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 June 28, 1998

OR

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

For the transition period from _____ to _____

Commission File Number 0-12390

QUANTUM CORPORATION

Incorporated Pursuant to the Laws of the State of Delaware

IRS Employer Identification Number 94-2665054

500 McCarthy Blvd., Milpitas, California 95035

(408) 894-4000

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

Yes _X_ No ___

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of July 20, 1998: 151,401,814

QUANTUM CORPORATION

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QUANTUM CORPORATION

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended	
	June 28, 1998	June 29, 1997
Sales	$ 1,103,023	$ 1,446,144
Cost of sales	936,650	1,170,210
Gross profit	166,373	275,934
Operating expenses:		
Research and development	84,298	74,029
Sales and marketing	38,337	41,732
General and administrative	17,402	27,473
	140,037	143,234
Income from operations	26,336	132,700
Other (income) expense:		
Interest expense	6,502	6,035
Interest income and other, net	(8,704)	(7,701)
Equity in loss of investee	24,237	3,942
	22,035	2,276
Income before income taxes	4,301	130,424
Income tax provision	1,291	33,910
Net income	$ 3,010	$ 96,514
Net income per share:		
Basic	$ 0.02	$ 0.74
Diluted	$ 0.02	$ 0.61
Weighted average common shares:		
Basic	158,716	130,910
Diluted	165,956	162,178

See accompanying notes to condensed consolidated financial statements.

QUANTUM CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	June 28, 1998	March 31, 1998
	(unaudited)	(Note 1)
Assets		
Current assets:		
Cash and cash equivalents	$ 496,371	$ 642,150
Marketable securities	58,528	71,573
Accounts receivable, net of allowance for doubtful accounts of $11,854 and $12,928	662,971	737,928
Inventories	317,826	315,035
Deferred taxes	133,995	133,981
Other current assets	96,122	124,670

Total current assets	1,765,813	2,025,337
Property and equipment, net of accumulated depreciation of $236,967 and $220,482	287,445	285,159
Purchased intangibles, net	20,899	24,490
Other assets	78,859	103,425
	$ 2,153,016	$ 2,438,411
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 391,761	$ 446,243
Accrued warranty	68,116	74,017
Accrued compensation	50,715	60,344
Income taxes payable	26,995	39,777
Current portion of long-term debt	956	935
Other accrued liabilities	65,440	78,920
Total current liabilities	603,983	700,236
Deferred taxes	38,075	38,668
Convertible subordinated debt	287,500	287,500
Long-term debt	39,738	39,985
Shareholders' equity:		
Common stock	785,827	776,291
Retained earnings	597,736	595,731
Treasury stock	(199,843)	--
Total shareholders' equity	1,183,720	1,372,022
	$ 2,153,016	$ 2,438,411

See accompanying notes to condensed consolidated financial statements.

<TABLE>

QUANTUM CORPORATION

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

<CAPTION>

	Three Months Ended June 28, 1998	Three Months Ended June 29, 1997
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	$ 3,010	$ 96,514
Items not requiring the current use of cash:		
Depreciation	20,837	21,094
Amortization	3,987	3,802
Deferred income taxes	(607)	677
Compensation related to stock plans	2,053	669
Changes in assets and liabilities:		
Accounts receivable	74,957	93
Inventories	(2,791)	(42,449)
Accounts payable	(54,482)	(29,715)
Income taxes payable	(12,782)	15,938
Accrued warranty	(5,901)	2,662
Other assets and liabilities	33,756	42,323

Net cash provided by operating activities	62,037	111,608
Cash flows from investing activities:		
Investment in property and equipment	(30,348)	(33,282)
Proceeds from disposition of property and equipment	4,281	4,176
Proceeds from maturity of marketable securities	13,045	--
Proceeds from repayment of note receivable	--	18,000
Proceeds from sale of interest in recording heads operations	--	94,000
Net cash provided by (used in) investing activities	(13,022)	82,894
Cash flows from financing activities:		
Purchase of treasury stock	(199,843)	--
Principal payments on credit facilities	(226)	(180,331)
Proceeds from issuance of common stock	5,275	6,677
Net cash used in financing activities	(194,794)	(173,654)
Net increase (decrease) in cash and cash equivalents	(145,779)	20,848
Cash and cash equivalents at beginning of period	642,150	345,125
Cash and cash equivalents at end of period	$ 496,371	$ 365,973
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 948	$ 3,433
Income taxes, net of (refunds)	$ (10,944)	$ 637

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

QUANTUM CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of presentation

The accompanying unaudited condensed 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. Certain prior period amounts have been reclassified to conform to the current period's presentation. The condensed consolidated balance sheet as of March 31, 1998 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The accompanying

financial statements should be read in conjunction with the audited financial statements of Quantum Corporation for the fiscal year ended March 31, 1998.

2. Inventories

Inventories consisted of the following:

(In thousands)

	June 28, 1998	March 31, 1998
Materials and purchased parts	$ 61,934	$ 72,990
Work in process	25,355	44,303
Finished goods	230,537	197,742
	$317,826	$315,035

3. Net income per share

Statement of Financial Accounting Standards No. 128, "Earnings per Share," replaced the previously reported primary and fully diluted net income (loss) per share with basic and diluted net income (loss) per share. Unlike primary net income (loss) per share, basic net income (loss) per share excludes any dilutive effects of options and convertible securities. Diluted net income (loss) per share is very similar to the previously reported fully diluted net income (loss) per share. All net income (loss) per share amounts for all periods have been presented, and where necessary, restated to conform to the Statement 128 requirements.

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

(In thousands except per share data)	Three Months Ended June 28, 1998	June 29, 1997
Numerator:		
Numerator for basic net income per share - income available to common stockholders	$ 3,010	$ 96,514
Effect of dilutive securities:		
5% convertible subordinated notes	--	1,810
Numerator for diluted net income per share - income available to common stockholders	$ 3,010	$ 98,324
Denominator:		
Denominator for basic net income per share - weighted average shares	158,716	130,910
Effect of dilutive securities:		
Outstanding options	7,240	9,462
Series B preferred stock	--	180
5% convertible subordinated notes	--	21,626
Denominator for diluted net income per share - adjusted weighted average shares and assumed conversions	165,956	162,178
Basic net income per share	$ 0.02	$ 0.74
Diluted net income per share	$ 0.02	$ 0.61

The computation of diluted net income per share for the three months ended June 28, 1998, excluded the effect of the 7% convertible subordinated notes issued in July 1997, which are convertible into 6,206,152 shares at a conversion price of $46.325 per share, because the effect would have been antidilutive.

4. Debt & Capital

In May 1998, the Board of Directors authorized the Company to repurchase approximately 14 million shares of its common stock through the open market from time to time. The intent of the repurchase is to minimize the dilutive impact of the shares issued to complete the pending ATL acquisition. At June 28, 1998, the Company had repurchased 9.4 million shares of common stock for approximately $200 million.

In July 1997, the Company issued $288 million of 7% convertible subordinated notes. The notes mature on August 1, 2004, and are convertible at the option of the holder at any time prior to

maturity, unless previously redeemed, into shares of the Company's common stock at a conversion price of $46.325 per share. The notes are redeemable at the Company's option on or after August 1, 1999 and prior to August 1, 2001, under certain conditions related to the price of the Company's common stock. Subsequent to August 1, 2001, the notes are redeemable at the Company's option at any time. In the event of certain changes involving all or substantially all of the Company's common stock, the notes would become redeemable at the option of the holder. Redemption prices range from 107% of the principal to 100% at maturity. The notes are unsecured obligations subordinated in right of payment to all existing and future senior indebtedness of the Company.

5. Litigation

The Company and certain of its current and former officers and directors have been named as defendants in two class-action lawsuits, one filed on August 28, 1996, in the Superior Court of Santa Clara County, California, and one filed on August 30, 1996, in the U.S. District Court of the Northern District of California. The plaintiff in both class actions purports to represent a class of all persons who purchased the Company's common stock between February 26, 1996, and June 13, 1996. The complaints allege that the defendants violated various federal securities laws and California statutes by concealing and/or misrepresenting material adverse information about the Company, and that individual defendants sold shares of the Company's stock based on material nonpublic information.

On February 25, 1997, in the Santa Clara County action, the Court sustained defendants' demurrer to most of the causes of action in the complaint, with leave to amend. At a June 12, 1997, demurrer hearing in state court, the judge dismissed the action as to four of the individual defendants with prejudice and as to three of the individual defendants without prejudice. The demurrer as to the Company was overruled. Defendants' motion that the action not be permitted to proceed as a class action was denied without prejudice. The Court heard oral argument on plaintiffs' motion for class certification on November 4, 1997. On March 4, 1998, the Court entered an order denying Plaintiffs' motion without prejudice. On October 30, 1997, the Court granted defendants' motion for creation of an ethical wall. Plaintiffs' motion for reconsideration of the Court's order was denied on December 15, 1997.

With respect to the federal action, defendants filed their motion to dismiss on April 16, 1997. On August 14, 1997, the Court granted defendants' motion to dismiss without prejudice. On September 11, 1997, plaintiff filed an amended complaint. Defendants filed a motion to dismiss the amended complaint on October 24, 1997. The hearing on Defendants' motion took place on February 3, 1998. On April 16, 1998, the Court granted Defendants' motion to dismiss with prejudice. On May 19, 1998, Plaintiff filed a notice of appeal of the District Court's dismissal in the United States Court of Appeals for the Ninth Circuit.

Certain of the Company's current and former officers and directors were also named as defendants in a derivative lawsuit, which was filed on November 8, 1996, in the Superior Court of Santa Clara County. The derivative complaint was based on factual allegations substantially similar to those alleged in the class-action lawsuits. Defendants' demurrer to the derivative complaint was sustained

without prejudice on April 14, 1997. Plaintiffs did not file an amended complaint. On August 7, 1997, the Court issued an order of dismissal and entered final judgment dismissing the complaint.

On August 7, 1998, the Company was named as one of several defendants in a patent infringement lawsuit filed in the U.S. District Court for the Northern District of Illinois, Eastern Division. The plaintiff, Papst Licensing GmbH, owns at least 24 U.S. patents which it asserts that the Company has infringed. The Company has studied many of these patents before and, of the patents it has

studied, believes that defenses of patent invalidity and non-infringement can be asserted. However, Quantum has not yet had time to make a complete study of all the patents asserted by Papst and there can be no assurance that the Company has not infringed these or other patents owned by Papst. The final results of this litigation, as with any litigation, are uncertain. In addition, the costs of engaging in litigation with Papst will be substantial.

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

6. MKE/Quantum Joint Venture

On May 16, 1997, the Company sold a 51% majority interest in its recording heads operations to MKE, thereby forming a recording heads joint venture with MKE, named MKE-Quantum Components LLC ("MKQC"). MKQC is involved in the research, development, and manufacture of MR recording heads used in the Company's disk drive products manufactured by MKE.

MKE and the Company share pro rata in MKQC's results of operations, and would share pro rata in any capital funding requirements. The Company and MKE plan to continue to utilize the recording heads manufactured by MKQC in the Company's disk drive products manufactured by MKE.

Subsequent to May 16, 1997, the Company accounted for its 49% interest in MKQC using the equity method of accounting. The results of the Company's involvement in recording heads through May 15, 1997, were consolidated.

The Company provided support services to MKQC. The support services were mainly finance, human resources, legal, and computer support. MKQC will reimburse the Company for the estimated cost of the services.

The following is summarized financial information for MKQC:

(In thousands)	Three Months Ended June 28, 1998
Sales	$ 16,398
Gross profit (loss)	(30,871)
Loss from operations	(47,795)
Net loss	(49,463)

	June 28, 1998
Current assets	$ 34,795
Noncurrent assets	211,334
Current liabilities	88,836
Note payable to Quantum	50,823
Other noncurrent liabilities	55,750

7. Comprehensive Income

As of April 1, 1998, the Company adopted Statement of Financial Accounting Standards, ("SFAS") No. 130, "Reporting Comprehensive Income." SFAS 130 establishes new rules for the reporting and display of comprehensive income and its components; however, it has no impact on the Company's net income or shareholders' equity. SFAS 130 requires foreign currency translation adjustments, which prior to adoption were reported in shareholders' equity, to be included in comprehensive income.

The components of comprehensive income, net of tax, are as follows:

(In thousands)	Three Months Ended	
	June 28, 1998	June 29, 1997
Net income	$ 3,010	$96,514
Change in cumulative translation adjustment	(704)	1,043
Comprehensive income	$ 2,306	$97,557

8. Pending Acquisition

In May 1998, the Company announced an agreement to acquire ATL Products, Inc. ("ATL"), pending approval of ATL's shareholders and other customary closing conditions. ATL designs, manufactures, markets and services automated tape libraries for the networked computer market. ATL's products incorporate DLTtape drives as well as ATL's proprietary IntelliGrip automation technology. The total acquisition cost is estimated to be approximately $300 million. Under the

terms of the agreement, which was approved by the Boards of Directors of both companies, each outstanding share of ATL's common stock will be converted into $29 worth of Quantum common stock, with the conversion ratio based on the average Quantum share price during the 45 trading days prior to the acquisition closing. The average share price may be adjusted for certain impacts related to common stock repurchases. The acquisition is expected to close by October 1998 and will be accounted for as a purchase. The Company expects to recognize a charge for acquired in-process research and development upon closing of the acquisition. ATL had revenue of $33 million and $98 million, and after-tax net income of $2 million and $8 million for the three months ended June 30, 1998, and fiscal year ended March 31, 1998, respectively.

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

Management's discussion and analysis includes:

- Business overview.
- A comparison of Quantum's results of operations in the three months ended June 28, 1998 with the results in the corresponding period in fiscal 1998.
- Year 2000 update.
- A discussion of Quantum's operating liquidity and capital resources.
- A discussion of trends and uncertainties, which include those related to the information storage industry and those related to more specific characteristics of Quantum.

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

Business Overview

Founded in 1980, Quantum Corporation ("Quantum" or the "Company") is a diversified mass storage company with leadership positions in both the fixed and removable storage markets. In calendar year 1997, Quantum was the highest-volume global supplier of hard disk drives for personal computers and the worldwide revenue leader for all classes of tape drives.

Quantum designs, develops, and markets information storage products, including high-performance, high-quality half-inch cartridge tape drives, tape media, tape autoloaders and libraries, hard disk drives, and solid state disk drives. The half-inch cartridge tape drives and solid state disk drives are manufactured by the Company. The Company combines its engineering and design expertise with the high-volume manufacturing capabilities of its exclusive manufacturing partner, Matsushita-Kotobuki Electronics Industries, Ltd. ("MKE") of Japan, a subsidiary of Matsushita Electric Industrial Co., Ltd., to produce high-quality hard disk drives. MKE manufactures all of Quantum's hard disk drives.

The Company's strategy is to offer a diversified storage product portfolio that features leading-edge technology and high-quality manufacturing for a broad

range of storage applications. Inherent in this strategy is a focus on anticipating and meeting customers' information storage needs and on the research and development of storage technology.

Quantum's products meet the storage requirements of mid-range to high-end computer systems, workstations, network servers, high-end to entry-level desktop personal computers, and storage subsystems. The Company directly markets its products to major original equipment manufacturers ("OEMs") and through a broad range of distributors, resellers, and systems integrators worldwide.

The Company's information storage business currently includes two units, the Specialty Storage Products Group and the Enterprise and Personal Storage Products Group. The primary business activities of these two groups are discussed below.

Specialty Storage Products. Quantum designs, develops, manufactures, and markets half-inch cartridge tape drives, autoloaders and libraries based on patented DLTtape(TM) technology, and solid state disk drives. Quantum also designs, develops, and markets DLTtape media. In addition, the DLTtape technology has been licensed to Fuji and Maxell for the manufacturing of tape media. The DLTtape drives (20 gigabytes to 70 gigabytes capacity, compressed) use advanced linear recording technology and a highly accurate tape guide system to perform mission-critical data backup for mid-range and high-end computer systems. Quantum has worldwide manufacturing rights for DLTtape drive and media technology and is the sole manufacturer of DLTtape drives. The Company believes that DLTtape drives are the de facto market standard in the mid-range segment of the tape storage market. The Company's solid state disk drives have high execution speeds required for applications such as imaging, multimedia, video-on-demand, online transaction processing, material requirements planning, and scientific modeling.

The Company's current DLTtape drive and automation product offerings include:

Quantum DLT(TM) 7000 tape drive. This is the most recent offering in the Company's DLTtape drive family. The DLT 7000 provides a combination of 35 gigabytes ("GB") native capacity (70 GB compressed) and a sustained data transfer rate of 5 megabytes ("MB") per second (10 MB per second compressed). The DLT 7000 tape drive features a SCSI-2 fast/wide interface with single-ended and differential options.

Quantum DLT 4000 tape drive. Features a native storage capacity of 20 GB per cartridge and a sustained data transfer rate of 1.5 MB per second.

Quantum PowerStor(TM) L500 library. This multiple-drive tape-automation product has 14-cartridge capacity and accommodates up to three DLTtape drives. A fully configured PowerStor Library provides a maximum native storage capacity of 490 GB and a sustained data transfer rate of 15 MB per second.

Quantum PowerStor L200 autoloader. Accommodates a Quantum DLT 4000 or DLT 7000 tape drive and delivers a maximum native storage capacity of 280 GB and a sustained data transfer rate of 5 MB per second.

Quantum DLT 4500, 4700 autoloaders. The Quantum DLT 4500 five-cartridge autoloader provides native storage capacity of 100 GB. The Quantum DLT 4700 seven-cartridge autoloader provides native storage capacity of 140 GB. These autoloaders have a sustained data transfer rate of 1.5 MB per second.

Quantum DLTtape(TM) III, XT, IV tape media and cleaning cartridges. The DLTtape family of half-inch cartridge tapes are designed and formulated specifically for Quantum DLTtape drives, autoloaders and libraries. The capacity of the DLTtape media is up to 35 GB, or 70 GB in compressed mode. By combining both solid and liquid lubricants in the tape binder system, tape and head wear are reduced while repelling airborne particles that could affect read/write head performance. In addition, by using a uniform particle shape, a dense binding system, a smooth coating surface, and a specially selected base film, Quantum's half-inch cartridge tapes take advantage of shorter wavelength recording schemes to ensure read compatibility with future generations of DLT brand tape drives.

The Company's current solid state disk drives product offerings include:

Quantum Rushmore(TM) NTE family of solid state disk drives includes the ESP3000 and ESP5000 series. These drives are available in capacities

ranging from 134 MB to 950 MB and have a data access time that is up to 15 times faster than magnetic hard disk drives.

Quantum Rushmore Ultra family of solid state disk drives includes the RU3000 and RU5000 series. These drives are available in capacities ranging from 134 MB to 1.66 GB and have a data access time that is up to 10 times faster than magnetic hard disk drives.

Enterprise and Personal Storage Products. Quantum designs, develops, and markets technologically advanced desktop and high-end hard disk drives. These drives are designed to meet the storage needs of entry-level to high-end desktop personal computers ("PCs"), servers, and workstations for use in both home and business environments; and for the data-intensive storage needs of high-end desktop systems, workstations, high-performance network servers, and storage subsystems. The high-end disk drives are designed for data-intensive applications, such as data warehousing, digital content creation, digital video, file servers, financial services, Internet and intranet services, mechanical CAD, multimedia, online transaction processing, RAID storage, software development, and workgroup computing.

The Company's current desktop disk drive product offerings include:

Quantum Bigfoot(TM) TX. The latest drive in the Quantum Bigfoot family of 5.25-inch drives. The Bigfoot TX features capacities of 4 GB, 6 GB, 8 GB and 12 GB, Ultra ATA interface, MR heads, a PRML read channel, burst data transfer rates of up to 33 MB per

second, internal data rates up to 142 MB per second, average seek times of 12 milliseconds ("ms"), and a rotational speed of 4,000 RPM.

Quantum Fireball(TM) EX. Announced in June 1998 and began mass production in July. The 3.5-inch Fireball EX features Shock Protection System(TM), a new technology that protects the mechanical platform against the impact of mishandling during shipping or integration into a PC; capacities of 3.2 GB, 5.1 GB, 6.4 GB, 10.2 GB and 12.7 GB; Ultra ATA interface; MR heads; buffer-to-host data transfer rates of up to 33 MB per second; internal data rates up to 187 MB per second; average seek times of 9.5 ms; and a rotational speed of 5,400 RPM.

Quantum Fireball EL. Began mass production of the 3.5-inch Fireball EL in May 1998. Features Shock Protection System, capacities of 2.5 GB, 5.1 GB, 7.6 GB and 10.2 GB, Ultra ATA interface, MR heads, buffer-to-host data transfer rates of up to 33 MB per second, internal data rates up to 162 MB per second, average seek times of 9.5 ms, and a rotational speed of 5,400 RPM.

Quantum Fireball SE. Features capacities of 2.1 GB, 3.2 GB, 4.3 GB, 6.4 GB and 8.4 GB, Ultra ATA interface, MR heads, buffer-to-host data transfer rates of up to 33 MB per second, internal data rates up to 158 MB per second, average seek times of 9.5 ms, and a rotational speed of 5,400 RPM.

Quantum Fireball ST. Features capacities of 1.6 GB, 2.1 GB, 3.2 GB, 4.3 GB and 6.4 GB, Ultra ATA interface, MR heads, buffer-to-host data transfer rates of up to 33 MB per second, internal data rates up to 132 MB per second, average seek times of 10 ms, and a rotational speed of 5,400 RPM.

The Company's current high-end disk drive product offerings include:

Quantum Viking(TM) II. The Viking II 3.5-inch hard disk drive is available in capacities of 4.5 GB and 9.1 GB with high bandwidth Ultra2 SCSI Low Voltage Differential (LVD) or Ultra SCSI interface. The Viking II also features MR heads, a burst data transfer rates of up to 80 MB per second, internal data rates of up to 170 MB per second, an average seek time of 7.5 ms, and a rotational speed of 7200 RPM.

Quantum Viking. Features capacities of 2.2 GB and 4.5 GB, MR heads, PRML read channels, internal data rates up to 139 MB per second, a wide selection of interfaces (Ultra SCSI-3 narrow, wide, or SCA-2), a burst data transfer rates of up to 40 MB per second, internal data rates of up to 139 MB per second, an average seek time of 8 ms, and a rotational speed of 7200 RPM.

Quantum Atlas(TM) III. The Atlas III multimode 3.5-inch hard disk drive is available in capacities of 9.1 GB and 18.2 GB. It supports both the high-speed Ultra2 SCSI LVD interface and the Ultra SCSI interface. The Atlas III features broad interface availability with new Ultra-2 LVD SCSI-3, Ultra single-ended SCSI-3 and Fibre Channel Arbitrated Loop (FC-AL). The drive's performance includes burst data transfer rates of

up to 80 MB

per second, internal data rates up to 180 MB per second, average seek time of 7.8 ms, and a rotational speed of 7200 RPM.

Quantum Atlas II. Features capacities of 2.2 GB, 4.5 GB and 9.1 GB, Ultra SCSI-3 interface, MR heads, burst data transfer rates of up to 40 MB per second, internal data rates up to 121 MB per second, average seek time of 8 ms, and a rotational speed of 7200 RPM.

In May 1998, the Company announced an agreement to acquire ATL Products, Inc. ("ATL"), pending approval of ATL's shareholders and other customary closing conditions. ATL designs, manufactures, markets and services automated tape libraries for the networked computer market. ATL's products incorporate DLTtape drives as well as ATL's proprietary IntelliGrip automation technology. The total acquisition cost is estimated to be approximately $300 million. Under the terms of the agreement, which was approved by the Boards of Directors of both companies, each outstanding share of ATL's common stock will be converted into $29 worth of Quantum common stock, with the conversion ratio based on the average Quantum share price during the 45 trading days prior to the acquisition closing. The average share price may be adjusted for certain impacts related to common stock repurchases. The acquisition is expected to close by October 1998 and will be accounted for as a purchase.

The Company owns 49% of MKE-Quantum Components LLC ("MKQC"), a joint venture with MKE, that researches, develops, and manufactures magnetoresistive recording heads for computer disk drives. The recording heads are used in the Company's disk drive products. MKQC does not currently market heads to other companies.

The Company is currently concentrating its product research and development efforts on broadening its existing tape, tape automation, and disk drive product lines through the introduction of new products. These development efforts span the Company's business and focus on the development of new tape drives, autoloaders and libraries, desktop and high-capacity hard disk drives, and other storage solutions. A key initiative involves Super DLTtape technology, which includes four new tape drive technologies that the Company plans to develop into a major extension of its DLTtape architecture. The Company expects to deliver its first tape storage product based on the Super DLTtape technology in mid-calendar year 1999.

