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 December 26, 1999

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

As of the close of business on January 23, 2000, Quantum Corporation had 160,599,674 shares of DLT & Storage Systems group common stock outstanding and 84,389,389 shares of Hard Disk Drive group common stock outstanding.

QUANTUM CORPORATION
INDEX

PART I - FINANCIAL INFORMATION
Item 1. Financial Statements

QUANTUM CORPORATION

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

<TABLE>
<CAPTION>

	Three Months Ended		Nine Months Ended	
	December 26, 1999	December 27, 1998	December 26, 1999	December 27, 1998
<S>	<C>	<C>	<C>	<C>
Revenue	$1,253,555	$1,325,581	$3,461,914	$3,593,315
Cost of revenue - on net sales	985,132	1,086,492	2,821,167	2,995,964
Cost of revenue - special charge	-	-	57,068	-
Gross profit	268,423	239,089	583,679	597,351
Operating expenses:				
Research and development	86,334	87,921	269,220	254,859
Sales and marketing	56,050	51,142	164,730	134,866
General and administrative	35,553	22,380	95,267	61,275
Purchased in-process research and development	-	89,000	37,000	89,000
Special charge	-	-	2,338	-
	177,937	250,443	568,555	540,000
Income (loss) from operations	90,486	(11,354)	15,124	57,351
Other income (expense):				
Interest income and other, net	9,952	5,126	29,509	19,962
Interest expense	(7,074)	(6,909)	(21,500)	(20,136)
Loss from investee	-	(100,700)	-	(142,050)
	2,878	(102,483)	8,009	(142,224)
Income (loss) before income taxes	93,364	(113,837)	23,133	(84,873)
Income tax provision (benefit)	37,468	(7,286)	21,609	1,403
Net income (loss)	$ 55,896	$ (106,551)	$ 1,524	$ (86,276)
DLT & Storage Systems group:				
Net income (loss)	$ 50,790	$ (30,584)	$ 123,315	$ 65,124
Net income (loss) per share:				
Basic	$0.31	$(0.18)	$0.75	$0.41
Diluted	$0.30	$(0.18)	$0.72	$0.39
Weighted average common shares:				
Basic	163,072	165,820	165,037	158,687
Diluted	168,082	165,820	171,380	165,281
Hard Disk Drive group:				
Net income (loss)	$ 5,150	$ (75,968)	$ (121,721)	$ (151,400)
Net income (loss) per share:				
Basic	$0.06	$(0.92)	$(1.47)	$(1.91)
Diluted	$0.06	$(0.92)	$(1.47)	$(1.91)

Weighted average common shares:				
Basic	82,915	82,910	83,043	79,344
Diluted	86,004	82,910	83,043	79,344

</TABLE>

See accompanying notes to condensed consolidated financial statements.

QUANTUM CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

<TABLE>
<CAPTION>

<S>	December 26, 1999 (unaudited) <C>	March 31, 1999 <C>
Assets		
Current assets:		
Cash and cash equivalents	$ 734,175	$ 772,368
Marketable securities	16,601	24,426
Accounts receivable, net of allowance for doubtful accounts of $23,144 and $12,130	636,554	646,557
Inventories	195,218	271,986
Deferred taxes	95,998	107,701
Other current assets	167,361	104,835
Total current assets	1,845,907	1,927,873
Property and equipment, net of accumulated depreciation of $283,286 and $291,617	233,360	271,928
Intangible assets, net	287,377	225,567
Other assets	47,207	58,228
	$2,413,851	$2,483,596
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 386,269	$ 406,369
Accrued warranty	101,094	76,905
Accrued compensation	71,388	73,605
Income taxes payable	30,397	33,411
Current portion of long-term debt	1,099	1,024
Other accrued liabilities	125,617	90,691
Total current liabilities	715,864	682,005
Deferred taxes	82,260	67,340
Long-term debt	38,127	56,961
Convertible subordinated debt	287,500	287,500
Stockholders' equity:		
Common stocks	948,693	886,434
Retained earnings	505,730	504,206
Accumulated other comprehensive income (loss)	17,315	(850)
Treasury stock, at cost	(181,638)	-
Total stockholders' equity	1,290,100	1,389,790
	$2,413,851	$2,483,596

</TABLE>

See accompanying notes to condensed consolidated financial statements.

