Form 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the quarterly period ended September 27, 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 September 27, 1998: 151,100,273

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)

<CAPTION>

	Three Months Ended		Six Months Ended	
	September 27, 1998	September 28, 1997	September 27, 1998	September 28, 1997
<S>	<C>	<C>	<C>	<C>
Sales	$ 1,164,711	$ 1,553,491	$ 2,267,734	$ 2,999,635
Cost of sales	972,822	1,255,407	1,909,473	2,425,618
Gross profit	191,889	298,084	358,261	574,017
Operating expenses:				
Research and development	82,640	74,493	166,938	148,522
Sales and marketing	45,386	41,971	83,723	83,704
General and administrative	21,494	24,268	38,895	51,739
	149,520	140,732	289,556	283,965
Income from operations	42,369	157,352	68,705	290,052
Other (income) expense:				
Interest expense	6,725	8,293	13,227	14,328
Interest income and other, net	(6,133)	(6,811)	(14,836)	(14,511)
Equity in loss of investee	17,114	15,629	41,350	19,571
	17,706	17,111	39,741	19,388
Income before income taxes	24,663	140,241	28,964	270,664
Income tax provision	7,399	36,463	8,689	70,372
Net income	$ 17,264	$ 103,778	$ 20,275	$ 200,292
Net income per share:				
Basic	$ 0.11	$ 0.77	$ 0.13	$ 1.51
Diluted	$ 0.11	$ 0.63	$ 0.13	$ 1.23
Weighted average common shares:				
Basic	151,527	134,256	155,121	132,583

Diluted 156,489 171,250 161,223 166,714

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

</TABLE>

QUANTUM CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	September 27, 1998	March 31, 1998
	(unaudited)	(Note 1)
Assets		
Current assets:		
Cash and cash equivalents	$ 549,446	$ 642,150
Marketable securities	29,240	71,573
Accounts receivable, net of allowance for doubtful accounts of $10,985 and $12,928	663,014	737,928
Inventories	295,799	315,035
Deferred taxes	133,993	133,981
Other current assets	92,061	124,670
Total current assets	1,763,553	2,025,337
Property and equipment, net of accumulated depreciation of $256,909 and $220,482	286,248	285,159
Purchased intangibles, net	18,040	24,490
Other assets	60,963	103,425
	$ 2,128,804	$ 2,438,411
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 397,349	$ 446,243
Accrued warranty	72,296	74,017
Accrued compensation	47,844	60,344
Income taxes payable	28,084	39,777
Current portion of long-term debt	978	935
Other accrued liabilities	61,027	78,920
Total current liabilities	607,578	700,236
Deferred taxes	39,682	38,668
Convertible subordinated debt	287,500	287,500
Long-term debt	39,485	39,985
Shareholders' equity:		
Common stock	802,590	776,291
Retained earnings	616,189	595,731
Treasury stock	(264,220)	--
Total shareholders' equity	1,154,559	1,372,022
	$ 2,128,804	$ 2,438,411

See accompanying notes to condensed consolidated financial statements.

<TABLE>

QUANTUM CORPORATION

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

<CAPTION>

	Six Months Ended September 27, 1998	September 28, 1997
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	$ 20,275	$ 200,292
Items not requiring the current use of cash:		
Depreciation	45,341	39,553
Amortization	7,312	5,986
Equity in loss of investee	41,350	19,571
Deferred income taxes	1,003	122
Compensation related to stock plans	3,443	1,733
Changes in assets and liabilities:		
Accounts receivable	74,914	(142,352)
Inventories	19,236	(133,723)
Accounts payable	(48,895)	124,869
Income taxes payable	(11,693)	13,323
Accrued warranty	(1,721)	(10,543)
Other assets and liabilities	16,485	22,429
Net cash provided by operating activities	167,050	141,260
Cash flows from investing activities:		
Investment in property and equipment	(57,442)	(78,804)
Purchase of marketable securities	(48,798)	--
Purchase of equity securities	--	(15,000)
Purchase of intangible assets	--	(10,000)
Proceeds from maturity of marketable securities	91,131	--
Proceeds from disposition of property and equipment	12	23,785
Proceeds from sale of interest in recording heads operations	--	94,000
Net cash provided by (used in) investing activities	(15,097)	13,981
Cash flows from financing activities:		
Purchase of treasury stock	(264,220)	--
Principal payments on credit facilities	(457)	(180,541)
Proceeds from issuance of convertible subordinated note	--	287,500
Proceeds from issuance of common stock	20,020	30,419
Net cash provided by (used in) financing activities	(244,657)	137,378
Net increase (decrease) in cash and cash equivalents	(92,704)	

		292,619
Cash and cash equivalents at beginning of period	642,150	345,125
	---------	---------
Cash and cash equivalents at end of period	$ 549,446	$ 637,744
	=========	=========
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 1,882	$ 10,504
Income taxes, net of (refunds)	$ (7,816)	$ 21,517

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

</TABLE>

QUANTUM CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of presentation

The accompanying unaudited condensed consolidated financial statements 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 ("Quantum" or the "Company") for the fiscal year ended March 31, 1998 included in its Annual Report on Form 10-K filed with the Securities and Exchange Commission.

2. Inventories

Inventories consisted of the following:
(In thousands)

	September 27, 1998	March 31, 1998
Materials and purchased parts	$ 48,294	$ 72,990
Work in process	25,550	44,303
Finished goods	221,955	197,742
	--------	--------
	$295,799	$315,035
	========	========

3. Net income per share

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

<CAPTION>

(In thousands, except per share data)	Three Months Ended		Six Months Ended	
	September 27, 1998	September 28, 1997	September 27, 1998	September 28, 1997
	--------	--------	--------	--------

<S> <C> <C> <C> <C>

Numerator:				
Numerator for basic net income per share - income available to common stockholders	$ 17,264	$103,778	$ 20,275	$200,292
Effect of dilutive securities:				
5% convertible subordinated notes	--	1,810	--	3,620
7% convertible subordinated notes	--	1,957	--	1,957
	--------	--------	--------	--------
Numerator for diluted net income per share - income available to common stockholders	$ 17,264	$107,545	$ 20,275	$205,869
	========	========	========	========
Denominator:				
Denominator for basic net income per share - weighted average shares	151,527	134,256	155,121	132,583
Effect of dilutive securities:				
Outstanding options	4,962	11,164	6,102	10,313
Series B preferred stock	--	180	--	180
5% convertible subordinated notes	--	21,626	--	21,626
7% convertible subordinated notes	--	4,024	--	2,012
	--------	--------	--------	--------
Denominator for diluted net income per share - adjusted weighted average shares and assumed conversions	156,489	171,250	161,223	166,714
	========	========	========	========
Basic net income per share	$ 0.11	$ 0.77	$ 0.13	$ 1.51
	========	========	========	========
Diluted net income per share	$ 0.11	$ 0.63	$ 0.13	$ 1.23
	========	========	========	========

</TABLE>

The computation of diluted net income per share for the three and six months ended September 27, 1998, excluded the effect of the 7% convertible subordinated notes issued in July 1997, which are convertible into 6,206,152 shares 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 $300 million of its common stock through the open market. The intent of the repurchase is to minimize the dilutive impact of the shares issued to complete the acquisition of ATL Products, Inc. ("ATL"), (refer to note 8 to the condensed consolidated financial statements). At September 27, 1998, the Company had repurchased 12.6 million shares of common stock for approximately $264 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. On September 25, 1998, plaintiff filed his opening appellate brief.