Results of Operations

Sales. Sales for the quarter ended June 28, 1998, were $1.103 billion, compared to $1.446 billion for the quarter ended June 29, 1997. The decrease in sales reflected a decline in shipments of desktop and high-end hard disk drives, as well as a decline in the average unit prices of these products. These declines reflected a continuation of adverse hard drive market conditions in the quarter ended June 28, 1998, characterized by lower than expected demand, oversupply and intensely competitive pricing. In addition, DLTtape drive and media shipments declined from the first quarter of fiscal 1998, reflecting a year-over-year shift toward general product availability from supply constraint and customers in turn reducing their inventory levels. Although the average DLTtape drive price was flat compared to the prior year's first fiscal quarter, unit prices by capacity point declined with the decrease offset by a shift in sales mix to the higher-capacity DLT

7000 tape drives, which carry a higher per-unit price than lower-capacity products. The decrease in DLTtape media sales reflected lower average unit prices and a shift toward customers purchasing media from licensed DLTtape media manufacturers. As a result of the shift, DLTtape media royalty revenue increased in the first quarter of fiscal 1999 compared to the prior year's first fiscal quarter. The royalty revenue increase more than offset the decrease in DLTtape media sales, reflecting a market-wide increase in DLTtape media sales.

Sales to the Company's top five customers were 44% and 51% of sales in the quarters ended June 28, 1998 and June 29, 1997, respectively (these amounts reflect a retroactive combination of the sales to Compaq Computer, Inc. and Digital Equipment Corporation as a result of their merger in June 1998). Sales to Compaq Computer, Inc. were 16% and 19% of sales in the quarters ended June 28, 1998 and June 29, 1997, respectively (including sales made to Digital Equipment Corporation). Sales to Hewlett-Packard were 15% and 12% of sales in the quarters ended June 28, 1998 and June 29, 1997.

The OEM and distribution channel sales were 63% and 35% of sales in the quarter ended June 28, 1998, compared to 62% and 38% of sales in the quarter ended June 29, 1997.

Gross Margin Rate. The gross margin rate for the quarter ended June 28, 1998 decreased to 15.1% from 19.1% in the quarter ended June 29, 1997. The decrease in the gross margin rate reflected the decline in prices and gross margins earned on both desktop and high-end hard disk drives. These decreases reflected market conditions characterized by oversupply and intensely competitive pricing, particularly in the desktop market. These decreases were partially offset by an increase in DLTtape media royalty revenue, and the higher proportion of overall revenue coming from sales of DLTtape drives and media in the first quarter of fiscal year 1999, compared to the first quarter of fiscal year 1998. DLTtape products achieved a significantly higher gross margin rate than that achieved on the Company's other products. Through at least the second quarter of fiscal year 1999, the Company expects to experience continued gross margin pressure with respect to its desktop hard disk drive products.

Research and Development Expenses. In the quarter ended June 28, 1998, the Company's research and development expenses were $84 million, or 7.6% of sales, compared to $74 million, or 5.1% of sales, in the quarter ended June 29, 1997. The increase in research and development expenses reflected higher expenses related to pre-production activity on new hard disk drive products, as well as research and development expenses related to new information storage products and technologies, including the Super DLTtape drive and optical storage technology. These expense increases and the reduced sales caused the increase in research and development expense as a percentage of sales. The amount of research and development expenses is expected to increase in the second quarter of fiscal year 1999 as compared to the first quarter of fiscal year 1999.

Sales and Marketing Expenses. Sales and marketing expenses in the quarter ended June 28, 1998, were $38 million, or 3.5% of sales, compared to $42 million, or 2.9% of sales, in the quarter ended June 29, 1997. The increase in sales and marketing expenses as a percentage of sales reflected sales decreasing at a faster rate than the decline in sales and marketing expenses. Nevertheless, the decrease in sales and marketing expenses reflected the decrease in sales and the impact of cost

control efforts. The amount of sales and marketing expenses is expected to increase in the second quarter of fiscal year 1999 as compared to the first quarter of fiscal year 1999.

General and Administrative Expenses. General and administrative expenses in the quarter ended June 28, 1998, were $17 million, or 1.6% of sales, compared to $27 million, or 1.9% of sales, in the quarter ended June 29, 1997. The decrease in general and administrative expenses reflected the impact of cost control efforts, including reduced bonus expenses, as a result of the lower level of earnings and sales.

Interest and Other Income/Expense. Net interest and other income and expense in the quarter ended June 28, 1998 was net other income of $2 million, flat with the quarter ended June 29, 1997.

Equity in Loss of Investee. The equity in loss of investee in the quarter ended June 28, 1998 was $24 million, compared to $4 million in the quarter ended June 29, 1997. The equity in loss of investee reflects the Company's 49% equity share in the operating losses of MKQC, a joint venture formed on May 16, 1997. Prior to May 16, 1997, the recording heads operations of Quantum, which became the operations of MKQC, were fully consolidated by Quantum. The increased equity in loss of investee reflected MKQC's reduced unit prices and margins as a result of market oversupply of recording heads, poor manufacturing yields, and that the equity method was applied for only a part of the prior year's first fiscal quarter. The adverse conditions related to MKQC's unit prices and yields have resulted in year-over-year and sequentially declining operating results of MKQC.

Income Taxes. The effective tax rate for the quarter ended June 28, 1998 was 30%, compared to 26% for the quarter ended June 29, 1997. The increase in the effective tax rate reflected the increased contribution of DLTtape product sales to operating results, which are primarily taxed at standard U.S. corporate tax rates.

ATL - Pending Acquisition. The Company expects to recognize a charge for acquired in-process research and development upon closing of the acquisition of ATL, currently expected to occur by October 1998. In addition to the research and development charge, the acquisition is expected to have a slightly negative impact on the Company's results of operations in fiscal year 1999, primarily from the amortization of intangible assets and goodwill.

Year 2000

As the millennium approaches, the Company is preparing all of its computer systems and operations to be in compliance with Year 2000 requirements. Computer system issues involving the Year 2000 exist because some of the Company's

computer hardware and software systems use only two digits to represent a year. These systems will experience problems with dates beyond 1999 if this issue is not corrected. Such problems could include errors in information or significant system failures.

The Company is developing and is in the process of implementing plans to deal with identified Year 2000 information technology issues. Plans include the implementation of significant

system upgrades in the first half of fiscal year 1999 that will address Year 2000 information technology issues. The upgrade effort involves both internal and external resources, but is not expected to have a material incremental effect on the Company's financial position or results of operations. In July 1998, certain significant information technology systems upgrades were substantially completed. The incremental expenses incurred to be in compliance with Year 2000 requirements during the first quarters of fiscal year 1999 or 1998 were not material. In addition, the Company is in the process of performing a Company-wide Year 2000 risk assessment. The Company plans to address significant risks that are identified. There can be no assurance that there will not be a delay or increased costs associated with addressing Year 2000 issues. An inability to implement the plan would have a disruptive and adverse effect on the Company's results of operations.

The risk assessment includes addressing the Year 2000 readiness of its customers and key suppliers, including MKE. Quantum's reliance on key suppliers, and therefore, on the proper functioning of their information systems and software, means that their failure to address Year 2000 issues could have a material adverse impact on the Company's financial results. However, the Company does not currently expect any significant disruption to its operations or operating results as a result of Year 2000 issues.

Recent Accounting Pronouncement

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is effective for the Company's fiscal year ending March 31, 2000. SFAS No. 133 provides a standard for the recognition and measurement of derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Implementation of SFAS No. 133 is not expected to have a significant impact on the Company's financial position or results of operations.

Liquidity and Capital Resources

Cash, cash equivalents and marketable securities were $555 million at June 28, 1998, compared to $714 million at March 31, 1998. The decrease in cash primarily reflected the $200 million purchase of treasury stock as discussed below. Partially offsetting this use of cash, operating activities generated cash, primarily from the collection of accounts receivable.

In May 1998, the Board of Directors authorized the Company to repurchase approximately 14 million shares of its common stock through the open market from time to time. The intent of the repurchase is to minimize the dilutive impact of the shares issued to complete the pending ATL acquisition. At June 28, 1998, the Company had repurchased 9.4 million shares of common stock for approximately $200 million.

The Company filed a registration statement that became effective on July 24, 1997, pursuant to which the Company may issue debt or equity securities, in one or more series or issuances, limited to $450 million aggregate public offering price. Under the registration statement, in July 1997, the

Company issued $288 million of 7% convertible subordinated notes. The notes mature on August 1, 2004, and are convertible at the option of the holder at any time prior to maturity, unless previously redeemed, into shares of the Company's common stock at a conversion price of $46.325 per share. The notes are redeemable at the Company's option on or after August 1, 1999, and prior to August 1, 2001, under certain conditions related to the price of the Company's common stock. Subsequent to August 1, 2001, the notes are redeemable at the Company's option at any time. In the event of certain changes involving all or substantially all of the Company's common stock, the notes would become redeemable at the option of the holder. Redemption prices range from 107% of the principal to 100% at maturity. The notes are unsecured obligations subordinated in right of payment to all existing and future senior indebtedness of the Company.

In June 1997, the Company entered into an unsecured senior credit facility that provides a $500 million revolving credit line and expires in June 2000. At the option of the Company, borrowings under the revolving credit line bear interest at either LIBOR plus a margin determined by a total funded debt ratio, or a base rate, with option periods of one to six months. As of June 28, 1998, there was no outstanding balance drawn on this line.

The Company has a one-year $85 million unsecured letter of credit facility, which expires in September 1998 with certain banks to issue standby letters of credit to MKE and its affiliates.

In September 1996, the Company entered into a $42 million mortgage financing related to certain domestic facilities at an effective interest rate of approximately 10.1%. The term of the mortgage is 10 years, with monthly payments based on a 20-year amortization period, and a balloon payment at the end of the 10-year term.

The Company expects to spend approximately $180 million for capital equipment, expansion of the Company's facilities, and leasehold improvements in fiscal year 1999. These capital expenditures will support the disk drive and tape drive businesses, research and development, and general corporate operations. Refer to the Future Capital Needs section of the Trends and Uncertainties section for additional discussion of capital.

The Company believes that its existing capital resources, including the credit facility and any cash generated from operations, will be sufficient to meet all currently planned expenditures and sustain operations for the next 12 months. However, this belief assumes that operating results and cash flow from operations will meet the Company's expectations, and actual results could vary due to factors described in the Trends and Uncertainties section that follows.

Trends and Uncertainties

By operating in the information storage industry, Quantum is affected by numerous trends and uncertainties, some of which are specific to the industry while others relate more specifically to Quantum.

Trends and Uncertainties - Information Storage Industry

Key trends and uncertainties inherent in the information storage industry - and how these trends and uncertainties specifically impact the Company - are summarized below.

- Intense competition - The information storage products industry in general, and the hard disk drive market in particular, is characterized by intense competition that results in rapid price erosion; short product life cycles; and continuous introduction of new, more cost-effective products offering increased levels of capacity and performance.

- Rapid technological change - Technology advancement in the information storage industry is increasingly rapid.

- Customer concentration - High-purchase-volume customers for information storage products are concentrated within a small number of computer system manufacturers, distribution channels, and systems integrators.

- Fluctuating product demand - The demand for hard disk drive products depends on the demand for the computer systems in which hard disk drives are used, which is in turn affected by computer system product cycles and prevailing economic conditions.

Intensely Competitive Industry. To compete within the information storage industry, Quantum frequently introduces new products and transitions to newer versions of existing products. Product introductions and transitions are significant to the operating results of Quantum, and if they are not successful, the Company is materially adversely affected. The hard disk drive market, in particular, also tends to experience periods of excess product inventory and intense price competition. If price competition intensifies, the Company may be forced to lower prices more than expected and transition products sooner than expected, which can materially adversely affect the Company. For example, in the first quarter of fiscal year 1999 and the second half of fiscal year 1998, excess inventory in the desktop hard disk drive market, aggressive pricing and corresponding margin reduction adversely impacted the Company's operating results during the periods. The Company experienced similar conditions in the high-end of the hard disk drive market during most of fiscal year 1998 and in the first quarter of fiscal year 1999, although with less of an adverse impact in the first quarter. As a result of these conditions, the Company had

diminished profitability, at near breakeven, in the first quarter of fiscal year 1999 and fourth quarter of fiscal year 1998. Futhermore, losses in the third quarter of fiscal year 1998 were largely attributable to a $103 million special charge primarily for high-end hard disk drive inventory write-offs and firm inventory purchase commitments. If competition and pricing further intensifies, the Company's operating results could be further adversely affected.

Another competitive risk is that the Company's customers could commence the manufacture of disk and tape drives for their own use or for sale to others. Any such loss of customers could have a material adverse effect on the Company.

Quantum faces direct competition from a number of companies, including Exabyte, Fujitsu, Hewlett-Packard, IBM, Maxtor, Seagate, Sony, and Western Digital. In the event that the Company is unable to compete effectively with these companies, any other company, or any collaboration of companies, the Company would be materially adversely affected. The Company's information storage product competition can be further broken down as follows:

Specialty Storage Products. In the market for tape drives, the Company competes with other companies that have tape drive product offerings and alternative formats, including Exabyte, Hewlett-Packard, Sony, and Storage Technology. In addition, Hewlett-Packard, IBM, and Seagate formed a consortium to develop two tape drive products, one of which targets high-capacity data storage. The Company targets and has the market leadership position in the storage product market that provides mission-critical backup systems, archiving, and disaster recovery for mid-range servers. The Company has achieved market leadership and competes in this segment based on the reliability, data integrity, performance, capacity, and scalability of its tape drives. Although the Company has experienced excellent market acceptance and conditions for its tape drive products, the market would become more competitive if other companies individually or collaboratively broaden their product lines in this market. As a result, the Company could experience increased price and performance competition. If price or performance competition increases, the Company could be required to lower prices, resulting in decreased margins that could materially adversely affect the Company's operating results.

Hard Disk Drive Products. In the market for desktop products, Quantum competes primarily with Fujitsu, IBM, Maxtor, Samsung, Seagate, and Western Digital. Quantum and its competitors have developed and continue to develop a number of products targeted at particular segments of this market, such as business users and home PC buyers, and factors such as time-to-market, cost, product performance, quality, and reliability have a significant effect on the success of any particular product. The desktop market is characterized by more competitiveness and shorter product life cycles than the information storage industry in general. This competitiveness, which intensified in the second half of fiscal year 1998 and continued in the first quarter of fiscal year 1999, has resulted in a significant downward trend in gross profit margins on desktop disk drive products during these periods.

The Company faces competition in the high-end hard disk drive market primarily from Fujitsu, Hitachi, IBM, and Seagate. Seagate and IBM have the largest share of the market for high-end hard disk drives. Although the same competitive factors identified above as being generally applicable to the overall disk drive industry apply to high-end disk drives, the Company believes that performance, quality, and reliability are even more important to the users of high-end products than to users in the desktop market. However, this does not lessen the intensely competitive nature of the high-end of the hard disk drive market. For example, intense competition has lead to the trend of losses on the Company's high-end hard disk drive products over the past four quarters, although with decreased losses in the first

quarter of fiscal year 1999. The Company does not anticipate that the high-end disk drive products will return to profitability without sustained high-volume shipping of these products with less rapid price erosion. However, there can be no assurance as to the profitability of current or next generation products. The Company's gross margins on its high-end products during the foreseeable future are dependent on the successful development, timely introduction, market acceptance, and product transition of new products, as to which there can be no positive assurance.

Rapid Technological Change, New Product Development, and Qualification. In the

hard disk drive market, the combination of an environment of increasingly rapid technological changes, short product life cycles, and intense competitive pressures results in rapidly decreasing gross margins on specific products. Accordingly, any delay in the introduction of more advanced and more cost-effective products can result in significantly lower sales and gross margins. The Company's future is therefore dependent on its ability to anticipate what customers will demand and to develop the new products that meet this demand and effectively compete with the products of competitors.

For example, magnetoresistive ("MR") recording heads represent an important technology and component related to the performance and competitiveness of the Company's products. In particular, MR recording heads have been important to achieving competitive storage density for the Company's products. The anticipated next generation of MR recording heads is referred to as Giant MR ("GMR") recording heads. The Company expects industry-wide time-to-market competition in calendar year 1999 using GMR technology to have an impact on technology leadership and competitiveness. In this regard, the recent alliance between IBM and Western Digital that includes a purchasing agreement and technology licensing involving GMR recording heads is expected to increase the competition in GMR recording head time-to-market. The Company can make no assurance regarding its ability to incorporate GMR recording heads into its products and, if successful, the competitiveness of the Company's products. The Company's future is also dependent on its ability to qualify new products with customers, to successfully introduce these products to the market on a timely basis, and to commence and achieve volume production that meets customer demand. Because of these factors, the Company expects sales of new products to continue to account for a significant portion of its future hard disk drive sales, and that sales of older products will decline rapidly.

The Company is frequently in the process of qualifying new products with its customers. The customer qualification process for disk drive products, particularly high-capacity products, can be lengthy, complex, and difficult. The Company would be materially adversely affected if it were unable to achieve customer qualifications for new products in a timely manner, or at all, or if MKE were unable to continue to manufacture qualified products in volume with consistent high quality.

In the mid-range tape drive market, the Company has experienced less rapid technological change, as well as less technology and performance based competition compared with the hard disk drive market. This has resulted in favorable gross margins on sales of the Company's DLTtape brand products. Higher margins on DLTtape products, as compared with the eroded gross margins on

hard disk drives, have resulted in tape drive and related media products becoming the primary source of the Company's operating income in the first quarter of fiscal year 1999 and the second half of fiscal year 1998. Given the favorable tape drive market conditions that the Company has experienced, competitors are aggressively trying to make technological advances and take other steps in order to more successfully compete with the Company's DLTtape products. Successful competitor product offerings that target the market in which the Company's DLTtape products compete could have a material adverse effect on the Company. In addition, in the event that the Company is not able to maintain DLTtape technology competitiveness based on its performance, quality, reliability and scalability, or otherwise not meet the requirements of the market, it could lose market share and experience declining sales and gross margins, which would have a material adverse effect on the Company.

In the information storage industry in general, there can be no assurance that the Company will be successful in the development and marketing of any new products and components in response to technological change or evolving industry standards; that the Company will not experience difficulties that could delay or prevent the successful development, introduction, and marketing of these products and components; or that the Company's new products and components will adequately meet the requirements of the marketplace or achieve market acceptance. These significant risks apply to all new products, including those expected to be based on optical and Super DLTtape technologies. In addition, technological advances in magnetic, optical, or other technologies, or the development of new technologies, could result in the introduction of competitive products with superior performance and substantially lower prices than the Company's products. Furthermore, the Company's new products and components are subject to significant technological risks. If the Company experiences delays in the commencement of commercial shipments of new products or components, the Company could experience delays or loss of product sales. If, for technological or other reasons, the Company is unable to develop and introduce new products in a timely manner in response to changing market conditions or customer requirements, the Company would be materially adversely affected.

As part of the Company's strategy to remain technologically competitive, the Company has invested in technologies, such as in optical technology through its strategic alliance with and investment in TeraStor, and MR recording heads through the MKQC joint venture. There can be no assurance that the technologies,

companies, and ventures in which the Company has invested will be profitable in the information storage industry. Adverse technological or operating outcomes could result in impairment and write-down of associated investments that could have a material adverse effect on the Company.

Customer Concentration. In addition to the concentration of the information storage industry and the Company's customer base, customers are generally not obligated to purchase any minimum volume of the Company's products, and the Company's relationships with its customers are generally terminable at will. In June 1998, two Quantum customers, Compaq Computer, Inc. and Digital Equipment Corporation merged, thereby increasing the Company's customer concentration and associated risk.

Sales of the Company's desktop and tape products, which together comprise a majority of its overall sales, were concentrated with several key customers in the first quarter of fiscal year 1999 and in fiscal year 1998. Sales to the Company's top five customers in the first quarter in fiscal year 1999 and fiscal year 1998 represented 44% of sales (percentage of sales reflects a retroactive combination of the sales to Compaq Computer, Inc. and Digital Equipment Corporation as a result of their merger in June 1998). Because of the rapid and unpredictable changes in market conditions, and the short product life cycles for its customers' products, the Company is unable to predict whether there will be any significant change in demand for any of its customers' products in the future. In the event that any such changes result in decreased demand for the Company's products, whether by loss of or delays in orders, the Company could be materially adversely affected. In addition, the loss of one or more key customers could materially adversely affect the Company.

Fluctuation in Product Demand. Fluctuation in demand for the Company's products results in fluctuations in operating results. Demand for the computer systems in which the Company's storage products are used has historically been subject to significant fluctuations. Such fluctuations in end-user demand have in the past, and may in the future, result in the deferral or cancellation of orders for the Company's products, either of which could have a material adverse effect on the Company. During the past several years, there has been significant growth in the demand for PCs, a portion of which represented sales of PCs for use in the home. However, many analysts predict that future growth will be at a slower rate than the rate experienced in recent years.

Sales of DLTtape drives and media have tended to be more stable and were a significant component of sales for the Company. In addition, the Company has experienced longer product cycles for its tape drives and tape drive-related products compared with the short product cycles of disk drive products. However, there can be no assurance that this trend will continue. Beginning in the third quarter of fiscal year 1998, sales of tape drives and media achieved gross margins that significantly exceeded gross margins from the sale of the Company's hard drive products. In this regard the Company expects sales of DLTtape products, which represented 23% of sales and the only profitable major product family in the first quarter of fiscal year 1999, and 21% of sales and a majority of operating profits in fiscal year 1998, will continue to represent a major portion of the Company's operating profits in the future. The Company expects the rate of sales growth to lessen in fiscal year 1999 compared with the rate of growth achieved in fiscal year 1998. However, there can be no assurance that any growth expectations will be achieved or that current market conditions will continue.

The Company's shipments tend to be highest in the third month of each quarter. Failure by the Company to complete shipments in the final month of a quarter resulting from a decline in customer demand, manufacturing problems, or other factors would adversely affect the Company's operating results for that quarter.

Because the Company has no long-term purchase commitments from its customers, future demand is difficult to predict. The Company could experience decreases in demand for any of its products in the future, which could have a material adverse effect on the Company.

Trends and Uncertainties More Specific to Quantum

Certain trends and uncertainties relate more specifically to Quantum and are not necessarily indicative of the information storage industry as a whole. These trends and uncertainties include intellectual property matters, the pending acquisition of ATL, inventory risk, dependence on MKE for the manufacture of the hard disk drives that Quantum develops and markets, losses associated with MKQC, dependence on suppliers, component shortages, future capital needs, warranty costs, foreign exchange contracts, foreign manufacturing and sales, and price volatility of Quantum's common stock. For information regarding litigation, refer to Note 5 of the Notes to Condensed Consolidated Financial Statements.

Intellectual Property Matters. From time to time, the Company is approached by companies and individuals alleging Quantum's infringement of and need for a license under patented or proprietary technology that Quantum assertedly uses. On August 7, 1998, the Company was named as one of several defendants in a patent infringement lawsuit filed in the U.S. District Court for the Northern District of Illinois, Eastern Division. The plaintiff, Papst Licensing GmbH, owns at least 24 U.S. patents which it asserts that the Company has infringed. The Company has studied many of these patents before and, of the patents it has studied, believes that defenses of patent invalidity and non-infringement can be asserted. However, Quantum has not yet had time to make a complete study of all the patents asserted by Papst and there can be no assurance that the Company has not infringed these or other patents owned by Papst. The final results of this litigation, as with any litigation, are uncertain. In addition, the costs of engaging in litigation with Papst will be substantial. If required, there can be no assurance that licenses to any technology owned by Papst or any other third party alleging infringement could be obtained or obtained on commercially reasonable terms. Adverse resolution of the Papst litigation or any other intellectual property litigation could subject the Company to substantial liabilities and require it to refrain from manufacturing certain products which could have a material adverse effect on the Company's business, financial condition or results of operations. In addition, the costs of engaging in the Papst litigation or other intellectual property litigation could be substantial, regardless of the outcome.

Pending Acquisition of ATL. As discussed in the Business Overview section, in May 1998, the Company announced an agreement to acquire ATL. The proposed acquisition of ATL by the Company entails a number of risks, including successfully managing the transition of ATL to a wholly owned subsidiary of Quantum; retention of key customers, employees, and suppliers; and managing a larger and more diverse business. There can be no assurance that the transaction contemplated by the Company's agreement to acquire ATL will close completely or that the Company will successfully manage the risks of this transaction.

