

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

[

X

]
THE

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 3, 1994

OR

[]

13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

TRANSITION REPORT PURSUANT TO SECTION

For the transition period from to

For Quarter Ended Commission
File Number

July 3, 1994
0-12390

QUANTUM CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE

94-2665054

(State or other jurisdiction of
Identification Number)
incorporation or organization)

(IRS Employer

500 McCarthy Blvd.
Milpitas, California

95035

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (408) 894-4000

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

Yes X No

Indicate the number of shares outstanding of each of the issuer's
classes of common stock, as of July 29, 1994: 45,232,586.

QUANTUM CORPORATION

10-Q REPORT

INDEX

Page

Number

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements 3
Consolidated Statements of Income 3
Consolidated Balance Sheets 4

Consolidated Statements of Cash Flows 5

Notes to Consolidated Financial Statements 6

Item 2. Management's Discussion and Analysis of
Financial Condition and Results of Operations 8

PART II - OTHER INFORMATION 11

SIGNATURE 12

QUANTUM CORPORATION

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

July 4,	First Quarter Three Months Ended July 3,	
	1994	1993
Sales		
\$725,304	\$479,112	
Cost of sales	579,227	
420,618		
Gross profit		
146,077		
58,494		
Operating expenses:		
Research and development	28,599	
21,695		
Sales and marketing	22,760	
18,771		
General and administrative	10,331	
11,379		
51,845	61,690	
Income from operations	84,387	
6,649		
Other (income) expense:		
Interest expense	3,556	
3,608		
Interest and other income	(2,371)	
(1,994)		
1,614	1,185	
Income before income taxes	83,202	
5,035		
Income tax provision	24,961	
1,662		
Net income	\$58,241	\$
3,373		
Net income per share:		
Primary	\$1.24	\$0.08
Fully diluted	\$1.03	\$
0.08		
Weighted average common and common equivalent shares:		
Primary	46,854,979	
44,756,490		
Fully diluted	58,562,979	
44,756,490		

See accompanying notes to consolidated financial statements.

QUANTUM CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands)
(unaudited)

March 31,	July 3,	1994	1994
Assets			
Current assets:			
Cash and cash equivalents	\$	251,252	
\$217,531			
Short-term investments		119,797	
112,508			
Accounts receivable, net of allowance for			
doubtful accounts of \$10,371 and \$9,391		379,284	
324,376			
Inventories		177,308	
194,083			
Deferred taxes		41,445	
32,821			
Other current assets		14,283	
14,365			
Total current assets		983,369	
895,684			
Property and equipment, net of accumulated			
depreciation of \$79,636 and \$72,801		95,611	
85,874			
Other assets		15,973	
15,880			
		\$1,094,953	
\$997,438			
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable	\$	269,472	
\$267,189			
Accrued warranty expense		56,261	
55,617			
Accrued compensation		19,	
593 15,315			
Income taxes payable		20,833	-
Other accrued liabilities		44,929	
35,545			
Total current liabilities		411,088	
373,666			
Subordinated debentures			
		212,500	
212,500			
Shareholders' equity:			
Common stock		126,382	
124,530			
Retained earnings		344,983	
286,742			
Total shareholders' equity		471,365	
411,272			
		\$1,094,953	
\$997,438			

See accompanying notes to consolidated financial statements.

QUANTUM CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

July 4,	Three Months Ended	
	July 3,	
	1994	1993
Cash flows from operating activities:		
Net income	\$ 58,241	\$
3,373		
Items not requiring the current use of cash:		
Depreciation and amortization	7,265	
7,225		
Changes in assets and liabilities:		
Accounts receivable	(54,908)	
17,613		
Inventories	16,775	
(29,127)		
Accounts payable	2,282	
(24,022)		
Income taxes payable	21,196	
(15,098)		
Accrued warranty expense	644	
4,352		
Other assets and liabilities	4,829	
10,215		
Net cash provided by (used in) operating activities	56,324	
(25,469)		
Cash flows from investing activities:		
Purchase of short-term investments	(17,349)	
(80,000)		
Sales and maturities of short-term investments	10,060	
138,136		
Investment in property and equipment	(16,803)	(10,762)
Net cash provided by (used in) investing activities	(24,092)	
47,374		
Cash flows from financing activities:		
Repurchase of common stock	-	
(991)		
Proceeds from issuance of common stock	1,489	
1,754		
Net cash provided by financing activities	1,489	
763		
Net increase in cash and cash equivalents	33,721	
22,668		
Cash and cash equivalents at beginning of period	217,531	
121,838		
Cash and cash equivalents at end of period	\$251,252	
\$144,506		
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 6,831	\$
6,837		
Income taxes	\$ 4,247	\$
8,806		