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 on these or other patents owned by Papst. The final results of this litigation, as with any litigation, are uncertain. 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.

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. Equity Investee

On May 16, 1997, the Company sold a 51% majority interest in its recording heads operations to Matsushita-Kotobuki Electronics Industries, Ltd. ("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.

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.

During the first half of fiscal year 1999, the Company provided support services to MKQC. The support services were primarily comprised of finance, human resources, facilities, legal, and computer support. MKQC is obligated to reimburse the Company for the cost of the services.

The following is summarized financial information for MKQC:

(In thousands)	Six Months Ended September 27, 1998
Sales	$ 62,427
Gross profit (loss)	(44,728)
Loss from operations	(78,194)
Net loss	(84,389)

	September 27, 1998
Current assets	$ 36,936
Noncurrent assets	187,317
Current liabilities	139,715
Note payable to Quantum	52,575
Other noncurrent liabilities	17,365

At September 27, 1998, MKQC was in contractual violation of a covenant related to its financing relationship with a bank, under which approximately $80 million and $27 million was outstanding under long-term debt/lease and revolving debt agreements, respectively. MKQC has notified the bank of the violation and is currently working towards obtaining a covenant waiver and/or amendments to the loan agreement. MKQC management believes, based on discussions with the bank, and MKQC's ability to continue to draw funds against the credit facility subsequent to September 27, 1998, that it will obtain a covenant waiver and/or amendments from the bank. However, there can be no assurances that such a covenant waiver and/or amendments will be obtained or that such amendments, if any, will be provided on terms favorable to MKQC.

As a result of the covenant violation, the associated obligations have been classified as current.

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 only in shareholders' equity, to be included in the determination of comprehensive income.

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

<CAPTION>

(In thousands)	Three Months Ended		Six Months Ended	
	September 27, 1998	September 28, 1997	September 27, 1998	September 28, 1997

<S> <C> <C> <C> <C>

Net income	$ 17,264	$ 103,778	$ 20,275	$ 200,292
Change in cumulative translation adjustment	832	(792)	128	251
	---------	---------	---------	---------
Comprehensive income	$ 18,096	$ 102,986	$ 20,403	$ 200,543
	=========	=========	=========	=========

</TABLE>

8. Subsequent Event - ATL Acquisition

On September 28, 1998, the Company completed the acquisition of ATL. 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 approximately $300 million. Under the terms of the agreement, each outstanding share of ATL's common stock was converted into 1.7554 shares of Quantum common stock. On September 28, 1998, the Company issued approximately 17 million shares in exchange for the outstanding shares of ATL. In addition, on September 28, 1998, the outstanding stock options to purchase ATL's common stock became options to purchase approximately 1.8 million shares of the Company's common stock. The acquisition will be accounted for as a purchase. The Company expects to recognize a charge for acquired in-process research and development in the third quarter of fiscal year 1999. 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.
- Strategic Developments
- A comparison of Quantum's results of operations in the three and six months ended September 27, 1998 with the results of operations in the corresponding periods 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.

Forward-Looking Statements

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 can be identified by the use of forward-looking terminology, such as "may," "will," "project," "estimate," "anticipate," "expect," "continue," "potential," "opportunity" or the negative thereof or other variations thereon or comparable terminology or 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 Tandberg Data ASA for the manufacture and marketing of DLTtape drives based on current DLTtape and future Super DLTtape technology, as well as to Fuji and Maxell for the manufacture 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 currently 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. This product 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. This product 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, IIIXT, 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) TS. Announced in September 1998 and began mass production in October 1998. The latest drive in the Quantum Bigfoot family and the first 5.25-inch drive with Shock Protection System(TM), a technology that protects the mechanical platform against the impact of mishandling during shipping or integration into a PC. The Bigfoot TS features capacities of 6.4 GB, 8.4 GB, 12.7 GB and 19.2 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 168 MB per second, average seek time of 10.5 milliseconds ("ms"), and a rotational speed of 4,000 RPM.

Quantum 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 time of 12 ms, and a rotational speed of 4,000 RPM.

Quantum Fireball(TM) EX. Features Shock Protection System, 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. 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.

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, 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 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.

On September 28 1998, the Company completed the acquisition of ATL Products, Inc. ("ATL"). 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 acquisition was made with Quantum common stock, for a total acquisition cost of approximately $300 million. The acquisition 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-end 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.

Strategic Developments

Plans to Strengthen Desktop Hard Disk Drive Business. In September 1998, the Company announced and made progress toward implementing plans to strengthen its desktop hard disk drive business. The plans include the development of lower-cost desktop hard disk drives targeted at the requirements of low-cost PC's, a portion of the hard disk drive market which has expanded significantly during the three quarters ended September 27, 1998. The plans call for reductions in product complexity through fewer combinations of head/media and motor sources, streamlining the shipment process, product design and process improvements to increase reliability and reduce failure rates, and reductions in infrastructure costs. These plans include a reduction in workforce, with 113 employees terminated, temporary employment reduced, and numerous open position eliminated in September 1998, and further reductions planned through attrition and delayed hiring. Implementation of the plan is expected to be substantially completed by March 31, 1999, and is expected to result in approximately $60 million of annualized expense reduction as a result of lower expenses associated with infrastructure and product development, manufacturing, shipping and warranty.