Inventory Risk. As discussed in the Customer Concentration and Fluctuation in Product Demand sections, the Company's customers generally are not obligated to purchase any minimum volume of the Company's products and fluctuations in end-user demand may result in the deferral or cancellation of orders for the Company's products. These risk factors, when combined with the OEM trend toward carrying minimal inventory levels related to just-in-time and build-to-order type manufacturing processes, increase the risk that Quantum, as a supplier, will manufacture and custom configure too much or too little inventory in support of OEM manufacturing processes. Significant excess inventory conditions could result in inventory write-downs and losses that could adversely impact the Company's results of operations, whereas inventory shortages could adversely impact the Company's relationship with its customers and the Company's results of operations.

Dependence on MKE Relationship. Quantum is dependent on MKE for the manufacture of all of its hard disk drive products. Approximately 77% and 79% of the Company's sales in the first quarter of fiscal year 1999 and in fiscal year 1998, respectively, were derived from products manufactured by MKE. In addition, the MKQC joint venture with MKE to develop and produce recording heads used in disk drive production represents additional dependence on MKE. The Company's relationship with MKE is therefore critical to the Company's business and financial performance.

Quantum's master agreement with MKE, which covers the general terms of the business relationship is effective through May 2007. The agreement may be terminated sooner as a result of certain specified events including a change-in-control of either Quantum or MKE. Quantum's relationship with MKE, which dates from 1984, is built on Quantum's engineering and design expertise and MKE's high-volume, high-quality manufacturing expertise.

The Company's dependence on MKE entails, among others, the following principal risks:

Quality and Delivery. The Company relies on MKE's ability to bring new products rapidly to volume production at low cost to meet the Company's stringent quality requirements, and to respond quickly to changing product delivery schedules from the Company. This requires, among other things, close and continuous collaboration between the Company and MKE in all phases of design, engineering, and production. The Company's business and financial results would be adversely affected if products manufactured by MKE fail to satisfy the Company's quality requirements or if MKE is unable to meet the Company's delivery commitments. In the event MKE is unable to satisfy Quantum's production requirements, the Company would not have an alternative manufacturing source to meet the demand without substantial delay and disruption to the Company's operations. As a result, the Company

would be materially adversely affected.

Volume and Pricing. MKE's production schedule is based on the Company's forecasts of its product purchase requirements, and the Company has limited contractual rights to modify short-term purchase orders issued to MKE. Further, the demand in the disk drive business is inherently volatile, and there is no assurance that the Company's forecasts are accurate. In addition, the Company periodically negotiates pricing arrangements with MKE. The failure of the Company to accurately forecast its requirements or successfully adjust MKE's

production schedule, which could lead to inventory shortages or surpluses, or the failure to reach pricing agreements reasonable to the Company would have a material adverse effect on the Company. For example, a portion of the $103 million special charge recorded in the third quarter of fiscal year 1998 reflected losses on firm inventory commitments associated with high-end disk drive production at MKE.

Manufacturing Capacity and Capital Commitment. The Company believes that MKE's current and committed manufacturing capacity should be adequate to meet the Company's requirements at least through the end of fiscal year 1999. The Company's future growth will require, however, that MKE continue to devote substantial financial resources to property, plant, and equipment and working capital to support manufacture of the Company's products, as to which there can be no assurance. In the event that MKE is unable or unwilling to meet the Company's manufacturing requirements, there can be no assurance that the Company would be able to obtain an alternate source of supply. Any such failure to obtain an alternative source would have a material adverse effect on the Company.

MKQC - Joint Venture for MR Recording Heads Development and Manufacturing. Since the fiscal year 1995 acquisition of MR recording heads technology as part of the acquisition of certain businesses of the Storage Business Unit of Digital Equipment Corporation, Quantum has made significant efforts to advance the development of its MR recording heads capability. To further this effort, MKE and Quantum formed a joint venture, MKQC, in the first quarter of fiscal year 1998 to partner in the research, development, and production of MR recording heads and technology. However, MR technology is complex and, to date, the Company and MKQC's MR recording head manufacturing yields have been lower than was necessary for cost-effective production. The Company does not expect cost-effective production of MR recording heads to be realized in the near term. Until that time, the Company will incur losses based on its pro rata ownership interest in the joint venture. However, there can be no assurance that the anticipated benefits of the joint venture will be realized on a timely basis or at all. The Company's current target is to obtain 15% to 20% of the MR recording heads used in its products from MKQC.

Dependence on Suppliers of Components and Sub-Assemblies; Component Shortages. Both the Company and its manufacturing partner, MKE, are dependent on qualified suppliers for components and sub-assemblies, including recording heads, media, and integrated circuits, which are essential to the manufacture of the Company's disk drive and tape drive products. In connection with certain products, the Company and MKE qualify only a single source for certain components and sub-assemblies, which can magnify the risk of shortages. Component shortages have constrained the Company's sales growth in the past, and the Company believes that the industry will periodically experience component shortages. If component shortages occur, or if the Company experiences quality problems with component suppliers, shipments of products could be significantly delayed or costs significantly increased, which would have a material adverse effect on the Company.

Future Capital Needs. The information storage industry is capital, research, and development intensive, and the Company will need to maintain adequate financial resources for capital expenditures, working capital, research and development in order to remain competitive in the information storage business. The Company believes that it will be able to fund these capital requirements over the next 12 months. However, if the Company decides to increase its capital expenditures further, or sooner than presently contemplated, or if results of operations do not meet the Company's expectations, the Company could require additional debt or equity financing. There can be no assurance that such additional funds will be available to the Company or will be available on favorable terms. The Company may also require additional capital for other purposes not presently contemplated. If the Company is unable to obtain sufficient capital, it could be required to curtail its capital equipment, research, and development expenditures, which could adversely affect the Company.

Warranty. Quantum generally warrants its products against defects for a period of three to five years. A provision for estimated future costs relating to warranty expense is recorded when products are shipped. Actual warranty costs could have a material unfavorable impact on the Company if the actual rate of unit failure or the cost to repair a unit is greater than what the Company used to estimate the warranty expense accrual.

Risks Associated with Foreign Manufacturing and Sales. Many of the Company's products and product components are currently manufactured outside the United States. In addition, close to half of the Company's revenue comes from sales outside the United States, including sales to the overseas operations of domestic companies. As a result, the Company is subject to certain risks associated with contracting with foreign manufacturers, including obtaining requisite United States and foreign governmental permits and approvals, currency exchange fluctuations, currency restrictions, political instability, labor problems, trade restrictions, and changes in tariff and freight rates. In addition, several Asian countries have recently experienced significant economic downturns and significant declines in the value of their currencies relative to the U.S. dollar. In the last four quarters, including the first quarter of fiscal year 1999, the Company experienced a year-over-year reduction in sales to certain Asian countries due, in part, to the effects of these factors. With most of the Company's non-U.S. sales being denominated in U.S. dollars, the Company is unable to predict what effect, if any, these factors will have on its ability to maintain or increase its sales in these markets, general economic conditions, and the Company's customers.

Foreign Exchange Contracts. The Company manages the impact of foreign currency exchange rate changes on certain foreign currency receivables and payables using foreign currency forward exchange contracts. With this approach the Company expects to minimize the impact of changing foreign exchange rates on the Company's net income. However, there can be no assurance that all foreign currency exposures will be adequately managed, and the Company could incur material charges as a result of changing foreign exchange rates.

Volatility of Stock Price. The market price of the Company's common stock has been, and may continue to be, extremely volatile. Factors such as new product announcements by the Company or its competitors; quarterly fluctuations in the operating results of the Company, its competitors, and other technology companies; and general conditions in the information storage and computer market may have a significant impact on the market price of the common stock. In particular, when the Company reports operating results that are less than the expectations of analysts, the market price of the common stock can be materially adversely affected.

QUANTUM CORPORATION

PART II - OTHER INFORMATION

Item 1. Legal proceedings

Refer to Note 5 of the Notes to Condensed Consolidated Financial Statements.

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 11, 1998

By: /s/ Richard L. Clemmer

Richard L. Clemmer
Executive Vice President,
Finance and Chief
Financial Officer

QUANTUM CORPORATION

INDEX TO EXHIBITS

Exhibit Number	Exhibit
3.1	Amended Certificate of Designation of Rights, Preferences, and Privileges of Series A Junior Participating Preferred Stock of Quantum Corporation
4.1(1)	Preferred Shares Rights Agreement, dated July 28, 1998 between Quantum Corporation and Harris Savings and Trust Bank, as Rights Agent
10.1	AGREEMENT AND PLAN OF REORGANIZATION, dated May 18, 1998, among Quantum Corporation, Quick Acquisition Corporation, a wholly-owned subsidiary of Quantum Corporation, and ATL Products, Inc.
10.2	FIRST AMENDMENT TO CREDIT AGREEMENT, dated June 26, 1998, among Quantum Corporation, certain financial institutions (collectively, the "Banks"), and CANADIAN IMPERIAL BANK OF COMMERCE, as administrative agent for the Banks.
27.1	Financial Data Schedule

Footnotes to Exhibits	Footnote
(1)	Incorporated by reference to the Form 8-A filed with the Securities and Exchange Commission on August 4, 1998

AMENDED CERTIFICATE OF DESIGNATION OF RIGHTS, PREFERENCES
AND PRIVILEGES OF
SERIES A JUNIOR PARTICIPATING PREFERRED STOCK
OF QUANTUM CORPORATION

Pursuant to Section 151 of the General Corporation Law of the State of Delaware

Quantum Corporation, a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), does by its Chairman of the Board and Chief Executive Officer and under its corporate seal hereby certifies as follows:

1. That pursuant to the authority conferred upon the Board of Directors by the Restated Certificate of Incorporation of the said Corporation, the said Board of Directors on July 21, 1988 designated a series of 1,000,000 shares of Preferred Stock designated as Series A Junior Participating Preferred Stock and filed a Revised Form of Certificate of Designations, Preferences and Rights of Series A Junior Participating Preferred Stock on December 9, 1988 with the Secretary of State of the State of Delaware.

2. That no shares of Series A Junior Participating Preferred Stock have been issued to date.

3. That pursuant to the authority conferred upon the Board of Directors by the Restated Certificate of Incorporation of the said Corporation, the said Board of Directors on April 30, 1998 adopted the following resolutions changing the designation of the Series A Junior Participating Preferred Stock:

"RESOLVED: That pursuant to the authority granted to and vested in the Board of Directors of the Corporation in accordance with the provisions of its Certificate of Incorporation, the Board of Directors hereby amends and restates the designation of the Company's Series A Junior Participating Preferred Stock, effective as of the record date, and fixes the relative rights, preferences and limitations thereof (in addition to the provisions set forth in the Certificate of Incorporation of the Corporation, which are applicable to the Preferred Stock of all classes and series), as follows:

Section 1. Designation and Amount. The shares of such series shall be designated as "Series A Junior Participating Preferred Stock." The Series A Junior Participating Preferred Stock shall have a par value of $0.01 per share, and the number of shares constituting such series shall be 1,000,000.

Section 2. Proportional Adjustment. In the event the Corporation shall at any time after the issuance of any share or shares of Series A Junior Participating Preferred Stock (i) declare any dividend on Common Stock of the Corporation ("Common Stock") payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the Corporation shall simultaneously effect a proportional adjustment to the number of outstanding

shares of Series A Junior Participating Preferred Stock, if any.

Section 3. Dividends and Distributions.

1. Subject to the prior and superior right of the holders of any shares of any series of Preferred Stock ranking prior and superior to the shares of Series A Junior Participating Preferred Stock with respect to dividends, the holders of shares of Series A Junior Participating Preferred Stock shall be entitled to receive when, as and if declared by the Board of Directors out of funds legally available for that purpose, quarterly dividends payable in cash on the last day of January, April, July and October in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Junior Participating Preferred Stock, in an amount per share (rounded to the nearest cent) equal to 1,000 times the aggregate per share amount of all cash dividends, and 1,000 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other (except as provided in Section 2 hereof) than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Junior Participating Preferred Stock.

2. The Corporation shall declare a dividend or distribution on the Series A Junior Participating Preferred Stock as provided in paragraph (a) above immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock).

3. Dividends shall begin to accrue on outstanding shares of Series A Junior Participating Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series A Junior Participating Preferred Stock, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Junior Participating Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Junior Participating Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Junior Participating Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 30 days prior to the date fixed for the payment thereof.

Section 4. Voting Rights. The holders of shares of Series A Junior Participating Preferred Stock shall have the following voting rights:

1. Each share of Series A Junior Participating Preferred Stock shall entitle the holder thereof to 1,000 votes on all matters submitted to a vote of the stockholders of the Corporation.

2. Except as otherwise provided herein or by law, the holders of shares of Series A Juinor Participating Preferred Stock and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

3. Except as required by law, holders of Series A Junior Participating Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

Section 5. Certain Restrictions.

1. The Corporation shall not declare any dividend on, make any distribution on, or redeem or purchase or otherwise acquire for consideration any shares of Common Stock after the first issuance of a share or fraction of a share of Series A Junior Participating Preferred Stock unless concurrently therewith it shall declare a dividend on the Series A Junior Participating Preferred Stock as required by Section 3 hereof.

2. Whenever quarterly dividends or other dividends or distributions payable on the Series A Junior Participating Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Junior Participating Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

1. declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Junior Participating Preferred Stock;

2. declare or pay dividends on, make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with Series A Junior Participating Preferred Stock, except dividends paid ratably on the Series A Junior Participating Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

3. redeem or purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Junior Participating Preferred Stock, provided that the Corporation

may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Junior Participating Preferred Stock;

4. purchase or otherwise acquire for

consideration any shares of Series A Junior Participating Preferred Stock, or any shares of stock ranking on a parity with the Series A Junior Participating Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

3. The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (a) of this Section 5, purchase or otherwise acquire such shares at such time and in such manner.

Section 6. Reacquired Shares. Any shares of Series A Junior Participating Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein and, in the Restated Certificate of Incorporation, as then amended.

Section 7. Liquidation, Dissolution or Winding Up. Upon any liquidation, dissolution or winding up of the Corporation, the holders of shares of Series A Junior Participating Preferred Stock shall be entitled to receive an aggregate amount per share equal to 1000 times the aggregate amount to be distributed per share to holders of shares of Common Stock plus an amount equal to any accrued and unpaid dividends on such shares of Series A Junior Participating Preferred Stock.

Section 8. Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of Series A Junior Participating Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share equal to 1,000 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged.

Section 9. No Redemption. The shares of Series A Junior Participating Preferred Stock shall not be redeemable.

Section 10. Ranking. The Series A Junior Participating Preferred Stock shall rank junior to all other series of the Corporation's Preferred Stock as to the payment of dividends and

the distribution of assets, unless the terms of any such series shall provide otherwise.

Section 11. Amendment. The Restated Certificate of Incorporation of the Corporation shall not be further amended in any manner which would materially alter or change the powers, preference or special rights of the Series A Junior Participating Preferred Stock so as to affect them adversely without the affirmative vote of the holders of a majority of the outstanding shares of Series A Junior Participating Preferred Stock, voting separately as a class.

Section 12. Fractional Shares. Series A Junior Participating Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series A Junior Participating Preferred Stock.

RESOLVED FURTHER: That 1,000,000 shares of Series A Junior Participating Preferred Stock be, and they hereby are, reserved for issuance upon exercise of the Rights, such number to be subject to adjustment from time to time in accordance with the Rights Agreement.

RESOLVED FURTHER: That the appropriate officers of the Company be, and they hereby are, authorized and directed to prepare and file an Amended Certificate of Designation of Rights, Preferences and Privileges in accordance with the foregoing resolutions and the provisions of Delaware law and to take such actions as they may deem necessary or appropriate to carry out the intent of the foregoing resolutions."

I, _____, _____ of Quantum Corporation further declare under penalty of perjury that the matters set forth in the foregoing Amended and Restated Certificate of Designation are true and correct of my own knowledge.

Executed at Milpitas, California on _____, 1998.

_____

AGREEMENT AND PLAN OF REORGANIZATION

BY AND AMONG

QUANTUM CORPORATION,

QUICK ACQUISITION CORPORATION

AND

ATL PRODUCTS, INC.

May 18, 1998

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AGREEMENT AND PLAN OF REORGANIZATION

This AGREEMENT AND PLAN OF REORGANIZATION is made and entered into as of May 18, 1998, among Quantum Corporation, a Delaware corporation ("Parent"), Quick Acquisition Corporation, a Delaware corporation and a wholly-owned subsidiary of Parent ("Merger Sub"), and ATL Products, Inc., a Delaware corporation ("Company").

RECITALS

A. Upon the terms and subject to the conditions of this Agreement (as defined in Section 1.2 below) and in accordance with the Delaware General Corporation Law ("Delaware Law"), Parent and Company intend to enter into a

business combination transaction.

B. The Board of Directors of Company (i) has determined that the Merger (as defined in Section 1.1) is consistent with and in furtherance of the long-term business strategy of Company and fair to, and in the best interests of, Company and its stockholders, (ii) has approved this Agreement, the Merger and the other transactions contemplated by this Agreement and (iii) has determined to recommend that the stockholders of Company adopt and approve this Agreement and approve the Merger.

C. Concurrently with the execution of this Agreement, and as a condition and inducement to Parent's willingness to enter into this Agreement, certain affiliates of Company are entering into Voting Agreements in substantially the form attached hereto as Exhibit A (the "Company Voting Agreements").

E. The parties intend, by executing this Agreement, to adopt a plan of reorganization within the meaning of Section 368 of the Internal Revenue Code of 1986, as amended (the "Code").

F. It is also intended by the parties hereto that the Merger shall be treated as a purchase for accounting purposes.

NOW, THEREFORE, in consideration of the covenants, promises and representations set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

ARTICLE I
THE MERGER

I.1 The Merger. At the Effective Time (as defined in Section 1.2) and subject to and upon the terms and conditions of this Agreement and the applicable provisions of Delaware Law, Merger Sub shall be merged with and into Company (the "Merger"), the separate corporate existence of Merger Sub shall cease and Company shall continue as the surviving corporation. Company as the surviving corporation after the Merger is hereinafter sometimes referred to as the "Surviving Corporation."

I.2 Effective Time; Closing. Subject to the provisions of this Agreement, the parties hereto shall cause the Merger to be consummated by filing a Certificate of Merger with the Secretary of State of the State of Delaware in accordance with the relevant provisions of Delaware Law (the "Certificate of Merger") (the time of such filing (or such later time as may be agreed in writing by Company and Parent and specified in the Certificate of Merger) being the "Effective Time") as soon as practicable on or after the Closing Date (as herein defined). Unless the context otherwise requires, the term "Agreement" as used herein refers collectively to this Agreement and Plan of Reorganization and the Certificate of Merger. The closing of the Merger (the "Closing") shall take place at the offices of Wilson Sonsini Goodrich & Rosati, Professional Corporation, at a time and date to be specified by the parties, which shall be no later than the second business day after the satisfaction or waiver of the conditions set forth in Article VI, or at such other time, date and location as the parties hereto agree in writing (the "Closing Date").

I.3 Effect of the Merger. At the Effective Time, the effect of the Merger shall be as provided in this Agreement and the applicable provisions of Delaware Law. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time all the property, rights, privileges, powers and franchises of Company and Merger Sub shall vest in the Surviving Corporation, and all debts, liabilities and duties of Company and Merger Sub shall become the debts, liabilities and duties of the Surviving Corporation.

I.4 Certificate of Incorporation; Bylaws.

(a) At the Effective Time, the Certificate of Incorporation of Merger Sub, as in effect immediately prior to the Effective Time, shall be the Certificate of Incorporation of the Surviving Corporation until thereafter amended as provided by law and such Certificate of Incorporation of the Surviving Corporation; provided, however, that at the Effective Time the Certificate of Incorporation of the Surviving Corporation shall be amended so that the name of the Surviving Corporation shall be "ATL Products, Inc." The Certificate of Incorporation of the Surviving Corporation shall conform to the requirements set forth in Section 5.10.

(b) The Bylaws of Merger Sub, as in effect immediately prior to the Effective Time, shall be, at the Effective Time, the Bylaws of the Surviving Corporation until thereafter amended. The Bylaws of the Surviving Corporation shall conform to the requirements set forth in Section 5.10.

I.5 Directors and Officers. The initial directors of the Surviving Corporation shall be the directors of Merger Sub immediately prior to the

Effective Time, until their respective successors are duly elected or appointed and qualified. The initial officers of the Surviving Corporation shall be the officers of Merger Sub immediately prior to the Effective Time, until their respective successors are duly appointed.

I.6 Effect on Capital Stock. At the Effective Time, by virtue of the Merger and without any action on the part of Merger Sub, Company or the holders of any of the following securities:

(a) Conversion of Company Common Stock. Each share of Class A Common Stock, $0.0001 par value per share, of Company (the "Company Class A Stock") and Class B Common Stock, $0.0001 par value per share, of Company (the "Company Class B Stock" and collectively with the Company Class A Stock, the "Company Common Stock") (including, with respect to each such share of Company Common Stock, the associated Rights (as defined in that certain Rights Agreement (the "Company Rights Plan") dated as of March 11, 1998, between Company and BankBoston, N.A., as Rights Agent) issued and outstanding immediately prior to the Effective Time, other than any shares of Company Common Stock to be canceled pursuant to Section 1.6(b), will be canceled and extinguished and automatically converted (subject to Sections 1.6(e) and (f)) into the right to receive that number of shares of Common Stock of Parent (the "Parent Common Stock") equal to the quotient determined by dividing (i) $29.00 by (ii) the Parent Deemed Value (as defined below) (the "Exchange Ratio") upon surrender of the certificate representing such share of Company Common Stock in the manner provided in Section 1.7 (or in the case of a lost, stolen or destroyed certificate, upon delivery of an affidavit (and bond, if required) in the manner provided in Section 1.9). For purposes of this Agreement, "Parent Deemed Value" shall mean the average closing price of Parent Common Stock as reported on the Nasdaq National Market System ("Nasdaq") for the period consisting of the 45 trading days ending on and including the fourth trading day prior to the date of the Company Stockholders' Meeting (as defined in Section 2.17) at which the Merger is approved (such 45-day period to be referred to hereinafter as the "Pricing Period"); provided, however, that the Parent Deemed Value shall be subject to adjustment pursuant to Section 1.6(g) below.

(b) Cancellation of Parent-Owned Stock. Each share of Company Common Stock held by Company or owned by Merger Sub, Parent or any direct or indirect wholly-owned subsidiary of Company or of Parent immediately prior to the Effective Time shall be canceled and extinguished without any conversion thereof.

(c) Stock Options. At the Effective Time, all options to purchase Company Common Stock then outstanding under Company's 1996 Stock Incentive Plan and the Company's 1997 Stock Incentive Plan (collectively, the "Company Stock Option Plans") shall be assumed by Parent in accordance with Section 5.8 hereof.

(d) Capital Stock of Merger Sub. Each share of Common Stock, $0.0001 par value per share, of Merger Sub (the "Merger Sub Common Stock") issued and outstanding immediately prior to the Effective Time shall be converted into one validly issued, fully paid and nonassessable share of Common Stock, $0.0001 par value per share, of the Surviving Corporation. Each certificate evidencing ownership of shares of Merger Sub Common Stock shall evidence ownership of such shares of capital stock of the Surviving Corporation.

(e) Adjustments to Exchange Ratio. The Exchange Ratio shall be adjusted to reflect appropriately the effect of any stock split, reverse stock split, stock dividend (including any dividend or distribution of securities convertible into Parent Common Stock or Company Common Stock),

reorganization, recapitalization, reclassification or other like change with respect to Parent Common Stock or Company Common Stock occurring on or after the date hereof and prior to the Effective Time.

(f) Fractional Shares. No fraction of a share of Parent Common Stock will be issued by virtue of the Merger, but in lieu thereof each holder of shares of Company Common Stock who would otherwise be entitled to a fraction of a share of Parent Common Stock (after aggregating all fractional shares of Parent Common Stock that otherwise would be received by such holder) shall receive from Parent an amount of cash (rounded to the nearest whole cent) equal to the product of (i) such fraction, multiplied by (ii) the Parent Deemed Value.

