Form 10-Q
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

For the quarterly period ended October 2, 1994

OR

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

For the transition period from to

For Quarter Ended	Commission File Number
October 2, 1994	0-12390

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

DELAWARE	94-2665054
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

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 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 October 30, 1994: 45,419,561

QUANTUM CORPORATION

10-Q REPORT

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QUANTUM CORPORATION

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended Oct. 2, 1994	Three Months Ended Oct. 3, 1993	Six Months Ended Oct. 2, 1994	Six Months Ended Oct. 3, 1993
Sales	$726,169	$493,955	$1,451,473	$973,067
Cost of sales	593,439	483,422	1,172,666	904,040
Gross profit	132,730	10,533	278,807	69,027
Operating expenses:				
Research and development	28,554	19,878	57,153	41,573
Sales and marketing	23,106	17,551	45,866	36,322
General and administrative	11,353	11,421	21,684	22,800
Restructuring and non-recurring	-	22,753	-	22,753
	63,013	71,603	124,703	123,448
Income (loss) from operations	69,717	(61,070)	154,104	(54,421)
Other (income) expense:				
Interest expense	3,448	3,433	7,004	7,041
Interest and other income	(3,164)	(1,979)	(5,534)	(3,973)
	284	1,454	1,470	3,068
Income (loss) before income taxes	69,433	(62,524)	152,634	(57,489)
Income tax provision (benefit)	20,830	(17,184)	45,790	(15,522)
Net income (loss)	$48,603	$ (45,340)	$ 106,844	$(41,967)
Net income (loss) per share:				
Primary	$1.03	$(1.02)	$2.27	$(0.94)
Fully diluted	0.85	(1.02)	$1.87	(0.94)
Weighted average common and common equivalent shares:				
Primary	47,326,797	44,269,296	47,090,888	44,512,893
Fully diluted	59,037,402	44,269,296	58,800,191	44,512,893

See accompanying notes to consolidated financial statements.

QUANTUM CORPORATION

CONSOLIDATED BALANCE SHEETS
(In thousands)
(unaudited)

	Oct 2, 1994	March 31, 1994
Assets		
Current assets:		
Cash and cash equivalents	$ 316,851	$217,531
Short-term investments	19,208	112,508
Accounts receivable, net of allowance for doubtful accounts of $11,379 and $9,391	436,168	324,376
Inventories	200,878	194,083
Deferred taxes	37,835	32,821
Other current assets	45,800	14,365
Total current assets	1,056,740	895,684
Property and equipment, net of accumulated depreciation of $86,726 and $72,801	108,611	85,874
Other assets	15,905	15,880
	$1,181,256	$997,438
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 310,447	$267,189
Accrued warranty expense	59,277	55,617
Accrued compensation	23,040	15,315
Income taxes payable	11,826	-
Other accrued liabilities	37,740	35,545

Total current liabilities	442,330	373,666
Subordinated debentures	212,500	212,500
Shareholders' equity:		
Common stock	132,840	124,530
Retained earnings	393,586	286,742
Total shareholders' equity	526,426	411,272
	$1,181,256	$997,438

See accompanying notes to consolidated financial statements.

QUANTUM CORPORATION

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

	Six Months Ended	
	Oct. 2, 1994	Oct. 3, 1993
Cash flows from operating activities:		
Net income (loss)	$106,843	$(41,967)
Items not requiring the current use of cash:		
Depreciation and amortization	14,888	21,180
Changes in assets and liabilities:		
Accounts receivable	(111,792)	12,170
Inventories	(6,795)	52,973
Accounts payable	43,258	(53,240)
Income taxes payable	12,651	(19,026)
Accrued warranty expense	3,660	11,849
Other assets and liabilities	(26,946)	1,760
Net cash provided by (used in) operating activities	35,767	(14,301)
Cash flows from investing activities:		
Purchase of short-term investments	(20,474)	(97,292)
Sales and maturities of short-term investments	113,774	155,531
Investment in property and equipment	(37,232)	(20,103)
Net cash provided by (used in) investing activities	56,068	38,136
Cash flows from financing activities:		
Repurchase of common stock	-	(17,421)
Proceeds from issuance of common stock	7,485	5,870
Net cash provided by (used in) financing activities	7,485	(11,551)
Net increase in cash and cash equivalents	99,320	12,284
Cash and cash equivalents at beginning of period	217,531	121,838
Cash and cash equivalents at end of period	$316,851	$134,122
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 6,870	$ 13,666
Income taxes	$ 29,835	$ 11,306

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
1994.