Tandberg Data ASA Manufacturing License and Marketing Agreement for DLTtape Products. In September 1998, Quantum and Tandberg Data ASA ("Tandberg") entered into a manufacturing license and marketing agreement through which Tandberg can become an independent second source for DLTtape drives, including products under development based on Quantum's Super DLTtape technology as well as current DLTtape technology. Tandberg expects to implement full DLTtape manufacturing operations within a year. As part of the agreement, Tandberg intends to market a full spectrum of DLTtape products, including drives, media, and libraries. The agreement also provides Quantum with the future option to negotiate a license to manufacture Tandberg's Scalable Linear RecordingTM brand tape drives, which could provide Quantum with complementary products for expanding into the entry-level segment of the tape-drive market. Tandberg has its manufacturing facilities in Oslo, Norway, and has significant marketing, sales and support operations in the USA, UK, France, Germany, Norway, Singapore, and Japan. With Tandberg's strong name recognition and established distribution channels in the European market, Tandberg is expected to be a synergistic partner.

ATL Acquisition Completed - Subsequent Event. As discussed in the Business Overview section, on September 28, 1998, the Company completed the acquisition of ATL in an all-stock transaction valued at approximately $300 million. 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. As a wholly owned subsidiary of Quantum, ATL will retain its name. ATL's product line will combine its existing high-end and mid-range tape-automation library products with the entry-level tape-automation libraries and autoloaders offered by Quantum. ATL will report to Peter van Cuylenburg, president of Quantum's Specialty Storage Products Group. ATL will continue to be led by its president and chief executive officer, Kevin C. Daly, Ph.D.

Results of Operations

Sales. Sales for the three and six months ended September 27, 1998 were $1.165 billion and $2.268 billion, respectively, compared to $1.553 billion and $3.000 billion, respectively, for the corresponding periods in fiscal year 1998. The decrease in sales reflected increases in DLTtape media revenues which were more than offset by lower revenue on sales of desktop and high-end hard disk drives and DLTtape drives. The increase in DLTtape media revenue included increased royalties earned from the shift of media sales to licensed media manufacturers, an activity that became significant after the second quarter of fiscal year 1998. Although high-end hard disk drive shipments increased in the first half of fiscal year 1999, compared to the corresponding period in fiscal year 1998, the decline in average unit prices, despite improved product performance, resulted in lower comparative high-end revenue. The decline in desktop hard disk drive revenues reflected a decline in shipments and average unit prices, as intense competition and aggressive pricing, together with the impact of growth in the value-PC market, significantly eroded

desktop prices. The decline in DLTtape drive revenue resulted from a decline in shipments and average unit prices, reflecting customers holding lower inventory levels with the increase in DLTtape drive product availability, as well as increased competition.

Sales to the Company's top five customers for the three and six months ended September 27, 1998 represented 44% of sales, compared to 43% and 46% of sales, respectively, for the corresponding periods in fiscal 1998 (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 Hewlett-Packard were 15% of sales in the three and six months ended September 27, 1998, compared to 10% and 11% of sales, respectively, for the corresponding periods in fiscal year 1998. Sales to Compaq Computer, Inc. were 13% and 14% of sales in the three and six months ended September 27, 1998, respectively, compared to 19% of sales for the corresponding periods in fiscal year 1998 (including sales made to Digital Equipment Corporation).

The OEM and distribution channel sales were 65% and 32% of sales in the quarter ended September 27, 1998, respectively, compared to 60% and 40% of sales in the quarter ended September 28, 1997. For the first six months of fiscal year 1999, OEM and distribution channel sales were 64% and 33% of sales, compared to 61% and 39% of sales for the corresponding periods of fiscal year 1998.

Gross Margin Rate. The gross margin rate for the quarter ended September 27, 1998 decreased to 16.5% from 19.2% in the quarter ended September 28, 1997. The gross margin rate for the first six months of fiscal year 1999 was 15.8%, compared to 19.1% in the corresponding period in fiscal year 1998. These margin rate decreases reflected an increase in DLTtape media royalty revenue which positively impacts the margin rate, an increase in the proportion of revenue coming from the sale of higher margin DLTtape drive and automation products, although at generally lower margin rates compared to the prior year periods, as well as improvement in second quarter fiscal year 1999 margins on high-end hard disk drives, being more than offset by the decline in prices and gross margins earned on desktop hard disk drives. The decline in desktop hard disk drive margins reflected intense competition and aggressive pricing together with the impact of growth in the value-PC market significantly eroding desktop prices. DLTtape products achieved a significantly higher gross margin rate than that achieved on the Company's other products. Through at least the third quarter of fiscal year 1999, the Company expects to experience increased gross margin pressure with respect to its desktop and high-end hard disk drive products.

Research and Development Expenses. Research and development expenses in the three and six months ended September 27, 1998, were $83 million, or 7.1% of sales, and $167 million, or 7.4% of sales, respectively, compared to $74 million, or 4.8% of sales, and $149 million, or 5.0% of sales, respectively, in the corresponding periods in fiscal year 1998. These increases 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. The amount of research and development expenses is expected to increase in the third quarter of fiscal year 1999 as compared to the second quarter of fiscal year 1999.

Sales and Marketing Expenses. Sales and marketing expenses in the three and six months ended September 27, 1998, were $45 million, or 3.9% of sales, and $84 million, or 3.7% of sales, respectively, compared to $42 million, or 2.7% of sales, and $84 million, or 2.8% of sales, respectively, in the corresponding periods of fiscal year 1998. The increase in sales and marketing expenses as a percentage of sales reflected decreasing sales, while sales and marketing expenses remained relatively flat compared to the prior year. Fiscal 1999 expenses included an increase in marketing and advertising costs associated with DLTtape products. The amount of sales and marketing expenses are expected to increase in the third quarter of fiscal year 1999 as compared to the second quarter of fiscal year 1999.

General and Administrative Expenses. General and administrative expenses in the three and six months ended September 27, 1998, were $21 million, or 1.8% of sales, and $39 million, or 1.7% of sales, respectively, compared to $24 million, or 1.6% of sales, and $52 million, or 1.7% of sales, respectively, in the corresponding periods of fiscal year 1998. The decrease in general and administrative expenses reflected the impact of cost control efforts, including reduced bonus expenses, partially offset by severance and other costs incurred in the second quarter of fiscal year 1999, in response to the lower level of earnings and sales.

Interest and Other Income/Expense. Net interest and other income and expense in the three and six months ended September 27, 1998 was relatively flat compared to the corresponding periods of fiscal year 1998.

Equity in Loss of Investee. The equity in loss of investee for the three and six months ended September 27, 1998 was $17 million and $41 million, respectively, compared to $16 million and $20 million for the corresponding periods of fiscal 1998. 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. Although manufacturing yields improved in the second quarter of fiscal year 1999, the increased equity in loss of investee reflected MKQC's insufficient manufacturing volumes. Until such time as MR recording heads are cost-effectively produced by MKQC, the Company expects to continue to incur losses based on its pro rata ownership interest in the joint venture. The Company anticipates that operating results in the third quarter of fiscal 1999 will continue to be adversely impacted by losses associated with MKQC.