(g) Adjustment to Parent Deemed Value. Subject to the provisions below, the Parent Deemed Value shall be reduced by an amount equal to 50% of the excess, if any, of the Interim Price over the Adjusted Base Price where, for purposes of such calculation, (i) the Interim Price shall be equal to the average closing price of Parent Common Stock as reported on Nasdaq for the five (5) trading days beginning upon the commencement of the Pricing Period (as

defined in Section 1.6(a)) (the "Interim Period") and (ii) the Adjusted Base Price shall be equal to the average closing price of Parent Common Stock as reported on Nasdaq for the five (5) trading days ending on and including May 18, 1998 (such average closing price to be referred to hereinafter as the "Unadjusted Base Price", and such five-day period referred to hereinafter as the "Base Period") increased by the greater of (v) the percentage by which the average HDD Index (as defined below) for the Interim Period exceeds the average of the HDD Index for the Base Period or (w) the percentage by which the average of the Nasdaq Composite Index for the Interim Period exceeds the average of the Nasdaq Composite Index for the Base Period; provided, however, that notwithstanding the foregoing, no adjustment shall be made to the Parent Deemed Value (x) if the Adjusted Base Price is greater than or equal to the Interim Price, (y) if the Unadjusted Base Price is greater than or equal to the Parent Deemed Value (as calculated prior to any adjustment pursuant to this Section 1.6(g)) or (z) to the extent that any adjustment to the Parent Deemed Value pursuant to this Section 1.6(g) would cause such Parent Deemed Value to be lower than the Unadjusted Base Price. The "HDD Index" for any period shall equal the sum of the daily closing sale prices per share of Seagate Technology Inc. and Western Digital Corp.

I.7 Surrender of Certificates.

(a) Exchange Agent. Parent shall select a bank or trust company reasonably acceptable to Company to act as the exchange agent (the "Exchange Agent") in the Merger.

(b) Parent to Provide Common Stock. Promptly after the Effective Time, Parent shall make available to the Exchange Agent for exchange in accordance with this Article I, the shares of Parent Common Stock issuable pursuant to Section 1.6 in exchange for outstanding shares of Company Common Stock, and cash in an amount sufficient for payment in lieu of fractional shares pursuant to Section 1.6(f) and any dividends or distributions to which holders of shares of Company Common Stock may be entitled pursuant to Section 1.7(d).

(c) Exchange Procedures. Promptly after the Effective Time, Parent shall cause the Exchange Agent to mail to each holder of record (as of the Effective Time) of a certificate or certificates (the "Certificates"), which immediately prior to the Effective Time represented outstanding shares of Company Common Stock whose shares were converted into shares of Parent Common Stock pursuant to Section 1.6, cash in lieu of any fractional shares pursuant to Section 1.6(f) and any dividends or other distributions pursuant to Section 1.7(d), (i) a letter of transmittal in customary form (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Exchange Agent and shall contain such other provisions as Parent may reasonably specify) and (ii) instructions for use in effecting the surrender of the Certificates in exchange for certificates representing shares of Parent Common Stock, cash in lieu of any fractional shares pursuant to Section 1.6(f) and any dividends or other distributions pursuant to Section 1.7(d). Upon surrender of Certificates for cancellation to the Exchange Agent or to such other agent or agents as may be appointed by Parent, together with such letter of transmittal, duly completed and validly executed in accordance with the instructions thereto, the holders of such Certificates shall be entitled to receive in exchange therefor certificates representing the number of whole shares of Parent Common Stock into which their shares of Company Common Stock were converted at the Effective Time, payment in lieu of fractional shares which such holders have the right to receive pursuant to Section 1.6(f) and any dividends or distributions payable pursuant to Section 1.7(d), and the Certificates so surrendered shall forthwith be canceled. Until so surrendered, outstanding Certificates will be deemed from and after the Effective Time, for all corporate purposes, subject to Section 1.7(d) as to the payment of dividends, to evidence only the ownership of the number of full shares of Parent Common Stock into which such shares of Company Common Stock shall have been so converted and the right to receive an amount in cash in lieu of the issuance of any fractional shares in accordance with Section 1.6(f) and any dividends or distributions payable pursuant to Section 1.7(d).

(d) Distributions With Respect to Unexchanged Shares. No dividends or other distributions declared or made after the date of this Agreement with respect to Parent Common Stock with a record date after the Effective Time will be paid to the holders of any unsurrendered Certificates with respect to the shares of Parent Common Stock represented thereby until the holders of record of such Certificates shall surrender such Certificates. Subject to applicable law, following surrender of any such Certificates, the Exchange Agent shall deliver to the record holders thereof, without interest, certificates representing whole shares of Parent Common Stock issued in exchange therefor along with payment in lieu of fractional shares pursuant to Section 1.6(f) hereof and the amount of any such dividends or other distributions with a record date after the Effective Time payable with respect to such whole shares of Parent Common Stock.

(e) Transfers of Ownership. If certificates representing shares of Parent Common Stock are to be issued in a name other than that in

which the Certificates surrendered in exchange therefor are registered, it will be a condition of the issuance thereof that the Certificates so surrendered will be properly endorsed and otherwise in proper form for transfer and that the persons requesting such exchange will have paid to Parent or any agent designated by it any transfer or other taxes required by reason of the issuance of certificates representing shares of Parent Common Stock in any name other

than that of the registered holder of the Certificates surrendered, or established to the satisfaction of Parent or any agent designated by it that such tax has been paid or is not payable.

(f) No Liability. Notwithstanding anything to the contrary in this Section 1.7, neither the Exchange Agent, Parent, the Surviving Corporation nor any party hereto shall be liable to a holder of shares of Parent Common Stock or Company Common Stock for any amount properly paid to a public official pursuant to any applicable abandoned property, escheat or similar law.

I.8 No Further Ownership Rights in Company Common Stock. All shares of Parent Common Stock issued in accordance with the terms hereof (including any cash paid in respect thereof pursuant to Section 1.6(f) and 1.7(d)) shall be deemed to have been issued in full satisfaction of all rights pertaining to such shares of Company Common Stock, and there shall be no further registration of transfers on the records of the Surviving Corporation of shares of Company Common Stock which were outstanding immediately prior to the Effective Time. If, after the Effective Time, Certificates are presented to the Surviving Corporation for any reason, they shall be canceled and exchanged as provided in this Article I.

I.9 Lost, Stolen or Destroyed Certificates. In the event that any Certificates shall have been lost, stolen or destroyed, the Exchange Agent shall issue in exchange for such lost, stolen or destroyed Certificates, upon the making of an affidavit of that fact by the holder thereof, certificates representing the shares of Parent Common Stock into which the shares of Company Common Stock represented by such Certificates were converted pursuant to Section 1.6, cash for fractional shares, if any, as may be required pursuant to Section 1.6(f) and any dividends or distributions payable pursuant to Section 1.7(d).

I.10 Tax and Accounting Consequences.

(a) It is intended by the parties hereto that the Merger shall constitute a reorganization within the meaning of Section 368 of the Code. The parties hereto adopt this Agreement as a "plan of reorganization" within the meaning of Sections 1.368-2(g) and 1.368-3(a) of the United States Income Tax Regulations.

(b) It is intended by the parties hereto that the Merger shall be treated as a purchase for accounting purposes.

I.11 Taking of Necessary Action; Further Action. If, at any time after the Effective Time, any further action is necessary or desirable to carry out the purposes of this Agreement and to vest the Surviving Corporation with full right, title and possession to all assets, property, rights, privileges, powers and franchises of Company and Merger Sub, the officers and directors of Company and Merger Sub will take all such lawful and necessary action. Parent shall cause Merger Sub to perform all of its obligations relating to this Agreement and the transactions contemplated thereby.

ARTICLE II
REPRESENTATIONS AND WARRANTIES OF COMPANY

Company represents and warrants to Parent and Merger Sub, subject to the exceptions (i) specifically disclosed in writing in the disclosure letter and (ii) referencing a specific representation supplied by Company to Parent (or, in the case where no specific reference to a representation is made, where such reference would be reasonably apparent from the context thereof), dated as of the date hereof and certified by a duly authorized officer of Company (the "Company Schedules"), as follows:

II.1 Organization of Company.

(a) Company and each of its subsidiaries (i) is a corporation or other legal entity duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is organized; (ii) has the corporate or other power and authority to own, lease and operate its assets and property and to carry on its business as now being conducted; and (iii) except as would not be material to Company, is duly qualified or licensed to do business in each jurisdiction where the character of the properties owned, leased or operated by it or the nature of its activities makes such qualification or licensing necessary.

(b) Company has delivered to Parent a true and complete list of all of Company's subsidiaries as of the date of this Agreement, indicating the jurisdiction of organization of each subsidiary and Company's equity interest therein.

(c) Company has delivered or made available to Parent a true and correct copy of the Certificate of Incorporation and Bylaws of Company and similar governing instruments of each of its subsidiaries, each as amended to date, and each such instrument is in full force and effect. Neither Company nor any of its subsidiaries is in violation of any of the provisions of its Certificate of Incorporation or Bylaws or equivalent governing instruments.

II.2 Company Capital Structure. The authorized capital stock of Company consists of 45,000,000 shares of Class A Common Stock, $0.0001 par value per share, of which there were 9,655,000 shares issued and outstanding as of May 18, 1998, and 5,000,000 shares of Class B Common Stock, $0.0001 par value per share, of which no shares are issued or outstanding. All outstanding shares of Company Common Stock are duly authorized, validly issued, fully paid and nonassessable and are not subject to preemptive rights created by statute, the Certificate of Incorporation or Bylaws of Company or any agreement or document to which Company is a party or by which it is bound. As of May 18, 1998, Company had reserved an aggregate of 879,000 shares of Class A Common Stock and 200,000 shares of Class B Common Stock, net of exercises, for issuance pursuant to the Company Stock Option Plans. As of May 18, 1998, there were options outstanding to purchase an aggregate of 848,500 shares of Class A Common Stock and 191,750 shares of Class B Common Stock pursuant to the Company Stock Option Plans. All shares of Company Common Stock subject to issuance as aforesaid, upon issuance on the terms and conditions specified in the instruments pursuant to which they are

issuable, would be duly authorized, validly issued, fully paid and nonassessable. The Company Schedules list for each person who held options to acquire shares of Company Common Stock as of May 18, 1998, the name of the holder of such option, the exercise price of such option, the number of shares as to which such option had vested at such date, the vesting schedule for such option and whether the exercisability of such option will be accelerated in any way by the transactions contemplated by this Agreement, and indicates the extent of acceleration, if any.

II.3 Obligations With Respect to Capital Stock. Except as set forth in Section 2.2, there are no equity securities, partnership interests or similar ownership interests of any class of Company equity security, or any securities exchangeable or convertible into or exercisable for such equity securities, partnership interests or similar ownership interests, issued, reserved for issuance or outstanding. Except for securities Company owns free and clear of all claims and encumbrances, directly or indirectly through one or more subsidiaries, and except for shares of capital stock or other similar ownership interests of certain subsidiaries of Company that are owned by certain nominee equity holders as required by the applicable law of the jurisdiction of organization of such subsidiaries, as of the date of this Agreement, there are no equity securities, partnership interests or similar ownership interests of any class of equity security of any subsidiary of Company, or any security exchangeable or convertible into or exercisable for such equity securities, partnership interests or similar ownership interests, issued, reserved for issuance or outstanding. Except as set forth in Section 2.2, there are no subscriptions, options, warrants, equity securities, partnership interests or similar ownership interests, calls, rights (including preemptive rights), commitments or agreements of any character to which Company or any of its subsidiaries is a party or by which it is bound obligating Company or any of its subsidiaries to issue, deliver or sell, or cause to be issued, delivered or sold, or repurchase, redeem or otherwise acquire, or cause the repurchase, redemption or acquisition of, any shares of capital stock, partnership interests or similar ownership interests of Company or any of its subsidiaries or obligating Company or any of its subsidiaries to grant, extend, accelerate the vesting of or enter into any such subscription, option, warrant, equity security, call, right, commitment or agreement. As of the date of this Agreement, except as contemplated by this Agreement, there are no registration rights and there is no voting trust, proxy, rights plan, antitakeover plan or other agreement or understanding to which Company is a party or by which it is bound with respect to any equity security of any class of Company or with respect to any equity security, partnership interest or similar ownership interest of any class of any of its subsidiaries. Stockholders of Company will not be entitled to dissenters' rights under applicable state law in connection with the Merger.

II.4 Authority.

(a) Company and each subsidiary has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby and thereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been

duly authorized by all necessary corporate action on the part of Company, subject only to the approval and adoption of this Agreement and the approval of the Merger by Company's stockholders and the filing of the Certificate of Merger pursuant to Delaware Law. A vote of the holders of a majority

of the outstanding shares of the Company Class A Stock is sufficient for Company's stockholders to approve and adopt this Agreement and approve the Merger. This Agreement has been duly executed and delivered by Company and, assuming its due authorization, execution and delivery by Parent and Merger Sub, constitutes a valid and binding obligation of Company, enforceable against Company in accordance with its terms, except as enforceability may be limited by bankruptcy and other similar laws and general principles of equity. The execution and delivery of this Agreement by Company do not, and the performance of this Agreement by Company will not, (i) conflict with or violate the Certificate of Incorporation or Bylaws of Company or the equivalent organizational documents of any of its subsidiaries, (ii) subject to obtaining the approval and adoption of this Agreement and the approval of the Merger by Company's stockholders as contemplated in Section 5.2 and compliance with the requirements set forth in Section 2.4(b) below, conflict with or violate any law, rule, regulation, order, judgment or decree applicable to Company or any of its subsidiaries or by which Company or any of its subsidiaries or any of their respective properties is bound or affected, or (iii) result in any material breach of or constitute a material default (or an event that with notice or lapse of time or both would become a material default) under, or impair Company's rights or alter the rights or obligations of any third party under, or give to others any rights of termination, amendment, acceleration or cancellation of, or result in the creation of a material lien or encumbrance on any of the material properties or assets of Company or any of its subsidiaries pursuant to, any material note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise, concession, or other instrument or obligation to which Company or any of its subsidiaries is a party or by which Company or any of its subsidiaries or its or any of their respective assets are bound or affected. The Company Schedules list all consents, waivers and approvals under any of Company's or any of its subsidiaries' agreements, contracts, licenses or leases required to be obtained in connection with the consummation of the transactions contemplated hereby, which, if individually or in the aggregate not obtained, would result in a material loss of benefits to Company, Parent or the Surviving Corporation as a result of the Merger.

(b) No consent, approval, order or authorization of, or registration, declaration or filing with any court, administrative agency or commission or other governmental authority or instrumentality, foreign or domestic ("Governmental Entity"), is required to be obtained or made by Company in connection with the execution and delivery of this Agreement or the consummation of the Merger, except for (i) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware, (ii) the filing of the Proxy Statement/Prospectus (as defined in Section 2.18) with the Securities and Exchange Commission ("SEC") in accordance with the Securities Exchange Act of 1934, as amended (the "Exchange Act"), (iii) such consents, approvals, orders, authorizations, registrations, declarations and filings as may be required under applicable federal, foreign and state securities (or related) laws and the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), and the securities or antitrust laws of any foreign country, and (iv) such other consents, authorizations, filings, approvals and registrations which if not obtained or made would not be material to Company or Parent or have a material adverse effect on the ability of the parties hereto to consummate the Merger.

II.5 SEC Filings; Company Financial Statements.

(a) Company has filed all forms, reports and documents required to be filed by Company with the SEC since March 13, 1997 and has made available to Parent such forms, reports and documents in the form filed with the SEC. All such required forms, reports and documents (including those that Company may file subsequent to the date hereof) are referred to herein as the "Company SEC Reports." As of their respective dates, the Company SEC Reports (i) were prepared in accordance with the requirements of the Securities Act of 1933, as amended (the "Securities Act"), or the Exchange Act, as the case may be, and the rules and regulations of the SEC thereunder applicable to such Company SEC Reports and (ii) did not at the time they were filed (or if amended by a filing prior to the date of this Agreement, then on the date of such filing) contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. None of Company's subsidiaries is required to file any forms, reports or other documents with the SEC.

(b) Each of the consolidated financial statements (including, in each case, any related notes thereto) contained in the Company SEC Reports

(the "Company Financials"), including each Company SEC Reports filed after the date hereof until the Closing, (i) complied as to form in all material respects with the published rules and regulations of the SEC with respect thereto, (ii) was prepared in accordance with United States generally accepted accounting principles ("GAAP") applied on a consistent basis throughout the periods involved (except as may be indicated in the notes thereto or, in the case of unaudited interim financial statements, as may be permitted by the SEC on Form 10-Q under the Exchange Act) and (iii) fairly presented the consolidated financial position of Company and its subsidiaries as at the respective dates thereof and the consolidated results of Company's operations and cash flows for the periods indicated, except that the unaudited interim financial statements may not contain footnotes and were or are subject to normal and recurring year-end adjustments. The balance sheet of Company contained in Company SEC Reports as of December 31, 1997 is hereinafter referred to as the "Company Balance Sheet." Except as disclosed in the Company Financials, since the date of the Company Balance Sheet neither Company nor any of its subsidiaries has any liabilities required under GAAP to be set forth on a balance sheet (absolute, accrued, contingent or otherwise) which are, individually or in the aggregate, material to the business, results of operations or financial condition of Company and its subsidiaries taken as a whole, except for liabilities incurred since the date of the Company Balance Sheet in the ordinary course of business consistent with past practices.

(c) Company has heretofore furnished to Parent a complete and correct copy of any amendments or modifications, which have not yet been filed with the SEC but which are required to be filed, to agreements, documents or other instruments which previously had been filed by Company with the SEC pursuant to the Securities Act or the Exchange Act.

II.6 Absence of Certain Changes or Events. Since the date of the Company Balance Sheet there has not been: (i) any Material Adverse Effect (as defined in Section 8.3(c)) on Company, (ii) any declaration, setting aside or payment of any dividend on, or other distribution (whether in cash, stock or property) in respect of, any of Company's or any of its subsidiaries' capital stock, or any purchase,

redemption or other acquisition by Company of any of Company's capital stock or any other securities of Company or its subsidiaries or any options, warrants, calls or rights to acquire any such shares or other securities except for repurchases from employees following their termination pursuant to the terms of their pre-existing stock option or purchase agreements, (iii) any split, combination or reclassification of any of Company's or any of its subsidiaries' capital stock, (iv) any granting by Company or any of its subsidiaries of any increase in compensation or fringe benefits, except for normal increases of cash compensation in the ordinary course of business consistent with past practice, or any payment by Company or any of its subsidiaries of any bonus, except for bonuses made in the ordinary course of business consistent with past practice, or any granting by Company or any of its subsidiaries of any increase in severance or termination pay or any entry by Company or any of its subsidiaries into any currently effective employment, severance, termination or indemnification agreement or any agreement the benefits of which are contingent or the terms of which are materially altered upon the occurrence of a transaction involving Company of the nature contemplated hereby, (v) entry by Company or any of its subsidiaries into any licensing or other agreement with regard to the acquisition or disposition of any material Intellectual Property (as defined in Section 2.9) other than licenses in the ordinary course of business consistent with past practice or any amendment or consent with respect to any licensing agreement filed or required to be filed by Company with the SEC, (vi) any material change by Company in its accounting methods, principles or practices, except as required by concurrent changes in GAAP, or (vii) any revaluation by Company of any of its assets, including, without limitation, writing down the value of capitalized inventory or writing off notes or accounts receivable other than in the ordinary course of business.

II.7 Taxes.

(a) Definition of Taxes. For the purposes of this Agreement, "Tax" or "Taxes" refers to any and all federal, state, local and foreign taxes, assessments and other governmental charges, duties, impositions and liabilities relating to taxes, including taxes based upon or measured by gross receipts, income, profits, sales, use and occupation, and value added, ad valorem, transfer, franchise, withholding, payroll, recapture, employment, excise and property taxes, together with all interest, penalties and additions imposed with respect to such amounts and any obligations under any agreements or arrangements with any other person with respect to such amounts and including any liability for taxes of a predecessor entity.

(b) Tax Returns and Audits.

(i) Company and each of its subsidiaries have timely filed all federal, state, local and foreign returns, estimates, information statements and reports ("Returns") relating to Taxes required to be filed by

Company and each of its subsidiaries with any Tax authority, and all such returns are true and correct in all material respects.

(ii) Company and each of its subsidiaries as of the Effective Time will have withheld with respect to its employees all federal and state income taxes, Taxes pursuant to the Federal

Insurance Contribution Act ("FICA"), Taxes pursuant to the Federal Unemployment Tax Act ("FUTA") and other Taxes required to be withheld.

(iii) Neither Company nor any of its subsidiaries has been delinquent in the payment of any Tax nor is there any Tax deficiency outstanding, proposed or assessed against Company or any of its subsidiaries, nor has Company or any of its subsidiaries executed any unexpired waiver of any statute of limitations on or extending the period for the assessment or collection of any Tax.

(iv) No audit or other examination of any Return of Company or any of its subsidiaries by any Tax authority is presently in progress, nor has Company or any of its subsidiaries been notified of any request for such an audit or other examination.

(v) No adjustment relating to any Returns filed by Company or any of its subsidiaries has been proposed in writing formally or informally by any Tax authority to Company or any of its subsidiaries or any representative thereof.

(vi) Neither Company nor any of its subsidiaries has any liability for unpaid Taxes which has not been accrued for or reserved on the Company Balance Sheet, whether asserted or unasserted, contingent or otherwise, which is material to Company, other than any liability for unpaid Taxes that may have accrued since the date of the Company Balance Sheet in connection with the operation of the business of Company and its subsidiaries in the ordinary course.

(vii) There is no contract, agreement, plan or arrangement to which Company is a party as of the date of this Agreement, including but not limited to the provisions of this Agreement, covering any employee or former employee of Company or any of its subsidiaries that, individually or collectively, could give rise to the payment of any amount that would not be deductible pursuant to Sections 280G, 404 or 162(m) of the Code.

(viii) Neither Company nor any of its subsidiaries has filed any consent agreement under Section 341(f) of the Code or agreed to have Section 341(f)(2) of the Code apply to any disposition of a subsection (f) asset (as defined in Section 341(f)(4) of the Code) owned by Company.

(ix) Except as set forth on the Company Schedules, neither Company nor any of its subsidiaries is party to any tax-sharing, tax indemnity or tax allocation agreement or arrangement and neither Company nor any of its subsidiaries has any liability or obligation under any such tax-sharing, tax indemnity or tax allocation agreement or arrangement. No liability (or any reasonable claim of liability) shall arise under any tax sharing, tax indemnity or tax allocation agreement or arrangement (including under any such agreement or arrangement set forth on the Company Schedules) as a result of the Merger.

(x) Except as may be required as a result of the Merger, Company and its subsidiaries have not been and will not be required to include any adjustment in Taxable income for any Tax period (or portion thereof) pursuant to Section 481 or Section 263A of the Code or any comparable provision under state or foreign Tax laws as a result of transactions, events or accounting methods employed prior to the Closing.

(xi) None of Company's or its subsidiaries' assets are tax exempt use property within the meaning of Section 168(h) of the Code.

(xii) The Company Schedules list (A) any foreign Tax holidays, (B) any intercompany transfer pricing agreements, or other arrangements that have been established by Company or any of its subsidiaries with any Tax authority and (C) any expatriate programs or policies affecting Company or any of its subsidiaries.

II.8 Title to Properties; Absence of Liens and Encumbrances.

(a) The Company Schedules list the real property interests owned by Company as of the date of this Agreement. The Company Schedules list all real property leases to which Company is a party as of the date of this Agreement and each amendment thereto that is in effect as of the date of this Agreement. All such current leases are in full force and effect, are valid and

effective in accordance with their respective terms, and there is not, under any of such leases, any existing default or event of default (or event which with notice or lapse of time, or both, would constitute a default) that would give rise to a claim against the Company in an amount greater than $50,000.

(b) Company has good and valid title to, or, in the case of leased properties and assets, valid leasehold interests in, all of its tangible properties and assets, real, personal and mixed, used or held for use in its business, free and clear of any liens, pledges, charges, claims, security interests or other encumbrances of any sort ("Liens"), except as reflected in the Company Financials and except for liens for taxes not yet due and payable and such Liens or other imperfections of title and encumbrances, if any, which are not material in character, amount or extent, and which do not materially detract from the value, or materially interfere with the present use, of the property subject thereto or affected thereby.