2. Inventories

Inventories consisted of the following:
(In thousands)

	Oct. 2, 1994	Mar. 31, 1994
Materials and purchased parts	$ 35,818	$ 27,841
Work in process	13,368	14,729
Finished goods	151,692	151,513
	$200,878	$194,083

3. Net income (loss) per share

Net income (loss) 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 and six months ended October 3, 1993, the primary net loss 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.

4. Subsequent events

On October 3, 1994, the Company acquired Digital Equipment Corporation's ("Digital's") hard disk drive, tape drive, solid state disk, and thin film heads businesses ("the acquired Businesses"). The transaction includes Digital's 81% ownership position in Rocky Mountain Magnetics, Inc. and substantially all of the assets related to the data storage business conducted by Digital directly and through its subsidiaries. The Company plans to continue to use the assets in substantially the same business.

The total purchase price was $360 million, plus assumption by the Company of specified liabilities related to the acquired Businesses. The purchase price is subject to post-closing reductions to the extent that the value of inventory transferred at closing was less than specified levels or if capital expenditures made by Digital related to the acquired Businesses were less than specified levels. To date, post-closing reductions total $12 million. The purchase was financed with $278 million in cash and bank debt and a note to Digital for $70 million.

The bank debt consists of a three year $350 million senior credit facility structured as a $225 million revolving credit and a $125 million term loan. The revolving credit will be governed by a borrowing base of eligible accounts receivable and inventory, and the term loan amortizes in five equal semi-annual installments commencing twelve months from closing.

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

Results of Operations

Consolidated sales for the three and six months ended October 2, 1994 were $726 million and $1,452 million, respectively, compared to $494 million and $973 million for the corresponding periods in fiscal 1994. The increase in consolidated sales on a year-to-year basis was attributable to increased unit shipments. Unit shipments and consolidated sales for the six months ended October 2, 1994 increased 49% compared to the corresponding period in fiscal 1994.

Sales to Compaq Computer, Inc. ("Compaq") and Apple Computer, Inc. ("Apple") represented 21% and 15% of consolidated sales for the second quarter of fiscal 1995, respectively. For the second quarter of fiscal 1994, sales to Compaq represented less than 10% of consolidated sales, while sales to Apple represented 27% of consolidated sales. Sales to Compaq and Apple represented 18% and 14%, respectively, of consolidated sales for the six months ended October 2, 1994. For the first half of the prior fiscal year, sales to Compaq and Apple represented 11% and 28% of total consolidated sales, respectively. The Company has no long-term supply commitments with these customers. Any significant decrease in sales to these customers, or the loss of one or both of these customers, could have a material adverse effect on the Company's results of operations.

The gross margin for the quarter ended October 2, 1994 increased to 18.3% from 2.1% for the second quarter of fiscal 1994. The Company's gross margin for the first half of fiscal 1995 was 19.2%, compared to 7.1% for the corresponding period in fiscal 1994. The improvement in gross margin from the previous fiscal year was a result of the more normal pricing environment and the better supply/demand mix experienced during the first half of fiscal 1995, compared to the same period in fiscal 1994, which experienced intense pricing pressures in both the distribution and OEM channels resulting primarily from an oversupply of disk drives industry wide.

On October 3, 1994, the Company acquired Digital Equipment Corporation's

("Digital's") hard disk drive, tape drive, solid state disk, and thin film heads businesses ("the acquired Businesses"). The transaction includes Digital's 81% ownership position in Rocky Mountain Magnetics, Inc. and substantially all of the assets related to the data storage business conducted by Digital directly and through its subsidiaries. The Company plans to continue to use the assets in substantially the same business.

During the next several quarters, the Company expects that gross margin will be significantly lower, as certain transition issues associated with the acquisition of the acquired Businesses are addressed. Key transition issues the Company will be focusing on are phasing out the older, lower gross margin product lines acquired from Digital and integrating the thin film heads across the Company's existing product lines to reduce excess head manufacturing capacity. Due to these transition issues, the Company anticipates that gross margin for the December quarter could be less than 15%.

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 the first half of fiscal 1995 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, including those products acquired from Digital, 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 continued 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.

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.