QUANTUM CORPORATION

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

<TABLE>
<CAPTION>

	Nine Months Ended December 26, 1999	December 27, 1998

<S>	<C>	<C>
Cash flows from operating activities:		
Net income (loss)	$ 1,524	$ (86,276)
Adjustments to reconcile net income (loss) to net cash provided by operations:		
Special charge	33,779	-
Purchased in-process research and development	37,000	89,000
Depreciation	73,651	69,107
Amortization	23,268	13,812
Loss from investee	-	124,809
Deferred income taxes	391	438
Compensation related to stock plans	2,356	4,064
Changes in assets and liabilities:		
Accounts receivable	10,367	73,690
Inventories	77,909	55,993
Accounts payable	(22,215)	(40,506)
Income taxes payable	(3,014)	(12,118)
Accrued warranty	23,604	(408)
Other assets and liabilities	6,786	63,973
Net cash provided by operating activities	265,406	355,578
Cash flows from investing activities:		
Purchases of marketable securities	(37,890)	(68,360)
Maturities of marketable securities	55,831	115,508
Acquisition of intangible assets	(2,500)	-
Investment in property and equipment	(66,155)	(88,571)
Proceeds from disposition of property and equipment	-	139
Net cash used in investing activities	(50,714)	(41,284)
Cash flows from financing activities:		
Proceeds from long-term credit facilities	10,000	33,545
Principal payments on long-term credit facilities	(28,759)	(26,848)
Purchases of treasury stock	(265,877)	(305,287)
Proceeds from issuance of common stock, net	31,751	25,157
Net cash used in financing activities	(252,885)	(273,433)
Increase (decrease) in cash and cash equivalents	(38,193)	40,861
Cash and cash equivalents at beginning of period	772,368	642,150
Cash and cash equivalents at end of period	$ 734,175	$ 683,011
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 14,535	$ 14,489
Income taxes, net of (refunds)	$ 27,145	$ (1,246)
Tangible and intangible assets acquired for shares of DSSG and HDDG common stock, net of cash acquired and liabilities assumed	$ 104,698	$ -

</TABLE>

See accompanying notes to condensed consolidated financial statements.

QUANTUM CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Quantum Corporation ("Quantum" or the "Company") and its majority owned subsidiaries. All material intercompany balances and transactions have been eliminated. The interim financial statements reflect all adjustments, consisting only of normal recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for the full fiscal year. The condensed consolidated balance sheet as of March 31, 1999 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The accompanying financial statements should be read in conjunction with the audited financial statements of Quantum Corporation for the fiscal year ended March 31, 1999 included in its Annual Report on Form 10-K and Registration Statement on Form S-4 (SEC File No. 333-75153) filed with the Securities and Exchange Commission.

2. Recapitalization

On July 23, 1999, the Company's stockholders approved a tracking stock proposal. As a result, Quantum's Certificate of Incorporation has been amended and restated (the "Restated Certificate of Incorporation"), effective as of the close of business on August 3, 1999, designating two new classes of Quantum Corporation common stock, DLT & Storage Systems group ("DSSG") common stock, $.01 par value per share and Hard Disk Drive group ("HDDG") common stock, $.01 par value per share. On August 3, 1999, each authorized share of Quantum common stock, $.01 par value per share, was exchanged for one share of DSSG stock and one-half share of HDDG stock. These two securities are intended to track separately the performance of the DLT & Storage Systems group and the Hard Disk Drive group.

3. Inventories

Inventories consisted of the following:
(In thousands)

	December 26, 1999	March 31, 1999
Materials and purchased parts	$ 46,354	$ 62,342
Work in process	39,953	27,531
Finished goods	108,911	182,113
	$195,218	$271,986

4. Net income (loss) per share

As a result of the recapitalization, the Company has two tracking stocks, DSSG common stock and HDDG common stock, that are intended to reflect the performance of Quantum's two business groups. Accordingly, the net income (loss) per share for each group presented below has been calculated in accordance with the Restated Certificate of Incorporation.

The following table sets forth the computation of basic and diluted net income (loss) per share for DSSG:

<TABLE>
<CAPTION>

(In thousands, except per share data)	Three Months Ended December 26, 1999	Three Months Ended December 27, 1998	Nine Months Ended December 26, 1999	Nine Months Ended December 27, 1998
<S>	<C>	<C>	<C>	<C>
Numerator:				
Numerator for basic and diluted net income (loss) per share - income (loss) available to common stockholders	$ 50,790	$(30,584)	$123,315	$ 65,124
Denominator:				
Denominator for basic net income (loss) per share - weighted average shares	163,072	165,820	165,037	158,687
Effect of dilutive securities: Outstanding options	5,010	-	6,343	6,594
Denominator for diluted net income (loss) per share - adjusted weighted average shares	168,082	165,820	171,380	165,281
Basic net income (loss) per share	$ 0.31	$ (0.18)	$ 0.75	$ 0.41
Diluted net income (loss) per share	$ 0.30	$ (0.18)	$ 0.72	$ 0.39

</TABLE>

The computation of diluted net income (loss) per share for the three and nine months ended December 26, 1999 and December 27, 1998 excluded the effect of the 7% convertible subordinated notes issued in July 1997, which are convertible into 6,206,152 shares of DSSG common stock, or 21.587 shares per $1,000 note, because the effect would have been antidilutive.