Income Taxes. The effective tax rate for the three and six months ended September 27, 1998 was 30%, compared to 26% for the corresponding periods in fiscal 1998. 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. This trend is expected to continue and is expected to result in future increases to the effective tax rate.

ATL Acquisition. The Company's acquisition of ATL, which was completed on September 28, 1998 is expected to have a substantial impact on the Company's financial results in the third quarter of fiscal year 1999. The Company's sales are expected to be impacted by the future sales of ATL's DLTtape libraries and services. The Company's gross margin is expected to be impacted by these sales as well as the impact of the amortization of completed technology and other intangible assets recorded under the purchase method of accounting. Operating and other expenses are expected to be impacted by a charge for acquired in-process research and development, the amortization of intangible assets, including goodwill, as well as the ongoing operating costs of ATL. Income taxes are expected to be impacted by a deferred tax liability recorded under the purchase method of accounting. Overall, including or excluding the impact of the in-process research and development charge, the acquisition is expected to have a negative impact on the Company's results of operations in fiscal year 1999, primarily from the amortization of intangible assets, including goodwill.

Based on existing accounting and standard valuation practices, the Company had estimated that between $90 million and $145 million of the purchase price would be allocated to the value of in-process research and development under the purchase method of accounting. However, a recent letter to the American Institute of Certified Public Accountants ("AICPA") and other public communications from the Securities and Exchange Commission ("SEC") have resulted in uncertainty and confusion about valuation practices. Based on the Company's understanding of the SEC's position, the Company expects the value assigned to in-process research and development to be substantially less than previously estimated.

Year 2000

A year 2000 computer issue is raised by the possibility that unless modifications are made, by midnight on December 31, 1999, the vast majority of computer systems may not be able to distinguish the year 2000 from the year 1900. Many experts fear that this programming flaw could debilitate computer systems worldwide. The pervasive use and dependency on computer technology in all facets of modern commerce means that the inherent risks to companies, including Quantum, from this "Year 2000" issue is potentially quite vast. For example, risks are associated with potential disruptions or failures within Quantum (i.e., Quantum's products and operations), within Quantum's suppliers, customers and service providers (i.e., their products and operations), and so on. Because the Year 2000 issue can impact Quantum indirectly through its suppliers, service providers and customers, an assessment and prediction of the impact of the Year 2000 issue on the Company is difficult.

The Company is in the process of implementing plans to address Year 2000 issues both within and outside of Quantum. In addressing the Year 2000 issues and risks, the Company has focused, and will continue to focus, its efforts on the Company's enterprise-wide and departmental operations, products, critical suppliers (including service providers), and key customers. Within Quantum, these efforts are intended to encompass all major categories of computer systems in use by the Company, including those utilized in manufacturing, research and development, sales, finance, and human resources. Within each of these areas, the Company prioritizes its Year 2000 issues and risks on three levels: critical, key, or active. The Company is acting to remedy issues as they are revealed while it simultaneously completes its assessment of Year 2000 risks. Corrective action completed to date includes the implementation of significant system upgrades that were completed in July 1998. The Company currently anticipates that it will have assessed and remedied all critical areas of its own operations by the end of December 1998, and that it will be prepared to internally certify readiness of these critical areas by the end of March 1999. The Company also plans to develop contingency plans based, in part, on the assessment results.

The Company's estimated timetable for assessment and correction of Year 2000 issues is summarized in the following table:

	Estimated Completion Date		
	Critical	Key	Active
Readiness:			
o Assessment	November 1998	March 1999	August 1999
o Correction	December 1998	May 1999	October 1999

The Company's failure to complete critical readiness assessments, critical corrective actions or implement viable contingency plans in a timely matter could have a material, adverse effect on the Company's business, financial condition and results of operations.

Costs incurred to date in addressing the Year 2000 issue were approximately $5.5 million. Based on assessment and correction projects underway, the Company currently expects that the total cost of addressing the Year 2000 issue, including both incremental spending and redeployed resources, will not exceed $15 million. A majority of the cost is expected to relate to the redeployed resources. As the Company's risk assessment and correction activities continue, these costs may change. In addition, the Company's total cost estimate does not include potential costs related to any customer or other claims resulting from the Company's failure to adequately correct Year 2000 issues.

As indicated above, the Company's risk assessment includes understanding the Year 2000 readiness of its critical suppliers, and in particular MKE. The Company's risk assessment process associated with critical suppliers includes soliciting and analyzing responses to questionnaires distributed to these critical suppliers, as well as onsite interviews with certain critical suppliers. Quantum's reliance on critical suppliers, and, therefore, on the proper functioning of their information systems and software, means that any failure by these critical suppliers to address Year 2000 issues could have a material adverse impact on the Company's business, financial condition and results of operations.

Although the Company does not currently expect any significant disruption to its operations or operating results as a result of Year 2000 issues, the Company is taking all steps it believes are appropriate to identify and resolve any Year 2000 issues. However, there can be no assurance that the Company will be able to assess, identify and correct Year 2000 issues in a timely or successful manner.

The foregoing statements regarding the Company's Year 2000 plans and the

Company's expectations for resolving these issues and the costs associated therewith are forward-looking statements and actual results could vary. The Company's success in addressing Year 2000 issues could be impacted by the severity of the problems to be resolved within the Company, by Year 2000 issues affecting its suppliers and service providers, and by the costs associated with third party consultants and software necessary to address these issues.

Liquidity and Capital Resources

Cash, cash equivalents and marketable securities were $579 million at September 27, 1998, compared to $714 million at March 31, 1998. The decrease in cash reflected financing and investing activities, primarily the $264 million purchase of treasury stock, as discussed below, and investment in property and equipment. Partially offsetting this use of cash, operating activities generated cash, primarily from the collection of accounts receivable and net income adjusted for non-cash transactions, including depreciation, amortization, and equity in loss of investee.

In May 1998, the Board of Directors authorized the Company to repurchase approximately $300 million 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 ATL acquisition. At September 27, 1998, the Company had repurchased 12.6 million shares of common stock for approximately $264 million.

As discussed in the Business Overview section, on September 28, 1998, the Company completed the acquisition of ATL. On September 28, 1998, the Company issued approximately 17 million shares in exchange for the outstanding shares of ATL, and outstanding stock options to purchase ATL's common stock became options to purchase approximately 1.8 million shares of the Company's common stock.

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 September 27, 1998, there was no outstanding balance drawn on this line.

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.

Based on the current adverse conditions in the hard disk drive market, the Company has reduced capital spending and expects to spend less than $150 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.

