	(2,777)	(6,155)
Loss before income taxes	(7,439)	(6,278)
Income tax provision	2,750	3,068
Net loss	$ (10,189)	$ (9,346)
Net loss per share		
Basic	$ (0.06)	$ (0.05)
Diluted	$ (0.06)	$ (0.05)
Weighted average common and common equivalent shares		
Basic	179,713	173,553
Diluted	179,713	173,553

See accompanying notes to Condensed Consolidated Financial Statements.

QUANTUM CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	June 27, 2004 (Unaudited)	March 31, 2004 (1)
Assets		
Current assets:		
Cash and cash equivalents	$ 213,948	$ 214,607
Short-term investments	54,800	50,800
Accounts receivable, net of allowance for doubtful accounts of $9,903 and $9,988	106,911	117,397
Inventories	55,403	48,343
Deferred income taxes	27,502	27,514
Service inventories	52,590	51,258
Other current assets	34,457	36,625
Total current assets	545,611	546,544
Long-term assets:		
Property and equipment, less accumulated depreciation	37,370	40,377
Purchased technology and other intangible assets, less accumulated amortization	56,501	60,874
Goodwill	45,690	45,690
Other long-term assets	10,927	12,073
Total long-term assets	150,488	159,014
	$ 696,099	$ 705,558
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 62,169	$ 67,341
Accrued warranty	35,128	38,015
Short-term debt	—	537
Other accrued liabilities	115,151	105,991
Total current liabilities	212,448	211,884
Long-term liabilities:		
Deferred income taxes	27,124	27,125
Convertible subordinated debt	160,000	160,000
Total long-term liabilities	187,124	187,125
Stockholders' equity:		
Common stock	255,711	255,121
Retained earnings	40,816	51,428
Total stockholders' equity	296,527	306,549
	$ 696,099	$ 705,558

(1) Derived from the March 31, 2004 audited Consolidated Financial Statements included in the Annual Report on Form 10-K of Quantum Corporation for fiscal year 2004.

See accompanying notes to Condensed Consolidated Financial Statements.

QUANTUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

	Three Months Ended	
	June 27, 2004	June 29, 2003
Cash flows from operating activities:		
Net Loss	$ (10,189)	$ (9,346)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	10,469	12,436
Compensation related to stock incentive plans	197	159
Changes in assets and liabilities:		

Accounts receivable	10,486	1,462
Inventories	(7,060)	(1,168)
Accounts payable	(5,172)	(17,449)
Accrued warranty	(2,887)	(4,862)
Income taxes payable	549	(562)
Other assets and liabilities	9,902	13,929
Net cash provided by (used in) operating activities	6,295	(5,401)
Cash flows from investing activities:		
Purchases of short-term investments	(685,900)	(404,788)
Proceeds from sale of short-term investments	681,900	325,635
Purchases of property and equipment	(2,809)	(3,609)
Net cash used in investing activities	(6,809)	(82,762)
Cash flows from financing activities:		
Principal payments of short-term debt	(537)	—
Proceeds from issuance of common stock, net	392	348
Net cash provided by (used in) financing activities	(145)	348
Net decrease in cash and cash equivalents	(659)	(87,815)
Cash and cash equivalents at beginning of period	214,607	221,734
Cash and cash equivalents at end of period	$ 213,948	$ 133,919
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$ 330	$ 93
Income taxes, net of refunds	$ 1,111	$ 3,154
Notes payable issued for achievement of certain earn out provisions of M4 Data (Holdings) Ltd. acquisition	$ —	$ 976
Value of common stock issued for achievement of certain earn out provisions of Benchmark Storage Innovations Inc. acquisition	$ —	$ 1,984
Value of common stock tendered in satisfaction of employee's income taxes on vesting of employee stock options	$ —	$ 140

See accompanying notes to Condensed Consolidated Financial Statements.

QUANTUM CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Description of Business

Quantum Corporation ("Quantum" or the "Company") (NYSE: DSS) has two data storage business segments: the DLT business and the Storage Systems business. DLT designs, develops, manufactures, licenses, services, and markets tape drives (DLTtape, DLTtape VS, and Super DLTtape drives), and media cartridges (DLTtape and Super DLTtape media cartridges). The Storage Systems business consists of tape automation systems and services and disk-based backup systems.

Note 2: Pro Forma Stock Compensation Expense

As permitted by SFAS No. 123 *Accounting for Stock-Based Compensation*, Quantum accounts for employee stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, "*Accounting for Stock Issued to Employees"* ("APB 25"), and related interpretations. Under APB 25, when the exercise price of its employee stock awards equals or exceeds the market price of the underlying stock on the date of grant, no compensation expense is recognized. Any deferred stock compensation calculated according to APB 25 is amortized over the vesting period of the individual stock awards. In general, the vesting period of these stock awards is graded. Stock awards granted to nonemployees are accounted for at fair value in accordance with the provisions of SFAS No. 123, with the associated value recognized over the vesting period of the award.

Pro forma information regarding net income (loss) and net income (loss) per share is required by FAS 123. This information is required to be determined as if the Company had accounted for its employee stock awards (including shares issued under the Employee Stock Purchase Plan, collectively called "stock-based awards"), under the fair value method of FAS 123, as amended by SFAS 148 *Accounting for Stock-Based Compensation —Transition and Disclosure*. Stock-based awards have been valued using the Black-Scholes option pricing model. Among other things, the Black-Scholes model considers the expected volatility of the Company's stock price, determined in accordance with FAS 123, in arriving at an option valuation.

For purposes of pro forma disclosures, the estimated fair value of Quantum's employee stock options is amortized to expense over the vesting period of the option. The pro forma stock-based employee compensation expense has no impact on the Company's cash flows. In the future, the Company may elect, or be required, to use a different valuation model, which could result in a significantly different impact on pro forma net income (loss). For purposes of this reconciliation, the Company adds back to previously reported net income all stock-based employee compensation expense that relates to acquisitions or to awards made below fair market value, then deducts the pro forma stock-based employee compensation expense determined under the fair value method for all awards. Quantum's pro forma net income (loss) and net income (loss) per share follows:

(In thousands, except per-share data)	Three Months Ended	
	June 27, 2004	June 29,2003
Reported net loss	$ (10,189)	$ (9,346)
Add back employee stock option expense	—	159
Option fair value amortization	(3,859)	(4,758)
Pro forma net loss	$ (14,048)	$ (13,945)
Reported net loss per share	$ (0.06)	$ (0.05)
Net effect per share of option fair value amortization	(0.02)	(0.03)
Basic and diluted pro forma net loss per share	$ (0.08)	$ (0.08)

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

	Stock Option Plans Three Months Ended		Stock Purchase Plan Three Months Ended	
	June 27, 2004	June 29, 2003	June 27, 2004	June 29, 2003
Option life (in years)	3.16	3.02	1.64	1.50
Risk-free interest rate	2.98%	1.34%	1.73%	1.48%
Stock price volatility	0.80	0.68	0.75	0.68
Dividend yield	–	–	–	–

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

	Three Months Ended	
	June 27, 2004	June 29, 2003
Options granted under the Long-Term Incentive Plan, Supplemental Plan and Stock Options Plans	$ 1.57	$ 1.65
Shares granted under the Stock Purchase Plan	$ 1.51	$ 1.02

Note 3: <u>Basis of Presentation</u>

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of Quantum and its majority-owned subsidiaries. All material intercompany balances and transactions have been eliminated. The interim financial statements reflect all adjustments, consisting only of normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the results for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for the full fiscal year. The Condensed Consolidated Balance Sheet as of March 31, 2004 has been derived from the audited financial statements at that date. However, it does not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. The accompanying financial statements should be read in conjunction with the audited financial statements of Quantum for the fiscal year ended March 31, 2004, included in its Annual Report on Form 10-K.

Note 4: <u>Goodwill and Intangible Assets</u>

Goodwill as of June 27, 2004 and March 31, 2004 included the following:

(In thousands)	Goodwill	Segment
ATL Products, Inc. (acquired October 1998)	$ 7,711	Storage Systems
M4 Data	4,734	Storage Systems
Benchmark (allocated to DLT)	23,948	DLT
Benchmark (allocated to Storage Systems)	9,297	Storage Systems
	$ 45,690	

Acquired intangible assets are amortized over their estimated useful lives, which range from 2 to 10 years. In estimating the useful lives of intangible assets, management considered the following factors:

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

The following tables provide a summary of the carrying amount of intangible assets that will continue to be amortized:

(In thousands)	As of June 27, 2004			As of March 31, 2004		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Purchased technology	$ 84,600	$ (43,060)	$ 41,540	$ 84,600	$ (39,871)	$ 44,729
Trademarks	22,560	(10,619)	11,941	22,560	(9,879)	12,681
Non-compete agreements	2,516	(2,212)	304	2,516	(2,091)	425
Customer lists	14,100	(11,853)	2,247	14,100	(11,720)	2,380
Assembled workforce	4,082	(3,613)	469	4,082	(3,423)	659
	$ 127,858	$ (71,357)	$ 56,501	$ 127,858	$ (66,984)	$ 60,874

As of June 27, 2004 and March 31, 2004, net goodwill and intangible assets were $102.2 million and $106.6 million, respectively, and represented approximately 15% of total assets.

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

(In thousands)	Three Months Ended	
	June 27, 2004	June 29, 2003
Purchased technology	$ 3,189	$ 3,189
Trademarks	741	741
Non-compete agreement	121	132
Customer lists	133	573
Assembled workforce	189	205
	$ 4,373	$ 4,840

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

(In thousands)	Amortization
Nine months ended March 31, 2005	$ 12,963
Fiscal year 2006	16,253
Fiscal year 2007	14,025
Fiscal year 2008	9,699
Fiscal year 2009	3,561
Total as of June 27, 2004	$ 56,501

Note 5: Special Charges

In fiscal years 2005 and 2004, Quantum implemented plans to reduce costs in an effort to return to profitability. The restructuring charges that resulted from these cost reduction efforts relate to the following:

- Plans to outsource manufacturing
- Plans to consolidate most of the operations supporting our two business segments
- Other general expense reduction

These plans to reduce costs impacted both of our operating segments, DLT and Storage Systems, as well as corporate functions.

The following tables show the type of activity for the three months ended June 27, 2004 and June 29, 2003.

(In thousands)	For the Three Months Ended	
	June 27, 2004	June 29, 2003

By expense type		
Severance and Benefits	$ 5,495	$ 429
Facilities	855	47
Fixed Assets	60	–
Total	$ 6,410	$ 476

By cost reduction actions		
Outsource certain manufacturing and service functions	$ 2,540	$ 343
Consolidate the operations supporting our two business segments	3,859	–
Other general expense reduction	11	133
Total	$ 6,410	$ 476

First quarter fiscal year 2005

A charge of $5.5 million was recorded primarily for severance benefits and severance related costs for 98 employees located at Quantum's facility in Boulder, Colorado; Colorado Springs, Colorado; San Jose, California; Irvine, California; and in the United Kingdom.

A charge of $0.9 million was recorded for vacant facilities in the United Kingdom.

First quarter fiscal year 2004

A charge of $0.3 million was recorded primarily for severance benefits for eight employees located at Quantum's facility in Colorado Springs, Colorado.

A charge of $0.1 million was recorded, which related to severance benefits for three employees located in Quantum's U.K. office.

The following two tables show the activity and the estimated timing of future payouts for cost reduction plans (for a complete discussion of Quantum's special charge activity in prior years, refer to Note 6 in Quantum's Annual Report on Form 10-K for the year ended March 31, 2004):

(In thousands)	Severance Costs	Facilities	Other	Total
Balance at March 31, 2004	$ 2,617	$ 4,647	$ —	$ 7,264
DLT special charges	2,958	—	—	2,958
Storage Systems special charges	2,537	855	60	3,452
Cash payments	(3,891)	(910)	(60)	(4,861)
Non-cash charges	(29)	—	—	(29)
Balance at June 27, 2004	$ 4,192	$ 4,592	$ —	$ 8,784
Estimated timing of future payouts:				
Fiscal Year 2005	$ 4,192	$ 2,910	$ —	$ 7,102
Fiscal Year 2006 to 2008	—	1,682	—	1,682
	$ 4,192	$ 4,592	$ —	$ 8,784

The $8.8 million remaining special charge accrual as of June 27, 2004 is comprised of obligations for severance and vacant facilities. The severance charges will be paid during fiscal year 2005 and the facilities charges relating to vacant facilities in Irvine, California; Colorado Springs, Colorado; and Boulder, Colorado will be paid over the lease term, which is through the third quarter of fiscal year 2008.