See accompanying notes to consolidated financial statements.

QUANTUM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of presentation

The accompanying unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the periods shown. The results of operations for such periods are

not necessarily indicative of the results expected for the full fiscal year. The accompanying financial statements should be read in conjunction with the audited financial statements of Quantum Corporation for the fiscal year ended March 31, 1994.

2. Cash, Cash Equivalents and Short Term Investments

The Company has classified all cash and highly liquid investments with original maturities of three months or less at the date of acquisition as cash equivalents. All other liquid investments are classified as short-term investments. The Company invests primarily in short term debt securities of companies with strong credit ratings from a variety of industries. The Company has not experienced any material losses on its investments. The Company, by Corporate policy, limits the amount of credit exposure to any one issuer and to any one type of investment.

3. Change in Method of Accounting for Certain Investments

Effective April 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." In accordance with the Statement, prior period financial statements have not been restated to reflect the change in accounting principle. The cumulative effect as of April 1, 1994 of adopting Statement 115 was immaterial. The Company has classified its entire investment portfolio as available-for-sale.

Available-for-sale securities are carried at fair value, with material unrealized gains and losses reported in stockholder's equity. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest income along with interest earned. Realized gains or losses and declines in value judged to be other-than-temporary on available-for-sale securities are reported as investment income or investment expense. The cost of securities sold is based on the specific identification method.

The following is a summary of available-for-sale securities at July 3, 1994:

Available-for-Sale Securities (In thousands)

	Cost
Corporate commercial paper and bank notes	\$199,558
Certificates of deposit	89,504
U.S. Treasury securities and obligations of U.S. government agencies	9,687
Other	1,297
	\$300,046
Amounts included in short-term investments	\$119,797
Amounts included in cash and cash equivalents	180,249
	\$300,046

During the three months ended July 3, 1994 there were no sales of securities available-for-sale. In addition, the gross unrealized gains and gross unrealized losses were immaterial to the Company and therefore, no amount was recorded to stockholder's equity for the quarter ended July 3, 1994. As of July 3, 1994, the average portfolio duration is approximately 30 days and no individual security has a maturity which exceeds one year.

4. Inventories

Inventories consisted of the following:

(In thousands)

	July 3,	March
	1994	1994
31,		
Materials and purchased parts	\$ 1	
4,205\$ 27,841		
Work in process	22,636	
14,729		
Finished goods	140,467	

151,513

\$177,308

\$194,083

5.
Net income per share

Net income per share is computed using the weighted average number of common and dilutive common equivalent shares outstanding. Net income per share computed on a fully diluted basis assumes conversion of the Company's outstanding 6 3/8% convertible subordinated debentures having a principal value of \$212,500,000. For the three months ended July 4, 1993, the primary net income per share is shown in the statement of income as both primary and fully diluted, as the effect of the assumed conversion of the subordinated debentures is anti-dilutive.

6. Subsequent events

On July 19, 1994, the Company signed an agreement to purchase Digital Equipment Corporation's magnetic disk drive, tape drive, solid state disk and thin-film heads businesses for \$400 million. This transaction includes Digital's 81% interest in Rocky Mountain Magnetics, Inc. which is developing magneto-resistive head technology. The closing date is expected on or about October 3.