- Declining desktop hard disk drive prices - In conjunction with intense competition, the growth of the low-cost PC market, often referred to as the "sub $1,000" PC market, has led to a shift in the storage market toward lower priced hard disk drives.

- o Rapid technological change - Technology advancement in the information storage industry is increasingly rapid and the customer qualification process is difficult.

- o 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.

- o 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 half 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 these 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 half of fiscal year 1999, although with less of an adverse impact in the first half of fiscal year 1999. 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. Furthermore, 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 half 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 five quarters, although with decreased losses in the first half 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.

Declining Desktop Hard Disk Drive Prices. As discussed above, intense competition has resulted in aggressive pricing in the desktop hard disk drive market. The intense competition, when combined with the growth of the low-cost PC market, often referred to as the "sub $1,000" PC market, has led to a shift in the storage market toward lower priced desktop hard disk drives. To be successful as a hard disk drive supplier in general as well as in the low cost PC market, cost structure, including corporate infrastructure, materials, distribution and warranty costs must be appropriately aligned to the product performance and price required to compete in this market. Intense competition, combined with the lower prices in the desktop disk drive market has resulted in three consecutive quarters, including the second quarter of fiscal year 1999, of increasing operating losses associated with the Company's desktop hard disk drives. Although the Company has plans to bring the cost structure of desktop hard disk drives into alignment with prices, there can be no assurance that the Company's plans will be successful or implemented timely. Continued growth of the low cost market as a portion of the overall hard disk drive market could result in increasingly adverse pricing having an increasingly adverse impact on the Company's results of operations. The Company will continue to evaluate its business model for its desktop hard disk products given the challenging environment in this market.

Rapid Technological Change, New Product Development and Qualification, and Technology Investments. 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-end 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 half 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. See "Trends and Uncertainties More Specific to Quantum - MKQC Joint Venture for MR Recording Heads Development and Manufacturing" below for additional discussion of MKQC. 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 half of fiscal year 1999 and in fiscal year 1998. Sales to the Company's top five customers in the first half of fiscal year 1999 represented 44% of sales, compared to 46% of sales in the corresponding period in fiscal year 1998 (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). Sales to the Company's top customers are even more concentrated when sales to independent

subcontractors for key customers are considered. 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 25% of sales and the only profitable major product family in the second 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 acquisition of ATL, the Tandberg manufacturing license and marketing agreement, 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 manufacturing and sales, foreign exchange contracts, 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. 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.

Acquisition of ATL. As discussed in the Business Overview section, on September

28, 1998, the Company completed the acquisition of ATL. The 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 employees, customers, and suppliers; and managing a larger and more diverse business.

The successful combination of Quantum and ATL, as a wholly owned subsidiary of Quantum, will require substantial attention from management. The anticipated benefits of the acquisition will not be achieved unless the operations of ATL are successfully integrated with Quantum in a timely manner. The difficulties of assimilation may be increased by the need to integrate personnel and corporate cultures, and by Quantum's and ATL's limited personnel, management and other resources. The successful combination of the two companies will also require

integration of the companies' product offerings and the coordination of research and development and sales and marketing efforts. In addition, the process of combining the two organizations could cause the interruption of, or a loss of momentum in, the activities of either or both of the companies' businesses and could lead to certain customers to defer purchasing decisions. The diversion of the attention of management from day-to-day operations of Quantum or ATL, or difficulties encountered in the transition and integration of processes, could have a material adverse effect on the business, financial condition and results of operations of Quantum or ATL.

The success of Quantum and ATL after the acquisition is also dependent, in part, on the retention and integration of key management, technical, marketing, sales and customer support personnel of ATL, in particular its President and Chief Executive Officer, Kevin C. Daly, Ph.D. Prior to the acquisition, ATL entered into separation arrangements with Dr. Daly and certain other members of senior management. The success of the acquisition will depend, in part, upon the retention of these executives during the transition period following the acquisition. There can be no assurance that such executives will remain with Quantum for any specified period after the acquisition. Quantum's success with the acquisition will also depend in large part upon its ability to attract, retain and motivate highly skilled employees. Competition for such employees, particularly development engineers and experienced senior management, is intense, and there can be no assurance that Quantum will be able to continue to attract and retain sufficient numbers of such highly skilled employees. Quantum's inability to attract and retain additional key employees or the loss of one or more of its current key employees could have a material adverse effect on the Company's business, financial condition and results of operations following the acquisition.

In addition, the success of Quantum and ATL after the acquisition is also dependent, in part, on the retention of key customers of both Quantum and ATL. A number of ATL's competitors are Quantum's customers and therefore the acquisition will increase the Company's competition with its customers. Although Quantum already competes with a number of its key customers, increased competition could result in customers shifting storage strategies and purchases away from Quantum products. A loss of a key customer could have a material adverse effect on the Company's financial condition and results of operations.

Tandberg Manufacturing License and Marketing Agreement. In September 1998, Quantum and Tandberg entered into a manufacturing license and marketing agreement through which Tandberg can become an independent second source for DLTtape drives, including products under development based on Quantum's Super DLTtape technology as well as current DLTtape technology. Tandberg expects to implement full DLTtape manufacturing operations within a year. As part of the agreement, Tandberg intends to market a full spectrum of DLTtape products, including drives, media, and libraries. With Tandberg's strong name recognition and established distribution channels in the European market, Tandberg is expected to be a synergistic partner. Tandberg will need Quantum's assistance to ramp-up its production of DLTtape drives. There are a number of risks associated with this agreement, including that Tandberg may not be successful or timely in ramping-up its production of DLTtape drives for technical, operational, cost or other reasons; if the Quantum/Tandberg alliance is unsuccessful, more broadly licensed competitive

products may be able to gain market share in the mid-range tape market; manufacturing capacity added by Tandberg could lead to over supply and price declines if demand in the mid-range tape storage market begins to slow down. There can be no assurance that the agreement will be successful, synergistic, or will not have an adverse impact on the Company's financial position and results of operations.

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 76% and 79% of the Company's sales in the first half 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 for the next 12 months. 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 acquisition of MR recording heads technology in fiscal year 1995 as part 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. The Company's target has been to obtain 15% to 20% of the MR recording heads used in its products from MKQC.

To date, MKQC's MR recording head manufacturing yields have been at a level that was lower than necessary for cost-effective production. The Company does not expect cost-effective production of MR recording heads by MKQC to be realized in the near term. Until such time as MR recording heads are cost-effectively produced by MKQC, the Company expects to continue to incur losses based on its pro rata ownership interest in the joint venture. The Company is evaluating strategic alternatives with regard to the MKQC joint venture. Although the outcome of this process is currently unknown, certain alternatives could result in charges associated with the Company's interest in MKQC. The Company anticipates that operating results in the third quarter of fiscal 1999 will continue to be adversely impacted by losses associated with MKQC.