II.9 Intellectual Property. For the purposes of this Agreement, the following terms have the following definitions:

"Intellectual Property" shall mean any or all of the following and all rights in, arising out of, or associated therewith: (i) all United States, international and foreign patents and applications therefor and all reissues, divisions, renewals, extensions, provisionals, continuations and continuations-in-part thereof; (ii) all inventions (whether patentable or not), invention disclosures, improvements, trade secrets, proprietary information, know how, technology, technical data and customer lists, and all documentation relating to any of the foregoing; (iii) all copyrights, copyrights registrations and applications

therefor, and all other rights corresponding thereto throughout the world; (iv) all industrial designs and any registrations and applications therefor throughout the world; (v) all trade names, logos, common law trademarks and service marks, trademark and service mark registrations and applications therefor throughout the world; (vi) all databases and data collections and all rights therein throughout the world; (vii) all moral and economic rights of authors and inventors, however denominated, throughout the world, and (viii) any similar or equivalent rights to any of the foregoing anywhere in the world.

"Company Intellectual Property" shall mean any Intellectual Property that is owned by, or exclusively licensed to, Company.

"Registered Intellectual Property" means all United States, international and foreign: (i) patents and patent applications (including provisional applications); (ii) registered trademarks, applications to register trademarks, intent-to-use applications, or other registrations or applications related to trademarks; (iii) registered copyrights and applications for copyright registration; and (iv) any other Intellectual Property that is the subject of an application, certificate, filing, registration or other document issued, filed with, or recorded by any state, government or other public legal authority.

"Company Registered Intellectual Property" means all of the Registered Intellectual Property owned by, or filed in the name of, Company.

(a) No material Company Intellectual Property or product or service of Company is subject to any proceeding or outstanding decree, order, judgment, agreement, or stipulation restricting in any manner the use, transfer, or licensing thereof by Company, or which may affect the validity, use or enforceability of such Company Intellectual Property.

(b) Each material item of Company Registered Intellectual Property is valid and subsisting, all necessary registration, maintenance and renewal fees currently due in connection with such Company Registered Intellectual Property have been paid and all necessary documents, recordations and certificates in connection with such Company Registered Intellectual Property have been filed with the relevant patent, copyright, trademark or other authorities in the United States or foreign jurisdictions, as the case may be, for the purposes of maintaining such Company Registered Intellectual Property.

(c) Company owns and has good and exclusive title to, or has license (sufficient for the conduct of its business as currently conducted and as proposed by Company to be conducted) to, each material item of Company Intellectual Property free and clear of any lien or encumbrance (excluding

licenses and related restrictions); and Company is the exclusive owner of all trademarks and trade names used in connection with the operation or conduct of the business of Company, including the sale of any products or the provision of any services by Company.

(d) Company owns exclusively, and has good title to, all copyrighted works developed by Company or which Company otherwise expressly purports to own.

(e) To the extent that any material Intellectual Property has been developed or created by a third party for Company, Company has a written agreement with such third party with respect thereto and Company thereby either (i) has obtained ownership of, and is the exclusive owner of, or (ii) has obtained a license (sufficient for the conduct of its business as currently conducted and as proposed to be conducted) to all such third party's Intellectual Property in such work, material or invention by operation of law or by valid agreement, to the fullest extent it is legally possible to do so.

(f) Company has not transferred ownership of, or granted any exclusive license with respect to, any Intellectual Property that is or was material Company Intellectual Property, to any third party.

(g) The Company Schedules list all material contracts, licenses and agreements to which Company is a party (i) with respect to Company Intellectual Property licensed or transferred to any third party (other than end-user licenses in the ordinary course); or (ii) pursuant to which a third party has licensed or transferred any material Intellectual Property to Company.

(h) All material contracts, licenses and agreements relating to the Company Intellectual Property are in full force and effect. The consummation of the transactions contemplated by this Agreement will neither violate nor result in the breach, modification, cancellation, termination, or suspension of such contracts, licenses and agreements. Company is in material compliance with, and has not materially breached any term any of such contracts, licenses and agreements and, to the knowledge of Company, all other parties to such contracts, licenses and agreements are in compliance with, and have not materially breached any term of, such contracts, licenses and agreements. Following the Closing Date, the Surviving Corporation will be permitted to exercise all of Company's rights under such contracts, licenses and agreements to the same extent Company would have been able to had the transactions contemplated by this Agreement not occurred and without the payment of any additional amounts or consideration other than ongoing fees, royalties or payments which Company would otherwise be required to pay.

(i) The operation of the business of Company as such business currently is conducted, including Company's design, development, manufacture, marketing and sale of the products or services of Company (including with respect to products currently under development) has not, does not and will not infringe or misappropriate the Intellectual Property of any third party (provided that with respect to patent rights, such representation is limited to Company's knowledge) or, to its knowledge, constitute unfair competition or trade practices under the laws of any jurisdiction.

(j) Company has not received actual notice from any third party that the operation of the business of Company or any act, product or service of Company, infringes or misappropriates the

Intellectual Property of any third party or constitutes unfair competition or trade practices under the laws of any jurisdiction.

(k) To the knowledge of Company, no person has or is infringing or misappropriating any Company Intellectual Property.

(l) Company has taken reasonable steps to protect Company's rights in Company's confidential information and trade secrets that it wishes to protect or any trade secrets or confidential information of third parties provided to Company, and, without limiting the foregoing, Company has and enforces a policy requiring each employee and contractor to execute a proprietary information/confidentiality agreement substantially in the form provided to Parent and all current and former employees and contractors of Company have executed such an agreement, except where the failure to do so is not reasonably expected to be material to Company.

II.10 Compliance; Permits; Restrictions.

(a) Neither Company nor any of its subsidiaries is, in any material respect, in conflict with, or in default or in violation of (i) any law, rule, regulation, order, judgment or decree applicable to Company or any of its subsidiaries or by which Company or any of its subsidiaries or any of their respective properties is bound or affected, or (ii) any material note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or

other instrument or obligation to which Company or any of its subsidiaries is a party or by which Company or any of its subsidiaries or its or any of their respective properties is bound or affected, except for conflicts, violations and defaults that (individually or in the aggregate) would not cause Company to lose any material benefit or incur any material liability. No investigation or review by any Governmental Entity is pending or, to Company's knowledge, has been threatened in a writing delivered to Company against Company or any of its subsidiaries, nor, to Company's knowledge, has any Governmental Entity indicated an intention to conduct an investigation of Company or any of its subsidiaries. There is no material agreement, judgment, injunction, order or decree binding upon Company or any of its subsidiaries which has or could reasonably be expected to have the effect of prohibiting or materially impairing any business practice of Company or any of its subsidiaries, any acquisition of material property by Company or any of its subsidiaries or the conduct of business by Company as currently conducted.

(b) Company and its subsidiaries hold, to the extent legally required, all permits, licenses, variances, exemptions, orders and approvals from governmental authorities that are material to and required for the operation of the business of Company as currently conducted (collectively, the "Company Permits"). Company and its subsidiaries are in compliance in all material respects with the terms of the Company Permits, except where the failure to be in compliance with the terms of the Company Permits would not be material to Company.

II.11 Litigation. There are no claims, suits, actions or proceedings pending or, to the knowledge of Company, threatened against, relating to or affecting Company or any of its subsidiaries, before any court, governmental department, commission, agency, instrumentality or authority, or any

arbitrator that seeks to restrain or enjoin the consummation of the transactions contemplated by this Agreement or which could reasonably be expected, either singularly or in the aggregate with all such claims, actions or proceedings, to have a material effect. No Governmental Entity has at any time challenged or questioned in a writing delivered to Company the legal right of Company to design, manufacture, offer or sell any of its products in the present manner or style thereof.

Company has never been subject to an audit, compliance review, investigation or like contract review by the GSA office of the Inspector General or other Governmental Entity or agent thereof in connection with any government contract (a "Government Audit"), to Company's knowledge no Government Audit is threatened or reasonably anticipated, and in the event of such Government Audit, to the knowledge of Company no basis exists for a finding of noncompliance with any material provision of any government contract or a refund of any amounts paid or owed by any Governmental Entity pursuant to such government contract. For each item disclosed in the Company Schedules pursuant to this Section 2.11 a true and complete copy of all correspondence and documentation with respect thereto has been provided to Parent.

II.12 Brokers' and Finders' Fees. Company has not incurred, nor will it incur, directly or indirectly, any liability for brokerage or finders' fees or agents' commissions or any similar charges in connection with this Agreement or any transaction contemplated hereby.

II.13 Employee Benefit Plans.

(a) Definitions. With the exception of the definition of "Affiliate" set forth in Section 2.13(a)(i) below (which definition shall apply only to this Section 2.13), for purposes of this Agreement, the following terms shall have the meanings set forth below:

(i) "Affiliate" shall mean any other person or entity under common control with Company within the meaning of Section 414(b), (c), (m) or (o) of the Code and the regulations issued thereunder;

(ii) "Company Employee Plan" shall mean any plan, program, policy, practice, contract, agreement or other arrangement providing for compensation, severance, termination pay, performance awards, stock or stock-related awards, fringe benefits or other employee benefits or remuneration of any kind, whether written or unwritten or otherwise, funded or unfunded, including without limitation, each "employee benefit plan," within the meaning of Section 3(3) of ERISA which is or has been maintained, contributed to, or required to be contributed to, by Company or any Affiliate for the benefit of any Employee

(iii) "COBRA" shall mean the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended

(iv) "DOL" shall mean the Department of Labor;

(v) "Employee" shall mean any current, former, or retired employee, officer, or director of Company or any Affiliate;

(vi) "Employee Agreement" shall mean each management, employment, severance, consulting, relocation, repatriation, expatriation, visas, work permit or similar agreement or contract between Company or any Affiliate and any Employee or consultant;

(vii) "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended;

(viii) "FMLA" shall mean the Family Medical Leave Act of 1993, as amended;

(ix) "International Employee Plan" shall mean each Company Employee Plan that has been adopted or maintained by Company, whether informally or formally, for the benefit of Employees outside the United States;

(x) "IRS" shall mean the Internal Revenue Service;

(xi) "Multiemployer Plan" shall mean any "Pension Plan" (as defined below) which is a "multiemployer plan," as defined in Section 3(37) of ERISA;

(xii) "PBGC" shall mean the Pension Benefit Guaranty Corporation; and

(xiii) "Pension Plan" shall mean each Company Employee Plan which is an "employee pension benefit plan," within the meaning of Section 3(2) of ERISA.

(b) Schedule. The Company Schedules contain an accurate and complete list of each Company Employee Plan and each material Employee Agreement. Company does not have any plan or commitment to establish any new Company Employee Plan, to modify any Company Employee Plan or Employee Agreement (except to the extent required by law or to conform any such Company Employee Plan or Employee Agreement to the requirements of any applicable law, in each case as previously disclosed to Parent in writing, or as required by this Agreement), or to enter into any Company Employee Plan or material Employee Agreement, nor does it have any intention or commitment to do any of the foregoing.

(c) Documents. Company has provided to Parent: (i) correct and complete copies of all documents embodying each Company Employee Plan and each Employee Agreement including all amendments thereto and written interpretations thereof; (ii) the most recent annual actuarial valuations, if any, prepared for each Company Employee Plan; (iii) the three (3) most recent annual reports (Form Series 5500 and all schedules and financial statements attached thereto), if any, required under ERISA or the Code in connection with each Company Employee Plan or related trust; (iv) if the Company Employee Plan is funded, the most recent annual and periodic accounting of Company

Employee Plan assets; (v) the most recent summary plan description together with the summary of material modifications thereto, if any, required under ERISA with respect to each Company Employee Plan; (vi) all IRS determination, opinion, notification and advisory letters, and rulings relating to Company Employee Plans and copies of all applications and correspondence to or from the IRS or the DOL with respect to any Company Employee Plan; (vii) all material written agreements and contracts relating to each Company Employee Plan, including, but not limited to, administrative service agreements, group annuity contracts and group insurance contracts; (viii) all communications material to any Employee or Employees relating to any Company Employee Plan and any proposed Company Employee Plans, in each case, relating to any amendments, terminations, establishments, increases or decreases in benefits, acceleration of payments or vesting schedules or other events which would result in any material liability to Company; (ix) all COBRA forms and related notices; and (x) all registration statements and prospectuses prepared in connection with each Company Employee Plan.

(d) Employee Plan Compliance. (i) Company has performed in all material respects all obligations required to be performed by it under, is not in material default or violation of, and has no knowledge of any default or violation by any other party to each Company Employee Plan, and each Company Employee Plan has been established and maintained in all material respects in accordance with its terms and in compliance with all applicable laws, statutes, orders, rules and regulations, including but not limited to ERISA or the Code; (ii) each Company Employee Plan intended to qualify under Section 401(a) of the Code and each trust intended to qualify under Section 501(a) of the Code has either received a favorable determination letter from the IRS with respect to each such Plan as to its qualified status under the Code, including all

amendments to the Code effected by the Tax Reform Act of 1986 and subsequent legislation, or has remaining a period of time under applicable Treasury regulations or IRS pronouncements in which to apply for such a determination letter and make any amendments necessary to obtain a favorable determination; (iii) to the Company's knowledge (following reasonable inquiry), no "prohibited transaction," within the meaning of Section 4975 of the Code or Sections 406 and 407 of ERISA, and not otherwise exempt under Section 408 of ERISA, has occurred with respect to any Company Employee Plan; (iv) there are no actions, suits or claims pending, or, to the knowledge of Company, threatened or reasonably anticipated (other than routine claims for benefits) against any Company Employee Plan or against the assets of any Company Employee Plan; (v) each Company Employee Plan can be amended, terminated or otherwise discontinued after the Effective Time in accordance with its terms, without liability to Parent, Company or any of its Affiliates (other than legally required payments in connection with such termination or amendment and ordinary administration expenses typically incurred in a termination event); (vi) there are no audits, inquiries or proceedings pending or, to the knowledge of Company or any Affiliates, threatened by the IRS or DOL with respect to any Company Employee Plan; and (vii) to the Company's knowledge (following reasonable inquiry), neither Company nor any Affiliate is subject to any penalty or tax with respect to any Company Employee Plan under Section 402(i) of ERISA or Sections 4975 through 4980 of the Code.

(e) Pension Plans. Company does not now, nor has it ever, maintained, established, sponsored, participated in, or contributed to, any Pension Plan which is subject to Title IV of ERISA or Section 412 of the Code.

(f) Multiemployer Plans. At no time has Company contributed to or been requested to contribute to any Multiemployer Plan.

(g) No Post-Employment Obligations. No Company Employee Plan provides, or has any liability to provide, retiree life insurance, retiree health or other retiree employee welfare benefits to any person for any reason, except as may be required by COBRA or other applicable statute, and Company has never represented, promised or contracted (whether in oral or written form) to any Employee (either individually or to Employees as a group) or any other person that such Employee(s) or other person would be provided with retiree life insurance, retiree health or other retiree employee welfare benefit, except to the extent required by statute.

(h) Neither Company nor any Affiliate has, prior to the Effective Time, and in any material respect, violated any of the health care continuation requirements of COBRA, the requirements of FMLA or any similar provisions of state law applicable to its Employees.

(i) Effect of Transaction

(i) The execution of this Agreement and the consummation of the transactions contemplated hereby will not (either alone or upon the occurrence of any additional or subsequent events) constitute an event under any Company Employee Plan, Employee Agreement, trust or loan that will or may result in any payment (whether of severance pay or otherwise), acceleration, forgiveness of indebtedness, vesting, distribution, increase in benefits or obligation to fund benefits with respect to any Employee.

(ii) No payment or benefit which will or may be made by Company or its Affiliates with respect to any Employee as a result of the transactions contemplated by this Agreement will be characterized as an "excess parachute payment," within the meaning of Section 280G(b)(1) of the Code.

(j) Employment Matters. Company: (i) is in compliance in all material respects with all applicable foreign, federal, state and local laws, rules and regulations respecting employment, employment practices, terms and conditions of employment and wages and hours, in each case, with respect to Employees; (ii) has withheld all amounts required by law or by agreement to be withheld from the wages, salaries and other payments to Employees; (iii) is not liable for any arrears of wages or any taxes or any penalty for failure to comply with any of the foregoing; and (iv) is not liable for any material payment to any trust or other fund or to any governmental or administrative authority, with respect to unemployment compensation benefits, social security or other benefits or obligations for Employees (other than routine payments to be made in the normal course of business and consistent with past practice). There are no pending or, to Company's knowledge, any threatened, claims or actions against Company under any worker's compensation policy or long-term disability policy. To Company's knowledge, no employee of Company has violated any employment contract, nondisclosure agreement

or noncompetition agreement by which such employee is bound due to such employee being employed by Company and disclosing to Company or using trade secrets or proprietary information of any other person or entity.

(k) Labor. No work stoppage or labor strike against Company is pending, threatened or reasonably anticipated. Company does not know of any activities or proceedings of any labor union to organize any Employees. There are no actions, suits, claims, labor disputes or grievances pending, or, to the knowledge of Company, threatened or reasonably anticipated relating to any labor, safety or discrimination matters involving any Employee, including, without limitation, charges of unfair labor practices or discrimination complaints, which, if adversely determined, would, individually or in the aggregate, result in any material liability to Company. Neither Company nor any of its subsidiaries has engaged in any unfair labor practices within the meaning of the National Labor Relations Act. Company is not presently, nor has it been in the past, a party to, or bound by, any collective bargaining agreement or union contract with respect to Employees and no collective bargaining agreement is being negotiated by Company.

(l) International Employee Plan. Each International Employee Plan has been established, maintained and administered in material compliance with its terms and conditions and with the requirements prescribed by any and all statutory or regulatory laws that are applicable to such International Employee Plan. Furthermore, no International Employee Plan has unfunded liabilities, that as of the Effective Time, will not be offset by insurance or fully accrued. Except as required by law, no condition exists that would prevent Company or Parent from terminating or amending any International Employee Plan at any time for any reason.

II.14 Environmental Matters

(a) Hazardous Material. Except as would not result in material liability to Company, no underground storage tanks and no amount of any substance that has been designated by any Governmental Entity or by applicable federal, state or local law to be radioactive, toxic, hazardous or otherwise a danger to health or the environment, including, without limitation, PCBs, asbestos, petroleum, urea-formaldehyde and all substances listed as hazardous substances pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, or defined as a hazardous waste pursuant to the United States Resource Conservation and Recovery Act of 1976, as amended, and the regulations promulgated pursuant to said laws, but excluding office and janitorial supplies, (a "Hazardous Material") are present, as a result of the actions of Company or any of its subsidiaries or any affiliate of Company, or, to Company's knowledge, as a result of any actions of any third party or otherwise, in, on or under any property, including the land and the improvements, ground water and surface water thereof, that Company or any of its subsidiaries has at any time owned, operated, occupied or leased.

(b) Hazardous Materials Activities. Except as would not result in a material liability to Company (in any individual case or in the aggregate) (i) neither Company nor any of its subsidiaries

has transported, stored, used, manufactured, disposed of, released or exposed its employees or others to Hazardous Materials in violation of any law in effect on or before the Closing Date, and (ii) neither Company nor any of its subsidiaries has disposed of, transported, sold, used, released, exposed its employees or others to or manufactured any product containing a Hazardous Material (collectively "Hazardous Materials Activities") in violation of any rule, regulation, treaty or statute promulgated by any Governmental Entity in effect prior to or as of the date hereof to prohibit, regulate or control Hazardous Materials or any Hazardous Material Activity.

(c) Permits. Company and its subsidiaries currently hold all environmental approvals, permits, licenses, clearances and consents (the "Company Environmental Permits") necessary for the conduct of Company's and its subsidiaries' Hazardous Material Activities and other businesses of Company and its subsidiaries as such activities and businesses are currently being conducted.

(d) Environmental Liabilities. No action, proceeding, revocation proceeding, amendment procedure, writ or injunction is pending, and to Company's knowledge, no action, proceeding, revocation proceeding, amendment procedure, writ or injunction has been threatened by any Governmental Entity against Company or any of its subsidiaries in a writing delivered to Company concerning any Company Environmental Permit, Hazardous Material or any Hazardous Materials Activity of Company or any of its subsidiaries. Company is not aware of any fact or circumstance which could involve Company or any of its subsidiaries in any environmental litigation or impose upon Company any material environmental liability.

II.15 Agreements, Contracts and Commitments. Except as otherwise set forth in the Company Schedules, neither Company nor any of its subsidiaries is a party to or is bound by:

(a) any employment or consulting agreement, contract or commitment with any officer or director or higher level employee or member of

Company's Board of Directors, other than those that are terminable by Company or any of its subsidiaries on no more than thirty days' notice without liability or financial obligation, except to the extent general principles of wrongful termination law may limit Company's or any of its subsidiaries' ability to terminate employees at will;

(b) any agreement or plan, including, without limitation, any stock option plan, stock appreciation right plan or stock purchase plan, any of the benefits of which will be increased, or the vesting of benefits of which will be accelerated, by the occurrence of any of the transactions contemplated by this Agreement or the value of any of the benefits of which will be calculated on the basis of any of the transactions contemplated by this Agreement;

(c) any agreement of indemnification or any guaranty other than any agreement of indemnification entered into in connection with the sale or license of software products in the ordinary course of business;

(d) any agreement, contract or commitment containing any covenant limiting in any respect the right of Company or any of its subsidiaries to engage in any line of business or to compete with any person or granting any exclusive distribution rights;

(e) any agreement, contract or commitment currently in force relating to the disposition or acquisition by Company or any of its subsidiaries after the date of this Agreement of a material amount of assets not in the ordinary course of business or pursuant to which Company has any material ownership interest in any corporation, partnership, joint venture or other business enterprise other than Company's subsidiaries;

(f) any joint marketing or development agreement currently in force under which Company or any of its subsidiaries have continuing material obligations to jointly market any product, technology or service and which may not be canceled without penalty upon notice of 90 days or less, or any material agreement pursuant to which Company or any of its subsidiaries have continuing material obligations to jointly develop any intellectual property that will not be owned, in whole or in part, by Company or any of its subsidiaries and which may not be canceled without penalty upon notice of 90 days or less;

(g) any agreement, contract or commitment currently in force to provide source code to any third party for any product or technology that is material to Company and its subsidiaries taken as a whole; or

(h) any agreement, contract or commitment currently in force to license any third party to manufacture or reproduce any Company product, service or technology except as a distributor in the normal course of business.

Neither Company nor any of its subsidiaries, nor to Company's knowledge any other party to a Company Contract (as defined below), is in breach, violation or default under, and neither Company nor any of its subsidiaries has received written notice that it has breached, violated or defaulted under, any of the material terms or conditions of any of the agreements, contracts or commitments to which Company or any of its subsidiaries is a party or by which it is bound that are required to be disclosed in the Company Schedules pursuant to clauses (a) through (h) above or pursuant to Section 2.9 hereof (any such agreement, contract or commitment, a "Company Contract") in such a manner as would permit any other party to cancel or terminate any such Company Contract, or would permit any other party to seek material damages or other remedies (for any or all of such breaches, violations or defaults, in the aggregate).

II.16 Change of Control Payments. The Company Schedules set forth each plan or agreement pursuant to which any amounts may become payable (whether currently or in the future) to current or former officers and directors of Company as a result of or in connection with the Merger.

II.17 Statements; Proxy Statement/Prospectus. The information supplied by Company for inclusion in the Registration Statement (as defined in Section 3.3(b)) shall not at the time the Registration Statement is filed with the SEC and at the time it becomes effective under the Securities Act contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The information supplied by Company for inclusion in the proxy statement/prospectus to be sent to (a) the stockholders of Company in connection with the meeting of Company's stockholders to consider the approval and adoption of this Agreement and the approval of the Merger (the "Company Stockholders' Meeting") (such proxy statement/prospectus as amended or supplemented is referred to herein as the "Proxy Statement/Prospectus") shall not, on the date the Proxy Statement/Prospectus is first mailed to Company's stockholders or at the time of the Company Stockholders' Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein

or necessary in order to make the statements therein, in light of the circumstances under which they are made, not false or misleading; or omit to state any material fact necessary to correct any statement in any earlier communication with respect to the solicitation of proxies for the Company Stockholders' Meeting which has become false or misleading. The Proxy Statement/Prospectus will comply as to form in all material respects with the provisions of the Securities Act, the Exchange Act and the rules and regulations thereunder. If at any time prior to the Effective Time any event relating to Company or any of its affiliates, officers or directors should be discovered by Company which is required to be set forth in an amendment to the Registration Statement or a supplement to the Proxy Statement/Prospectus, Company shall promptly inform Parent. Notwithstanding the foregoing, Company makes no representation or warranty with respect to any information supplied by Parent or Merger Sub which is contained in any of the foregoing documents.

II.18 Board Approval. The Board of Directors of Company has, as of the date of this Agreement, determined (i) that the Merger is fair to, and in the best interests of Company and its stockholders, and (ii) to recommend that the stockholders of Company approve and adopt this Agreement and approve the Merger.