Note 6: Net Loss Per Share

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

(In thousands, except per-share data)	Three Months Ended June 27, 2004	Three Months Ended June 29, 2003
Net loss	$ (10,189)	$ (9,346)
Basic and diluted net loss per share	$ (0.06)	$ (0.05)
Weighted average shares outstanding used in computing basic and diluted net loss per share	179,713	173,553

The computations of diluted net loss per share for the periods presented excluded the effect of the following because the effect would have been antidilutive:

- 4.375% convertible subordinated notes issued in July 2003, which are convertible into 36.8 million shares of Quantum common stock (229.885 shares per $1,000 note) as of June 27, 2004

- 7% convertible subordinated notes issued in July 1997, which were convertible into 6.2 million shares of Quantum common stock (21.587 shares per $1,000 note) as of June 29, 2003
- Options to purchase 34.4 million shares and 32.4 million shares of Quantum common stock were outstanding at June 27, 2004, and June 29, 2003, respectively.

Note 7: Inventories and Service Inventories

Inventories consisted of the following:

(In thousands)	June 27, 2004	March 31, 2004
Materials and purchased parts	$ 18,573	$ 18,264
Work in process	3,383	1,597
Finished goods	33,447	28,482
	$ 55,403	$ 48,343

Service inventories consisted of the following:

(In thousands)	June 27, 2004	March 31, 2004
Component parts	$ 28,939	$ 28,192
Finished units	23,651	23,066
	$ 52,590	$ 51,258

Note 8: Accrued Warranty and Indemnifications

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

(In thousands)	From March 31, 2004 to June 27, 2004	From March 31, 2003 to June 29, 2003
Beginning balance	$ 38,015	$ 49,582
Additional warranties issued	3,417	5,721
Adjustments for warranties issued in prior fiscal years	243	1,560
Settlements made in cash	(6,547)	(12,143)
Ending Balance	$ 35,128	$ 44,720

Quantum warrants its products against defects for periods ranging from 12 to 39 months. A provision for estimated future costs and estimated returns for credit relating to warranty is recorded when products are shipped and revenue recognized. Quantum's estimate of future costs to satisfy warranty obligations is primarily based on estimates of future failure rates and its estimates of future costs of repair including materials consumed in the repair, and labor and overhead amounts necessary to perform the repair.

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

Indemnifications

Quantum has off-balance sheet transactions consisting of certain financial guarantees, both express and implied, related to product liability and potential infringement of intellectual property. Other than certain product liabilities recorded at June 27, 2004, Quantum did not record a liability associated with these guarantees, as Quantum has little or no history of costs associated with such indemnification requirements. Contingent liabilities associated with product liability may be mitigated by insurance coverage that Quantum maintains.

Note 9: Credit Agreements, Short-Term Debt and Convertible Subordinated Debt

Quantum's debt includes the following:

	As of or for the Three Months Ended	
(In thousands)	June 27, 2004	March 31, 2004
Short-term debt (M4 Data (Holdings) Ltd. Debentures)	$ —	$ 537
Convertible subordinated debt	160,000	160,000
	$ 160,000	$ 160,537

Weighted average interest rate	4.375%	4.392%

Convertible subordinated debt

On July 30, 2003, Quantum issued $160.0 million in aggregate principal amount of 4.375% convertible subordinated notes due 2010, in a private placement transaction. The notes are unsecured obligations subordinated in right of payment to all of Quantum's existing and future senior indebtedness. The notes mature on August 1, 2010, and are convertible at the option of the holder at any time prior to maturity, unless previously converted, into an aggregate of 36.8 million shares of Quantum common stock at a conversion price of $4.35 per share. Quantum cannot redeem the notes prior to August 5, 2008. Quantum received net proceeds from the notes of $155.1 million, after deducting commissions and expenses. In August 2003, Quantum used the net proceeds from the sale of the notes plus cash to redeem its 7% convertible subordinated notes due in 2004.

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

Short-term debt (M4 Data debentures)

Quantum acquired all the outstanding stock of M4 Data on April 12, 2001 for approximately $58.0 million in consideration. The purchase agreement also included additional contingent consideration to be paid annually from 2002 through 2005 based on future revenues, which may result in additional debentures being issued and this occurred in the first quarter of fiscal year 2004**.** The outstanding debentures of $0.5 million that were issued in the first quarter of fiscal year 2004 based on revenues in the preceding fiscal year were called in the first quarter of fiscal year 2005 by the holders.

Credit line

In December 2002, Quantum entered into a secured senior credit facility with a group of five banks, providing Quantum with a $100.0 million revolving credit line and a $50.0 million synthetic lease that contains the same financial covenants as the revolving credit line. In March 2004, Quantum amended the secured senior credit facility to extend the maturity to March 2006 and adjusted several covenant requirements. As of June 27, 2004, $90.3 million of this revolving credit line is committed to standby letters of credit, of which $50.0 million secures Quantum's obligation to the lessor under its synthetic lease (see Note 13 "Commitments and Contingencies"). Borrowings under the revolving credit line bear interest at either the London interbank offering rate (LIBOR) with option periods of one to nine months or a base rate, plus a margin determined by a leverage ratio. The credit facility is secured by a blanket lien on all of the assets of Quantum and contains certain financial and reporting covenants, which Quantum is required to satisfy as a condition of the credit line. In prior quarters Quantum violated certain financial covenants under this credit agreement and received waivers or amendments for such violations. There is also a cross default provision between this facility and the synthetic lease facility such that a default on one facility constitutes a default on the other facility. As of June 27, 2004, Quantum was in compliance with all of the credit line covenants.

Note 10: Stock Incentive Plans

Stock Option Plans

Quantum has Stock Option Plans (the "Plans") that provide for the issuance of stock options, stock appreciation rights, stock purchase rights, and long-term performance awards (collectively referred to as "options") to employees, consultants, officers and affiliates of Quantum. The Plans have reserved for future issuance 51.6 million shares of stock. Available for grant as of June 27, 2004, were 17.2 million shares of stock. Options under the Plans generally expire no later than ten years from the grant date and generally vest over four years. Restricted stock granted under the Plans generally vests over two to three years.

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

	Options (000s)	Weighted-Avg. Exercise Price
Outstanding at March 31, 2004	33,855	$ 6.39
Granted	2,721	$ 2.51
Exercised	(218)	$ 1.80
Canceled	(1,912)	$ 8.45
Outstanding at June 27, 2004	34,446	$ 6.00
Exercisable at June 27, 2004	19,607	$ 7.68

The following tables summarize information about options outstanding and exercisable at June 27, 2004:

Range of Exercise Prices	Options Outstanding (000s)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Options Exercisable (000s)	Weighted Average Exercise Price

$ 0.96 – $ 2.95	10,677	$	2.55	6.24	3,823	$	2.56
$ 2.96 – $ 6.05	7,605	$	3.44	8.51	2,205	$	3.36
$ 6.05 – $ 8.69	7,082	$	7.11	6.25	5,266	$	7.20
$ 8.72 – $12.50	7,204	$	10.13	5.82	6,467	$	10.12
$12.56 – $24.11	1,878	$	15.95	4.53	1,846	$	16.00
	34,446	$	6.00	6.56	19,607	$	7.68

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

Note 11: <u>Income Taxes</u>

The tax expense recorded for the three months ended June 27, 2004 and June 29, 2003 was $2.8 million and $3.1 million, respectively. The current quarter's tax provision reflects foreign withholding taxes.

Note 12: <u>Litigation</u>

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

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

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

On December 30, 2003, a lawsuit was filed against Quantum and Maxtor Corporation in the U.S. District Court in the Northern District of California. The plaintiff, Matsushita Kotobuki Electronics Industries, Ltd. ("MKE"), alleges breach of contract, breach of fiduciary relationship, fraud, violation of California unfair business practices law, and unjust enrichment. MKE charges, among other things, that certain Quantum intellectual property transferred to Maxtor in connection with the purchase by Maxtor of Quantum's hard disk drive business belongs to MKE. MKE seeks a declaratory judgment that it is the sole owner of the specified intellectual property, as well as unspecified damages, attorneys' fees, costs, and interest. In addition, MKE seeks to recover amounts MKE paid in settlement to Papst. Given the early stages and inherent uncertainty of the litigation, Quantum currently cannot estimate the extent of the potential damages in the litigation. Quantum denies the allegations of the complaint, believes they are without merit and intends to vigorously defend itself against the claims asserted by MKE.

Note 13: <u>Commitments and Contingencies</u>

<u>Synthetic Lease</u>

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

In December 2002, Quantum renegotiated this lease, which now expires in December 2007. The total minimum lease payments from the second quarter of fiscal year 2005 until the scheduled expiration date in December 2007 are estimated to be approximately $4.1 million and approximate the lessor's debt interest service costs. The minimum lease payments will fluctuate depending on short-term interest rates.

The lease is secured by a standby letter of credit issued under Quantum's revolving line of credit and a blanket lien on all of the assets of Quantum. The revolving line of credit expires in March 2006 and at that time Quantum could be required to post cash collateral to secure the lease, unless other financial arrangements are made that are acceptable to the lessor.

The lease commitment requires Quantum to maintain specified financial covenants. If in future quarters Quantum were to fail to comply with these financial covenants and was unable to obtain a waiver, or amend the lease, for such non-compliance, the lessor could terminate the lease. This could result in Quantum having to purchase and/or cause a third party to purchase the facilities promptly and potentially at a substantial discount to their current appraised value. There is a cross default provision between this facility and the credit line facility (refer to Note 9 "Credit Agreements, Short-Term Debt and Convertible Subordinated Debt") such that a default on one facility constitutes a default on the other facility.

At the end of the lease term, Quantum has the following options and obligations:

(1) Quantum may renew the lease if the lessor accepts a renewal at its discretion;
(2) Quantum may purchase the facility for approximately $50 million (the "stipulated sales price"); or
(3) If Quantum has paid all sums owing under the lease and is not otherwise in default under the lease or the credit line facility at the end of the stated lease term, Quantum may find a third party to purchase the facility. In such event, Quantum has guaranteed any shortfall between the net proceeds from the sale of the property to the third party and the stipulated sales price, up to a maximum amount payable equal to 87.7% of the stipulated sales price, or $43.9 million.

Appraised value of the facility, the collateral that would be used to satisfy the contingent obligation, was $50 million. At any time during the lease term, Quantum may purchase (or cause a third party to purchase) the facility for the stipulated sales price. If Quantum defaults under the lease, its only option is to purchase the facility for the stipulated sales price.

Quantum shares contingently issuable in connection with the acquisition of SANlight

Quantum may be required to issue additional shares of common stock up to a maximum of 0.3 million under the agreements to acquire SANlight. The issuance of these additional shares is contingent upon the achievement of certain milestones.

Commitments to purchase inventory

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

As of June 27, 2004, Quantum had issued non-cancelable purchase orders for $35.0 million to purchase finished goods from its contract manufacturers, and had not incurred any significant liability for finished goods in excess of current customer demand or for the costs of excess or obsolete inventory.

Contingencies

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

Note 14: Business Segment Information

Quantum's reportable segments are DLT and Storage Systems. These reportable segments have distinct products with different production processes. DLT consists of tape drives and media. Storage Systems consists of tape automation systems and service, and includes disk based backup products. Quantum directly markets its products to computer manufacturers and through a broad range of distributors, resellers and systems integrators.