At September 27, 1998, MKQC was in contractual violation of a covenant related to its financing relationship with a bank, under which approximately $80 million and $27 million was outstanding under long-term debt/lease and revolving debt agreements, respectively. MKQC has notified the bank of the violation and is currently working towards obtaining a covenant waiver and/or amendments to the loan agreement. MKQC management believes, based on discussions with the bank, and MKQC's ability to continue to draw funds against the credit facility subsequent to September 27, 1998, that it will obtain a covenant waiver and/or amendments from the bank. However, there can be no assurances that such a covenant waiver and/or amendments will be obtained or that such amendments, if any, will be provided on terms favorable to MKQC. The Company could be materially adversely affected if actions taken by the bank have an adverse impact on 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 four quarters ending with 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

The 1998 Annual Meeting of Stockholders was held on September 15, 1998. The matters voted on were management's candidates for the Board of Directors and the appointment of Ernst & Young LLP to serve as Quantum's independent auditors for the fiscal year ending March 31, 1999.

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

	For	Withheld Authority
Stephen M. Berkley	109,816,475	20,149,897
David A. Brown	109,816,536	20,149,836
Michael A. Brown	109,732,278	20,234,094
Robert J. Casale	109,855,877	20,110,495
Edward M. Esber, Jr.	109,829,969	20,136,403
Steven C. Wheelwright	109,855,966	20,110,406

The stockholders approved the appointment of Ernst & Young LLP to serve as Quantum's independent auditors for the fiscal year ending March 31, 1999. The number of votes "For" were 123,497,834; the number of votes "Against" were 157,473; the number of votes "Abstained" were 6,329,065; and there were zero Broker Non-Votes.

Item 5. Other information - Not Applicable

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

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

(b) Reports on Form 8-K.

None.

SIGNATURE

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

QUANTUM CORPORATION
(Registrant)

Date: October 15, 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
10.1	REIMBURSEMENT AGREEMENT, dated September 14, 1998, between Quantum Peripherals (Europe) S.A. and The Sumitomo Bank, Limited, London Branch
10.2	THIS CHARGE, dated September 14, 1998, between Quantum Peripherals (Europe) S.A. and The Sumitomo Bank, Limited
27.1	Financial Data Schedule

Footnotes to Exhibits	Footnote
None	

REIMBURSEMENT AGREEMENT

To: The Sumitomo Bank, Limited
Temple Court
11 Queen Victoria Street
London EC4N 4TA

Date: 14th September 1998

DEFINITIONS

Company: Quantum Peripherals (Europe) S.A.

Bank: The Sumitomo Bank, Limited, London Branch.

Bank's Obligations: The obligations of the Bank undertaken or to be undertaken as obligor under two letters of credit in favour of Matsushita - Kotobuki Electronics Industries Ltd and Ireland - Kotobuki Electronics Industries Ltd issued by the Bank at the request of the Company as amended, varied or replaced.

Deposit: The deposit made with the Bank as collateral for the Bank's Obligations.

Required Currency: US Dollars.

INDEMNITY

1. In addition and without prejudice to any other express or implied right to which the Bank may be entitled and in consideration of the Bank undertaking the Bank's Obligations at the Company's request the Company agrees:

1.1 At all times to keep the Bank indemnified on demand against all costs claims losses demands proceedings and expenses incurred or suffered by the Bank directly or indirectly by reason of or in connection with the Bank's Obligations or any of them.

1.2 To supply the Bank with such evidence as the Bank may reasonably require of the termination of its liability under the Bank's Obligations or any of them.

AUTHORITY TO PAY

2.1 The Company irrevocably and unconditionally authorises the Bank to make such payments and comply with such demands as may be claimed from or made on the Bank in respect the Bank's Obligations

or any of them as the Bank in its absolute discretion thinks fit without any necessity to obtain the Company's confirmation or verification and notwithstanding that the Company may have disputed the Bank's liability to pay or comply.

2.2 The Company agrees that any such payment or compliance by the Bank shall as between the Bank and the Company be conclusive evidence that the Bank was liable to make such payment or comply with such demand.

PAYMENTS

3.1 The Company agrees to pay to the Bank on demand from time to time the amount(s) due from the Company to the Bank under Clause 1.1. The Bank shall notify the Company within two Business days of any payment by the Bank of any draws pursuant to the Bank's Obligations. Upon such notice, the Company shall have five (5) Business Days to exercise an option to either (i) break the Deposit in whole or part to satisfy the amount due (in which event any break funding costs incurred will be paid by the Company as set out in clause 4.5 of the charge over the Deposit) or (ii) to pay the amount due together with interest thereon at the Bank's New York Prime Rate + 2% p.a. for the period from the date of payment by the Bank to the date of reimbursement by the Company.

3.2 Letter of Credit Fee. So long as the Letters of Credit remain in effect, the Company shall pay to the Bank a Letter of Credit Fee with respect to the Letters of Credit equal to 0.05% per annum. The Letter of Credit Fee shall be paid in arrears on the last Business Day of each calendar quarter (commencing September 30th 1998) and on the Termination Date.

CURRENCY

4.1 The Company's liability hereunder is to discharge the amounts due under clause 1.1 in the Required Currency. All payments shall be made without any deduction, withholding, counterclaim or set-off and if required by law to make any such deduction or withholding the Company will pay such additional amounts to ensure that the Bank receives the full amount due hereunder.

4.2 If at any time the Bank receives any payment by or on behalf of the Company in a currency other than the Required Currency then such payment shall take effect as a payment to the Bank of the amount in the Required Currency which the Bank is able (in accordance with its usual practice and after deduction of the cost to the Bank of making such purchase) to purchase with the amount of the payment so received as soon as may be practicable.

PRIMARY OBLIGATION

5. This indemnity is the Company's primary and continuing obligation and extends to all Bank Obligations. It will remain in full force and effect notwithstanding anything which may operate to release a surety from its obligations.

GOVERNING LAW

6. This reimbursement agreement shall be governed by and construed in accordance with the laws of England and both parties submit to the jurisdiction of the English courts for the settlement of any disputes arising hereunder, The Company appoints Baker Mackenzie at Aldwych House London WC2B 4SP as its agent for the service of process in England.

IN WITNESS whereof this reimbursement agreement has been duly executed for and on behalf of the QUANTUM PERIPHERALS (EUROPE) S.A.