II.19 Fairness Opinion. Company's Board of Directors has received an opinion from NationsBanc Montgomery Securities, Inc. dated as of the date hereof, to the effect that as of the date hereof, the Exchange Ratio is fair to Company's stockholders from a financial point of view and will deliver to Parent a written copy of such opinion within five (5) business days following the date hereof.

II.20 Section 203 of the Delaware General Corporation Law Not Applicable; Company Rights Plan. The Board of Directors of Company has taken all actions so that (a) the restrictions contained in Section 203 of the Delaware General Corporation Law applicable to a "business combination" (as defined in such Section 203) will not apply to the execution, delivery or performance of this Agreement or to the consummation of the Merger or the other transactions contemplated by this Agreement and (b) the Company Rights Plan has been amended to (i) render the Company Rights Plan inapplicable to the Merger and the other transactions contemplated by this Agreement, (ii) ensure that (x) none of Parent or its subsidiaries is an Acquiring Person (as defined in the Company Rights Plan) pursuant to the

Company Rights Plan by virtue of the execution of this Agreement or the consummation of the Merger or the other transactions contemplated hereby and (y) a Distribution Date (as such term is defined in the Company Rights Plan) does not occur by reason of the execution of this Agreement, the consummation of the Merger, or the consummation of the transactions contemplated hereby, and such amendment may not be further amended by Company without the prior consent of Parent in its sole discretion.

II.21 Customs. Company has acted with reasonable care to properly value and classify, in accordance with applicable tariff laws, rules and regulations, all goods that Company or any of its subsidiaries import into the United States or into any other country (the "Imported Goods"). To Company's knowledge, there are currently no material claims pending against Company by the U.S. Customs Service (or other foreign customs authorities) relating to the valuation, classification or marking of the Imported Goods.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF PARENT AND MERGER SUB

Parent and Merger Sub represent and warrant to Company, subject to the exceptions (i) specifically disclosed in writing in the disclosure letter and (ii) referencing a specific representation supplied by Parent to Company (or, in the case where no specific reference to a representation is made, where such reference would be reasonably apparent from the context thereof), dated as of the date hereof and certified by a duly authorized officer of Parent (the "Parent Schedules"), as follows:

III.1 Organization of Parent and Merger Sub.

(a) Each of Parent and Merger Sub (i) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is organized; (ii) has the corporate or other power and authority to own, lease and operate its assets and property and to carry on its business as now being conducted; and (iii), except as would not be material to Parent, is duly qualified or licensed to do business in each jurisdiction where the character of the properties owned, leased or operated by it or the nature of its activities makes such qualification or licensing necessary.

(b) Parent has delivered or made available to Company a true and correct copy of the Certificate of Incorporation and Bylaws of Parent, each as amended to date, and each such instrument is in full force and effect.

Neither Parent nor any of its subsidiaries is in violation of any of the provisions of its Certificate of Incorporation or Bylaws or equivalent governing instruments.

III.2 Parent and Merger Sub Capital Structure. The authorized capital stock of Parent consists of 500,000,000 shares of Common Stock, of which there were 136,452,870 shares issued and outstanding as of December 28, 1997, and 4,000,000 shares of Preferred Stock, none of which are outstanding. All outstanding shares of Parent Common Stock are duly authorized, validly issued, fully

paid and nonassessable and are not subject to preemptive rights created by statute, the Certificate of Incorporation or Bylaws of Parent or any agreement or document to which Parent is a party or by which it is bound. The authorized capital stock of Merger Sub consists of 100 shares of Common Stock, $0.0001 par value, all of which, as of the date hereof, are issued and outstanding and are held by Parent. Merger Sub was formed on or about May 18, 1998, for the purpose of consummating the Merger and has no material assets or liabilities except as necessary for such purpose.

III.3 Authority.

(a) Each of Parent and Merger Sub has all requisite corporate power and authority to enter into, as applicable, this Agreement and to consummate the transactions contemplated hereby and thereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action on the part of Parent and Merger Sub, subject only to the filing of the Certificate of Merger pursuant to Delaware Law. This Agreement has been duly executed and delivered by each of Parent and Merger Sub and, assuming the due authorization, execution and delivery by Company, constitutes the valid and binding obligation of Parent and Merger Sub, enforceable against Parent and Merger Sub in accordance with its terms, except as enforceability may be limited by bankruptcy and other similar laws and general principles of equity. The execution and delivery of this Agreement by each of Parent and Merger Sub does not, and the performance of this Agreement by each of Parent and Merger Sub will not, (i) conflict with or violate the Certificate of Incorporation or Bylaws of Parent or Merger Sub, (ii) conflict with or violate any law, rule, regulation, order, judgment or decree applicable to Parent or Merger Sub or by which any of their respective properties is bound or affected or (iii) result in any material breach of or constitute a material default (or an event that with notice or lapse of time or both would become a material default) under, or impair Parent's rights or alter the rights or obligations of any third party under, or give to others any rights of termination, amendment, acceleration or cancellation of, or result in the creation of a material lien or encumbrance on any of the material properties or assets of Parent or Merger Sub pursuant to, any material note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which Parent or Merger Sub is a party or by which Parent or Merger Sub or any of their respective properties are bound or affected.

(b) No consent, approval, order or authorization of, or registration, declaration or filing with any Governmental Entity is required to be obtained or made by Parent or Merger Sub in connection with the execution and delivery of this Agreement or the consummation of the Merger, except for (i) the filing of a Form S-4 (or any similar successor form thereto) Registration Statement (the "Registration Statement") with the SEC in accordance with the Securities Act, (ii) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware, (iii) such consents, approvals, orders, authorizations, registrations, declarations and filings as may be required under applicable federal, foreign and state securities (or related) laws and the HSR Act and the securities or antitrust laws of any foreign country, and (iv) such other consents, authorizations, filings, approvals and registrations which if not obtained or made would not be material to Parent or Company or have a material adverse effect on the ability of the parties hereto to consummate the Merger.

III.4 SEC Filings; Parent Financial Statements.

(a) Parent has filed all forms, reports and documents required to be filed by Parent with the SEC since March 31, 1997, and has made available to Company such forms, reports and documents in the form filed with the SEC. All such required forms, reports and documents (including those that Parent may file subsequent to the date hereof) are referred to herein as the "Parent SEC Reports." As of their respective dates, the Parent SEC Reports (i) were prepared in accordance with the requirements of the Securities Act or the Exchange Act, as the case may be, and the rules and regulations of the SEC thereunder applicable to such Parent SEC Reports, and (ii) did not at the time they were filed (or if amended or superseded by a filing prior to the date of this Agreement, then on the date of such filing) contain any untrue statement of a

material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. None of Parent's subsidiaries is required to file any forms, reports or other documents with the SEC.

(b) Each of the consolidated financial statements (including, in each case, any related notes thereto) contained in the Parent SEC Reports (the "Parent Financials"), including any Parent SEC Reports filed after the date hereof until the Closing, (i) complied as to form in all material respects with the published rules and regulations of the SEC with respect thereto, (ii) was prepared in accordance with GAAP applied on a consistent basis throughout the periods involved (except as may be indicated in the notes thereto or, in the case of unaudited interim financial statements, as may be permitted by the SEC on Form 10-Q under the Exchange Act) and (iii) fairly presented the consolidated financial position of Parent and its subsidiaries as at the respective dates thereof and the consolidated results of Parent's operations and cash flows for the periods indicated, except that the unaudited interim financial statements may not contain footnotes and were or are subject to normal and recurring year-end adjustments. The balance sheet of Parent contained in Parent SEC Reports as of December 31, 1997, is hereinafter referred to as the "Parent Balance Sheet."

III.5 Absence of Certain Changes or Events. Since the date of the Parent Balance Sheet, there has not been (i) any Material Adverse Effect on Parent, (ii) except as set forth in Section 3.5 of the Parent Schedules, any declaration, setting aside or payment of any dividend on, or other distribution (whether in cash, stock or property) in respect of, Parent's capital stock, or any purchase, redemption or other acquisition by Parent of Parent's capital stock or any other securities of Parent or any options, warrants, calls or rights to acquire any such shares or other securities except for repurchases from employees following their termination pursuant to the terms of their pre-existing stock option or purchase agreements, (iii) any material change by Parent in its accounting methods, principles or practices, except as required by concurrent changes in GAAP, or (iv) any revaluation by Parent of any of its assets, including, without limitation, writing down the value of capitalized inventory or writing off notes or accounts receivable other than in the ordinary course of business.

III.6 Statements; Proxy Statement/Prospectus. The information supplied by Parent for inclusion in the Registration Statement shall not at the time the Registration Statement is filed with the SEC and at the time it becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The information supplied by Parent for inclusion in the Proxy Statement/Prospectus shall not, on the date the Proxy Statement/Prospectus is first mailed to Company's stockholders or at the time of the Company Stockholders' Meeting contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not false or misleading; or omit to state any material fact necessary to correct any statement in any earlier communication with respect to the solicitation of proxies for the Company Stockholders' Meeting which has become false or misleading. If at any time prior to the Effective Time, any event relating to Parent or any of its affiliates, officers or directors should be discovered by Parent which is required to be set forth in an amendment to the Registration Statement or a supplement to the Proxy Statement/Prospectus, Parent shall promptly inform Company. Notwithstanding the foregoing, Parent makes no representation or warranty with respect to any information supplied by Company which is contained in any of the foregoing documents.

3.7 Litigation. Except as disclosed in the Parent SEC Reports, there are no claims, suits, actions or proceedings pending or, to the knowledge of Parent, threatened against, relating to or affecting Parent or any of its subsidiaries, before any court, governmental department, commission, agency, instrumentality or authority, or any arbitrator that seeks to restrain or enjoin the consummation of the transactions contemplated by this Agreement or which could reasonably be expected, either singularly or in the aggregate with all such claims, action or proceedings, to have a material effect. No Governmental Entity has at any time challenged or questioned in a writing delivered to Parent the legal right of Parent to design, manufacture, offer or sell any of its products in the present manner or style thereof.

ARTICLE IV
CONDUCT PRIOR TO THE EFFECTIVE TIME

IV.1 Conduct of Business by Company. During the period from the date of this Agreement and continuing until the earlier of the termination of this Agreement pursuant to its terms or the Effective Time, Company and each of its subsidiaries shall, except to the extent that Parent shall otherwise consent

in writing, carry on its business, in all material respects, in the ordinary course, in substantially the same manner as heretofore conducted and in compliance with all applicable laws and regulations, pay its debts and taxes when due subject to good faith disputes over such debts or taxes, pay or perform other material obligations when due, and use its commercially reasonable efforts consistent with past practices and policies to (i) preserve intact its present business organization, (ii) keep available the services of its present officers and employees and (iii) preserve its relationships with customers, suppliers, distributors,

licensors, licensees, and others with which it has business dealings. In addition, Company will promptly notify Parent of any material event involving its business or operations.

In addition, except as permitted by the terms of this Agreement, and except as provided in Article 4 of the Company Schedules, without the prior written consent of Parent, during the period from the date of this Agreement and continuing until the earlier of the termination of this Agreement pursuant to its terms or the Effective Time, Company shall not do any of the following and shall not permit its subsidiaries to do any of the following:

(a) Waive any stock repurchase rights, accelerate, amend or change the period of exercisability of options or restricted stock, or reprice options granted under any employee, consultant, director or other stock plans or authorize cash payments in exchange for any options granted under any of such plans;

(b) Grant any severance or termination pay to any officer or employee except pursuant to written agreements outstanding, or policies existing, on the date hereof and as previously disclosed in writing or made available to Parent, or adopt any new severance plan;

(c) Transfer or license to any person or entity or otherwise extend, amend or modify in any material respect any rights to the Company Intellectual Property, or enter into grants to future patent rights, other than non-exclusive licenses in the ordinary course of business and consistent with past practice;

(d) Declare, set aside or pay any dividends on or make any other distributions (whether in cash, stock, equity securities or property) in respect of any capital stock or split, combine or reclassify any capital stock or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for any capital stock;

(e) Purchase, redeem or otherwise acquire, directly or indirectly, any shares of capital stock of Company or its subsidiaries, except repurchases of unvested shares at cost in connection with the termination of the employment relationship with any employee pursuant to stock option or purchase agreements in effect on the date hereof;

(f) Issue, deliver, sell, authorize, pledge or otherwise encumber or propose any of the foregoing of, any shares of capital stock or any securities convertible into shares of capital stock, or subscriptions, rights, warrants or options to acquire any shares of capital stock or any securities convertible into shares of capital stock, or enter into other agreements or commitments of any character obligating it to issue any such shares or convertible securities, other than the issuance delivery and/or sale of shares of Company Common Stock pursuant to the exercise of stock options therefor outstanding as of the date of this Agreement.

(g) Cause, permit or propose any amendments to its Certificate of Incorporation, Bylaws or other charter documents (or similar governing instruments of any of its subsidiaries);

(h) Acquire or agree to acquire by merging or consolidating with, or by purchasing any equity interest in or a portion of the assets of, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof, or otherwise acquire or agree to acquire any assets which are material, individually or in the aggregate, to the business of Company or enter into any material joint ventures, strategic partnerships or alliances;

(i) Sell, lease, license, encumber or otherwise dispose of any properties or assets which are material, individually or in the aggregate, to the business of Company, except sales of inventory in the ordinary course of business consistent with past practice;

(j) Incur any indebtedness for borrowed money or guarantee any such indebtedness of another person, issue or sell any debt securities or options, warrants, calls or other rights to acquire any debt securities of Company, enter into any "keep well" or other agreement to maintain any financial

statement condition or enter into any arrangement having the economic effect of any of the foregoing other than (i) in connection with the financing of ordinary course trade payables consistent with past practice or (ii) pursuant to existing credit facilities in the ordinary course of business;

(k) Adopt or amend any employee benefit plan or employee stock purchase or employee stock option plan, or enter into any employment contract or collective bargaining agreement (other than offer letters and letter agreements entered into in the ordinary course of business consistent with past practice with employees who are terminable "at will,"), pay any special bonus or special remuneration to any director or employee, or increase the salaries or wage rates or fringe benefits (including rights to severance or indemnification) of its directors, officers, employees or consultants other than in the ordinary course of business, consistent with past practice, or change in any material respect any management policies or procedures;

(l) Make any payments outside of the ordinary course of business in excess of $50,000;

(m) Except in the ordinary course of business, materially modify, amend or terminate any material contract or agreement to which Company or any subsidiary thereof is a party or waive, release or assign any material rights or claims thereunder;

(n) Enter into any material contracts, agreements, or obligations relating to the distribution, sale, license or marketing by third parties of Company's products or products licensed by Company other than in the ordinary course of business consistent with past practice;

(o) Materially revalue any of its assets or, except as required by GAAP, make any change in accounting methods, principles or practices;

(p) Engage in any action that could reasonably be expected to cause the Merger to fail to qualify as a "reorganization" under Section 368(a) of the Code; or

(q) Agree in writing or otherwise to take any of the actions described in Article 4 (a) through (p) above.

IV.2 Conduct of Business by Parent. During the period from the date of this Agreement and continuing until the earlier of the termination of this Agreement pursuant to its terms or the Effective Time, except as permitted by the terms of this Agreement and except as provided in Article 4 of the Parent Schedules, without the prior written consent of Company, during the period from the date of this Agreement and continuing until the earlier of the termination of this Agreement pursuant to its terms or the Effective Time, Parent shall not do the following:

(a) Declare, set aside or pay any dividends on or make any other distributions (whether in cash, stock, equity securities or property) in respect of any capital stock or split, combine or reclassify any capital stock or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for any capital stock; provided, however, that Parent may effect repurchases of up to 14,000,000 shares of its Common Stock in accordance with Rule 10b-18 under the Exchange Act or pursuant to private transactions;

(b) Purchase, redeem or otherwise acquire, directly or indirectly, any shares of capital stock of Parent or its subsidiaries, except repurchases of unvested shares at cost in connection with the termination of the employment relationship with any employee pursuant to stock option or purchase agreements in effect on the date hereof; provided, however, that Parent may effect repurchases of up to 14,000,000 shares of its Common Stock in accordance with Rule 10b-18 under the Exchange Act or pursuant to private transactions;

(c) Acquire or agree to acquire by merging or consolidating with, or by purchasing any equity interest in or a portion of the assets of, or by any manner, any business or any corporation, partnership, association or other business organization or division thereof, or otherwise acquire or agree to acquire any assets which are material, individually or in the aggregate, to the business of Parent or enter into any material joint ventures, strategic partnerships or alliances; provided, however, that the foregoing restrictions shall only apply to the extent that the contemplated transaction could reasonably be expected to directly cause a delay of the consummation of the Merger;

(d) Engage in any action that could reasonably be expected to cause the Merger to fail to qualify as a "reorganization" under Section 368(a) of the Code; or

(e) Materially revalue any of its assets or, except as required by GAAP, make any change in accounting methods, principles or

practices; provided, however, that the foregoing restrictions

shall only apply to the extent that the contemplated transaction could reasonably be expected to directly cause a delay of the consummation of the Merger.

ARTICLE V
ADDITIONAL AGREEMENTS

V.1 Proxy Statement/Prospectus; Registration Statement; Other Filings; Board Recommendations.

(a) As promptly as practicable after the execution of this Agreement, Company and Parent will prepare, and file with the SEC, the Proxy Statement/Prospectus, and Parent will prepare and file with the SEC the Registration Statement in which the Proxy Statement/Prospectus will be included as a prospectus. Each of Company and Parent will respond to any comments of the SEC, and will use its respective commercially reasonable efforts to have the Registration Statement declared effective under the Securities Act as promptly as practicable after such filing, and Company will cause the Proxy Statement/Prospectus to be mailed to its stockholders at the earliest practicable time after the Registration Statement is declared effective by the SEC. As promptly as practicable after the date of this Agreement, each of Company and Parent will prepare and file any other filings required to be filed by it under the Exchange Act, the Securities Act or any other Federal, foreign or Blue Sky or related laws relating to the Merger and the transactions contemplated by this Agreement (the "Other Filings"). Each of Company and Parent will notify the other promptly upon the receipt of any comments from the SEC or its staff or any other government officials and of any request by the SEC or its staff or any other government officials for amendments or supplements to the Registration Statement, the Proxy Statement/Prospectus or any Other Filing or for additional information and will supply the other with copies of all correspondence between such party or any of its representatives, on the one hand, and the SEC, or its staff or any other government officials, on the other hand, with respect to the Registration Statement, the Proxy Statement/Prospectus, the Merger or any Other Filing. Each of Company and Parent will cause all documents that it is responsible for filing with the SEC or other regulatory authorities under this Section 5.1(a) to comply in all material respects with all applicable requirements of law and the rules and regulations promulgated thereunder. Whenever any event occurs which is required to be set forth in an amendment or supplement to the Proxy Statement/Prospectus, the Registration Statement or any Other Filing, Company or Parent, as the case may be, will promptly inform the other of such occurrence and cooperate in filing with the SEC or its staff or any other government officials, and/or mailing to stockholders of Company, such amendment or supplement.

(b) The Proxy Statement/Prospectus will include the recommendation of the Board of Directors of Company in favor of adoption and approval of this Agreement and approval of the Merger.

V.2 Meeting of Company Stockholders.

(a) Promptly after the date hereof, Company will take all action necessary in accordance with the Delaware Law and its Certificate of Incorporation and Bylaws to convene the Company Stockholders' Meeting to be held as promptly as practicable, and in any event (to the extent permissible under applicable law) within 40 days after the declaration of effectiveness of the Registration Statement, for the purpose of voting upon this Agreement and the Merger or the issuance of shares of Parent Common Stock pursuant to the Merger, respectively. Company will use its commercially reasonable efforts to solicit from its stockholders proxies in favor of the adoption and approval of this Agreement and the approval of the Merger and will take all other action necessary or advisable to secure the vote or consent of its stockholders required by the rules of Nasdaq or Delaware Law to obtain such approvals. Notwithstanding anything to the contrary contained in this Agreement, Company may adjourn or postpone the Company Stockholders' Meeting to the extent necessary to ensure that any necessary supplement or amendment to the Prospectus/Proxy Statement is provided to Company's stockholders in advance of a vote on the Merger and this Agreement or, if as of the time for which Company Stockholders' Meeting is originally scheduled (as set forth in the Prospectus/Proxy Statement) there are insufficient shares of Company Common Stock represented (either in person or by proxy) to constitute a quorum necessary to conduct the business of the Company's Stockholders' Meeting. Company shall ensure that the Company Stockholders' Meeting is called, noticed, convened, held and conducted, and subject to Section 5.2(c) that all proxies solicited by Company in connection with the Company Stockholders' Meeting are solicited, in compliance with the Delaware Law, its Certificate of Incorporation and Bylaws, the rules of Nasdaq and all other applicable legal requirements.

(b) Subject to Section 5.2(c): (i) the Board of Directors of

Company shall recommend that Company's stockholders vote in favor of and adopt and approve this Agreement and the Merger at the Company Stockholders' Meeting; (ii) the Prospectus/Proxy Statement shall include a statement to the effect that the Board of Directors of Company has recommended that Company's stockholders vote in favor of and adopt and approve this Agreement and the Merger at the Company Stockholders' Meeting; and (iii) neither the Board of Directors of Company nor any committee thereof shall withdraw, amend or modify, or propose or resolve to withdraw, amend or modify in a manner adverse to Parent, the recommendation of the Board of Directors of Company that Company's stockholders vote in favor of and adopt and approve this Agreement and the Merger.

(c) Nothing in this Agreement shall prevent the Board of Directors of Company from withholding, withdrawing, amending or modifying its recommendation in favor of the Merger if (i) a Superior Proposal (as defined below) is made to Company and is not withdrawn, (ii) neither Company nor any of its representatives shall have violated any of the restrictions set forth in Section 5.4, and (iii) the Board of Directors of Company or any committee thereof concludes in good faith, after consultation with its outside counsel, that, in light of such Superior Proposal, the withholding, withdrawal, amendment or modification of such recommendation is required in order for the Board of Directors of Company or any committee thereof to comply with its fiduciary obligations to Company's stockholders under applicable law. For purposes of this Agreement ("Superior Proposal") shall mean an unsolicited, bona fide written offer made by a third party to consummate any of the following transactions: (i) a merger, consolidation, business combination, recapitalization, liquidation, dissolution

or similar transaction involving Company pursuant to which the stockholders of Company immediately preceding such transaction hold less than 50% of the equity interest in the surviving or resulting entity of such transaction; (ii) a sale or other disposition by Company of assets (excluding inventory and used equipment sold in the ordinary course of business) representing in excess of 50% of the fair market value of Company's business immediately prior to such sale, or (iii) the acquisition by any person or group (including by way of a tender offer or an exchange offer or issuance by Company), directly or indirectly, of beneficial ownership or a right to acquire beneficial ownership of shares representing in excess of 50% of the voting power of the then outstanding shares of capital stock of Company, on terms that the Board of Directors of Company determines, in its reasonable judgment, after consultation with its financial advisor, to be more favorable to the Company stockholders than the terms of the Merger; provided, however, that any such offer shall not be deemed to be a "Superior Proposal" if any financing required to consummate the transaction contemplated by such offer is not committed and is not likely in the judgment of Company's Board of Directors to be obtained by such third party on a timely basis.

V.3 Confidentiality; Access to Information.

(a) The parties acknowledge that Company and Parent have previously executed a Mutual Confidentiality Agreement, dated as of November 21, 1997 (the "Confidentiality Agreement"), which Confidentiality Agreement will continue in full force and effect in accordance with its terms.

(b) Access to Information. Company will afford Parent and its accountants, counsel and other representatives reasonable access during normal business hours to the properties, books, records and personnel of Company during the period prior to the Effective Time to obtain all information concerning the business, including the status of product development efforts, properties, results of operations and personnel of Company, as Parent may reasonably request. No information or knowledge obtained by Parent in any investigation pursuant to this Section 5.3 will affect or be deemed to modify any representation or warranty contained herein or the conditions to the obligations of the parties to consummate the Merger.

V.4 No Solicitation.