Quantum evaluates segment performance based on operating income (loss) excluding special charges and other infrequent or unusual items. Quantum does not allocate interest and other income, interest expense, or taxes to operating segments. Additionally, Quantum does not allocate all assets by operating segment, only those assets included in the table below:

(In thousands)	Three Months Ended					
	June 27, 2004			June 29, 2003		
	DLT	Storage Systems	Total	DLT	Storage Systems	Total
Revenue	$105,329	$ 67,355	$172,684	$136,263	$ 65,952	$202,215
Cost of revenue	67,592	47,044	114,636	88,988	49,714	138,702
Gross margin	37,737	20,311	58,048	47,275	16,238	63,513
Research and development	14,782	8,147	22,929	17,655	9,276	26,931
Sales and marketing	8,930	14,484	23,414	9,296	14,875	24,171
General and administrative	7,136	4,284	11,420	9,202	4,989	14,191
Special charges	2,958	3,452	6,410	343	133	476
Total operating expenses	33,806	30,367	64,173	36,496	29,273	65,769
Operating income (loss)	$ 3,931	$ (10,056)	$ (6,125)	$ 10,779	$ (13,035)	$ (2,256)

(In thousands)	As of June 27, 2004			As of March 31, 2004		
	DLT	Storage Systems	Total	DLT	Storage Systems	Total
Inventories	$ 15,325	$ 40,078	$ 55,403	$ 15,651	$ 32,692	$ 48,343
Service inventories	$ 31,841	$ 20,749	$ 52,590	$ 33,636	$ 17,622	$ 51,258
Property, plant and equipment, net	$ 26,279	$ 11,091	$ 37,370	$ 28,996	$ 11,381	$ 40,377

Goodwill and intangibles, net	$ 37,718	$ 64,473	$102,191	$ 38,738	$ 67,826	$106,564

Note 15: Comprehensive Loss

Total comprehensive loss, net of tax if any, for the three months ended June 27, 2004, and June 29, 2003, is presented in the following table:

	Three Months Ended	
(In thousands)	June 27, 2004	June 29, 2003
Net loss	$ (10,189)	$ (9,346)
Foreign currency translation adjustment	(424)	928
Total comprehensive loss	$ (10,613)	$ (8,418)

Note 16: Recent Accounting Pronouncements

In March 2004, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 03-01, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." EITF No. 03-01 provides guidance on recording other-than-temporary impairments of cost method investments and requires additional disclosures for those investments. The recognition and measurement guidance in EITF No. 03-01 should be applied to other-than-temporary impairment evaluations in reporting periods beginning after June 15, 2004. The disclosure requirements are effective for fiscal years ending after June 15, 2004 and are required only for annual periods. The Company does not believe that the adoption of this standard will have a material impact on its consolidated balance sheet or statement of operations.

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

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements in this report usually contain the words "will," "estimate," "anticipate," "expect", "believe" or similar expressions and variations or negatives of these words. All forward-looking statements including, but not limited to, (1) our expectation that the current installed base of tape drives will result in continued demand for the tap media cartridges, (2) our expectation that media royalties will continue to be a significant source of our DLT revenues, (3) our expectation that we will continue to derive a substantial majority of our revenue from products based on our tape technology, (4) our expectation that we will incur additional future charges for anticipated restructurings, including future payments equal to $7.1 million in fiscal year 2005 and $1.6 million between fiscal years 2006 and 2008, (5) our intention to pursue product initiatives in order to further improve gross margins, increase operating efficiencies and effectiveness, and reduce operating costs, (6) our belief that strong competition in the tape drive, tape media and tape automation systems markets will result in further price erosion, (7) our expectation that we will realize annual cost savings from our first quarter 2005 restructuring programs of approximately $6 million, (8) our expectation that any debentures that we issue after the date of this Quarterly Report on Form 10-Q in connection with our acquisition of M4 Data will total approximately $2 million in principal amount, (9) our belief that our existing cash and capital resources will be sufficient to meet all currently planned expenditures and sustain our operations for the next 12 months, (10) our expectation that we will return to profitability, (11) our belief that our ultimate liability in any infringement claims made by any third parties against us will not be material to us, (12) our expectation that we will make additional acquisitions in the future, (13) our expectation that our future contractual payment obligations equal no more than approximately $44.7 million within one year, $9.8 million between one and two years, $5.1 million between two and three years and $223 million beyond three years, (14) our expectation that our income tax expense will decline substantially beginning in the second quarter of fiscal year 2005 and (15) our belief that our total foreign exchange rate exposure is not significant, are inherently uncertain as they are based on management's expectations and assumptions concerning future events, and they are subject to numerous known and unknown risks and uncertainties. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. As a result, our actual results may differ materially from the forward-looking statements contained herein. Factors that could cause actual results to differ materially from those described herein include, but are not limited to, (1) the amount of orders received in future periods; (2) our ability to timely ship our products; (3) uncertainty regarding IT spending and the corresponding uncertainty in the demand for tape drives and tape automation products; (4) our continued receipt of media royalties from media manufacturers at or above historical levels; (5) a continued trend toward centralization of storage; (6) our ability to achieve anticipated pricing, cost and gross margin levels, particularly on tape drives, given lower volumes and continuing price and cost pressures; (7) the successful execution of our strategy to expand our businesses into new directions; (8) our ability to successfully introduce new products; (9) our ability to achieve and capitalize on changes in market demand; (10) acceptance of, and demand for, our products; (11) our ability to maintain supplier relationships; and (12) those factors discussed under "Trends and Uncertainties" elsewhere in this Quarterly Report on Form 10-Q. Our forward-looking statements are not guarantees of future performance. We disclaim any obligation to update information in any forward-looking statement.

Business Description

Quantum Corporation ("Quantum", the "Company", "us" or "we") (NYSE:DSS), founded in 1980, is a global leader in storage, delivering reliable backup, recovery and archive solutions that meet demanding requirements for data integrity and availability with superior price performance and comprehensive service and support. We are the world's largest supplier of half-inch cartridge tape drives, and our DLTtape™ Technology is standard for tape backup, recovery, and archive business-critical data for the mid-range enterprise. We offer the broadest portfolio of tape autoloaders and libraries and are one of the pioneers in the disk-based backup market, providing solutions that emulate a tape library but are optimized for backup and recovery.

Previously, Quantum was also in the hard disk drive business, which operated as Quantum's Hard Disk Drive group ("HDD"). This business was acquired by Maxtor Corporation ("Maxtor") on April 2, 2001.

Business Summary

Quantum has two data storage business segments: the DLT business and the Storage Systems business. Our DLT business consists of tape drive and tape media cartridge product lines. Our Storage Systems business consists of tape automation systems and service and includes disk-based backup systems.

While continuing to develop and introduce new products in the storage market, we have also continued to take steps to reduce costs in order to return to profitability. In recent years and in the first quarter of fiscal year 2005, our business has experienced declining total revenues, lower gross margins and operating losses. The factors driving these trends included, among other things, increased competition from other computer equipment manufacturers and the generally weak economic conditions that persisted between

2000 and 2002, and to a lesser extent in 2003, which resulted in generally lower prices and unit sales because of reduced customer spending on Information Technology ("IT"). Because of these trends and the reduced corporate infrastructure that we required following the disposition of HDD to Maxtor at the beginning of fiscal year 2002, which represented a major corporate realignment for Quantum, we have taken numerous cost reduction actions in recent years and in the first quarter of fiscal year 2005. Spending on IT has increased in recent quarters and this has benefited our business. However, the overall impact of the negative trends has not been fully reversed or offset and we incurred further costs for cost reduction steps and had operating losses in the first quarter of fiscal year 2005. The cost reduction steps we are taking are aimed at eventually returning Quantum to profitability on a consistent basis.

DLT

In our DLT business, we design, develop, license, service, and market tape drives, including DLTtape and Super DLTtape™ drives (collectively referred to as "tape drives") as well as tape media cartridges, including DLTtape and Super DLTtape media cartridges (collectively referred to as "tape media cartridges"). Our DLTtape drives are targeted at the "value" or "price sensitive" segment of the tape drive market. Our Super DLTtape drives are targeted at the "performance sensitive" segment of the tape drive market. We earn approximately 61% of our revenue by selling tape drives and the tape media cartridges used by tape drives. Most of our media revenue from royalties is paid to us by manufacturers who license our tape media cartridge technology. Super DLTtape Technology has a higher storage capacity and transfer rate than DLTtape technology. Both DLTtape and Super DLTtape products are used to back up large amounts of data stored on network servers. DLTtape and Super DLTtape are based on our half-inch Digital Linear Tape technology that is used in mid-range UNIX and NT system backup and archive applications.

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

We receive a royalty on tape media cartridges sold by our licensees. We prefer that a substantial portion of our tape media cartridge sales occur through this license model because this minimizes our operational risks, asset investments and expenses and provides an efficient distribution channel. In the first quarter of fiscal year 2005, approximately 91% of our tape media cartridge unit sales occurred through this license model. We believe that the large installed base of tape drives and our licensing of tape media cartridges are of strategic importance to us because they contribute to both our direct sales of tape media cartridges and also provide us with royalty income from our licensing partners. Media royalties have been a significant source of our gross margins, operating income and cash flow, and this trend is expected to continue.

As of the end of first quarter of fiscal year 2005, substantially all of Quantum's manufacturing has been outsourced. The manufacturing of tape drives was outsourced to Jabil Circuit Inc. ("Jabil") in fiscal year 2003, under an agreement dated August 29, 2002.

Storage Systems

In our Storage Systems business, we design, develop, manufacture, market and sell tape automation systems, disk-based backup systems and related service and support. Our tape automation systems, including tape libraries and autoloaders, serve the entire mid-range tape library data storage market from desktop computers to enterprise-class computers. We offer a broad line of tape automation systems, which are used to manage, store and transfer data in enterprise networked computing environments. Our disk-based backup systems include Enhanced Backup Systems.

Products

Our products include:

DLT business:

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

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

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

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

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

Storage Systems business:

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

Our Storage Systems products are divided into the following two categories to reflect different go-to-market business models.

- **High-Volume Products**

High-volume products are sold mainly through third party distributors, value-added resellers and Original Equipment Manufacturers ("OEMs"), and include the ValueLoader™, the SuperLoader™ and the M-Series family of tape libraries featuring the M1500, M1800 and M2500.

ValueLoader

The ValueLoader is designed for the desktop or standard 19 inch rack and uses a single DLT VS80, DLT VS160, SDLT320, LTO-1 or LTO-2 tape drive with an eight-cartridge capacity and provides up to 1.6TB of data storage and 108 GB/hour throughput.

SuperLoader

The SuperLoader tape library is a scalable tape autoloader that provides up to 3.2 terabytes (TB) of capacity and 108GB/hour throughput in a 2U (U is a standard of measure, 1.75" high) rack-mount form factor and is a modular, high-density tape automation solution designed for the workgroup environment. It contains one or two removable active magazines and is available with up to 16 cartridges and a bar code reader for high performance inventory management. The SuperLoader supports a single DLT1, SDLT320, LTO-1 or LTO-2 tape drive and comes standard with on-board web-based remote management.

M-Series Libraries

Completing our high-volume line is the M-Series family of tape libraries. The M1500, M1800 and M2500 are modular automation systems which customers can integrate together as their storage needs grow. The M1500 is a modular library that is rack mountable and available in increments of one or two drives and 21 (DLT and Super DLT) or 25 (LTO) cartridges. The M1800 has double the performance and capacity of the M1500 and can accommodate up to four drives and 50 cartridges. The M2500 supports up to 6 drives and 84 cartridges and can be combined with the M1500 and/or M1800 to provide customers with scalability and investment protection. The M-Series now supports the SDLT600 tape drives for a capacity of 25.2TB and 777GB/hour throughput in a single M2500. The M-Series libraries easily scale up to 20 drives and 250 cartridges.

• **Enterprise Products**

Enterprise products are sold mainly through value-added resellers, OEMs, and to direct accounts. These products require a higher level of customer engagement to complete a more complex Storage Systems sale and include the P-Series libraries and our DX-Series Enhanced Backup Systems.

P-Series Libraries

Quantum's newest tape library is the PX720, our fifth generation enterprise tape automation platform developed by Quantum. Accommodating up to 20 SCSI or native Fibre Channel tape drives and up to 726 LTO/642 SDLT cartridges in a single chassis, the PX720 provides more than 2.5TB/hour of native throughput performance and 193TB native capacity. The PX720 includes fully redundant power and cooling, proactive component-level monitoring, remote library management, programmable load ports as standard offerings, on-site installation and a one year on-site warranty. Multiple PX720s can be linked together to provide up to 100 drives and up to 3660 slots, for a total capacity of 146 TBs.

The P4000 and the P7000 feature Prism Library Architecture™ are storage solutions for the enterprise data center. The 4000 scales to 322 data cartridges and 10 tape drives, providing up to 97TB of native capacity and 1.3TB/hour native throughput performance. The P7000 scales up to 679 data cartridges and 16 tape drives, providing up to 204TB native capacity and 2.1TB/hour native performance. Multiple P-Series libraries can be linked together to form a single library system providing up to 718TB capacity and 10.1TB/hour native performance.