By: 17 Sept 98

Name: Jean Charles Herpeux

Title: Vice President, European Operations

THIS CHARGE is dated 14th September 1998 and made BETWEEN:

(1) QUANTUM PERIPHERALS (EUROPE) S.A. (registered in Switzerland) whose registered office is at Champs-Montants 16A, CH-2074, Marin, Neuchatel, Switzerland (the "Company"); and

(2) THE SUMITOMO BANK, LIMITED whose principal office in England is at Temple Court, 11 Queen Victoria Street, London EC4N 4TA (the 'Bank')

WITNESSES as follows:

1. Definitions and Interpretation

1.1 In this Charges unless the context otherwise requires:

'Deposit' means the sum of US $85,000,000 deposited in the Security Account and all other monies from time to time standing to the credit of the Security Account and any account opened by the Bank in accordance with Clause 7.2 together with all interest and other rights arising in connection therewith.

'Encumbrance' means any mortgage charge pledge lien assignment hypothecation security interest title retention preferential right or trust arrangement or other security arrangement or agreement or any right conferring a priority of payment.

'Interest Calculation Period' means consecutive periods of 1 week, 1 month, 3 months, 6 months, 9 months or 1 year each as selected by the Company and notified to the Bank not later than the close of business in London on the third London Business Day prior to the start of an Interest Calculation Period and in default of such selection, one month.

'Letters of Credit' means the two standby letters of credit in favour of Matsushita - Kotobuki Electronics Industries Ltd and Ireland - Kotobuki Electronics Industries Ltd as the same may from time to time be amended, increased or extended in accordance with the instructions of the Company.

'LIBID' means the one-eighth of one percent below LIBOR for US Dollars in the London Interbank Market at 11 am London time two London Business Days prior to the first day of any Interest Calculation Period as quoted on Telerate page 3750 (or an alternative screen reference if it ceases to be quoted on that page) except in respect of the first Interest Calculation Period which will be fixed on receipt of the Deposit.

'LPA' means the Law of Property Act 1925

'Reimbursement Agreement' means the reimbursement agreement [dated 14 September, 1998] between the Company and the Bank relating to the issue of the Letters of Credit.

'Security Account' means the Deposit as defined in the Reimbursement Agreement in the name of the Company with the Bank and all rights of the Company in relation to such Deposit.

'Secured Liabilities' means all monies obligations and liabilities whatsoever which may now or at any time in the future be due owing or incurred by the Company to the Bank under the Reimbursement Agreement and/or this Charge whether actual or contingent.

1.2 Any reference in this document to "this Charge shall be deemed to include any instruments amending varying supplementing, novating or replacing the terms of this document from time to time.

2. Covenant to Pay

2.1 In consideration of the Bank's agreement to issue the Letters of Credit the Company covenants with the Bank that it will on demand pay and discharge the Secured Liabilities when due to the Bank.

3. Charge

3.1 The Company with full title guarantee and as a continuing security for the payment and discharge of the Secured Liabilities charges in favour of the Bank by way of first fixed charge the Deposit and all the entitlements to interest the right to repayment and other rights and benefits accruing to or arising in connection with the

Deposit to the intent that such charge shall operate as a release of the Deposit to the Bank until the Secured Liabilities have been unconditionally and irrevocably paid and discharged in full provided that interest will be remitted to the company as set out in clause 4.2 below.

4. Terms of the Deposit

4.1 The Company shall not be entitled to withdraw or transfer all or any part of the Deposit until the corresponding part or the Secured Liabilities have been unconditionally and irrevocably paid and discharged in full to the intent that the principal amount of the Deposit shall at all times be equal to the aggregate of the Bank's exposure for the "Stated Amounts" as defined in each of the Letters of Credit.

4.2 Interest shall accrue on the Deposit at LIBID for consecutive Interest Calculation Periods in accordance with normal Euromarket conventions and be paid to the Company on the last day of each Interest Calculation Period provided that if the Company is in breach of any provision of this Charge or of any contract or agreement giving rise to or otherwise

concerning the Secured Liabilities then any such interest shall be credited to the Security Account and form part of the Deposit.

4.3 Any agreement (whether before on or after the date of this Charge) that the Deposit is to be held on fixed time deposit shall be for the purposes of calculation and payment of interest only and shall not prejudice the Bank's rights or obligations under any provision of this Charge. The Bank may unilaterally terminate any such fixed time deposit period at any time after the date on which all or any part of the Secured Liabilities shall become due and payable and adjust any interest payable by the Bank accordingly.

4.4 If the Deposit is held on fixed time deposit then on the expiry of the relevant fixed time deposit period it shall be redeposited in an amount not to exceed the Bank's Obligations as defined in the Reimbursement Agreement or successively redeposited on such terms (including without limitation successive fixed time deposits) as may be from time to time between the Company and the Bank or failing such agreement as may be determined by the Bank.

4.5 If any time deposit needs to be cancelled either pursuant to the terms of the Reimbursement Agreement or the terms hereof, the Company will be responsible for any broken funding cost thereby incurred by the Bank in covering its position. The Bank will give the Company details of its calculations.

5. Right of Set-off

The Company authorises the Bank subject to the conditions specified in the Paragraph 3 of the Reimbursement Agreement, to apply the Deposit or any part thereof at any time towards satisfaction of all or any of the Secured Liabilities as are then due and payable as the Bank may think fit. The Bank will give prompt notice of the exercise of any such set off right.

6. Representations Warranties and Covenants by the Company

6.1 The Company represents and warrants to the Bank and undertakes that:

(a) it is and will be the sole absolute and beneficial owner with full title guarantee of all the Deposit free from Encumbrances and will not create or attempt to create or permit to arise or subsist any Encumbrance (other than this Charge) on or over the Security Account or all or any part of the Deposit;

(b) it has not sold assigned or otherwise disposed of or agreed to sell assign or dispose of and will not at any time during the subsistence of this Charge sell assign or dispose of or agree to sell assign or otherwise dispose of or agree to dispose of all or any of the Company's right title and interest in and to all or any part of the Deposit.

(c) it has and will at all times have the necessary power to enter into and perform its obligations under this Charge;

(d) this Charge constitutes its legal valid binding and enforceable obligations and is a security over all and every part of the Deposit effective in accordance with its terms;

(e) this Charge does not and will not conflict with or result in any breach or constitute a default under any agreement instrument or obligation to which the Company is a party or by which it is bound;

(f) all necessary authorisations and consents to enable or entitle it to enter into this Charge have been obtained and will remain in full force and effect during the subsistence of the security constituted by this Charge.