Options to purchase 22,540,250 shares of DSSG common stock were outstanding at December 27, 1998. However, the corresponding weighted average outstanding options were not included in the computation of diluted net loss per share for the three months ended December 27, 1998 because the effect would have been antidilutive.

The following table sets forth the computation of basic and diluted net income (loss) per share for HDDG:

<TABLE>
<CAPTION>

(In thousands, except per share data)	Three Months Ended December 26, 1999	Three Months Ended December 27, 1998	Nine Months Ended December 26, 1999	Nine Months Ended December 27, 1998
<S>	<C>	<C>	<C>	<C>
Numerator:				
Numerator for basic and diluted net income (loss) per share - income (loss) available to common stockholders	$ 5,150	$(75,968)	$(121,721)	$(151,400)
Denominator:				
Denominator for basic net income (loss) per share - weighted average shares	82,915	82,910	83,043	79,344
Effect of dilutive securities:				
Outstanding options	3,089	-	-	-
Denominator for diluted net income (loss) per share - adjusted weighted average shares	86,004	82,910	83,043	79,344
Basic net income (loss) per share	$ 0.06	$ (0.92)	$ (1.47)	$ (1.91)
Diluted net income (loss) per share	$ 0.06	$ (0.92)	$ (1.47)	$ (1.91)

</TABLE>

The computation of diluted net income (loss) per share for the three and nine months ended December 26, 1999 and December 27, 1998 excluded the effect of the 7% convertible subordinated notes issued in July 1997, which are convertible into 3,103,076 shares of HDDG common stock, or 10.793 shares per $1,000 note, because the effect would have been antidilutive.

Options to purchase 14,164,881 and 11,270,125 shares of HDDG common stock were outstanding at December 26, 1999 and December 27, 1998, respectively. However, the corresponding weighted average outstanding options were not included in the computation of diluted net loss per share for the nine months ended December 26, 1999, and the three and nine months ended December 27, 1998, because the effect would have been antidilutive.

5. Stockholders' Equity

In September 1999, the Company issued 4.1 million DSSG shares and 2 million HDDG shares to the stockholders of Meridian Data, Inc. ("Meridian") to complete the acquisition of Meridian. Substantially all of the shares the Company issued to complete the acquisition were DSSG and HDDG shares held as treasury stock. The difference between the cost of the treasury stock and the value at which the shares were reissued resulted in a $3.5 million addition to paid-in-capital in the second quarter of fiscal year 2000. For additional information regarding the Meridian acquisition, refer to Note 7 of the Notes to Condensed Consolidated Financial Statements.

In May 1999, the Board of Directors authorized the Company to repurchase a combined total of up to $200 million of Quantum's common stocks through the open market from time to time. In October 1999, the Board of Directors authorized an increase in the Company's stock repurchase program to a combined total of up to $600 million. The increased authorization allows the

Company to repurchase Quantum's common stocks through the open market or through other mechanisms, including negotiated off market transactions. During the nine months ended December 26, 1999, the Company repurchased 14 million shares of DSSG common stock and 5.2 million shares of HDDG common stock for a combined total of $266 million.

6. Litigation

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, the Company has not completed a full 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. Recently, on Papst's motion, the case was transferred to a federal district court in New Orleans, Louisiana, where it has been joined with suits brought against Papst by Hewlett-Packard Company and Minebea Company, Ltd. for the purposes of coordinated discovery under multi-district litigation rules. The Company does not believe that the transfer will affect the final disposition of this matter in a significant way. The final results of this litigation, as with any litigation, are uncertain. In addition, the costs of engaging in litigation with Papst will be substantial.

The Company is also subject to other legal proceedings and claims that arise in the ordinary course of its business. For example, both Cambrian Consultants and Discovision Associates have brought patents they hold to the Company's attention. 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.

7. Business Combination

On September 10, 1999, the Company's DLT & Storage Systems group completed the acquisition of Meridian. Meridian is a developer and manufacturer of network attached storage solutions utilizing both conventional hard disk drive and optical disk technologies for the PC local area network environment. The acquisition has been accounted for as a purchase at a total cost of $115 million. The acquisition was completed with the issuance of 4.1 million shares of DSSG common stock and 2 million shares of HDDG common stock valued at $74 million and $18 million, respectively, on the date of acquisition in exchange for all outstanding shares of Meridian; the conversion of outstanding Meridian stock options into options to purchase 630,000 shares of DSSG common stock and 315,000 shares of HDDG common stock valued at $8 million and $2 million, respectively; and the assumption of Meridian liabilities and other acquisition costs of approximately $13 million. At the date of acquisition, Meridian had $11 million of cash and marketable securities and a net operating loss carryforward for U.S. federal income tax purposes of approximately $46 million. Meridian's results of operations are included in the financial statements from the date of acquisition, and the assets and liabilities acquired were recorded based on their fair values as of the

date of acquisition. Pro forma results of operations have not been presented because the effect of the acquisition was not material to the Company's financial position or results of operations.