DX-Series Enhanced Backup Systems

The DX-Series Enhanced Backup Systems (DX30 and DX100) emulate a tape library and seamlessly integrate into existing backup environments without changes to policies or procedures. Supported by every major backup software vendor, the DX-Series provides user definable virtual tape drives and cartridges to meet data center requirements. Designed specifically for extremely fast and reliable backup and restore operations, the DX-Series architecture includes redundant and hot-swappable components that deliver up to 64TB (raw) capacity and up to 2TB/hr performance. A Web-based Graphical User Interface (GUI) provides system management along with event monitoring and notification. The DX-Series complements tape libraries by allowing them to be dedicated to archive operations.

• **StorageCare Services**

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

For more information about our products, please visit our website at *www.quantum.com*. The contents of our website are not incorporated into this Form 10-Q.

CRITICAL ACCOUNTING POLICIES

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

Revenue Recognition

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

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

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

When elements such as hardware and services are contained in a single arrangement, or in related arrangements with the same customer, we allocate revenue to the separate elements based on relative fair value provided we have fair value for all elements of the arrangement. If in an arrangement we have fair value for undelivered elements but not the delivered element, we defer the fair value of the undelivered elements and the residual revenue is allocated to the delivered elements. Undelivered elements typically include installation and services. If fair value does not exist for undelivered elements, then revenue for the entire arrangement is deferred until all elements have been delivered.

Warranty expense and liability

We generally warrant our products against defects for 12 to 39 months. A provision for estimated future costs and estimated returns for credit relating to warranty claims is recorded when products are shipped and revenue recognized. Our estimate of future costs to satisfy warranty obligations is primarily based on our estimates of future failure rates and our estimates of future costs of repair including materials consumed in the repair, and labor and overhead amounts necessary to perform the repair.

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

Inventory Valuation

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

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

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

Service Inventories

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

We carry service inventories because we generally provide product warranty for 12 to 39 months and earn revenue by providing enhanced warranty and repair service outside this warranty period. We initially record our service inventories at cost and each quarter evaluate the difference, if any, between cost and market. The determination of the market value of service inventories is dependent on estimates, including the estimated amount of component parts expected to be consumed in the future warranty and out of warranty service, the estimated number of units required to meet future customer needs, the estimated selling prices of the finished units, and the estimated useful lives of finished units.

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

Goodwill and Intangible Assets

We have a significant amount of goodwill and intangible assets on our balance sheet related to acquisitions. As of June 27, 2004, the net amount of $102.2 million of goodwill and intangible assets represented 15% of total assets.

As a result of adopting SFAS No. 142 *Goodwill and Other Intangible Assets* on April 1, 2002, we discontinued the amortization of goodwill. Instead, goodwill was reviewed for impairment upon adoption of SFAS No. 142 and is reviewed annually thereafter, or more frequently when indicators of impairment are present.

Intangible assets are carried and reported at acquisition cost, net of accumulated amortization subsequent to acquisition. The acquisition cost is amortized over the estimated useful lives, which range from 2 to 10 years. Intangible assets are reviewed for impairment whenever events or circumstances indicate impairment might exist, or at least annually, in accordance with SFAS No. 144 *Accounting for the Impairment or Disposal of Long-lived Assets*. Projected undiscounted net cash flows expected to be derived from the use of those assets are compared to the respective net carrying amounts to determine whether any impairment exists. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets.

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

Special Charges

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

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

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

Income Taxes

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

We have provided a full valuation allowance against its U.S. net deferred tax assets due to our history of net losses, difficulty in predicting future results and belief that we cannot rely on projections of future taxable income to realize the deferred tax assets.

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

<u>RESULTS OF OPERATIONS</u>

Revenue

(In thousands)	Three Months Ended June 27, 2004	Three Months Ended June 29, 2003	Increase / (decrease)	% increase/ decrease
Tape drives	$ 61,716	$ 81,944	$ (20,228)	-24.7%
Tape media	13,311	19,291	(5,980)	-31.0%
Tape royalty	30,302	35,028	(4,726)	-13.5%
DLT	105,329	136,263	(30,934)	-22.7%
Storage Systems	67,355	65,952	1,403	2.1%
	$ 172,684	$ 202,215	$ (29,531)	-14.6%

<u>DLT Revenue for the first quarter of fiscal year 2005 as compared to the first quarter of fiscal year 2004</u>

The decrease in tape drive revenue reflected primarily lower unit sales and to a lesser extent lower average unit prices. The decline in unit sales reflected lower unit shipments of almost all tape drives across our portfolio of both value and performance drives. In particular, sales of the DLT8000 tape drive decreased significantly as it approached end-of-life status. Sales of our value and performance tape drives did not offset the decline in sales of DLT8000. This reflected less demand from our key OEM customers, and it reflected that customer qualifications and the corresponding product ramp for the Super DLT600 are taking longer than we had anticipated

The decrease in tape media revenue in the first quarter of fiscal year 2005 primarily reflected a decrease in average unit prices caused by pricing pressure, and to a lesser extent, due to lower unit sales.

The decrease in tape media royalty revenue in the first quarter of fiscal year 2005 was due to lower average unit prices of the media sold by our licensed manufacturers for which we earn a price-based royalty, partially offset by higher overall media market unit sales.

The decline in media royalties and Quantum-branded media revenue reflects the impact of increased competition, resulting in lower tape drive unit sales in recent years, and also lower-than-expected media prices, further reducing royalties, which are based on our licensees' media pricing.

<u>Storage Systems Revenue for the first quarter of fiscal year 2005 as compared to the first quarter of fiscal year 2004</u>

The increase in revenue reflected an increase in our service and product support revenues and the sales of our new tape library PX720 series, slightly offset by lower sales in our older library products.

Gross Margin and Gross Margin Rate

(In thousands)	Three Months Ended June 27,2004	Three Months Ended June 29, 2003	Increase / (decrease)
DLT gross margin	$ 37,737	$ 47,275	$ (9,538)
Storage Systems gross margin	20,311	16,238	4,073
Quantum gross margin	$ 58,048	$ 63,513	$ (5,465)

DLT gross margin rate	35.8 %	34.7 %	1.1%
Storage Systems gross margin rate	30.2 %	24.6 %	5.6%
Quantum gross margin rate	33.6 %	31.4 %	2.2%

DLT Segment Gross Margin

Gross margin dollars decreased due to 1) the decline in unit sales and 2) the downward trend in media revenues and royalties, which lowered the gross margin dollar contribution we received from our media business. The gross margin rate increased due to higher royalty revenue margin contribution in terms of percentage of total DLT revenue.

Storage Systems Segment Gross Margin Rate

The improvement of 5.6% mainly reflected improved product and service margins driven by product sales mix and lower costs, including better operational efficiencies.

Gross Margin Rate Outlook

We expect our overall gross margin rate to decline sequentially as a result of less favorable sales mix, prices, and costs as compared to the first quarter of fiscal year 2005, which had an atypical combination of positive factors including a higher mix of royalty media, more favorable sales mix and higher service margin in the systems business. Because our media business provides relatively high gross margins, total company gross margin rates are affected significantly by changes in media market sales. There are many complicated variables that, individually and in combination, impact short-term and long-term performance in media and result in a media revenue and gross margin dollar contribution trend for the company. These include, but are not limited to, media pricing decisions among our partners/licensees, end-user media consumption habits and rates, the size of the installed base of tape drives, tape drive retirement patterns, the mix of DLTtape media versus Super DLTtape media, channel inventory levels and other factors. In any given future quarter, the combination of these factors can cause a significant negative, neutral, or positive financial impact.

Over the course of fiscal year 2004, we have experienced a downward trend in media revenues, both in tape media and tape royalty revenues, which has lowered the gross margin dollar contribution we receive from our media business and lowered the DLT gross margin dollar contribution in aggregate. The majority of this downward trend has been caused by reduced media prices and, to a lesser extent, by reduced media unit sales. We expect these factors to continue to impact our business despite our efforts to offset some of the weakness in media such as our continued effort to improve drive gross margin.

Operating Expenses

(In thousands)	Three Months Ended					
	June 27, 2004	% of segment revenue	June 29, 2003	% of segment revenue	Increase / (Decrease)	% of segment revenue
DLT	$ 30,848	29.3%	$ 36,153	26.5%	$ (5,305)	2.8%
Storage Systems	26,915	40.0%	29,140	44.2%	(2,225)	-4.2%
Subtotal	$ 57,763	33.5%	$ 65,293	32.3%	$ (7,530)	1.2%
Special Charges	6,410		476		5,934	
Total	64,173		65,769		(1,596)	

Research and Development Expenses

(In thousands)	Three Months Ended					
	June 27, 2004	% of segment revenue	June 29, 2003	% of segment revenue	Increase / (Decrease)	% of segment revenue
DLT	$ 14,782	14.0%	$ 17,655	13.0%	$ (2,873)	1.0%
Storage Systems	8,147	12.1%	9,276	14.1%	(1,129)	-2.0%
Total	$ 22,929	13.3%	$ 26,931	13.3%	$ (4,002)	0.0%

DLT Research and Development Expenses

The decrease in research and development expenses in the first quarter of fiscal year 2005 as compared to the first quarter of fiscal year 2004 reflected reduced product development costs and lower salary costs as a result of cost reduction actions. The increase in research and development expenses as a percentage of revenue reflected lower DLT revenue.

Storage Systems Research and Development Expenses

The decrease in research and development expenses in the first quarter of fiscal year 2005 compared to the first quarter of fiscal year 2004 reflected reduced product development costs and lower salary costs as a result of cost reduction actions. The decrease in research and development expenses as a percentage of revenue reflected lower expenses and higher Storage Systems revenue.

Sales and Marketing Expenses

(In thousands)	Three Months Ended								
		June 27, 2004	% of segment revenue		June 29, 2003	% of segment revenue		Increase/ (decrease)	% of segment revenue
DLT	$	8,930	8.5%	$	9,296	6.8%	$	(366)	1.7%
Storage Systems		14,484	21.5%		14,875	22.6%		(391)	-1.1%
Total	$	23,414	13.6%	$	24,171	12.0%	$	(757)	1.6%

Although total sales and marketing expenses have trended down moderately, the increases in sales and marketing expenses as a percentage of revenue reflected lower revenue, without a proportional reduction in sales and marketing expenses.

<u>DLT Sales and Marketing Expenses</u>

The decrease in sales and marketing expenses the first quarter of fiscal year 2005 mainly reflected lower spending on channel development programs, lower marketing expenses, and the impact of cost reduction actions.

<u>Storage Systems Sales and Marketing Expenses</u>

The slight decrease in sales and marketing expenses the first quarter of fiscal year 2005 mainly reflected lower spending on channel development related expenses. The decrease in sales and marketing expenses as a percentage of revenue in the first quarter of fiscal year 2005 also reflected higher revenue.

General and Administrative Expenses

(In thousands)	Three Months Ended								
		June 27, 2004	% of segment revenue		June 29, 2003	% of segment revenue		Increase/ (decrease	% of segment revenue
DLT	$	7,136	6.8%	$	9,202	6.8%	$	(2,066)	0.0%
Storage Systems		4,284	6.4%		4,989	7.6%		(705)	-1.2%
Total	$	11,420	6.6%	$	14,191	7.0%	$	(2,771)	-0.4%

The decrease in general and administrative expenses as a percentage of revenue reflect a proportionally larger decreases in expenses as compared to the decline in revenue.

<u>DLT General and Administrative Expenses</u>

The decrease in general and administrative expenses mainly reflected lower legal costs and the impact of cost reduction actions, including reduced headcount.

<u>Storage Systems General and Administrative Expenses</u>

The decrease in general and administrative expenses resulted from the impact of cost reduction actions, including reduced headcount, and a general decline in discretionary spending.