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

Results of Operations

Consolidated sales for the three months ended July 3, 1994 were \$725 million, compared to \$479 million for the corresponding period in fiscal 1994. The increase in consolidated sales is attributable to increased unit shipments which were partially offset by a decline in average unit sales prices. Unit shipments for the three months ended July 3, 1994 increased 58% compared to the corresponding period in fiscal 1994 with sales for the first quarter of fiscal 1995 increasing 51% over the first quarter of fiscal 1994.

Sales to Compaq Computer, Inc. and Apple Computer, Inc. represented 16% and 14% of consolidated sales for the three months ended July 3, 1994. For the first quarter of fiscal 1994, sales to Compaq Computer, Inc. and Apple Computer, Inc. represented 14% and 29% of total consolidated sales. The Company has no long-term supply arrangements with any customers. A significant decrease in combined sales to the top customers, or the loss of these customers, could have a material adverse effect on the Company's results of operations.

Gross margin for the quarter ended July 3, 1994 increased to 20.1% from 12.2% for the first quarter of fiscal 1994. This increase was due to the Company's successful transition of its customers from the ProDrive ELS to the newer more cost effective ProDrive LPS and the return to a more normal pricing environment throughout the industry. However, the Company expects that price declines will be moderately higher during the September quarter primarily because of pricing pressures at certain capacity points. Due to the cyclical nature of the disk drive industry and the Company's dependence on new product introductions, there can be no assurance that the Company will be able to sustain the current gross margin levels.

Over the past ten years, Quantum has established a strong business relationship with Matsushita-Kotobuki Electronics Industries, Ltd. (MKE) of Japan. This relationship has been built on Quantum's engineering and design expertise and MKE's high-volume, high-quality manufacturing expertise. The Company's master agreement with MKE, which covers the general terms of the business relationship, was renegotiated during fiscal 1993 and was extended for a period of five years. In fiscal 1994 approximately 90% of Quantum's sales were derived from products manufactured by MKE. In the event MKE is unable to supply such products or increases its prices for manufacturing services, the Company's results of operations would be adversely affected. The Company's transactions with MKE are denominated in U.S. dollars with prices for product purchases negotiated periodically, usually on an annual

basis. Thus, fluctuations in the exchange rate have no material short-term impact on Quantum's results of operations. However, such fluctuations may impact future negotiated prices.

Quantum operates in an extremely competitive industry and its rapid growth has been the result of the Company's ability to identify customer needs and develop quality products to meet those requirements. The Company expects that sales from new products will account for a significant portion of sales for the latter half of fiscal 1995 and will replace sales of some current products. The Company's ability to produce new products economically and manage the transition of customers to these new products is essential for continued success. The hard disk drive industry is characterized by increasingly short product life cycles and is dependent on the strength of unit demand in the personal computer market.

As a result, the industry tends to experience periods of excess product inventory and intense price competition. These and other factors may affect the Company's results of operations, and past financial performance should not be considered a reliable indicator of future performance. Investors should not use historical trends to anticipate results or trends in future periods.

Subsequent to July 3, 1994, the Company signed an agreement to purchase Digital Equipment Corporation's magnetic disk drive, tape drive, solid state disk and thin-film heads businesses for \$400 million, with the closing date expected on or about October 3. If the acquisition is consummated as planned, the Company's results will reflect the operations of Digital's Storage Business unit commencing the December quarter.

Although it is premature to estimate the impact on the financial results of the Company at this time, the Company anticipates that the acquisition will have a dilutive effect on earnings for the December and March quarters in fiscal 1995.

Operating Expenses

Research and development expenses in the three months ended July 3, 1994 were \$29 million, or 3.9% of sales, compared to \$22 million, or 4.5% of sales in the corresponding period in fiscal 1994. The percentage decrease is due to higher revenues in the first quarter of fiscal 1995. Quantum intends to continue its investment in research and development. The hard disk drive industry is subject to rapid technological advances and the future success of the Company is dependent upon continued successful and timely introductions of new products and technologies.