The excess of the purchase price over the fair value of the net tangible assets acquired has been allocated to the following identifiable intangible assets: goodwill, trademarks, workforce in place, developed technology and in-process research and development. As of the acquisition date, technological feasibility of the in-process technology has not been established and the technology has no alternative future use. Therefore, the Company expensed $37 million of the purchase price as in-process research and development in the second quarter of fiscal year 2000. The remaining identifiable intangible assets, valued at $81 million, will be amortized on a straight-line basis over periods ranging from five to ten years.

The amount of the purchase price allocated to in-process research and development was determined by estimating the stage of development of each in-process research and development project at the date of acquisition, estimating cash flows resulting from the expected revenue generated from such projects, and discounting the net cash flows back to their present value using a discount rate of 21%, which represents a premium to the Company's cost of capital. The expected revenue assumes an average compound annual revenue growth rate of 64% during calendar years 2000 through 2007. Expected total revenue from the purchased in-process projects peak in calendar year 2005 and then begin to decline as other new products are expected to be introduced. These projections are based on management's estimates of market size and growth, expected trends in technology and the expected timing of new product introductions. If products are not successfully developed, the Company may not realize the value assigned to the in-process research and development projects. In addition, the value of the other acquired intangible assets may also become impaired.

8. Special Charge

During the second quarter of fiscal year 2000, the Company's Hard Disk Drive group recorded a special charge of $59.4 million. The charge reflected HDDG's strategy to modify the hard disk drive business to more closely align product development and the business' operating model with the requirements of the rapidly growing low-cost PC market. The special charge was associated primarily with the streamlining of HDDG's logistics model in order to create a faster and more flexible fulfillment system, changes in the customer service strategy and consolidation of certain product development programs.

The special charge consisted of $26.4 million related to facilities costs, $13.2 million in asset write-offs related to the streamlining of the global logistics model and change in customer service strategy, $7.8 million in severance and benefits for terminated employees, and approximately $12 million in other costs associated with the plan.

The facilities costs noted above include lease payments on facilities to be vacated in and around Milpitas, California and Singapore, the write-off of related leasehold improvements, and other maintenance expenses associated with the vacated facilities. HDDG expects that the affected facilities will be vacated by the end of the second quarter of fiscal year 2001.

In connection with the charge, HDDG currently expects a workforce reduction of approximately 600 employees. In addition, approximately 100 open requisitions and budgeted positions have been eliminated. The reduction in force primarily affects employees at HDDG's drive configuration centers and warehouses in Milpitas, California and Dundalk, Ireland and employees within the desktop drive business. Approximately 160 of the 600 employees had been terminated as of December 26, 1999. HDDG anticipates that the remaining employees will be terminated by the end of the second quarter of fiscal year 2001.

During the quarter ended December 26, 1999, HDDG revised its estimate of costs required to implement the restructuring plan. HDDG currently estimates that severance and benefits and other costs, which include the disposition of additional capital assets, will be more than previously estimated as a result of the planned changes in the customer service strategy. HDDG also estimates that costs associated with vacating leased facilities will be less than previously estimated as a result of vacating a major facility earlier than previously expected. Accordingly, HDDG has reallocated amounts between these categories.

As of December 26, 1999, HDDG had incurred $5 million in cash expenditures associated with employee severance and benefits, facilities and other costs. HDDG expects to incur additional cash expenditures associated with the plan of approximately $20 million.

The following table summarizes activity related to the special charge at December 26, 1999:

<TABLE>
<CAPTION>

(In thousands)	Severance And Benefits	Facilities Costs	Inventory	Other Costs	Total
<S>	<C>	<C>	<C>	<C>	<C>
Special charge provision	$ 7,833	$ 26,359	$ 13,214	$ 12,000	$ 59,406
Cash payments	(2,923)	(944)	-	(1,495)	(5,362)
Non-cash charges	-	(9,532)	(13,214)	(9,742)	(32,488)
Adjustments	1,070	(7,159)	-	6,089	-
Balance at December 26,1999	$ 5,980	$ 8,724	$ -	$ 6,852	$ 21,556

</TABLE>

9. Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) on the condensed consolidated balance sheets consists of unrealized gains on available for sale investments and foreign currency translation adjustments. Total comprehensive income (loss), net of tax, for the three and nine months ended December 26, 1999 and December 27, 1998, is presented in the following table:

<TABLE>
<CAPTION>

(In thousands)	Three Months Ended		Nine Months Ended	
	December 26, 1999	December 27, 1998	December 26, 1999	December 27, 1998
<S>	<C>	<C>	<C>	<C>
Net income (loss)	$ 55,896	$ (106,551)	$ 1,524	$ (86,276)
Other comprehensive income -				
Change in unrealized gain on investments, net	17,568	-	17,568	-
Foreign currency translation adjustments	(176)	2,055	597	2,238
Comprehensive income (loss)	$ 73,288	$ (104,496)	$ 19,689	$ (84,038)

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</TABLE>

10. Business Segment Information

Quantum Corporation's reportable segments are its two business groups, the Hard Disk Drive group and the DLT & Storage Systems group, as further described in their separate financial statements. The Hard Disk Drive group consists of desktop and high-end hard disk drives. The DLT & Storage Systems group consists of DLTtape/TM/ drives and media, autoloaders and libraries, network attached storage systems and solid state storage systems. The Company directly markets its products to computer manufacturers and through a broad range of distributors, resellers, and systems integrators.

The Company evaluates segment performance based on net profit or loss not including non-recurring gains or losses. Segment assets include those items that can be specifically identified with or reasonably allocated to a particular segment. Results for the Company's reportable segments for the three and nine months ended December 26, 1999 and December 27, 1998 are presented in the following tables:

<TABLE>
<CAPTION>
(In millions)

	Three Months Ended					
	December 26, 1999			December 27, 1998		
	HDDG	DSSG	Total	HDDG	DSSG	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues from external customers	$ 888	$ 366	$1,254	$ 959	$366	$1,326
Intersegment revenues	1	-	1	-	-	-
Segment profit (loss)	5	51	56	(76)	(31)	(107)

<CAPTION>
(In millions)

	Nine Months Ended					
	December 26, 1999			December 27, 1998		
	HDDG	DSSG	Total	HDDG	DSSG	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenue from external customers	$2,409	$1,054	$3,462	$2,681	$913	$3,593
Intersegment revenues	1	-	1	-	-	-
Segment profit (loss)	(122)	123	2	(151)	65	(86)

</TABLE>

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

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

Business Description

Quantum operates its business through two separate business groups: the DLT & Storage Systems group ("DSSG") and the Hard Disk Drive group ("HDDG") as described in their respective sections of this report.

Results of Operations

Revenue. Revenue in the three and nine months ended December 26, 1999 was $1.254 billion and $3.462 billion, respectively, compared to $1.326 billion and $3.593 billion, respectively, for the corresponding periods in fiscal year 1999.

The decrease in revenue in the three and nine months ended December 26, 1999 reflected decreased revenue from sales of desktop hard disk drives, partially offset by increased revenue from sales of storage systems and DLTtape media royalties, both reaching record highs in the three and nine month periods.

While shipments of desktop hard disk drives increased in the three and nine month periods, lower average unit prices resulted in reduced desktop hard disk drive revenue. Desktop shipments reached a record high in the third quarter of fiscal year 2000 reflecting increased demand, particularly from computer equipment manufacturers, and a strong desktop PC market. The strong market conditions resulted in some easing of the intense competitive pricing pressures of prior quarters. Shipments of high-end hard disk drives also increased in the three and nine month periods, reaching a record high in the third quarter of fiscal year 2000 as HDDG completed a transition to new high-end products. However, continued pricing pressures in the high-end market resulted in lower average unit prices. Consequently, revenue increased only moderately in the three month comparative period and decreased in the nine month comparative period.

The increase in storage systems revenue reflected an increase in shipments of tape libraries and the acquisition of ATL Products, Inc. in September 1998, and shipments of network attached storage systems following the acquisition of Meridian Data, Inc. in September 1999. The increase in DLTtape media royalties reflected an increase in sales of DLTtape media cartridges at licensed media manufacturers for which DSSG earns a royalty fee. The overall increase in sales of DLTtape media cartridges reflected sales of cartridges for use in both new DLTtape drives and to meet the

ongoing new media needs of the installed base of DLTtape drives. The nine month period also reflected increased revenue from sales of DLTtape drives as a result of increased shipments, partially offset by a decline in the average unit price.

Sales to our top five customers in the three and nine months ended December 26, 1999 represented 48% and 47% of revenue, respectively, compared to 44% and 46% of revenue, respectively, for the corresponding periods in fiscal year 1999. These amounts reflected a retroactive combination of sales to Compaq Computer, Inc. and Digital Equipment Corporation as a result of their merger in June 1998 as well as a retroactive combination of sales to Ingram Micro Inc. and Electronic Resources Limited as a result of the completion of their merger in July 1999. Sales to Compaq were 13% and 12% of revenue in the three and nine months ended December 26, 1999, respectively, compared to 14% and 15% of revenue, respectively, for the corresponding periods in fiscal year 1999, including sales to Digital Equipment. Sales to Hewlett-Packard Company were 11% and 12% of revenue in the three and nine months ended December 26, 1999, respectively, compared to 12% and 14% of revenue, respectively, in the corresponding periods in fiscal year 1999.