(a) From and after the date of this Agreement until the earlier of the Effective Time or termination of this Agreement pursuant to its terms, Company and its subsidiaries will not, nor will they authorize or permit any of their respective officers, directors, affiliates or employees or any investment banker, attorney or other advisor or representative retained by any of them to (i) solicit, initiate or encourage the making, submission or announcement of any Acquisition Proposal (as hereinafter defined), (ii) participate in any discussions or negotiations with, or disclose any non-public information concerning Company or any of its subsidiaries to, or afford any access to the properties, books or records of Company or any of its subsidiaries to, or enter into any agreement or understanding with, any person, entity or group (other than Parent and its affiliates, agents and representatives), in connection with any Acquisition Proposal, (iii) engage in any discussions with any person with respect to any Acquisition Proposal, except as to the existence of these provisions, (iv) subject to Section 5.2(c),

approve, endorse or recommend any Acquisition Proposal or (v) enter into any letter of intent or similar document or any contract agreement or commitment contemplating or otherwise relating to any Acquisition Transaction (as defined below); provided, however, that prior to the approval of this Agreement by the required Company Stockholder Vote, this Section 5.4(a) shall not prohibit Company from furnishing nonpublic information regarding Company and its subsidiaries to, entering into a confidentiality agreement with or entering into discussions with, any person or group in response to a Superior Proposal submitted by such person or group (and not withdrawn) if (1) neither Company nor any representative of Company and its subsidiaries shall have violated any of the restrictions set forth in this Section 5.4, (2) the Board of Directors of Company concludes in good faith, after consultation with its outside legal counsel, that such action is required in order for the Board of Directors of Company to comply with its fiduciary obligations to Company's stockholders under applicable law, (3) prior to furnishing any such nonpublic information to, or entering into discussions with, such person or group, Company gives Parent written notice of the identity of such person or group and of Company's intention to furnish nonpublic information to, or enter into discussions with, such person or group and Company receives from such person or group an executed confidentiality agreement containing terms, conditions and limitations, substantially similar to those contained in the Confidentiality Agreement, on the use and disclosure of all nonpublic written and oral information furnished to such person or group by or on behalf of Company, and (4) contemporaneously with furnishing any such nonpublic information to such person or group, Company furnishes such nonpublic information to Parent (to the extent such nonpublic information has not been previously furnished by Company to Parent). Company and its subsidiaries will immediately cease any and all existing activities, discussions or negotiations with any parties conducted heretofore with respect to any Acquisition Proposal. Without limiting the foregoing, it is understood that any violation of the restrictions set forth in the preceding two sentences by any officer, director or employee of Company or any of its subsidiaries or any investment banker, attorney or other advisor or representative of Company or any of its subsidiaries shall be deemed to be a willful breach of this Section 5.4 by Company. In addition to the foregoing, Company shall provide Parent with at least forty-eight (48) hours prior written notice of any meeting of Company's Board of Directors at which Company's Board of Directors is reasonably expected to recommend, approve or authorize a Superior Proposal and together with such notice a copy of the then-current draft of the definitive documentation relating to such Superior Proposal.

For purposes of this Agreement, "Acquisition Proposal" shall mean any offer or proposal (other than an offer or proposal by Parent) relating to any Acquisition Transaction. For the purposes of this Agreement, "Acquisition Transaction" shall mean any transaction or series of related transactions other than the transactions contemplated by this Agreement involving: (i) any merger, consolidation, sale of substantial assets or similar transactions involving Company or any of its subsidiaries (other than sales of assets or inventory in the ordinary course of business or as permitted under the terms of this Agreement), (ii) sale by Company of any shares of capital stock of Company (including without limitation by way of a tender offer or an exchange offer) except as may be permitted pursuant to Article 4, (iii) the acquisition by any person of beneficial ownership or a right to acquire beneficial ownership of, or the formation of any "group" (as defined under Section 13(d) of the Exchange Act and the rules and regulations thereunder) which beneficially owns, or has the right to acquire beneficial

ownership of, 10% or more of the then outstanding shares of capital stock of Company (except for acquisitions for passive investment purposes of not more than 15% of the then outstanding shares of capital stock of Company only in circumstances where the person or group qualifies for and files a Schedule 13G with respect thereto and does not become obligated to file a Schedule 13D), (iv) any liquidation or dissolution of Company, or (v) any public announcement of a proposal, plan or intention to do any of the foregoing or any agreement to engage in any of the foregoing.

(b) In addition to the obligations of Company set forth in paragraph (a) of this Section 5.4, Company as promptly as practicable shall advise Parent orally and in writing of any request for non-public information which Company reasonably believes would lead to an Acquisition Proposal or of any Acquisition Proposal, or any inquiry with respect to or which Company reasonably should believe would lead to any Acquisition Proposal, the material terms and conditions of such request, Acquisition Proposal or inquiry, and the identity of the person or group making any such request, Acquisition Proposal or inquiry. Company will keep Parent informed in all material respects of all material amendments or proposed amendments (including, without limitation, any change in consideration) of any such request, Acquisition Proposal or inquiry.

(c) Nothing contained in this Section 5.4 or elsewhere in this Agreement shall prohibit Company from (i) taking and disclosing to its stockholders a position contemplated by Rules 14d-9 and 14e-2(a) promulgated under the Exchange Act or (ii) making any disclosure to Company's stockholders if, in the good faith judgment of the Board of Directors of Company, after

consultation with its outside legal counsel, failure to so disclose would be inconsistent with applicable laws.

V.5 Public Disclosure. Parent and Company will consult with each other, and to the extent practicable, agree, before issuing any press release or otherwise making any public statement with respect to the Merger, this Agreement or an Acquisition Proposal and will not issue any such press release or make any such public statement prior to such consultation, except as may be required by law or any listing agreement with a national securities exchange. The parties have agreed to the text of the joint press release announcing the signing of this Agreement.

V.6 Reasonable Efforts; Notification.

(a) Upon the terms and subject to the conditions set forth in this Agreement, each of the parties agrees to use all reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, and to assist and cooperate with the other parties in doing, all things necessary, proper or advisable to consummate and make effective, in the most expeditious manner practicable, the Merger and the other transactions contemplated by this Agreement, including using reasonable efforts to accomplish the following: (i) the taking of all reasonable acts necessary to cause the conditions precedent set forth in Article VI to be satisfied, (ii) the obtaining of all necessary actions or nonactions, waivers, consents, approvals, orders and authorizations from Governmental Entities and the making of all necessary registrations, declarations and filings (including registrations, declarations and filings with Governmental Entities, if any) and the taking of all reasonable steps as may be necessary to avoid any

suit, claim, action, investigation or proceeding by any Governmental Entity, (iii) the obtaining of all necessary consents, approvals or waivers from third parties, (iv) the defending of any suits, claims, actions, investigations or proceedings, whether judicial or administrative, challenging this Agreement or the consummation of the transactions contemplated hereby, including seeking to have any stay or temporary restraining order entered by any court or other Governmental Entity vacated or reversed and (v) the execution or delivery of any additional instruments necessary to consummate the transactions contemplated by, and to fully carry out the purposes of, this Agreement. In connection with and without limiting the foregoing, Company and its Board of Directors shall, if any state takeover statute or similar statute or regulation is or becomes applicable to the Merger, this Agreement or any of the transactions contemplated by this Agreement, use all reasonable efforts to ensure that the Merger and the other transactions contemplated by this Agreement may be consummated as promptly as practicable on the terms contemplated by this Agreement and otherwise to minimize the effect of such statute or regulation on the Merger, this Agreement and the transactions contemplated hereby. Notwithstanding anything herein to the contrary, nothing in this Agreement shall be deemed to require Parent or Company or any subsidiary or affiliate thereof to agree to any divestiture by itself or any of its affiliates of shares of capital stock or of any business, assets or property, or the imposition of any material limitation on the ability of any of them to conduct their businesses or to own or exercise control of such assets, properties and stock.

(b) Company shall give prompt notice to Parent of any representation or warranty made by it contained in this Agreement becoming untrue or inaccurate, or any failure of Company to comply with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it under this Agreement, in each case, such that the conditions set forth in Section 6.3(a) or 6.3(b) would not be satisfied, provided, however, that no such notification shall affect the representations, warranties, covenants or agreements of the parties or the conditions to the obligations of the parties under this Agreement.

(c) Parent shall give prompt notice to Company of any representation or warranty made by it or Merger Sub contained in this Agreement becoming untrue or inaccurate, or any failure of Parent or Merger Sub to comply with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it under this Agreement, in each case, such that the conditions set forth in Section 6.2(a) or 6.2(b) would not be satisfied, provided, however, that no such notification shall affect the representations, warranties, covenants or agreements of the parties or the conditions to the obligations of the parties under this Agreement.

V.7 Third Party Consents. As soon as practicable following the date hereof, Parent and Company will each use its commercially reasonable efforts to obtain any consents, waivers and approvals under any of its or its subsidiaries' respective agreements, contracts, licenses or leases required to be obtained in connection with the consummation of the transactions contemplated hereby.

V.8 Stock Options and Employee Benefits.

(a) At the Effective Time, each outstanding option to purchase shares of Company Common Stock (each a "Company Stock Option") under the Company Stock Option Plans, whether or not exercisable, will be assumed by Parent. Immediately following the Effective Time, each Person who is a holder of a Company Stock Option assumed by Parent hereunder, other than those executive officers of the Company specifically identified on Schedule 5.8, shall have the vesting with respect to fifty percent (50%) of his/her unvested options immediately accelerated (the "Accelerated Portion"); provided, however, that, in consideration of such vesting acceleration, each such Company Stock Option holder shall agree that the balance of his/her unvested Company Stock Options which are assumed by Parent hereunder and which are not accelerated pursuant to this Section 5.8(a) shall continue to vest at the same percentage vesting rate set forth in such holder's original Company Stock Option agreement (unless the change of control provisions, if any, contained in such holder's original Company Stock Option agreement specifically provide otherwise). Except as set forth in the preceding sentence or on Schedule 5.8, no outstanding Company Stock Option will have been accelerated or have the right to be accelerated as a result of the Merger and there shall be no other agreements at the Effective Time providing for change-in-control, option acceleration or other benefits as a result of the Merger. Each Company Stock Option so assumed by Parent under this Agreement will continue to have, and be subject to, the same terms and conditions set forth in the applicable Company Stock Option Plans immediately prior to the Effective Time (including, without limitation, any repurchase rights or vesting provisions), except that (i) each Company Stock Option will be exercisable (or will become exercisable in accordance with its terms) for that number of whole shares of Parent Common Stock equal to the product of the number of shares of Company Common Stock that were issuable upon exercise of such Company Stock Option immediately prior to the Effective Time multiplied by the Exchange Ratio, rounded down to the nearest whole number of shares of Parent Common Stock and (ii) the per share exercise price for the shares of Parent Common Stock issuable upon exercise of such assumed Company Stock Option will be equal to the quotient determined by dividing the exercise price per share of Company Common Stock at which such Company Stock Option was exercisable immediately prior to the Effective Time by the Exchange Ratio, rounded up to the nearest whole cent.

(b) It is intended that Company Stock Options assumed by Parent shall qualify following the Effective Time as incentive stock options as defined in Section 422 of the Code to the extent Company Stock Options qualified as incentive stock options immediately prior to the Effective Time and the provisions of this Section 5.8 shall be applied consistent with such intent.

(c) Parent intends to maintain or cause Company to maintain employee benefit plans (as defined in Section 3(3) of ERISA) for the benefit of employees of Company which are substantially similar to those benefits provided for Parent's employees, including, without limitation, any of the following benefit plans maintained by Parent: medical/dental/vision care, life insurance, disability income, sick pay, holiday and vacation pay, 401(k) plan coverage, Section 125 benefit arrangements, bonus profit-sharing or other incentive plans, pension or retirement programs, dependent care assistance, severance benefits, and employee stock option and stock purchase plans, to the extent Company employees meet the eligibility requirements for each such plan or program. Parent intends that Company's employees shall be given credit, for purposes of any service requirements for participation,

for their period of service with Company and Odetics, Inc. prior to the Closing Date, and Company employees shall also, with respect to any Parent plans or programs which have co-payment, deductible or other co-insurance features, receive credit for any amounts such employees have paid to date in 1998 in co-payments, deductibles or co-insurance under comparable programs maintained by Company prior to the date hereof. In addition, Parent intends that, to the maximum extent allowable under the Company's medical/health plans, no Company employee who participates in any medical/health plan of Company at the Closing Date shall be denied coverage under Parent's medical/health plan by reason of any pre-existing condition exclusions.

(d) Within twenty (20) business days following the Effective Time, Parent shall issue to each person who is a holder of a Company Stock Option assumed by Parent hereunder a document, in form and substance reasonably satisfactory to Company, evidencing such assumption. Pursuant to such document, the agreements evidencing such assumed Company Stock Option shall be deemed to be appropriately amended and adjusted so that such assumed Company Stock Option shall represent the right to acquire Parent Common Stock on the same terms and conditions as contained in the agreements evidencing such Company Stock Option (subject to the adjustments required by this Section 5.8 to effect the assumption by Parent as set forth above).

V.9 Form S-8. Parent agrees to file a registration statement on Form S-8 for the shares of Parent Common Stock issuable with respect to assumed Company Stock Options as soon as is reasonably practicable after the Effective Time and intends to maintain the effectiveness of such registration statement thereafter for so long as any of such options or other rights remain

outstanding.

V.10 Indemnification.

(a) From and after the Effective Time, Parent will cause the Surviving Corporation to fulfill and honor in all respects the obligations of Company pursuant to any indemnification agreements between Company and its directors and officers as of the Effective Time (the "Indemnified Parties") and any indemnification provisions under Company's Certificate of Incorporation or Bylaws as in effect on the date hereof. The Certificate of Incorporation and Bylaws of the Surviving Corporation will contain provisions with respect to exculpation and indemnification that are at least as favorable to the Indemnified Parties as those contained in the Certificate of Incorporation and Bylaws of Company as in effect on the date hereof, which provisions will not be amended, repealed or otherwise modified for a period of six years from the Effective Time in any manner that would adversely affect the rights thereunder of individuals who, immediately prior to the Effective Time, were directors, officers, employees or agents of Company, unless such modification is required by law.

(b) From the Effective Time until the sixth anniversary thereof, the Surviving Corporation shall maintain in effect, for the benefit of the current directors and officers of the Company with respect to acts or omissions occurring prior to the Effective Time, the existing policy of directors' and officers' liability insurance maintained by the Company as of the date of this Agreement (the "Existing Policy"); provided, however, that (i) the Surviving Corporation may substitute for the Existing

Policy a policy or policies of comparable coverage, and (ii) the Surviving Corporation shall not be required to pay an annual premium for the Existing Policy (or for any substitute policies) in excess of 150% of the amount of the last annual premium paid by the Company prior to the date of this Agreement for the Existing Policy (the "Past Premium Amount"). In the event any future annual premium for the Existing Policy (or any substitute policies) exceeds 150% of the Past Premium Amount, the Surviving Corporation shall be entitled to reduce the amount of coverage of the Existing Policy (or any substitute policies) to the amount of coverage that can be obtained for a premium equal to 150% of the Past Premium Amount.

(c) This Section 5.10 shall survive the consummation of the Merger at the Effective Time, is intended to be for the benefit of, and enforceable by, each person entitled to indemnification pursuant hereto and each such person's or entity's heirs and representatives, and shall be binding on all successors and assigns of Parent and the Surviving Corporation.

V.11 Nasdaq Listing. Parent agrees to authorize for listing on Nasdaq the shares of Parent Common Stock issuable, and those required to be reserved for issuance, in connection with the Merger, upon official notice of issuance.

V.12 Company Affiliate Agreement. Set forth on the Company Schedules is a list of those persons who may be deemed to be, in Company's reasonable judgment, affiliates of Company within the meaning of Rule 145 promulgated under the Securities Act (each a "Company Affiliate"). Company will provide Parent with such information and documents as Parent reasonably requests for purposes of reviewing such list. Company will use its best efforts to deliver or cause to be delivered to Parent, as promptly as practicable on or following the date hereof, from each Company Affiliate an executed affiliate agreement in substantially the form attached hereto as Exhibit B (the "Company Affiliate Agreement"), each of which will be in full force and effect as of the Effective Time. Parent will be entitled to place appropriate legends on the certificates evidencing any Parent Common Stock to be received by a Company Affiliate pursuant to the terms of this Agreement, and to issue appropriate stop transfer instructions to the transfer agent for the Parent Common Stock, consistent with the terms of the Company Affiliate Agreement.

V.13 Regulatory Filings; Reasonable Efforts. As soon as may be reasonably practicable, Company and Parent each shall file with the United States Federal Trade Commission (the "FTC") and the Antitrust Division of the United States Department of Justice ("DOJ") Notification and Report Forms relating to the transactions contemplated herein as required by the HSR Act, as well as comparable pre-merger notification forms required by the merger notification or control laws and regulations of any applicable jurisdiction, as agreed to by the parties. Company and Parent each shall promptly (a) supply the other with any information which may be required in order to effectuate such filings and (b) supply any additional information which reasonably may be required by the FTC, the DOJ or the competition or merger control authorities of any other jurisdiction and which the parties may reasonably deem appropriate.

V.14 Comfort Letter. If requested by Parent, Company shall use reasonable efforts to cause Ernst & Young LLP, certified public accountants to

Company, to provide a letter reasonably acceptable to Parent, relating to their review of the financial statements relating to Company contained in or incorporated by reference in the Registration Statement.

ARTICLE VI
CONDITIONS TO THE MERGER

VI.1 Conditions to Obligations of Each Party to Effect the Merger. The respective obligations of each party to this Agreement to effect the Merger shall be subject to the satisfaction at or prior to the Closing Date of the following conditions:

(a) Company Stockholder Approval. This Agreement shall have been approved and adopted, and the Merger shall have been duly approved, by the requisite vote under applicable law, by the stockholders of Company.

(b) Registration Statement Effective; Proxy Statement. The SEC shall have declared the Registration Statement effective. No stop order suspending the effectiveness of the Registration Statement or any part thereof shall have been issued and no proceeding for that purpose, and no similar proceeding in respect of the Proxy Statement/Prospectus, shall have been initiated or threatened in writing by the SEC.

(c) No Order; HSR Act. No Governmental Entity shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, executive order, decree, injunction or other order (whether temporary, preliminary or permanent) which is in effect and which has the effect of making the Merger illegal or otherwise prohibiting consummation of the Merger. All waiting periods, if any, under the HSR Act relating to the transactions contemplated hereby will have expired or terminated early and all material foreign antitrust approvals required to be obtained prior to the Merger in connection with the transactions contemplated hereby shall have been obtained.

(d) Tax Opinions. Parent and Company shall each have received written opinions from their respective tax counsel (Wilson Sonsini Goodrich & Rosati, Professional Corporation, and Brobeck, Phleger & Harrison LLP, respectively), in form and substance reasonably satisfactory to them, to the effect that the Merger will constitute a reorganization within the meaning of Section 368(a) of the Code and such opinions shall not have been withdrawn; provided, however, that if the counsel to either Parent or Company does not render such opinion, this condition shall nonetheless be deemed to be satisfied with respect to such party if counsel to the other party renders such opinion to such party. The parties to this Agreement agree to make such reasonable representations as requested by such counsel for the purpose of rendering such opinions.

(e) Nasdaq Listing. The shares of Parent Common Stock issuable to stockholders of Company pursuant to this Agreement and such other shares required to be reserved for issuance in connection with the Merger shall have been authorized for listing on Nasdaq upon official notice of issuance.

VI.2 Additional Conditions to Obligations of Company. The obligation of Company to consummate and effect the Merger shall be subject to the satisfaction at or prior to the Closing Date of each of the following conditions, any of which may be waived, in writing, exclusively by Company:

(a) Representations and Warranties. Each representation and warranty of Parent and Merger Sub contained in this Agreement (i) shall have been true and correct as of the date of this Agreement and (ii) shall be true and correct on and as of the Closing Date with the same force and effect as if made on the Closing Date except, (A) in each case, or in the aggregate, as does not constitute a Material Adverse Effect on Parent and Merger Sub, (B) for changes contemplated by this Agreement and (C) for those representations and warranties which address matters only as of a particular date (which representations shall have been true and correct except as does not constitute a Material Adverse Effect on Parent and Merger Sub as of such particular date) (it being understood that, for purposes of determining the accuracy of such representations and warranties, (i) all "Material Adverse Effect" qualifications and other qualifications based on the word "material" or similar phrases contained in such representations and warranties shall be disregarded and (ii) any update of or modification to the Parent Schedules made or purported to have been made after the date of this Agreement shall be disregarded). Company shall have received a certificate with respect to the foregoing signed on behalf of Parent by an authorized officer of Parent.

(b) Agreements and Covenants. Parent and Merger Sub shall have performed or complied in all material respects with all agreements and covenants required by this Agreement to be performed or complied with by them on or prior to the Closing Date, and Company shall have received a certificate to such effect signed on behalf of Parent by an authorized officer of Parent.

(c) Material Adverse Effect. No Material Adverse Effect with

respect to Parent shall have occurred since the date of this Agreement.

VI.3 Additional Conditions to the Obligations of Parent and Merger Sub. The obligations of Parent and Merger Sub to consummate and effect the Merger shall be subject to the satisfaction at or prior to the Closing Date of each of the following conditions, any of which may be waived, in writing, exclusively by Parent:

(a) Representations and Warranties. Each representation and warranty of Company contained in this Agreement (i) shall have been true and correct as of the date of this Agreement and (ii) shall be true and correct on and as of the Closing Date with the same force and effect as if made on and as of the Closing Date except (A) in each case (other than the representations in Sections 2.2 and 2.3, which shall have been and which shall be true and correct in all material respects), or in the

aggregate, as does not constitute a Material Adverse Effect on Company, (B) for changes contemplated by this Agreement and (C) for those representations and warranties (other than the representations in Sections 2.2 and 2.3) which address matters only as of a particular date (which representations shall have been true and correct except as does not constitute a Material Adverse Effect on Company as of such particular date) (it being understood that, for purposes of determining the accuracy of such representations and warranties, (i) all "Material Adverse Effect" qualifications and other qualifications based on the word "material" or similar phrases contained in such representations and warranties shall be disregarded and (ii) any update of or modification to the Company Schedules made or purported to have been made after the date of this Agreement shall be disregarded). Parent shall have received a certificate with respect to the foregoing signed on behalf of Company by an authorized officer of Company.

(b) Agreements and Covenants. Company shall have performed or complied in all material respects with all agreements and covenants required by this Agreement to be performed or complied with by it at or prior to the Closing Date, and Parent shall have received a certificate to such effect signed on behalf of Company by the Chief Executive Officer and the Chief Financial Officer of Company.

(c) Material Adverse Effect. No Material Adverse Effect with respect to Company and its subsidiaries shall have occurred since the date of this Agreement.

(d) Noncompetition Agreements. The persons set forth on Exhibit C-1 hereto shall have entered into Noncompetition Agreements substantially in the form attached hereto as Exhibit C-2 and such agreements shall be in full force and effect.

(e) Consents. Company shall have obtained all consents, waivers and approvals required in connection with the consummation of the transactions contemplated hereby in connection with the agreements, contracts, licenses or leases set forth on Schedule 6.3(f).

(f) Company Rights Plan. All actions necessary to extinguish and cancel all outstanding Rights under the Company Rights Plan or render such Rights inapplicable to the Merger shall have been taken.

ARTICLE VII
TERMINATION, AMENDMENT AND WAIVER

VII.1 Termination. This Agreement may be terminated at any time prior to the Effective Time, whether before or after the requisite approvals of the stockholders of Company or Parent:

(a) by mutual written consent duly authorized by the Boards of Directors of Parent and Company;

(b) by either Company or Parent if the Merger shall not have been consummated by November 18, 1998 for any reason; provided, however, that the right to terminate this Agreement under this Section 7.1(b) shall not be available to any party whose action or failure to act has been a principal cause of or resulted in the failure of the Merger to occur on or before such date and such action or failure to act constitutes a breach of any covenant set forth in this Agreement;

(c) by either Company or Parent if a Governmental Entity shall have issued an order, decree or ruling or taken any other action, in any case having the effect of permanently restraining, enjoining or otherwise prohibiting the Merger, which order, decree, ruling or other action is final and nonappealable;

(d) by either Company or Parent if the required approval of the stockholders of Company contemplated by this Agreement shall not have been obtained by reason of the failure to obtain the required vote at a meeting of Company stockholders duly convened therefor or at any adjournment thereof (provided that the right to terminate this Agreement under this Section 7.1(d) shall not be available to Company where the failure to obtain Company stockholder approval shall have been caused by the action or failure to act of Company and such action or failure to act constitutes a breach by Company of any covenant set forth in this Agreement);

(e) by Company (at any time prior to the adoption and approval of this Agreement and the Merger by the required vote of the stockholders of Company) if a Company Triggering Event (as defined below) shall have occurred. For the purposes of this Agreement, a "Company Triggering Event" shall be deemed to have occurred if the Board of Directors of Company or any committee thereof shall have approved or publicly recommended any Superior Proposal.