Special Charges

The steps we have taken to return to profitability and right-size our company following our decline in revenue and the sale of the HDD business have resulted in numerous special charges. Special charges included the cost of major restructuring projects such as the outsourcing of certain functions and consolidation of many functions within the company. Although these projects have largely been completed as of June 27, 2004 and most of the associated costs recorded, additional charges are expected to be incurred in the future related to additional cost reduction steps and past restructurings, particularly if estimated costs associated with facilities and other restructured activities are higher than estimated. The costs that we will incur associated with future cost reduction activities are not estimable at this time

The following two tables show the special charges for the three months ended June 27, 2004 and the estimated timing of future payouts for cost reduction plans (for a discussion of our special charge activity in prior years, refer to Note 6 in our Annual Report on Form 10-K for the year ended March 31, 2004):

(In thousands)		Severance Costs		Facilities		Other		Total
Balance at March 31, 2004	$	2,617	$	4,647	$	—	$	7,264
DLT special charges		2,958		—		—		2,958
Storage Systems special charges		2,537		855		60		3,452
Cash payments		(3,891)		(910)		(60)		(4,861)
Non-cash charges		(29)		—		—		(29)
Balance at June 27, 2004	$	4,192	$	4,592	$	—	$	8,784

Estimated timing of future payouts:

Fiscal Year 2005	$ 4,192	$ 2,910	$ —	$ 7,102
Fiscal Year 2006 to 2008	—	1,682	—	1,682
	$ 4,192	$ 4,592	$ —	$ 8,784

In the nine months remaining in fiscal year 2005 as compared to the corresponding period in fiscal year 2004, we expect to realize annual cost savings of approximately $6 million from various restructuring programs in the first quarter of fiscal year 2005. Of this $6 million, approximately $1 million of the savings is expected to reflect reduced cost of revenue, with the remaining savings reflecting reduced operating expenses. The anticipated savings result primarily from employee headcount reductions and reduced facility costs. However, many factors, including reduced sales volume and price reductions, which have impacted gross margins in the past, and the addition of, or increase in, other operating costs, may offset some or all of these anticipated savings.

For more information regarding Special Charges, refer to Note 5 "Special Charges" to the Condensed Consolidated Financial Statements.

Amortization of Intangible Assets

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

(In thousands)	Three Months Ended		Increase /
	June 27, 2004	June 29, 2003	(Decrease)
Cost of revenue	$ 2,975	$ 2,974	$ 1
Research and development	398	426	(28)
Sales and marketing	875	1,314	(439)
General and administrative	125	126	(1)
	$ 4,373	$ 4,840	$ (467)

For further information regarding amortization of intangible assets, refer to Note 4 "Goodwill and Intangible Assets" to the Condensed Consolidated Financial Statements.

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

(In thousands)	Three Months Ended	
	June 27, 2004	June 29,2003
Interest and other income	$ 1,463	$ 2,133
Interest expense	(2,777)	(6,155)
	$ (1,314)	$ (4,022)

The decrease in interest expense mainly reflected reduced interest expense following the redemption of the $287.5 million 7% convertible subordinated notes ("7% Notes") and issuance of $160.0 million of convertible notes at a lower rate of 4.375% in the second quarter of fiscal year 2004. As a result of this redemption, interest income and other also decreased because Maxtor had been paying us interest for its one-third portion of the 7% Notes prior to their redemption. Maxtor has no obligation associated with our 4.375% convertible notes issued following the redemption of the 7% Notes.

The decrease in interest income and other, net, was mainly a result of lower cash balances, lower interest rates and reduced interest payments from Maxtor.

Income Taxes

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

We have provided a full valuation allowance against our U.S. net deferred tax assets due to our history of net losses, difficulty in predicting future results and belief that we cannot rely on projections of future taxable income to realize the deferred tax assets.

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

The current quarter's tax provision primarily reflects foreign withholding taxes as well as local foreign income taxes and state taxes. Beginning in the second quarter of fiscal year 2005, we expect income tax expense to substantially decrease due to the elimination of withholding taxes on royalty income based upon the new Japan -US Treaty, which became effective July 1, 2004.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 16 “Recent Accounting Pronouncements” to the Condensed Consolidated Financial Statements for a full description of recent accounting pronouncements including the respective expected dates of adoption and effects on our results of operations and financial condition.

LIQUIDITY AND CAPITAL RESOURCES

(In thousands)	As of or for Three Months Ended	
	June 27, 2004	June 29, 2003
Cash and cash equivalents	$ 213,948	$ 310,188
Days sales outstanding (DSO)	54.5	58.9
Inventory turns	8.3	8.0
Net cash provided by (used in) operating activities	$ 6,295	$ (5,401)
Net cash used in investing activities	$ (6,809)	$ (82,762)
Net cash provided by (used in) financing activities	$ (145)	$ 348

Net cash provided by (used in) operating activities:

Net cash provided by or used in operating activities has two primary sources:

- Income (loss) from operations adjusted for non cash items
- Changes in the assets and the liabilities that constitute working capital, including accounts receivable, inventory, accounts payable, other assets, and other liabilities.

(In thousands)	Three Months Ended		
	June 27, 2004	June 29, 2003	Change
Cash provided by (used in):			
Loss from operations	$ (10,189)	$ (9,346)	$ (843)
Non-cash income statement items:			
Depreciation and amortization	10,469	12,436	(1,967)
Compensation related to stock incentive plans	197	159	38
Subtotal	477	3,249	(2,772)
Changes in assets and liabilities	5,818	(8,650)	14,468
Net cash provided by (used in) operating activities	$ 6,295	$ (5,401)	$ 11,696

During the first quarter of fiscal year 2005, both the changes in working capital and the loss from operations adjusted for non cash items. Cash provided by our reductions in accounts receivable and other, partially offset by cash used in working capital, including our increase in inventory, paying down of accounts payable, and reduced accrued warranty.

Cash used in paying down accounts payable reflected the impact of lower levels of operating expenses, which in turn result in lower accounts payable associated with these expenses. Cash provided by accounts receivable was primarily due to lower revenue levels causing lower replenishment of collected accounts receivable and improved DSO with four fewer days of sales outstanding. The improvement to DSO resulted from a combination of the negotiation of shorter payment terms from certain business partners and our focus on accounts receivable cash collections.

Net cash used in investing activities:

Cash used in investing activities during the first quarters of fiscal years 2005 and 2004 was primarily from net purchases of short-term investments and our purchases of property and equipment.

Net cash provided by or used in financing activities:

Cash used in the financing activities of operations in the first quarter of fiscal year 2005 related to the principal payments of short-term debt, partially offset by proceeds from the exercise of employee stock options.

Cash provided by the financing activities operations in the first quarter of fiscal year 2004 related to the proceeds from the exercise of employee stock options.

Credit lines

In December 2002, we entered into a secured senior credit facility with a group of five banks, providing us with a $100.0 million revolving credit line and a $50.0 million synthetic lease that contains the same financial covenants as the revolving credit line. In March 2004, we amended the secured senior credit facility to extend the maturity through March 2006 and adjusted several covenant requirements. As of June 27, 2004, $90.3 million of this revolving credit line was committed to standby letters of credit, of which $50.0 million secured our obligation to the lessor under our synthetic lease (see below and Note 13 “Commitments and Contingencies”). Borrowings under the revolving credit line bear interest at either the London interbank offering rate (LIBOR) with option periods of one to nine months or a base rate, plus a margin determined by a leverage ratio. The credit facility is secured by a blanket lien on all of the assets of Quantum and contains certain financial and reporting covenants, which we were required to satisfy as a condition of the credit line. In a number of quarters of fiscal years 2004 and 2003, we violated certain financial covenants under this credit agreement and received waivers or amendments for such violations. There is also a cross default provision between this facility and the synthetic lease facility such that a default on one facility constitutes a default on the other facility. As of June 27, 2004, we were in compliance with all of the credit line covenants.

Synthetic Lease Commitment

As described in Note 13 “Commitments and Contingencies,” we have a synthetic lease commitment accounted for as an operating lease in accordance with SFAS No. 13 *Accounting for Leases*, which required us to maintain specified financial and reporting covenants. We originally entered into this agreement in August 1997 and renegotiated its terms in December 2002, and March 2004. There is a cross default provision between this facility and the credit line facility (refer to Note 9 “Credit Agreements, Short-Term Debt and Convertible Subordinated Debt”) such that a default on one facility constitutes a default on the other facility. In a number of quarters of fiscal years 2004 and 2003 we violated certain financial covenants under this agreement and received waivers or amendments for such violations. As described in greater detail in Note 13 “Commitments and Contingencies,” at the end of the term of the lease we must either renew the lease, purchase the facility for the stipulated sales price of approximately $50.0 million, or find a third party to purchase the facility (in a third party sale we would guarantee any shortfall below the stipulated sales price up to a maximum amount of $43.9 million payable by us).

General Outlook

Although revenue declined and we were unprofitable in the first quarter of fiscal year 2005, we made progress in reducing operating costs and we will continue to focus on increasing revenue, reducing costs and improving margins in an effort to return to consistent profitability and to generate positive cash flows from operating activities.

We believe that our existing cash and capital resources will be sufficient to meet all currently planned expenditures and sustain operations for the next 12 months. This belief is generally dependent upon our ability to maintain revenue around or above current levels, maintain or improve gross margins, and reduce operating expenses in order to provide net income and positive cash flow from operating activities in the future. This belief also assumes we will not be forced to make any significant cash payments or otherwise be impacted by restrictions of available cash associated with our existing letters of credit, our credit facility or our synthetic lease. Should any of the above beliefs prove incorrect, either in combination or individually, it would likely have a material negative effect on our cash balances and capital resources. We have a significant product transition underway in 3 product areas. To the extent this product migration results in current product revenue reductions that are not offset by increases in revenues from our new products, or to the extent revenues come in below current expectations for competitive or any other reasons, our quarterly or annual net income and cash flow results would be adversely affected.

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

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

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

- Renew our credit line facility prior to or at its expiration which is March 30, 2006;
- Provide a waiver or amendment for any covenant violations we may experience in future periods, thereby triggering a default and/or termination under both the credit line and the synthetic lease; or
- Approve any other amendments we might seek to obtain in order to improve our business.

Any lack of renewal, or waiver or amendment, if needed, could result in the credit line becoming unavailable to us and any amounts outstanding becoming immediately due and payable. In the case of our secured senior credit facility, this would mean the loss of our remaining standby letters of credit totaling $40.3 million, and in the case of our synthetic lease, this would mean the acceleration of our obligation to purchase the leased facilities for the stipulated sales price of $50.0 million. This may result in our having to immediately purchase the land and buildings underlying the lease for cash or find a third party to purchase them, potentially at a substantial discount to their appraised value. Quantum would guarantee any shortfall below the $50.0 million stipulated sales price up to a maximum of $43.9 million payable by us. Any requirement to pay off either or both of these two items would substantially restrict or reduce cash available to us.

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

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

Capital Resources

On July 30, 2003, we issued $160 million in aggregate principal amount of 4.375% convertible subordinated notes due 2010, in a private placement transaction. The notes are unsecured obligations subordinated in right of payment to all of our existing and future senior indebtedness. The notes mature on August 1, 2010, and are convertible at the option of the holders at any time prior to maturity into an aggregate of 36.8 million shares of Quantum common stock at a conversion price of $4.35 per share. We cannot redeem the notes prior to August 5, 2008. We received net proceeds from the notes of $155.1 million, after deducting commissions and expenses. We used the net proceeds from the sale of these notes, plus cash received from Maxtor for their responsibility to us for a one-third portion of the debt and a portion of our available cash, to redeem our $287.5 million 7% convertible subordinated notes due 2004. The portion of our available cash used in the redemption was $37 million.

The purchase agreement for the acquisition of M4 Data in April 2001 included additional contingent consideration to be paid annually from 2002 through 2005 based on future revenues, which will result in additional debentures being issued. We expect that debentures issued in the future under the earn out provisions of the acquisition agreement will be approximately $2 million.

As of June 27, 2004, there was approximately $87.9 million remaining on our authorization to repurchase Quantum common stock. No stock repurchases were made during the first quarter of the fiscal year 2005. Our ability to repurchase common stock was restricted under our credit facilities.

The table below summarizes our commitments as of June 27, 2004:

(In thousands)	< 1 year	1 year and < 2 years	2 years and <3 years	3 years and beyond	Total
Convertible subordinated debt	$ –	$ –	$ –	$ 160,000	$ 160,000

Inventory purchase commitment	35,012	–	–	–	35,012
Operating lease-Colorado facility- - contingent obligation (1)	–	–	–	50,000	50,000
Other operating leases	9,694	9,766	5,135	13,032	37,627
Total contractual cash obligations	$ 44,706	$ 9,766	$ 5,135	$ 223,032	$ 282,639

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

RISK FACTORS

THE READER SHOULD CAREFULLY CONSIDER THE RISKS DESCRIBED BELOW, TOGETHER WITH ALL OF THE OTHER INFORMATION INCLUDED IN THIS QUARTERLY REPORT ON FORM 10-Q, BEFORE MAKING AN INVESTMENT DECISION. THE RISKS AND UNCERTAINTIES DESCRIBED BELOW ARE NOT THE ONLY ONES FACING QUANTUM. ADDITIONAL RISKS AND UNCERTAINTIES NOT PRESENTLY KNOWN TO US OR THAT ARE CURRENTLY DEEMED IMMATERIAL MAY ALSO IMPAIR OUR BUSINESS AND OPERATIONS. THIS QUARTERLY REPORT ON FORM 10-Q CONTAINS “FORWARD-LOOKING” STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. PLEASE SEE PAGE 17 OF THIS REPORT FOR ADDITIONAL DISCUSSION OF THESE FORWARD-LOOKING STATEMENTS.