Sales to computer equipment manufacturers and distribution channel customers were 65% and 29% of revenue in the three months ended December 26, 1999, respectively, compared to 62% and 34% in the three months ended December 27, 1998. For the nine months ended December 26, 1999, computer equipment manufacturer and distribution channel sales were 61% and 33% of revenue, compared to 64% and 34% of revenue for the corresponding period in fiscal year 1999. The remaining revenue in the three and nine months ended December 26, 1999 and December 27, 1998 represented media royalty revenue and sales to value added resellers.

Gross Margin Rate. The gross margin rate in the three months ended December 26, 1999 increased to 21.4% from 18.0% in the three months ended December 27, 1998. The gross margin rate for the first nine months of fiscal year 2000 was 16.9%, compared to 16.6% in the corresponding period in fiscal year 1999.

The gross margin rate in the nine month period of fiscal year 2000 reflected the impact of a $57.1 million special charge as discussed below. The gross margin rate excluding the impact of the charge was 18.5% in the nine-month period ended December 26, 1999.

Excluding the impact of the special charge, the increase in the gross margin rate in the three and nine month periods reflected increased revenue from storage systems and DLTtape media royalties, which have significantly higher margins than our hard disk drive products. The increase also reflected higher margins earned on high-end hard disk drives. This was partially offset by the decline in gross margins earned on desktop hard disk drives in the nine month period, and the decline in gross margins earned on DLTtape drives in the three and nine month periods, reflecting lower average unit prices on both. The increase in the gross margin rate in the three month period also reflected higher margins earned on desktop hard disk drives reflecting the transition to new lower cost, higher margin products, cost reductions associated with the special charge, and the strong desktop PC market.

Research and Development Expenses. Research and development expenses in the three and nine months ended December 26, 1999, were $86 million, or 6.9% of revenue, and $269 million, or 7.8%

of revenue, respectively, compared to $88 million, or 6.6% of revenue, and $255 million, or 7.1% of revenue, respectively, in the corresponding periods of fiscal year 1999. The decrease in research and development expenses in the three month period reflected expense reductions in HDDG resulting from modifications to the hard disk drive business associated with the special charge taken in the second quarter of fiscal year 2000. The increase in the nine month period reflected the inclusion of ATL's expenses which were not included in the first two quarters of fiscal year 1999, as the acquisition occurred on September 28, 1998, the inclusion of Meridian's expenses which were not included in the prior year periods, as the acquisition occurred on September 10, 1999, and higher research and development expenses related to new tape drive products and other new information storage products, including Super DLTtape technology.

Sales and Marketing Expenses. Sales and marketing expenses in the three and nine months ended December 26, 1999, were $56 million, or 4.5% of revenue, and $165 million, or 4.8% of revenue, respectively, compared to $51 million, or 3.9% of revenue, and $135 million, or 3.8% of revenue, respectively, in the corresponding periods of fiscal year 1999. The increase in sales and marketing expenses reflected the inclusion of Meridian's expenses and an increase in marketing and advertising costs associated with DLTtape products, partially offset by a decrease in advertising costs for HDDG products and lower commissions as a result of the reduced level of HDDG revenue. The increase in the nine month period also reflected the inclusion of ATL's expenses.

General and Administrative Expenses. General and administrative expenses in the three and nine months ended December 26, 1999 were $36 million, or 2.8% of revenue, and $95 million, or 2.8% of revenue, respectively, compared to $22 million, or 1.7% of revenue, and $61 million, or 1.7% of revenue, respectively, in the corresponding periods of fiscal year 1999. The increase in general and administrative expenses reflected the inclusion of Meridian's expenses, the amortization of intangible assets, particularly goodwill, and an increase in the provision for bad debt due to the bankruptcy of a distributor in the third quarter of fiscal year 2000. The increase in the nine month period also reflected the inclusion of ATL's expenses.

Purchased In-process Research and Development Expense. The Company expensed purchased in-process research and development costs of $37 million as a result of the Meridian acquisition in the second quarter of fiscal year 2000, and $89 million as a result of the acquisition of ATL in the third quarter of fiscal year 1999. For additional information regarding the Meridian acquisition and the costs associated with in-process research and development, refer to Note 7 of the Notes to Condensed Consolidated Financial Statements.