7. Continuing Security

7.1 The security constituted by this Charge shall be continuing and shall not be considered as satisfied or discharged by any intermediate payment or settlement of the whole or any part of the Secured Liabilities or any other matter or thing whatsoever including the insolvency liquidation or administration of the Company or any analogous event occurring under the law of incorporation of the Company and shall be binding until all the Secured Liabilities have been unconditionally and irrevocably paid and discharged in full.

7.2 The Secured Liabilities shall be deemed for the purposes of all powers implied by statute to have become due and payable within the meaning of Section 101 of the LPA immediately on the execution of this Charge and Section 103 of the LPA (restricting the power of sale) Section 109 of the LPA (restricting the power to appoint a receiver) and Section 93 of the LPA (restricting the right of consolidation) shall not apply to this Charge, save that the Bank shall not exercise such powers unless and until the Company is in breach of the Secured Obligations.

8. Power of Attorney

8.1 The Company by way of security irrevocably appoints the Bank to be attorney of the Company (with full powers of substitution and delegation) for the Company and in its name or otherwise and on its behalf and as its act and deed to sign seal execute deliver perfect and do all deeds instruments notices documents acts and things which the Company may or ought to do under the covenants and provisions contained in this Charge and generally its name and on its behalf to exercise all or any of the powers authorities and discretions conferred by or pursuant to this Charge or by the LPA on the Bank and to execute and deliver and otherwise perfect any deed assurance agreement instrument or act which it may deem proper in

the exercise of all or any of the powers authorities and discretions conferred on the Bank pursuant to this Charge.

8.2 The Company ratifies and confirms and agrees to ratify and confirm anything such attorney shall lawfully and properly do or purport to do by virtue of Clause 8.1 and all reasonable money expended by any such attorney shall be deemed to be expenses incurred by the Bank under this Charge.

9. Further Assurances

9.1 Without prejudice to anything else contained in this Charge the Company shall at any time at the request of the Bank but at the cost of the Borrower promptly sign seal execute deliver and do all deeds instruments notices documents acts and things in such form as the Bank may from time to time require for perfecting or protecting the security over the whole or any part of the Deposit or for facilitating its realization.

10. Currency Indemnity

10.1 If under any applicable law or regulation or pursuant to a judgment or order being made or registered against the Company or the liquidation of the Company or without limitation for any other reason any payment under or in connection with this Charge is made or fails to be satisfied in a currency (the "payment currency") other than the currency in which such payment is expressed to be due under or in connection with this Charge (the "contractual currency") then to the extent that the amount of such payment actually received by the Bank when converted into the contractual currency at the rate of exchange falls short of the amount due under or in connection with this Charge the Company as a separate and independent obligation shall indemnify and hold harmless the Bank against the amount of such shortfall. For the purposes of this Clause "rate of exchange" means the rate at which the Bank is able on or about the date of such payment to purchase, in accordance with its normal practice, the contractual currency with the payment currency and shall take into account (and the Company shall be liable for) any premium and other costs of exchange including any taxes or duties incurred by reason of any such exchange.

11. Costs

11.1 All reasonable cost charges and expenses properly incurred by the Bank in relation to this Charge or the Secured Liabilities shall be reimbursed by the Company to the Bank on demand on a full indemnity basis and until so reimbursed shall carry interest at the Bank's cost of funds from the date of payment to the date of reimbursement.

12. Miscellaneous

12.1 No reasonable delay or omission on the part of the Bank in exercising any right or remedy under this Charge shall impair that right or remedy or operate as to be taken to be a waiver of it nor shall any single partial or defective exercise of any such right or remedy preclude any other or further exercise under this Charge of that or any other right or remedy.

12.2 The Bank's rights under this Charge are cumulative and not exclusive of any rights provided by law and may be exercised from time to time and as often as the Bank deems expedient.

12.3 Any waiver by the Bank of any terms of this Charge or any consent or approval given by the Bank under it shall only be effective if given in writing and then only for the purpose and upon the terms and conditions if any on which it is given.

12.4 The security constituted by this Charge shall be in addition to and shall not be prejudiced determined or affected by nor operate so as in any way to determine prejudice affect or merge in any Encumbrance which the Bank may now or at any time in the future hold for or in respect of the Secured Liabilities or any of them and shall not be prejudiced by time or indulgence granted to any person or any abstention by the Bank in perfecting or enforcing any remedies securities guarantees or rights it may now or in the future have from or against the Company or any other person or any waiver release variation act omission forbearance unenforceability indulgence or invalidity of any such remedy security guarantee or right.

12.5 If at any time any one or more of the provisions of the Charge is or becomes illegal invalid or unenforceable in any respect under any law of any jurisdiction neither the legality validity or enforceability of the remaining provisions of this Charge nor the legality validity or enforceability of such provision under the law of any other jurisdiction shall in any way affected or impaired as a result.

12.6 Any statement certificate or determination of the Bank as to the Secured Liabilities the Deposit or without limitation any other matter provided for in this Charge shall in the absence of manifest error be conclusive and binding on the Company.

13. Communications

13.1 Every notice demand or other communication under this Charge shall be in writing and may be delivered personally or by letter, telex or facsimile transmission despatched by the Bank to the Company to its address specified at the head of this Charge or to the following numbers:

Facsimile: 41-32-753-5541

for the attention of: Finance Director

or to such other address and or telex number and or facsimile number as may be notified in accordance with this Clause by the Borrower to the Bank for such purpose.

13.2 Every notice demand or other communication shall be deemed to have been received (if sent by post) twenty-four hours after being posted first class postage prepaid (if posted from and to an address within the United Kingdom) and (if delivered personally or despatched by telex (subject to receiving the correct telex answerback) or by facsimile transmission) at the time of delivery or despatch if during normal business hours on a working day in the place of intended receipt and otherwise at the opening of business in that place on the next succeeding such working day.

14. Governing Law and Jurisdiction

14.1 This Charge is governed by and shall be construed in accordance with English law and both parties submit to the jurisdiction of the English courts for the settlement of any disputes arising hereunder, The Company appoints Baker McKenzie at Aldwych House, London WC2B 45P as its agent for the service of process in England..

IN WITNESS whereof the Company has executed and delivered this Charge as a Deed the day and year first before written.

EXECUTED UNDER SEAL AND)
DELIVERED AS A DEED)
by QUANTUM PERIPHERALS) ....Seal
(EUROPE) S.A. acting by)
Jean Charles Herpeux in the)
presence of:)

Witness:
Signature /s/ Kent Moerk

Name Kent Moerk

Address Champs Montants 16a

2074 Marin

Switzerland

Occupation Acting Finance Director

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