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

Our sales have been concentrated among a few customers. Sales to our top five customers in the first quarter of fiscal year 2005 represented 51% of total revenue. These sales concentrations do not include revenues from sales of our media that were sold directly to our top five customers by our licensees, for which we earn royalty revenue, or revenues from sales of our tape drives incorporated into tape libraries sold to our top five customers by our customers. Furthermore, customers are not obligated to purchase any minimum product volume and our relationships with our customers are terminable at will.

The merger of Hewlett-Packard and Compaq during calendar year 2002 significantly increased the concentration of our sales and dependency on a single customer. In the first quarter of fiscal year 2005 approximately 23% of our revenue was derived from this merged entity, and, therefore, we could be materially and adversely affected if Hewlett-Packard were to experience a significant decline in storage revenue whether due to customer loss or otherwise. There is an additional risk since the combined entity owns a competing linear tape open, or LTO, brand of tape drive and media. Hewlett-Packard markets both the LTO and Super DLTtape platforms, whereas Compaq had exclusively marketed Super DLTtape for tape backup and archiving. To the extent that the combined Hewlett-Packard and Compaq entity significantly reduces its purchases of DLTtape and Super DLTtape products in favor of LTO products, our tape drive and media revenues, operating results and financial condition would be materially and adversely affected.

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

Our operating results depend on new product introductions, which may not be successful, in which case, our business, financial condition and operating results may be materially and adversely affected.

To compete effectively, we must continually improve existing products and introduce new ones, such as our recently introduced latest generations of SDLT tape drive, tape automation and the DX-Series Enhanced Backup Systems. We have devoted and expect to continue to devote considerable management and financial resources to these efforts. We cannot provide assurance that:

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

For example, the qualification of out latest Super DLTtape drive, the SDLT600 has progressed slower than we had anticipated. If we are not successful in completing the qualification of the SDLT600 and then ramping sales to our key customers, our revenue and results of operations would be adversely impacted.

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

Our royalty and media revenues are dependent on many factors, including the following factors:

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

Competition from other tape technologies has had a significant negative impact on our income from media as well as on our sales of tape drives. Similarly, competition among media suppliers has periodically resulted in intense, price-based competition for media sales, most recently in the first half of fiscal year 2004, also affecting media income. If either of these competitive factors continues or intensifies, it would further erode tape drive unit sales, tape drive installed base, media units and media pricing. Since our Quantum branded media revenue and media royalties are dependent upon media pricing and the quantity of media consumed by the installed base of our tape drives, reduced media prices, or a reduced installed tape drive base, would result in further reductions in our Quantum branded media and media royalty revenue. This would materially and adversely affect our business, financial condition and results of operations.

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

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

We have outsourced most of our manufacturing to Jabil and to other third party contract manufacturers. If we cannot obtain our products and parts from these third parties in a cost effective and timely manner that meets our customers' expectations, this could materially and adversely impact our business, financial condition and results of operations.

We outsourced tape drive manufacturing to Jabil during the third quarter of fiscal year 2003. We face a number of risks as a result of our decision to outsource manufacturing to Jabil, including, among others:

- *Sole source of product supply.* Jabil is our sole source of supply for our tape drives and certain tape automation products. Because we are relying on one supplier, we are at greater risk of experiencing component shortages or other delays in customer deliveries that could result in customer dissatisfaction and lost sales, which could materially damage customer relationships and result in lost revenue.
- *Cost and purchase commitments.* We may not be able to control the costs we would be required to pay Jabil for the products they manufacture for us. Jabil procures inventory to build our products based upon a forecast of customer demand that we provide. We would be responsible for the financial impact on Jabil of any reduction or product mix shift in the forecast relative to materials that Jabil had already purchased under a prior forecast. Such a variance in

forecasted demand could require us to pay Jabil for finished goods in excess of current customer demand or for excess or obsolete inventory and generally incur higher costs. As a result, we could experience reduced gross margins and larger operating losses based on these purchase commitments.
- *Quality.* We will have limited control over the quality of products produced by Jabil. Therefore, the quality of the products may not be acceptable to our customers and could result in customer dissatisfaction, lost revenue, and increased warranty costs.

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

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

We compete with companies that develop, manufacture, market and sell tape drive and tape automation products. Our principal competitors include Certance (U.S.) Holdings (or Certance (formerly known as Seagate Technology (U.S.) Holdings), Hewlett-Packard, IBM, Sony, Advanced Digital Information Corporation ("ADIC"), Overland Data Inc. and StorageTek. These competitors are aggressively trying to advance and develop new technologies to compete more successfully with products based on DLTtape and Super DLTtape technology. Hewlett-Packard, IBM and Certance formed a consortium to develop and have developed LTO products. These products target the high-capacity data backup market and compete with our products based on Super DLTtape technology. This competition has resulted in a trend, which is expected to continue, toward lower prices and lower margins earned on our DLTtape and Super DLTtape drives and media. The lower demand resulting from the adverse economic conditions experienced in fiscal years 2002 and 2003 had resulted in lower demand in the tape drive and tape automation markets in general, which has also resulted in increased ongoing price competition even as economic conditions have improved. In addition, the merger between Hewlett-Packard and Compaq has resulted in a larger competitor in the tape drive and tape automation markets with greater resources and a potentially greater market reach with a product that competes directly with our Super DLTtape drives and Super DLTtape media. These factors, when combined with the current environment of intense competition, which has resulted in reduced shipments of our tape drive products, could result in a further reduction in our prices, volumes and margins, which could materially and adversely impact our business, financial condition and results of operations.

Our tape automation products compete with product offerings of Advanced Digital Information Corporation, Overland Data Inc. and StorageTek, which offer tape automation systems incorporating DLTtape and Super DLTtape technology as well as new linear tape technology. Increased competition has resulted in increased price competition. If this trend continues or worsens and/or if competition further intensifies, our sales and gross margins could decline, which could materially and adversely affect our business, financial condition and results of operations.

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

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

We have taken considerable steps towards reducing our cost structure and anticipate taking further such actions. The steps we have taken and anticipate taking may not reduce our cost structure to a level appropriate in relation to our future sales and therefore these anticipated cost reductions may be inadequate compared to our future sales.

We have recorded significant restructuring charges and cash payments in order to reduce our cost of sales and operating expenses in response to adverse economic, industry and competitive conditions. We anticipate taking future steps to further reduce our operating costs. These steps and additional possible future restructurings in response to adverse changes in our business and industry may require us to make cash payments that can adversely affect our liquidity if large enough. We may be unable to reduce our cost of sales and operating expenses at a rate and to a level consistent with a future potential adverse sales environment, which may adversely affect our business, financial condition and operating results.

We have made and may continue to make significant changes to our infrastructure and management, including consolidating or eliminating systems and functions and reducing the number of employees supporting functions. If we do not manage the changes that we implement successfully, our business could be disrupted and

that could adversely impact our results of operations and financial condition.

Managing change will be an important focus for us and the success of our efforts will depend on, among other things, how well we address issues that arise during the process of changing systems and functions and adapt business processes and software to the requirements of our organization. If we are unable to successfully manage the changes that we implement, it could disrupt our business and adversely impact our results of operations and financial condition.

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

Our future success and ability to compete depends in part on our proprietary technology. We rely on a combination of copyright, patent, trademark and trade secrets laws and nondisclosure agreements to establish and protect our proprietary technology. We currently hold 168 United States patents and have 140 United States patent applications pending. However, we cannot provide assurance that patents will be issued with respect to pending or future patent applications that we have filed or plan to file or that our patents will be upheld as valid or will prevent the development of competitive products or that any actions we have taken will adequately protect our intellectual property rights. We generally enter into confidentiality agreements with our employees, consultants, resellers, customers and potential customers, in which we strictly limit access to, and distribution of, our software, and further limit the disclosure and use of our proprietary information. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain or use our products or technology. Our competitors may also independently develop technologies that are substantially equivalent or superior to our technology. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the United States.

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

From time to time, third parties allege our infringement of and need for a license under their patented or other proprietary technology. For instance, see Note 12 “Litigation” to the Condensed Consolidated Financial Statements for a description of StorageTek’s patent infringement suit against us. While we currently believe the amount of ultimate liability, if any, with respect to these actions will not materially affect our financial position, results of operations, or liquidity, the ultimate outcome of any litigation is uncertain. Adverse resolution of any third party infringement claim could subject us to substantial liabilities and require us to refrain from manufacturing and selling certain products. In addition, the costs incurred in intellectual property litigation can be substantial, regardless of the outcome. As a result, our business, financial condition and operating results may be materially and adversely affected.

We are exposed to general economic conditions that have continued to result in significantly reduced sales levels and significant operating losses and, if such adverse economic conditions were to continue or worsen, our business, financial condition and operating results could be further adversely and materially impacted.

If the adverse economic conditions in the United States and throughout the world economy continue or worsen, we may experience a further material adverse impact on our business, operating results, and financial condition. We took actions in

fiscal year 2002 through the first quarter of fiscal year 2005 to reduce our cost of sales and operating expenses in order to address these adverse conditions. A prolonged continuation or worsening of sales trends would require us to take additional actions to further reduce our cost of sales and operating expenses in subsequent quarters in order to align these costs with reduced revenue. We may be unable to reduce our cost of sales and operating expenses at a rate and to a level consistent with such a future adverse sales environment. If we are required to undertake further expense reductions, we may incur significant additional incremental special charges associated with such expense reductions that are disproportionate to sales, thereby materially and adversely affecting our business, financial condition and operating results.

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

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

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

Our ability to achieve profitability may be adversely impacted by higher energy prices to the extent that we or our key suppliers experience higher energy costs which we are unable to offset or recover in the form of higher prices for our products and services.

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

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

Goodwill and intangible assets used in Storage Systems have been reviewed at least annually for possible impairment since the adoption on April 1, 2002 of SFAS No. 142 *Goodwill and Other Intangible Assets*. Although we incurred no goodwill impairment in the first quarter of fiscal year 2005, the impairment tests conducted relative to goodwill resulted in a $94.3 million charge upon the adoption of SFAS No. 142 in the first quarter of fiscal year 2003 and a $58.7 million impairment charge in the second quarter of fiscal year 2003. These reviews of goodwill were based on projections of undiscounted and discounted net cash flows from Storage Systems compared to the carrying value of goodwill. The financial projections involved significant estimates with inherent uncertainties regarding future revenues, expenses and cash flows. We cannot provide assurance that future net cash flows will be sufficient to avoid future impairment charges. As a result, in the future, we may incur additional impairment charges related to Storage Systems, which could have a materially adverse impact on the results of our operations or our financial condition. Although we have not incurred impairment charges associated with our other intangible assets, we have substantial intangible asset balances, which are subject to the same risks and uncertainties related to goodwill.

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

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

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

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

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

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

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

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

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

In a number of quarters in fiscal years 2003 and 2004 we violated certain financial covenants under our credit agreement and synthetic lease. If in the future we violate financial covenants, it could materially and adversely impact our financial condition and liquidity.

In December 2002, we terminated a $187.5 million revolving credit facility with a certain group of banks and entered into a new secured senior credit agreement with a group of five banks, providing a $100.0 million revolving credit line that was scheduled to expire in June 2004. In March 2004, we amended the secured senior credit facility to extend the maturity to March 2006 and adjusted several covenant requirements. As of June 27, 2004, $90.3 million of this credit line was committed to standby letters of credit, of which $50.0 million secured our obligation to the lessor under our synthetic lease. In December 2002, we also entered into a synthetic lease that contained the same financial covenants as our credit agreement. In July 2003, we amended the credit agreement and our synthetic lease to, among other things, change certain financial covenants and events of default and allow for the completed redemption of our 7% Convertible Subordinated Notes due August 2004. In the quarters that we violated covenants, we obtained waivers or amendments.