Special Charge. During the second quarter of fiscal year 2000, the Company's Hard Disk Drive group recorded a special charge of $59.4 million, of which $57.1 million is included in cost of sales and $2.3 million is included in operating expenses. The charge reflected HDDG's strategy to modify the hard disk drive business to more closely align product development and the business's operating model with the requirements of the rapidly growing low-cost PC market. The special charge was associated primarily with the streamlining of HDDG's logistics model in order to create a faster and more flexible fulfillment system, changes in the customer service strategy and consolidation of certain product development programs. Upon full implementation of the plan,

HDDG expects to realize more than $100 million in cost savings per year, beginning in fiscal year 2001.

The special charge consisted of $26.4 million related to facilities costs, $13.2 million in asset write-offs related to the streamlining of the global logistics model and change in customer service strategy, $7.8 million in severance and benefits for terminated employees, and approximately $12 million in other costs associated with the plan.

During the quarter ended December 26, 1999, HDDG revised its estimate of costs required to implement the restructuring plan. HDDG currently estimates that severance and benefits and other costs, which include the disposition of additional capital assets, will be more than previously estimated as a result of the planned changes in the customer service strategy. HDDG also estimates that costs associated with vacating leased facilities will be less than previously estimated as a result of vacating a major facility earlier than previously expected. Accordingly, HDDG has reallocated amounts between these categories.

Interest and Other Income/Expense. Net interest and other income and expense in the three and nine months ended December 26, 1999 was $2.9 million and $8.0 million income, respectively, compared to $1.8 million and $0.2 million expense, respectively, in the corresponding periods of fiscal year 1999. The income for the three and nine month periods reflected increased interest income and a $2.6 million gain on the sale of an equity investment recognized in the first quarter of fiscal year 2000.

Loss from Investee. The loss from investee reflected our 49% share in the operating losses of our recording heads joint venture with Matsushita-Kotobuki

Electronics Industries, Ltd., which was dissolved in the third quarter of fiscal year 1999. Our share of the loss in the joint venture for the three and nine months ended December 27 1998, was $100.7 million and $142.1 million, respectively.

Income Taxes. No tax benefit was recognizable for the charges for purchased in-process research and development related to the acquisition of Meridian in the second quarter of fiscal year 2000 and the acquisition of ATL in the third quarter of fiscal year 1999. The Company recorded a provision for income taxes of $37.5 million and $21.6 million for the three and nine months ended December 26, 1999, for effective tax rates of 40% and 36%, respectively, compared to effective benefit rates of 33% before special charges for the corresponding periods in fiscal year 1999. The fiscal year 2000 effective tax rate as compared to the fiscal year 1999 effective benefit rate reflects the effect of a smaller percentage of HDDG losses as compared to DSSG income.

Liquidity and Capital Resources

Cash, cash equivalents and marketable securities were $751 million at December 26, 1999 compared to $797 million at March 31, 1999. During the nine months ended December 26, 1999, the Company used cash to purchase $266 million of treasury stock, as discussed below. Other uses of cash were a reduction in accounts payable, investment in property and equipment, and the pay off of ATL's line of credit. Sources of cash were a reduction in inventories and the issuance of common stock.

In September 1999, the Company issued 4.1 million DSSG shares and 2 million HDDG shares to the stockholders of Meridian to complete the acquisition of Meridian. Substantially all of the shares the Company issued to complete the acquisition were DSSG and HDDG shares held as treasury stock. The difference between the cost of the treasury stock and the value at which the shares were reissued resulted in a $3.5 million addition to paid-in-capital in the second quarter of fiscal year 2000. For additional information regarding the Meridian acquisition, refer to Note 7 of the Notes to Condensed Consolidated Financial Statements.

In May 1999, the Board of Directors authorized the Company to repurchase a combined total of up to $200 million of Quantum's common stocks through the open market from time to time. In October 1999, the Board of Directors authorized an increase in the Company's stock repurchase program to a combined total of up to $600 million. The increased authorization allows the Company to repurchase Quantum's common stocks through the open market or through other mechanisms, including negotiated off market transactions. During the nine months ended December 26, 1999, the Company repurchased 14 million shares of DSSG common stock and 5.2 million shares of HDDG common stock for a combined total of $266 million.

In December 1998, ATL entered into a senior credit facility that provides a $35 million revolving credit line to ATL. The revolving credit line is co-terminous with our $500 million revolving credit line, expiring in June 2000. As amended, at the option of ATL, borrowings under the revolving credit line bear interest at either the London interbank offered rate plus a margin determined by our total funded debt ratio, or at a base rate, with option periods of two weeks to six months. At December 26, 1999, there was no outstanding balance drawn on this line.

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 our option, borrowings under the revolving credit line bear interest at either the London interbank offered rate plus a margin determined by our total funded debt ratio, or at a base rate, with option periods of one to six months. At December 26, 1999, there was no outstanding balance drawn on this line.

We expect to spend approximately $105 million in fiscal year 2000 for capital equipment and leasehold improvements. These capital expenditures will support the disk drive and tape drive businesses, research and development, and general corporate operations.