(f) by Parent if a Parent Triggering Event (as defined below) shall have occurred. For the purposes of this Agreement, a "Parent Triggering Event" shall be deemed to have occurred if: (i) the Board of Directors of Company or any committee thereof shall for any reason have withdrawn or shall have amended or modified in a manner adverse to Parent its recommendation in favor of, the adoption and approval of the Agreement or the approval of the Merger; (ii) Company shall have failed to include in the Proxy Statement/Prospectus the recommendation of the Board of Directors of Company in favor of the adoption and approval of the Agreement and the approval of the Merger; (iii) a tender or exchange offer relating to securities of the Company shall have been commenced by a Person unaffiliated with Parent and Company and the Board of Directors of Company fails to reaffirm its recommendation in favor of the adoption and approval of the Agreement and the approval of the Merger within ten (10) business days after Parent requests in writing at any time that such recommendation be reaffirmed; (iv) the Board of Directors of Company or any committee thereof shall have approved or publicly recommended any Acquisition Proposal; or (v) a tender or exchange offer relating to securities of Company shall have been commenced by a Person unaffiliated with Parent and Company shall not have sent to its security holders pursuant to Rule 14e-2 promulgated under the Securities Act, within ten (10) business days after such tender or exchange offer is first published sent or given, a statement disclosing that Company recommends rejection of such tender or exchange offer.

(g) by Company, upon a breach of any representation, warranty, covenant or agreement on the part of Parent set forth in this Agreement, or if any representation or warranty of Parent shall have become untrue, in either case such that the conditions set forth in Section 6.2(a) or Section 6.2(b) would not be satisfied as of the time of such breach or as of the time such representation or warranty shall have become untrue, provided that if such inaccuracy in Parent's representations and warranties or breach by Parent is curable by Parent through the exercise of its commercially reasonable efforts, then Company may not terminate this Agreement under this Section 7.1(g) for thirty days after delivery of written notice from Company to Parent of such breach, provided Parent continues to exercise commercially reasonable efforts to cure such breach (it being understood that Company may not terminate this Agreement pursuant to this paragraph (g) if it shall have materially breached this Agreement or if such breach by Parent is cured during such thirty day period); or

(h) by Parent, upon a breach of any representation, warranty, covenant or agreement on the part of Company set forth in this Agreement, or if any representation or warranty of Company shall have become untrue, in either case such that the conditions set forth in Section 6.3(a) or Section 6.3(b) would not be satisfied as of the time of such breach or as of the time such representation or warranty shall have become untrue, provided that if such inaccuracy in Company's representations and warranties or breach by Company is curable by Company through the exercise of its commercially reasonable efforts, then Parent may not terminate this Agreement under this Section 7.1(h) for thirty days after delivery of written notice from Parent to Company of such breach, provided Company continues to exercise commercially reasonable efforts to cure such breach (it being understood that Parent may not terminate this Agreement pursuant to this paragraph (h) if it shall have materially breached this Agreement or if such breach by Company is cured during such thirty day period).

VII.2 Notice of Termination; Effect of Termination. Any termination of this Agreement under Section 7.1 above will be effective immediately upon the delivery of written notice of the terminating party to the other parties hereto. In the event of the termination of this Agreement as provided in Section 7.1, this Agreement shall be of no further force or effect, except (i) as set forth in this Section 7.2, Section 7.3 and Article 8 (miscellaneous), each of which shall survive the termination of this Agreement, and (ii) nothing herein shall relieve any party from liability for any willful breach of this Agreement (including without limitation Section 5.4 hereof). No termination of this Agreement shall affect the obligations of the parties contained in the Confidentiality Agreement, all of which obligations shall survive termination of

this Agreement in accordance with their terms.

VII.3 Fees and Expenses.

(a) General. Except as set forth in this Section 7.3, all fees and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such expenses whether or not the Merger is consummated; provided, however, that Parent and Company shall share equally all fees and expenses, other than attorneys' and accountants fees and expenses, incurred in relation to the printing and filing (with the SEC) of the Proxy Statement/Prospectus

(including any preliminary materials related thereto) and the Registration Statement (including financial statements and exhibits) and any amendments or supplements thereto.

(b) Company Payments.

(i) In the event that this Agreement is terminated by Parent or Company, as applicable, pursuant to Section 7.1(e) or (f), Company shall pay, within one business day following demand therefor, to Parent an amount equal to $6,000,000 in immediately available funds.

(ii) Company acknowledges that the agreements contained in this Section 7.3(b) are an integral part of the transactions contemplated by this Agreement, and that, without these agreements, Parent would not enter into this Agreement. If Company fails promptly to pay the amounts due pursuant to this Section 7.3(b), and, in order to obtain such payment, Parent commences a suit which results in a judgment against Company for the amounts set forth in this Section 7.3(b), Company shall pay to Parent its reasonable costs and expenses (including attorneys' fees and expenses) in connection with such suit, together with interest on the amounts set forth in this Section 7.3(b) at the prime rate of Citibank, N.A. in effect on the date such payment was required to be made; provided, however, that if such suit does not result in a judgment against Company, Parent shall pay to Company its reasonable costs and expenses (including attorneys' fees and expenses) in connection with such suit.

(c) Payment of the fees described in Section 7.3(b) above shall not be in lieu of damages incurred in the event of a willful breach of this Agreement.

VII.4 Amendment. Subject to applicable law, this Agreement may be amended by the parties hereto at any time by execution of an instrument in writing signed on behalf of each of Parent and Company.

VII.5 Extension; Waiver. At any time prior to the Effective Time any party hereto may, to the extent legally allowed, (i) extend the time for the performance of any of the obligations or other acts of the other parties hereto, (ii) waive any inaccuracies in the representations and warranties made to such party contained herein or in any document delivered pursuant hereto and (iii) waive compliance with any of the agreements or conditions for the benefit of such party contained herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party. Delay in exercising any right under this Agreement shall not constitute a waiver of such right.

ARTICLE VIII
GENERAL PROVISIONS

VIII.1 Non-Survival of Representations and Warranties. The representations and warranties of Company, Parent and Merger Sub contained in this Agreement shall terminate at the Effective Time, and only the covenants that by their terms survive the Effective Time shall survive the Effective Time.

VIII.2 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally or by commercial delivery service, or sent via telecopy (receipt confirmed) to the parties at the following addresses or telecopy numbers (or at such other address or telecopy numbers for a party as shall be specified by like notice):

(a) if to Parent or Merger Sub, to:

Quantum Corporation
500 McCarthy Boulevard
Milpitas, California 95035
Attention: General Counsel
Telephone No.: (408) 894-4000
Telecopy No.: (408) 894-3218

with a copy to:

Wilson Sonsini Goodrich & Rosati
Professional Corporation
650 Page Mill Road
Palo Alto, California 94304-1050
Attention: Larry W. Sonsini, Esq.
Steven E. Bochner, Esq.
Telephone No.: (650) 493-9300
Telecopy No.: (650) 493-6811

(b) if to Company, to:

ATL Products, Inc.
2801 Kelvin Ave.
Irvine, California 92614
Attention: General Counsel
Telephone No.: (714) 479-7750
Telecopy No.:

with copies to:

Brobeck, Phleger & Harrison LLP
Spear Street Tower
One Market
San Francisco, California 94105
Attention: Steve L. Camahort, Esq.

Telephone No.: (415) 442-0900
Telecopy No.: (415) 442-1010

and:

Brobeck, Phleger & Harrison LLP
38 Technology Drive
Irvine, California 92618-2308
Attention: Patrick Arrington, Esq.
Telephone No.: (714) 790-6300
Telecopy No.: (714) 790-6301

VIII.3 Interpretation; Knowledge.

(a) When a reference is made in this Agreement to Exhibits, such reference shall be to an Exhibit to this Agreement unless otherwise indicated. When a reference is made in this Agreement to Sections, such reference shall be to a Section of this Agreement unless otherwise indicated. The words "include," "includes" and "including" when used herein shall be deemed in each case to be followed by the words "without limitation." The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. When reference is made herein to "the business of" an entity, such reference shall be deemed to include the business of all direct and indirect subsidiaries of such entity. Reference to the subsidiaries of an entity shall be deemed to include all direct and indirect subsidiaries of such entity.

(b) For purposes of this Agreement (a) as it relates to Parent, the term "knowledge" means, with respect to any matter in question, that any of the Chief Executive Officer, Chief Financial Officer or Controller of Parent has actual knowledge of such matter; (b) as it relates to Company, the term "knowledge" means, with respect to any matter in question, that any of the Chief Executive Officer, Chief Financial Officer or Controller of Company has actual knowledge of such matter.

(c) For purposes of this Agreement, the term "Material Adverse Effect" when used in connection with an entity means any change, event, violation, inaccuracy, circumstance or effect that is materially adverse to the business, assets (including intangible assets), capitalization, financial condition or results of operations of such entity and its subsidiaries taken as a whole, except for those changes, events, violations, inaccuracies, circumstances and effects that (i) are caused by conditions affecting the United States economy as a whole or affecting the industry in which such entity competes as a whole or (ii) are related to or result from announcement or pendency of the Merger; provided, however, that in the case of each of the exceptions set forth in (i) and (ii) above, the entity relying upon such exception to demonstrate that a Material Adverse Effect has not occurred shall bear the burden of proof, by a preponderance of the evidence, that such exception is applicable.

(d) For purposes of this Agreement, the term "person" shall mean any individual, corporation (including any non-profit corporation), general partnership, limited partnership, limited liability partnership, joint venture, estate, trust, company (including any limited liability company or joint stock company), firm or other enterprise, association, organization, entity or Governmental Entity.

VIII.4 Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other party, it being understood that all parties need not sign the same counterpart.

VIII.5 Entire Agreement; Third Party Beneficiaries. This Agreement and the documents and instruments and other agreements among the parties hereto as contemplated by or referred to herein, including the Company Schedules and the Parent Schedules (a) constitute the entire agreement among the parties with respect to the subject matter hereof and supersede all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof, it being understood that the Confidentiality Agreement shall continue in full force and effect until the Closing and shall survive any termination of this Agreement; and (b) are not intended to confer upon any other person any rights or remedies hereunder, except as specifically provided in Section 5.10.

VIII.6 Severability. In the event that any provision of this Agreement or the application thereof, becomes or is declared by a court of competent jurisdiction to be illegal, void or unenforceable, the remainder of this Agreement will continue in full force and effect and the application of such provision to other persons or circumstances will be interpreted so as reasonably to effect the intent of the parties hereto. The parties further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision that will achieve, to the extent possible, the economic, business and other purposes of such void or unenforceable provision.

VIII.7 Other Remedies; Specific Performance. Except as otherwise provided herein, any and all remedies herein expressly conferred upon a party will be deemed cumulative with and not exclusive of any other remedy conferred hereby, or by law or equity upon such party, and the exercise by a party of any one remedy will not preclude the exercise of any other remedy. The parties hereto agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to seek an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof in any court of the United States or any state having jurisdiction, this being in addition to any other remedy to which they are entitled at law or in equity.

VIII.8 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, regardless of the laws that might otherwise govern under applicable principles of conflicts of law thereof.

VIII.9 Rules of Construction. The parties hereto agree that they have been represented by counsel during the negotiation and execution of this Agreement and, therefore, waive the application of any law, regulation, holding or rule of construction providing that ambiguities in an agreement or other document will be construed against the party drafting such agreement or document.

VIII.10 Assignment. No party may assign either this Agreement or any of its rights, interests, or obligations hereunder without the prior written approval of the other parties. Subject to the preceding sentence, this Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns.

VIII.11 Waiver of Jury Trial. EACH OF PARENT, COMPANY AND MERGER SUB HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE ACTIONS OF PARENT, COMPANY OR MERGER SUB IN THE NEGOTIATION, ADMINISTRATION, PERFORMANCE AND ENFORCEMENT HEREOF.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized respective officers as of the date first written above.

QUANTUM CORPORATION

By: /s/ Michael A. Brown

Name: Michael A. Brown

Title: CEO

QUICK ACQUISITION CORPORATION

By: /s/ Richard L. Clemmer

Name: Richard L. Clemmer

Title: CEO

ATL PRODUCTS, INC.

By: /s/ Kevin C. Daly

Name: Kevin C. Daly

Title: CEO

EXECUTION VERSION

FIRST AMENDMENT TO CREDIT AGREEMENT

THIS FIRST AMENDMENT TO CREDIT AGREEMENT (this "Amendment"), dated as of June 26, 1998, is entered into by and among:

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

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

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

RECITALS

A. Each of (i) Borrower, (ii) the Banks, (iii) the Administrative Agent, (iv) ABN AMRO Bank, N.V., San Francisco International Branch ("ABN") and CIBC Inc., as co-arrangers for the Banks, (v) Bank of America National Trust and Savings Association, as documentation agent for the Banks, (vi) ABN, as syndication agent for the Banks and (vii) BankBoston, N.A., The Bank of Nova Scotia, Fleet National Bank and The Industrial Bank of Japan, Limited, as co-agents for the Banks, are parties to a Credit Agreement dated as of June 6, 1997 (the "Credit Agreement").

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

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

AGREEMENT

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

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

2. Amendments to Credit Agreement. Subject to the satisfaction of the conditions set forth in Paragraph 4 below, the Credit Agreement is hereby amended as follows:

(a) Paragraph 1.01 is amended by adding thereto, in the appropriate alphabetical order, the definitions of the terms "ATL" and "ATL Acquisition", "ATL In-Process R&D Charge", and "Year 2000 Problem" to read in their entirety as follows:

"ATL" shall mean ATL Products, Inc., a Delaware corporation.

"ATL Acquisition" shall mean the proposed acquisition by Borrower of ATL during Borrower's fiscal year 1999 which, if consummated, will be paid in Equity Securities of Borrower at an exchange price of $29.00 per share.

"ATL In-Process R&D Charge" shall mean the non-recurring charge, not to exceed $150,000,000 (pre-tax) in the aggregate, taken by Borrower in Borrower's fiscal year 1999 as a result of write-offs of in process research and development expenses and charges incurred in connection with the consummation of the ATL Acquisition.

"ATL Non-Recurring Integration Charges" shall mean the non-recurring integration expenses and charges not to exceed $10,000,000 (pre-tax) in the aggregate, taken by Borrower in Borrower's fiscal year 1999 as a result of

write-offs of business combination expenses and charges incurred in connection with the consummation of the ATL Acquisition.

"Year 2000 Problem" shall mean the risk that computer applications used by Borrower and its Subsidiaries may be unable to properly recognize and perform date-sensitive functions involving certain dates on or after December 31, 1999.

(b) Paragraph 4.01 is amended by adding a new subparagraph 4.01(u) immediately after subparagraph 4.01(t) to read in its entirety as follows:

(u) Year 2000 Compliance. Borrower and its Subsidiaries have reviewed or are reviewing the areas within their business and operations which reasonably could be expected to be adversely affected by, and have developed or are developing a program to address on a timely and adequate basis, the Year 2000 Problem and intend to make appropriate inquiry of material suppliers and vendors. Upon the completion of such ongoing review and development of such a program, Borrower and its Subsidiaries believe that they will be able to timely and adequately address the Year 2000 Problem such that it could not reasonably be expected to have a Material Adverse Effect.

(c) Clause (iii) of Subparagraph 5.01(a) is hereby amended to read in its entirety as follows:

(iii) Contemporaneously with the quarterly and year-end Financial Statements required by the foregoing clauses (i) and (ii), (A) a certificate of an Executive Officer of Borrower in the form of Exhibit E, appropriately completed, together with (1) such financial computations as Agents may reasonably request to determine compliance with the terms of this Agreement (a "Compliance Certificate") and (2) a statement by such Executive Officer of Borrower that the remediation efforts of Borrower and its Subsidiaries with respect to the Year 2000 Problem are proceeding as scheduled and that neither Borrower nor its Subsidiaries has received a management letter or other communication from an auditor, regulator or third party consultant indicating that Borrower or its Subsidiaries is failing to address the Year 2000 Problem; and (B) management's discussion of Borrower's operations for the period covered by such Financial Statements in the form supplied to Borrower's stockholders, including a comparison with Borrower's operations for the corresponding quarter in the immediately preceding fiscal year or with the immediately preceding fiscal year, as the case may be, as set forth in Borrower's 10-K and 10-Q reports filed by Borrower or any of its Subsidiaries with the Securities and Exchange Commission;

(d) Subparagraph 5.02(e) is amended by (i) deleting the "and" appearing at the end of clause (xviii), (ii) renumbering clause (xix) as clause (xx), and (iii) adding a new clause (xix) immediately after clause (xviii) to read in its entirety as follows:

(xix) Investments by Borrower in ATL in connection with the consummation of the ATL Acquisition; and

(e) Clause (iv) of Subparagraph 5.02(f) is amended to read in its entirety as follows:

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

(f) Clause (ii) of Subparagraph 5.02(l) is hereby amended to read in its entirety as follows:

(ii) Borrower shall not permit its Tangible Net Worth on any date of determination (such date to be referred to herein as a "determination date") which occurs after March 31, 1997 (such date to be referred to herein as the "base date") to be less than the sum on such determination date of the following:

(A) $760,000,000;

plus

(B) Seventy-five percent (75%) of the sum of Borrower's consolidated quarterly net income (ignoring any quarterly losses) for each quarter after the base date through and including the quarter ending immediately prior to the determination date;

plus

(C) Ninety percent (90%) of the Net Proceeds derived from the conversion of the Convertible Subordinated Debentures;

plus

(D) Seventy-five percent (75%) of the Net Proceeds of all Equity Securities issued by Borrower and its Subsidiaries (excluding any issuance where the total proceeds are less than $10,000,000) during the period commencing on the base date and ending on the determination date; provided, however, that (1) the Net Proceeds of all Equity Securities issued by Borrower in connection with the consummation of the ATL Acquisition and (2) the Net Proceeds of all Equity Securities issued by Borrower as a result of the failed consummation of the ATL Acquisition shall not be included;

plus

(E) If the ATL Acquisition is consummated, for the period ending December 31, 1998, seventy-five percent of the sum of (1) the aggregate amount of all Equity Securities issued by Borrower in connection with the ATL Acquisition less (2) the aggregate amount paid by Borrower for all Equity Securities purchased in connection with the ATL Acquisition; provided, however, that if the ATL Acquisition is not consummated, for the period ending March 31, 1999, seventy-five percent (75%) of the sum of (x) all amounts paid by Borrower to purchase its Equity Securities in connection with the ATL Acquisition less (y) the Net Proceeds of all Equity Securities issued by Borrower as a result of the failed consummation of the ATL Acquisition;

minus

(F) the lesser of (1) the aggregate amount paid by Borrower to repurchase its capital stock and (2) $50,000,000; provided, however, that with respect to the period in which the ATL Acquisition is consummated, amounts to be deducted hereunder shall not be included;

minus

(G) an amount equal to the after-tax sum of any ATL In-Process R&D Charge.

(g) Clause (iii) of Subparagraph 5.02(l) is hereby amended to read in its entirety as follows:

(iii) In any consecutive four-quarter period, Borrower shall not permit (A) more than two quarterly net losses aggregating to more than five percent (5%) of its Tangible Net Worth as determined as of the fiscal quarter immediately preceding the date of determination or (B) its cumulative net income for any consecutive four-quarter period to be less than one Dollar; provided, however, that for purposes of calculating Borrower's net income for any period which includes the quarters ending on June 30, 1998, September 30, 1998 and December 31, 1998, such calculation shall exclude the ATL In-Process R&D Charge and the ATL Non-Recurring Integration Charges.

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

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

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

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

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

4. Effective Date. The amendments effected by Paragraph 2 above shall become effective on June 26, 1998 (the "Effective Date"), subject to receipt by Administrative Agent and the Banks on or prior to the Effective Date of the following, each in form and substance satisfactory to Administrative Agent, the Banks executing this Amendment and their respective counsel:

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

(b) A Certificate of the Secretary or an Assistant Secretary of Borrower, dated the Effective Date, certifying that (i) the Certificate of Incorporation and Bylaws of Borrower, in the form delivered to Administrative Agent on the Closing Date, are in full force and effect and have not been amended, supplemented, revoked or repealed since such date, (ii) that the resolution of the Borrower, in the form delivered to Administrative Agent on the Closing Date, is in full force and effect and has not been amended, supplemented, revoked or repealed since such date, and (iii) the incumbency, signatures and authority of the officers of Borrower authorized to execute, deliver and perform the Credit Agreement, this Amendment, the other Credit Documents and all other documents, instruments or agreements relating thereto executed or to be executed by Borrower and indicating each such officer which is an Executive Officer or Authorized Financial Officer;

(c) A nonrefundable amendment fee equal to one-twentieth of one percent (0.05%) of the Total Commitment to be shared among the Banks that execute this Amendment on or before June 30, 1998 pro rata in accordance with such Banks' respective Proportionate Share; and

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

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

6. Miscellaneous.

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

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

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

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

QUANTUM CORPORATION

By: /s/ Anthony H. Lewis, Jr.
Name: Anthony H. Lewis, Jr.
Title: Vice President, Finance & Treasurer

CANADIAN IMPERIAL BANK OF COMMERCE,
as Administrative Agent

By: /s/ Cyd Petre
Name: Cyd Petre
Title: Executive Director

ABN AMRO BANK N.V., San Francisco
International Branch, as a Bank

By: /s/ Robin S. Yim
Name: Robin S. Yim
Title: Group Vice President

By: /s/ Thomas R. Wagner
Name: Thomas R. Wagner
Title: Group Vice President

CIBC INC., as a Bank

By: /s/ Cyd Petre
Name: Cyd Petre
Title: Executive Director

BANK OF AMERICA NATIONAL TRUST AND
SAVINGS ASSOCIATION, as a Bank

By: /s/ Kevin McMahon
Name: Kevin McMahon
Title: Managing Director

BANKBOSTON, N.A., as a Bank

By: /s/ Elizabeth Passela
Name: Elizabeth Passela
Title: Director

THE BANK OF NOVA SCOTIA, as a Bank

By: /s/ Chris Osborn
Name: Chris Osborn
Title: Relationship Manager

FLEET NATIONAL BANK, as a Bank

By: /s/ Mathew M. Glauninger
Name: Mathew M. Glauninger
Title: VP

THE INDUSTRIAL BANK OF JAPAN, LIMITED, as a Bank

By: /s/ Haruhiko Masuda
Name: Haruhiko Masuda
Title: Deputy General Manager

BANQUE NATIONALE DE PARIS, as a Bank

By: /s/Michael D. McCorriston/Rafael C. Lumanlan
Name: Michael D. McCorriston/Rafael C. Lumanlan
Title: Vice President/Vice President

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

By: /s/ Yasushi Satomi
Name: Yasushi Satomi
Title: Senior Vice President

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

By: /s/ Patrick Clemens
Name: Patrick Clemens
Title: Assistant Vice President

THE FUJI BANK, LIMITED, as a Bank

By: /s/ Keiichi Ozawa
Name: Keiichi Ozawa
Title: Joint General Manager

ROYAL BANK OF CANADA, as a Bank

By: /s/ Stephen S. Hughes
Name: Stephen S. Hughes
Title: Senior Manager

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

By: /s/ Andre Heitbaum
Name: Andre Heitbaum
Title: Asst. Vice President

By: /s/ William W. McGinty
Name: William W. McGinty
Title: Director

KEYBANK NATIONAL ASSOCIATION, as a Bank

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

THE LONG-TERM CREDIT BANK OF JAPAN, LTD., as a Bank

By: /s/ Noboru Akahane
Name: Noboru Akahane
Title: Deputy General Manager

MELLON BANK, as a Bank

By: /s/ Edwin H. Wiest
Name: Edwin H. Wiest
Title: First Vice President

SANWA BANK LIMITED, SAN FRANCISCO BRANCH, as a Bank

By: /s/ Makoto Sato
Name: Makoto Sato
Title: General Manager

THE SUMITOMO TRUST AND BANKING CO., LTD., as a Bank

By: /s/ Ninoos Y. Benjamin
Name: Ninoos Y. Benjamin
Title: Senior Vice President & Manager

PARIBAS, as a Bank

By: /s/ Paul Runge
Name: Paul Runge
Title: Managing Director

PARIBAS, as a Bank

By: /s/ Nanci Meyer
Name: Nanci Meyer
Title: Vice President

THE SUMITOMO BANK, LIMITED, as a Bank

By: /s/ Kozo Masaki
Name: Kozo Masaki
Title: General Manager

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF QUANTUM CORPORATION FOR THE QUARTER ENDED JUNE 28, 1998
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