Although it is premature to estimate the impact of the acquisition on the financial results of the Company at this time, the Company anticipates that the acquisition will have a dilutive effect on earnings for at least the next few quarters. During the December quarter, the Company expects profitability (excluding non-recurring charges) to decline significantly from the September quarter. Key transition issues that the Company anticipates will impact profitability include the lower overall gross margins of the products acquired from Digital and the excess capacity in the newly acquired recording heads business.

Operating Expenses

Research and development expenses in the second quarter of fiscal 1995 were $29 million, compared to $20 million in the corresponding period in fiscal 1994. Research and development expenses in the six months ended October 2, 1994 were $57 million, compared to $42 million in the corresponding period in fiscal 1994. In each of these periods research and development expenses were 4% of sales for the respective periods. The increases in absolute dollars are due to increased headcount and higher expenses related to preproduction activity for a larger number of new products. With the acquisition of the acquired Businesses the Company expects research and development expenses to double. Additionally, the Company anticipates that research and development expenditures will represent a higher percentage of sales on an ongoing basis, reflecting spending for both the vertically integrated heads business and the new high capacity products, which tend to be more research and development intensive. 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 second quarter of fiscal 1995 were $23 million, or 3% of sales, a one percent decline from the corresponding period of fiscal 1994 with expenses of $18 million, or 4% of sales. Sales and marketing expenses in the six months ended October 2, 1994 were $46 million, or 3% of sales, compared to $36 million, or 4% of sales in the corresponding period in fiscal 1994. The increases in absolute dollars are due to costs associated with supporting the higher sales volume and expanding the Company's international infrastructure. The Company anticipates an increase in the absolute dollar spending in sales and marketing related to the Digital acquisition, with expenditures as a percentage of sales remaining relatively consistent.

General and administrative expenses in the second quarter of fiscal 1995 and 1994 were $11 million, or 2% of sales for each of the respective quarters. General and administrative expenses in the six months ended October 2, 1994 were $22 million, compared to $23 million in the corresponding period in fiscal 1994, with each period's expenses representing 2% of sales for the respective periods. Due to the acquisition of the acquired Businesses, the Company expects an increase in general and administrative absolute dollar spending, with expenditures as a percentage of sales remaining relatively consistent.

As a result of the acquisition of the acquired Businesses, the Company anticipates recording non-recurring charges, including the write-off of in-process research and development, during the December quarter of fiscal 1995. At this time, it is premature to estimate the amount of these charges.

The Company's second quarter of fiscal 1994 results included restructuring and non-recurring charges of $23 million. The charges were primarily associated with the write-off of goodwill associated with it's former subsidiary, Plus Development, the Company's reduction in force, product transitions and the consolidation of sales offices and other facilities. Additionally, the Company was in the process of consolidating repair facilities from three facilities worldwide into a single location in Malaysia, the costs of which were included in the second quarter fiscal 1994 restructuring charges.

Net interest and other income/expense in the second quarter of fiscal 1995 were $0.3 million net expense, compared to $1.5 million net expense in the corresponding period in fiscal 1994. Net interest and other income/expense for the six months ended October 2, 1994 were $1.5 million, compared to $3.1 million in the corresponding period in fiscal 1994. The decrease in net expense in fiscal 1995 was due to increased interest income which resulted from higher cash balances and higher interest rates.

Income Taxes

The effective tax rate for the quarter and six months ended October 2, 1994 was 30%, compared to an effective tax benefit rate of 27% for the corresponding periods in fiscal 1994. The fiscal 1994 tax benefit resulted from an overall net operating loss. The fiscal 1995 effective tax rate is 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.

Liquidity and Capital Resources

At October 2, 1994, the Company had $336 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 by operations.

On October 3, 1994, the Company purchased the acquired Businesses from Digital for a total price of $360 million, plus assumption by the Company of specified liabilities related to the acquired Businesses. The purchase price is subject to post-closing reduction to the extent that the value of inventory transferred at closing was less than specified levels or if capital expenditures made by Digital related to the acquired Businesses were less than specified levels. To date, post-closing reductions total $12 million. The purchase was financed with $278 million in cash and bank debt and a note to Digital for $70 million.

The bank debt consists of a three year $350 million senior credit facility structured as a $225 million revolving credit and a $125 million term loan. The revolving credit will be governed by a borrowing base of eligible accounts receivable and inventory, and the term loan amortizes in five equal semi-annual installments commencing twelve months from closing.