If our operating results do not improve in the future and we violate any financial or reporting covenant in our credit agreement and receive a notice of default letter from our bank group, our credit line could become unavailable, and any amounts outstanding could become immediately due and payable. If we were unsuccessful in securing a waiver of such violation or an amendment to our credit agreement, we might have to restrict $90.3 million of our cash to cover the outstanding standby letters of credit issued under the credit agreement. This would have a material and adverse impact on our liquidity.

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

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

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

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

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

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

Because we rely heavily on distributors and other resellers to market and sell our products, if one or more distributors were to experience a significant deterioration in its financial condition or its relationship with us, this could disrupt the distribution of our products and reduce our revenue, which could materially and adversely affect our business, financial condition and operating results.

In certain product and geographic segments we heavily utilize distributors and value added resellers to perform the functions necessary to market and sell our products. To fulfill this role, the distributor must maintain an acceptable level of financial stability, creditworthiness and the ability to successfully manage business relationships with the customers it serves directly. Under our distributor agreements with these companies, each of the distributors determines the type and amount of our products that it will purchase from us and the pricing of the products that it sells to its customers. If the distributor is unable to perform in an acceptable manner, we may be required to reduce the amount of sales of our product to the distributor or terminate the relationship. We may also incur financial losses for product returns from distributors or for the failure or refusal of distributors to pay obligations owed to us. For instance, on May 7, 2003, Digital Storage, Inc., one of our media distributors, filed for Chapter 11 bankruptcy protection. As a result of this bankruptcy, we recorded a net bad debt charge of $1.4 million in fiscal year 2003. Either scenario could result in fewer of our products being available to the affected market segments, reduced levels of customer satisfaction and/or increased expenses, which could in turn have a material and adverse impact on our business, results of operations and financial condition.

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

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

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

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

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

The tax sharing and indemnity agreement between us and Maxtor entered into in connection with the disposition of the Hard Disk Drive group provided for the allocation of certain liabilities related to taxes. Maxtor and we disagree about the amounts owed by each party under that agreement. The parties are in negotiations to resolve this matter, and no litigation has been initiated to date. However, there can be no assurance that we will be successful in asserting our position. If

disputes regarding contested amounts cannot be resolved favorably, we may incur significant liabilities and costs, including litigation costs, as well as costs to settle the related obligations. An unfavorable settlement or litigation outcome could have a material adverse effect on our business, financial condition and operating results.

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

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

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

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

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

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

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

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

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

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

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

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

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

- If the tax loss were not covered by the policy because it fell under one of the exclusions from coverage under the tax opinion insurance policy described above, insurance proceeds would not be available to cover the loss.
- If the tax loss were caused by our own acts or those of a third party that made the disposition taxable (for instance, an acquisition of control of Quantum which began during the one-year period before and nine-month period following the closing), Maxtor would not be obligated to indemnify us for the amount of the tax liability.
- If Maxtor were required to reimburse us for the amount of the tax liability according to its indemnification obligations under the Hard Disk Drive group disposition, but was not able to pay the reimbursement in full, we would nevertheless be obligated, as the taxpayer, to pay the tax.

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

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

Three institutional investors own approximately 46% of our common stock. If any or all of these investors were to decide to purchase additional shares or to sell some or all of the Quantum DLT and Storage Systems shares they currently own, that may cause our stock price to be more volatile. For example, there have been instances in the past where a shareholder with a significant equity position begins selling shares, putting downward pressure on our stock price for the duration of their selling activity. In these situations, selling pressure outweighs buying demand and our stock price has declined.

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

- General economic conditions;
- Changes in interest rates;
- Fluctuations in the stock market in general and market prices for high technology companies in particular;
- Quarterly variations in our operating results;
- New products, services, innovations and strategic developments by our competitors or us, or business combinations and investments by our competitors or us;
- Changes in financial estimates by us or securities analysts and recommendations by securities analysts; and
- Changes in our capital structure, including issuance of additional debt or equity to the public.

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

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

Our historical financial information does not necessarily reflect what our financial position, operating results, and cash flows would have been had we existed solely as a tape drive and storage solutions business prior to fiscal year 2002, which is prior to the disposition of the Hard Disk Drive group. In addition, the historical information is not necessarily indicative of what our operating results, financial position and cash flows will be in the future.

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

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

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

- Increased competition.

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

A significant portion of our manufacturing and sales operations occurs in foreign locations; we are increasingly exposed to risks associated with conducting our business internationally. Many of our facilities and those of important customers and suppliers are located near known earthquake fault zones or in geographic areas susceptible to other natural disasters, which could disrupt our business and require us to curtail or cease operations.

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

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

In addition, our suppliers have operations in several emerging or developing economies that have a potential for higher risk than in the developed markets. The risks associated with these economies include, but are not limited to, political risks and natural disasters, including earthquakes. In particular, with several of our outsourced manufacturers located in Malaysia and the Philippines, a significant portion of our product manufacturing may be subject to such political and climactic risks.

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

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

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

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

<u>Market Interest Rate Risk</u>

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

Our cash equivalents and short-term investments consist primarily of short-term fixed income investments and money market funds. The main objective of these investments was safety of principal and liquidity while maximizing return, without significantly increasing risk. A hypothetical 100 basis point parallel decrease in the interest rate curve would result in an approximate $2.1 million annual decrease in interest income.

Our senior credit facilities are comprised of a $100.0 million revolving line of credit expiring in March 2006 and a synthetic lease expiring in December 2007. The obligations under the revolving credit line and synthetic lease bear interest at either London interbank offered rate with option periods of one to nine months or a base rate, plus a margin determined by a leverage ratio. Our outstanding convertible bond was for $160.0 million due 2010 and has a fixed interest rate of 4.375% paid semi-annually in February and August. (refer to Note 9 “Credit Agreements, Short-Term Debt and Convertible Subordinated Debt” to the Condensed Consolidated Financial Statements).

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

<u>Foreign Currency Exchange Rate Risk</u>

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

<u>Equity Security Risk</u>

We have an equity investment in a technology company that is not publicly traded. This investment was recorded at cost, adjusted for other than temporary impairment and was included in other long-term assets. We do not attempt to reduce or eliminate exposure on this investment. As of June 27, 2004, the carrying value of this investment was

$3.9 million, which we received as a part of the disposition of our NAS business.

Item 4. Controls and Procedures

(a) *Evaluation of disclosure controls and procedures.* Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report (the "Evaluation Date"). Based on this evaluation, our principal executive officer and principal financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that the information relating to Quantum, including our consolidated subsidiaries, required to be disclosed in our Securities and Exchange Commission ("SEC") reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to Quantum's management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) *Changes in internal controls.* There were no significant changes in the Company’s internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation. There were no significant deficiencies or material weaknesses, and therefore there were no corrective actions taken.

QUANTUM CORPORATION

PART II - OTHER INFORMATION

Item 1. Legal proceedings
The information contained in Note 12 to the Condensed Consolidated Financial Statements is incorporated into this Part II, Item 1 by reference.

Item 2. Changes in securitiesand use of proceeds
None.

Item 3. Defaults upon senior securities
None.

Item 4. Submission of matters to a vote of security holders
None.

Item 5. Other information
During the quarter ended June 27, 2004, certain audit, audit-related and tax services were performed by Ernst and Young LLP that were approved by the Audit Committee of the Company, consistent with Quantum’s internal policy.

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

(a) Exhibits

Exhibit Number	**Exhibit**
3.1(1)	Amended and Restated Certificate of Incorporation of Registrant
3.2(2)	Amended and Restated By-laws of Registrant, as amended
3.3(3)	Amendment to Amended and Restated By-laws of Registrant, effective April 23, 2003
4.1(4)	Amended and Restated Preferred Shares Rights Agreement between the Registrant and Harris Trust and Savings Bank
4.2(5)	First Amendment to the Amended and Restated Preferred Shares Rights Agreement and Certification Of Compliance With Section 27 Thereof, dated as of October 28, 2002
4.3(5)	Stockholder Agreement, dated as of October 28, 2002, by and between Registrant and Private Capital Management
10.1	Termination Agreement and General Release of All Claims, dated as of June 29, 2004, between Registrant and Michael J. Lambert
10.2	Employment Offer Letter, dated June 7, 2004, between Registrant and Edward J. Hayes, Jr.
10.3(6)	Indenture, dated as of July 30, 2003, between the Registrant and U.S. Bank National Association, related to Registrant’s convertible debt securities
24	Power of Attorney (see signature page)
31.1	Certification of the Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002

Exhibit Number	**Exhibit**
31.2	Certification of the Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley act of 2002

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley act of 2002

1. Incorporated by reference to Registrant's Annual Report on Form 10-K for fiscal year ended March 31, 2001 filed with the Securities and Exchange Commission on June 29, 2001..
2. Incorporated by reference to Registrant's Annual Report on Form 10-K for fiscal year ended March 31, 2000 filed with the Securities and Exchange Commission on June 28, 2000.
3. Incorporated by reference to Registrant's Annual Report on Form 10-K for fiscal year ended March 31, 2003 filed with the Securities and Exchange Commission on June 30, 2003.
4. Incorporated by reference to Registrant's Registration Statement on Form S-4, Amendment No.2, filed with the Securities and Exchange Commission on June 10, 1999.
5. Incorporated by reference to Registrant's Form 10-Q for the quarterly period ended September 29, 2002 filed with the Securities and Exchange Commission on November 13, 2002.
6. Incorporated by reference to Registrant's Registration Statement on Form S-3 filed with the Securities and Exchange Commission on October 9, 2003.

(b) **Reports on Form 8-K**
The Company filed the following Current Reports on Form 8-K during the three months ended June 27, 2004:

On May 3, 2004, Quantum Corporation filed a Current Report on Form 8-K, to report its operating results for the fourth quarter of fiscal year 2004.

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: August 4, 2004 By: /s/ Edward J. Hayes, Jr.

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

QUANTUM CORPORATION

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TERMINATION AGREEMENT AND
GENERAL RELEASE OF ALL CLAIMS

This Termination Agreement and General Release (the "Agreement") is made by and between Quantum Corporation, a Delaware corporation ("Quantum"), and **Michael J. Lambert** (Quantum employee # 18356), collectively, (the "Parties").

WHEREAS, the Company and Mr. Lambert have agreed to mutually and amicably end the employment relationship in accordance with the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the mutual promises set forth herein the Parties agree as follows.

1. Definition of Parties: References in this Agreement to "Quantum" shall include any and all parent, subsidiary and affiliated corporations and business entities and all shareholders, officers, directors, agents, managers, employees, representatives, attorneys, and successors and assigns of those corporations and entities. References in this Agreement to "Michael J. Lambert" or "Mr. Lambert" shall include all of his representatives, attorneys, heirs, and successors and assigns.

2. Quantum's Consideration For Agreement: In consideration hereof, Quantum agrees to pay to Mr. Lambert those separation payments and benefits detailed below. These payments and benefits are in addition to any other payments or benefits for which Mr. Lambert may be otherwise eligible under law or in accordance with any existing agreement which by its terms shall survive the termination of Mr. Lambert's employment as of the Effective Date.

a) **Separation Payment.** Except as provided in Section 3, Quantum agrees to pay Mr. Lambert up to Two Hundred Nine Thousand One Hundred Thirty Four dollars and 62 cents ($209,134.62), representing his base salary for a twenty six (26) week period, plus service pay of three (3) weeks for Mr. Lambert's three years of service, as follows:

i. An initial payment on the Termination Date of $21,634.62 representing three (3) weeks of service pay.
ii. Beginning on the 15th of each month following the Termination Date, so long as Mr. Lambert has not been hired to work in a full-time position for another company, Quantum shall make monthly payments to Mr. Lambert of $31,250.00.
iii. Once Mr. Lambert has been hired to work full-time for another company, the monthly payments will cease, and Quantum will not be obligated to make any further separation payments.
iv. The maximum aggregate total of separation payments to Mr. Lambert shall be $209,134.62, representing the initial $21,634.62 payment and six (6) monthly payments of $31,250.00.

b) **Discharge of forgivable Loan**. Quantum agrees to release Mr. Lambert from any obligation to repay the outstanding principal portion of his forgivable loan as of the Termination Date, and interest accrued thereon. The forgiveness amount of Mr. Lambert's forgivable loan has been estimated by Quantum to be Fifty Four Thousand Dollars ($54,000) in unpaid principal, and accrued interest. Mr. Lambert shall be solely responsible for the payment of all income and other taxes on the forgiven portion of the loan.

c) **Health and Welfare Benefit Continuation.** If Mr. Lambert is enrolled in a medical, dental, vision or Employee Assistance Program (EAP) plan sponsored by Quantum on the Termination Date, he shall be entitled to six (6) months of benefit coverage at no cost to him after the Termination Date. A lump sum payment equal to the grossed up value of six months of COBRA premiums ($7,133.46) will be paid to Mr. Lambert on or about the Termination Date for this purpose, and Mr. Lambert shall be responsible for the application for COBRA coverage and for payment of all premiums related thereto.