Sales and marketing expenses in the three months ended July 3, 1994 were \$23 million, or 3.1% of sales, compared to \$19 million, or 3.9% of sales in the corresponding period in fiscal 1994. The increase in absolute dollars is due to costs associated with supporting the higher sales volume and expanding the Company's international infrastructure.

General and administrative expenses in the three months ended July 3, 1994 were \$10 million, or 1.4% of sales, compared to \$11 million, or 2.4% of sales in the corresponding period in fiscal 1994. The decline in absolute dollars is due to the Company's reorganization in Q2 1994 and subsequently having more streamlined operations.

Net interest and other income/expense in the three months ended July 3, 1994 were \$1.2 million net expense, compared to \$1.6 million net expense in the corresponding period in fiscal 1994. The decrease in net expense in fiscal 1995 is due to increased interest income which resulted from higher cash balances and higher interest rates.

Income Taxes

The effective tax rate for the quarter ended July 3, 1994 was

30%, compared to 33% for the corresponding period in fiscal 1994. The effective tax rates are below the combined federal and state statutory rates as a result of the tax benefit associated with the income of foreign subsidiaries taxed at lower than statutory rates and the Company's tax exempt income.

Liquidity and Capital Resources

At July 3, 1994, the Company had \$371 million in cash and cash equivalents and short-term investments, compared to \$330 million at March 31, 1994. The increase is due primarily to cash generated from operations.

The Company plans to finance the \$400 million acquisition cost of Digital Equipment Corporation's Storage Business Unit with a combination of cash and debt. The Company expects to spend approximately \$22 to \$42 million for leasehold improvements, capital equipment and the expansion of the Company's facilities for the remainder of the fiscal year. If the acquisition is consummated as planned, the Company anticipates a significant amount of additional capital expenditures will be required to ramp up the manufacturing facilities in Asia over the next twelve months. The Company is presently in negotiations with a consortium of banks in connection with the Digital acquisition financing. The Company believes that such acquisition financing, as well as cash generated from its operations, will be sufficient to meet these capital requirements as well as working capital requirements during the next twelve months.

The Company has an authorization outstanding from the Board of Directors to repurchase 1.5 million shares of its common stock in the open market.

QUANTUM CORPORATION

PART II - OTHER INFORMATION

Item 1. Legal proceedings - Not Applicable.

Item 2. Changes in securities - Not Applicable.

Item 3. Defaults upon senior securities - Not Applicable.

Item 4. Submission of matters to a vote of security holders - Not Applicable.

Item 5. Other information - Not Applicable.

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

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

(b) Reports on Form 8-K. None

SIGNATURE

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

QUANTUM CORPORATION
(Registrant)

Date: August 10, 1994

By: Joseph T. Rodgers
Executive Vice President, Finance
and Chief Financial Officer

QUANTUM CORPORATION

INDEX TO EXHIBITS

Sequentially Exhibit Number	Numbered Page
-----------------------------------	------------------

11.1	Statement of Computation of Net Income Per Share
14	

EXHIBIT 11.1
QUANTUM CORPORATION

COMPUTATION OF NET INCOME PER SHARE
(In thousands except per share data)

July 4,	Three Months Ended July 3,	
	1994	1993
PRIMARY		
Weighted average number of common shares during the period	44,749	
43,439		
Incremental common shares attributable to exercise of outstanding options	2,106	
1,317		
Total shares	46,855	
44,756		
Net income	\$58,241	\$
3,373		
Net income per share	\$1.24	
\$0.08		
FULLY DILUTED		
Weighted average number of common shares during the period	44,749	
43,439		
Incremental common shares attributable to exercise of outstanding options and conversion of 6 3/8% convertible subordinated debentures	13,814	
13,025		
Total shares	58,563	
56,464		
Net income:		
Net income	\$58,241	\$ 3,373
Add 6 3/8% convertible subordinated debentures interest, net of income tax effect	2,093	
2,151		
Net income, as adjusted	\$60,334	\$
5,524		

Net income per share
\$0.10 *

\$1.03

* The primary net income per share is shown in the statement of income as both primary and fully diluted, as the effect of the assumed conversion of the subordinated debentures is anti dilutive.