The Company expects to spend approximately $10 to $30 million for leasehold improvements, capital equipment and the expansion of the Company's facilities for the remainder of fiscal year 1995. Over the next twelve months, the Company anticipates a significant amount of additional capital expenditures will be required to ramp the Asia manufacturing facilities and to support the recording heads business of the acquired Businesses. The Company believes that the credit facilities, 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.

The 1994 Annual Meeting of Shareholders was held on July 28, 1994. The matters voted upon were the election of directors, an amendment to the Company's Employee Stock Purchase Plan, an Annual Incentive Plan for the Chief Executive Officer, and the appointment of the independent auditors.

The Shareholders approved the election of directors as follows:

	For	Withheld
Stephen M. Berkley	36,644,978	228,027
David A. Brown	36,645,213	228,027
Robert J. Casale	36,642,193	228,527
Edward M. Esber, Jr.	36,645,198	228,027
William J. Miller	36,645,213	228,027
Steven C. Wheelwright	36,645,198	228,027

The Shareholders approved and ratified an amendment to the Company's Employee Stock Purchase Plan, increasing the number of shares reserved for issuance thereunder from 4,300,000 to 6,300,000 shares of Common Stock. The number of affirmative votes cast for this matter was 34,495,673. The number of negative votes cast with respect to this matter were 1,611,500 with 121,953 votes abstaining and 8,522,875 broker non-votes.

The Shareholders approved and ratified an Annual Incentive Plan for the Chief Executive Officer of the Company. The payment of the bonus will depend on the Company's achieving certain predetermined targets for the fiscal year ending March 31, 1995 set by the Compensation Committee. Stockholder approval of the bonus was necessitated by the recent enactment of tax rules by the Internal Revenue Service, which provides a $1,000,000 cap on deductions by publicly-held corporations for certain compensation paid to the CEO effective for taxable years beginning on or after January 1, 1994. If the Company's targets are above certain specified levels, the CEO will be eligible to receive a bonus in a predetermined amount ranging from $118,125 to a maximum of $1,119,938. If the Company's minimum targets are not met, no bonus will be paid to the CEO. The plan was approved with 33,482,137 affirmative votes, 1,959,253 negative votes, 171,984 votes abstaining and 9,138,627 broker non-votes.

The appointment of Ernst & Young LLP as independent auditors of the Company for the fiscal year ending March 31, 1995 was approved with 36,705,097 affirmative votes, 19,073 negative votes, 148,606 votes abstaining and 7,879,225 broker non-votes.

In addition, the shareholders voted to allow the directors to vote on any other matters of business that might come before the meeting with 36,872,776 affirmative votes, no negative or abstaining votes, and 7,897,225 broker non-votes.

Item 5. Other information - Not Applicable.

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

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

(b) Reports on Form 8-K. None

SIGNATURE

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

QUANTUM CORPORATION
(Registrant)

Date: November 15, 1994   By: /s/JOSEPH T. RODGERS
Executive Vice President, Finance
and Chief Financial Officer

QUANTUM CORPORATION

INDEX TO EXHIBITS

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EXHIBIT 11.1
QUANTUM CORPORATION

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

	Three Months Ended		Six Months Ended	
	Oct. 2, 1994	Oct. 3, 1993	Oct. 2, 1994	Oct. 3, 1993
PRIMARY				
Weighted average number of common shares during the period	45,305	43,258	45,027	43,349
Incremental common shares attributable to exercise of outstanding options	2,022	1,011	2,064	1,164
Total shares	47,327	44,269	47,091	44,513
Net income (loss)	$48,603	$(45,340)	$106,844	$(41,967)
Net income (loss) per share	$1.03	$(1.02)	$2.27	$(0.94)
FULLY DILUTED				
Weighted average number of common shares during the period	45,305	43,258	45,027	43,349
Incremental common shares attributable to exercise of outstanding options and conversion of 6 3/8% convertible subordinated debentures	13,733	12,723	13,773	12,874
Total shares	59,037	55,981	58,800	56,223
Net income (loss):				
Net income (loss)	$48,603	$(45,340)	$106,844	$(41,967)
Add 6 3/8% convertible subordinated debentures interest, net of income tax effect	1,663	2,229	3,340	4,556
Net income, as adjusted	$50,266	$(43,111)	$110,184	$(37,411)
Net income per share	$ 0.85	$ (0.77)*	$ 1.87	$ (0.67)*

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