Quantum shall continue Mr. Lambert's group-term life insurance coverage in effect at the Termination Date for up to sixty (60) days following the Termination Date. The cost for this coverage will be deducted from the separation payments specified in Section 2(a) above unless written notice is received by the Benefits Department, c/o Quantum Corporation (fax: 719-536-6314) at least two (2) weeks prior to the Termination Date.

d) **Use of Office Space**. Beginning June 11, Quantum agrees to permit Mr. Lambert to use Company office space in its Irvine, CA facility until the Termination Date, at no cost to him. The assigned office space will be equipped with telephone, voice mail, fax machine, computer and email access.

e) **Stock Treatment**. Quantum agrees that Mr. Lambert shall be entitled to exercise any vested stock option within three (3) months following his Termination Date. Mr. Lambert acknowledges that any exercise of options is subject to those restrictions on timing of trades under the "Insider Trading" rules imposed by the US Securities and Exchange Commissions.

f) **Financial Planning Assistance**. Quantum agrees to make available to Mr. Lambert for Quantum's fiscal year 2005, financial planning assistance at the annual value of financial assistance perquisite generally available to executives at Quantum. The value of benefit to Mr. Lambert is Three Thousand Dollars ($3,000).

g) **Vacation Pay**. In addition to the separation payments specified in Section 2(a), Mr. Lambert shall receive a payment of $21,634.62 on or about the Termination Date representing Mr. Lambert's accrued vacation per Quantum's normal vacation policy.

3. **Mr. Lambert's Last Day of Regular Employment**: Mr. Lambert understands and acknowledges that his continued employment and active presence at Quantum through June 30, 2004 is an express condition to the promises and payments hereunder. Mr. Lambert's Termination Date shall be September 30, 2004; provided that Mr. Lambert in his discretion may voluntarily terminate his employment prior to September 30, 2004 (but after June 30, 2004) and such earlier date shall then be the Termination Date. Mr. Lambert further understands and acknowledges that in consideration of the promises and payments hereunder his reasonable assistance in transitioning of CFO responsibilities may be requested from time to time during the period following active employment.

4. **Mr. Lambert's Waiver of All Legal Claims:** In further consideration for the payments and promises described above, Mr. Lambert does hereby completely release and forever discharge Quantum from all claims, rights, obligations, and causes of action of any and every kind and character, known or unknown, which Mr. Lambert may now have, or has ever had, arising from or in any way connected with the employment relationship between the parties, any actions during that relationship, or the termination of that relationship.

This release includes but is not limited to: a) all "wrongful discharge" or "wrongful termination" claims; b) all claims relating to any contracts of employment, express or implied; c)

all claims for breach of any covenant of good faith and fair dealing, express or implied; d) all claims for any tort of any nature; e) all claims for attorney's fees and costs; and f) all claims under any federal, state, or municipal statute, ordinance, regulation or constitution, including specifically any claims under the California Fair Employment and Housing Act, the California Labor Code, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans With Disabilities Act, the Employee Retirement Income Security Act and any other laws or regulations relating to employment or employment discrimination.

5. **Confidentiality Provision**: Mr. Lambert agrees that the terms and conditions of this Agreement are strictly confidential and shall not be disclosed to any other person except his immediate family, his legal counsel, taxing authorities in connection with his filing of federal or state tax returns, or as otherwise required by legal process or applicable law.

6. **Mr. Lambert's Acknowledgment of Civil Code § 1542**: Mr. Lambert states that he has read Section 1542 of the Civil Code of the State of California, which provides as follows:

> A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

Mr. Lambert understands that Section 1542 gives him the right not to release existing claims of which he is not now aware, unless he voluntarily chooses to waive this right. Having been so apprised, Mr. Lambert nevertheless hereby voluntarily elects to, and does, waive the rights described in Section 1542, and elects to assume all risks for claims that now exist in his favor, known or unknown, from the subject of this Agreement.

7. **Non-Admission Clause:** Nothing in this Agreement shall be construed as an admission by Quantum of any wrongdoing by the Company or any liability arising from the subjects covered in this Agreement.

8. **Entire Agreement:** This Agreement constitutes the entire understanding of the parties on the subjects covered. Mr. Lambert expressly warrants that: a) he has read and fully understands this Agreement; b) he has had the opportunity to consult with legal counsel of his own choosing and to have the terms of the Agreement fully explained to him; c) he is not executing this Agreement in reliance on any promises, representations or inducements other than those contained in this document; and d) he is executing this Agreement voluntarily, free of any duress or coercion.

9. **Effective Date**: This Agreement shall become effective on the eighth (8th) day following the date on which Mr. Lambert signs it. It is understood that Mr. Lambert may revoke his consent to this Agreement in the seven day period following the date on which he signs the Agreement (the "Effective Date").

10. **Compliance with Older Workers Benefit Protection Act:** Mr. Lambert acknowledges that Quantum has advised him: a) that he should consult with an attorney prior to signing this Agreement; b) that he has twenty (20) days in which to consider whether he should sign this Agreement; and c) that if he signs this Agreement, he will be given seven (7) days following the date in which he signs to revoke the Agreement and it would not be effective until after this seven-day period had lapsed.

11. **Return of Property:** To the extent he has not already done so, Mr. Lambert shall, on or before the Termination Date, return to Quantum all Quantum property, including all keys, credit cards, files, documents, business records, customer records, computer discs, PDAs, computer, telephone and other Quantum property and assets that may be in his possession or control.

12. **Non-Disparagement:** Mr. Lambert agrees not to make statements or representations, or otherwise communicate, directly or indirectly, in writing, orally, or otherwise, or take any action, which may, directly or indirectly, disparage Quantum its officers, directors, employees, advisors, businesses or reputations. Quantum agrees that it will not make statements or representations, or take any action, which may, directly or indirectly, disparage Mr. Lambert or his business or reputation. Notwithstanding the foregoing, nothing in this Agreement shall preclude either Mr. Lambert or Quantum from making truthful statements or disclosures that are required by applicable law, regulation, or legal process.

13. **Construction of Agreement:** This Agreement shall not be construed in favor of or against any of the parties hereto, regardless of which party initially drafted it. This Agreement was reached through arms-length negotiations by the parties and their respective counsel, and it represents a final, mutually agreeable compromise.

14. **Counterparts:** This Agreement may be executed in any number of counterparts, each of which shall be deemed an original and all of which together shall be deemed to be one and the same instrument.

Acknowledged and Agreed:

Dated: June 29, 2004 /s/ Shawn Hall
Mr. Shawn Hall
For Quantum
Corporation

Dated: June 29, 2004 /s/ Michael J. Lambert
Mr. Michael J. Lambert

June 7, 2004

Mr. Edward J. Hayes, Jr.
5668 Country Club Parkway
San Jose, CA 95138-2220

Dear Ned,

It is my pleasure to invite you to join the Quantum leadership team as Executive Vice President and Chief Financial Officer (EVP & CFO) of Quantum Corporation, reporting directly to me. This position is an elected officer position.

You will be compensated at a monthly rate of $29,167, annualized to $350,000.

You will be eligible to participate in the All-Inclusive Bonus Plan (AIBP) and your target payout in that Plan will be 50% of your annual salary, although the actual amount will be determined as described in the Plan.

The Company will recommend to the Board of Directors that 400,000 stock options and 100,000 shares of restricted stock be made available to you. The price for the options will be set at the closing price of the stock on the date of the Board of Directors' approval. The stock options shall vest over four years as follows: 25% will vest on the first anniversary of the vest begin date and the remainder will vest monthly thereafter at the rate of 1/48th of the original grant amount over the following three years. The restricted stock shares shall vest as follows: 50% will vest upon hire, 25% will vest after 12 months and the remaining 25% will vest after 24 months. Once the stock has been approved and the Board has set the price for your stock, you will receive a package from Quantum's Stock Administration Department. You should receive the package within 60 days of your date of hire. Please read the documents in the package carefully and return one signed copy of the complete Grant Agreement to Stock Administration. In future, as previously discussed, you will be eligible to participate in Quantum's annual stock program in calendar year 2005. Grants are determined based upon your performance and Quantum's program guidelines.

Quantum's flexible benefit program provides a full range of benefits for you and your qualified dependents. Additionally, you will be eligible to participate in Quantum's 401(k) and Deferred Compensation Programs and be eligible to receive company-reimbursed financial planning services. A benefits overview packet will be mailed immediately upon your acceptance and you will receive a detailed review of our benefits program during your executive orientation.

As a Quantum executive, you will be eligible to participate in Quantum's Change of Control Program. An agreement will be provided to you during your executive orientation.

Additionally, as previously discussed, in the event your employment is Involuntarily Terminated (as defined in Section 3(c) of Quantum's Change in Control Agreement), in a context other than a Change in Control (in which case Quantum's Change in Control Agreement shall be the sole source of severance benefits), Quantum will provide to you the following benefits in exchange for your execution of a separation agreement and general release:

1. equivalent of 52 weeks base salary
2. equivalent of 12 months benefits coverage/continuation and
3. the greater of the following:
    a. 50% vesting on remaining unvested stock options and restricted stock shares or
    b. 12 months vesting on unvested stock options and restricted stock shares

Enclosed is a second copy of this offer. Please sign and return one copy of the letter to Ginger Fox, Sr. Administrative Assistant-Compensation, Benefits & HRIS, 1650 Technology Drive, Suite 800, San Jose, CA 95110 or by fax to 408-944-4489. This offer supersedes any and all other written or verbal offers and is valid until Friday, June 11, 2004 unless earlier withdrawn. It is also contingent upon successful completion of reference checks, security background verification, execution of Quantum's Employee Proprietary Information and Invention Agreement, proper verification of employment eligibility and resignation from any Corporate Boards where there is potential conflicts of interest. Employment at Quantum is at will – either you or Quantum has the right to terminate your employment at any time for any reason, with or without cause.

Upon your written acceptance, we will send to you the required documents for your executive orientation including but not limited to such documents to establish your identity and employment eligibility. You are requested to bring the required documents with you on your first day.

Ned, we are very enthusiastic about your joining the Quantum leadership team. We are sure you will find Quantum a stimulating and team-oriented company. The work environment is one of challenge, opportunity and reward for success. If you have any questions, please do not hesitate to call me. Again, it is a pleasure to welcome you to Quantum. We look forward to your acceptance.

Sincerely,

/s/ Rick Belluzzo

Rick Belluzzo
Chairman and CEO
Quantum Corporation

I understand and accept the terms of this employment offer.

Signed: /s/ Edward J. Hayes, Jr. Date: June 8, 2004

Start Date: July 1, 2004

Attachment(s):

New Employee Benefits Data Sheet
Employee Proprietary Information and Invention Agreement
Vacation Policy for Vice Presidents
Financial Planning Program Parameters
Deferred Compensation Plan for 2004
401(k) Plan

Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302(a)
OF THE SARBANES-OXLEY ACT OF 2002

I, Richard E. Belluzzo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quantum Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 4, 2004

/s/ Richard E. Belluzzo

Richard E. Belluzzo
Chairman and Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302(a)
OF THE SARBANES-OXLEY ACT OF 2002

I, Edward J. Hayes, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quantum Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2004

/s/ Edward J. Hayes, Jr.

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

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Richard E. Belluzzo, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Quantum Corporation, on Form 10-Q for the quarterly period ended June 27, 2004 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Quantum Corporation.

Date: August 4, 2004

/s/ Richard E. Belluzzo

Richard E. Belluzzo
Chairman and Chief Executive
Officer

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Edward J. Hayes, Jr., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Quantum Corporation, on Form 10-Q for the quarterly period ended June 27, 2004 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Quantum Corporation.

Date: August 4, 2004

/s/ Edward J. Hayes, Jr.

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