We believe that 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 our expectations.

In the future, the Company may seek to raise cash through the issuance of debt or equity securities. There can be no assurance that such financing would be available on terms favorable to the Company if at all.

In fiscal year 1999, the Company entered into a strategic alliance with TiVo, Inc., to supply hard disk drives utilizing Quantum's QuickView/TM/ technology for integration into TiVo's Personal Video Recorder. As part of the agreement, the Company received warrants to purchase approximately 875,000 shares of TiVo common stock. On September 30, 1999, subsequent to the end of the Company's fiscal second quarter, the Company exercised its warrants immediately prior to TiVo's initial public offering. The Company is not allowed to sell TiVo common stock for a six month period following the initial public offering and is accounting for its investment as an available for sale security. As there are currently restrictions upon the sale of this security, the Company has classified its investment as part of other current assets. The fair market value of this investment at December 26, 1999, was approximately $29 million.

Year 2000

The year 2000 computer issue refers to the possibility that computer systems may not be able to distinguish the year 2000 from the year 1900. Two other date-related issues may contribute to the year 2000 problem: (1) certain systems have associated special values with date fields (for example, 9/9/99), and (2) these same systems may fail to recognize that year 2000 is a leap year. Because of the pervasive use and dependency on computer technology in all facets of modern commerce, year 2000 issues present a potentially vast risk to companies, including us. For example, there are potential disruptions or failures of our products and operations and of the products and operations of our suppliers, customers and service providers. Because year 2000 issues can impact us indirectly through our suppliers, service providers and customers, an assessment and prediction of the impact of year 2000 issues from external parties on our company is difficult.

In addressing the year 2000 issues and risks, we have focused our efforts on our enterprise-wide and departmental operations, products, critical suppliers (including service providers) and key customers. Within Quantum, these efforts were intended to encompass all major categories of computer systems and operating equipment used by us, including those utilized in manufacturing, research and development, sales, finance and human resources. To ensure year 2000 compliance for all of our systems, we adopted an approach based on the U.S. General Accounting Office Year 2000 Assessment Guide. The approach utilizes a multi-phased model, with major phases consisting of inventory, assessment, resolution, testing and certification:

- In the inventory phase we listed and reviewed for criticality and risk all hardware, software, equipment, infrastructure, and desktop tools and applications.

- In the assessment phase, we determined whether to convert, replace or eliminate the impacted system or application.

- In the resolution phase, we developed and carried out formal plans.

- Under stringent procedures in the testing phase, we validated the system and application on its functionality to perform seamlessly in the year 2000.

- In the certification phase, we documented and verified all test results.

Within each of the major categories of computer systems and operating equipment, we prioritized our year 2000 issues and risks on three levels:

- The critical level reflects short-term failure which would have a severe impact on our business operations and result in significant downtime or a manual effort to perform the required functions. Without this system or application, our business could not function.

- Key level applications or systems, although required by us, are not mandatory for business survival. We do not expect the failure of key level applications to cause significant disruption to our operations. We can defer the work or devise manual back-up procedures to handle the interim needs.

- Active level applications, although currently in use, are not required for our normal operations. We do not expect their failure to result in any disruption to our business.

Within Quantum, we have determined that all internal systems and products are year 2000 compliant. We have assessed, remedied and certified all critical, key and active areas of our own operations, which include information technology, operating equipment with embedded chips or software and products. In addition, we have completed the assessment, resolution, testing, and certification of critical and key third parties. However, our failure to complete critical corrective actions or implement viable contingency plans in a timely manner for as yet unidentified year 2000 related issues could have a material adverse effect on our business, financial condition and operating results.

As indicated above, our risk assessment included understanding the year 2000 readiness of our suppliers. Our risk assessment process associated with suppliers includes soliciting and analyzing responses to questionnaires distributed to these suppliers, as well as onsite interviews with certain critical suppliers. Critical suppliers include a number of suppliers with operations in China, India and Mexico that are our sole source of certain components for tape drives. We have received 100% of responses from an initial survey sent to suppliers and have received 100% of responses from a second follow-up survey sent to those identified as critical suppliers. To further assess year 2000 readiness, we have conducted on-site visits of our most critical suppliers.

The year 2000 readiness of Matsushita-Kotobuki, our hard disk drive manufacturing partner, is of particular importance. Matsushita-Kotobuki implemented a year 2000 compliance project plan in April 1998, similar in content and structure to that employed by us. We have been informed that all of Matsushita-Kotobuki's critical processes, applications and hardware have been tested and certified for year 2000 compliance. Also, we understand that all key and active processes, applications and hardware are certified as year 2000 compliant. We have performed limited on-site evaluations of Matsushita-Kotobuki operations in Japan, Singapore and Ireland. Additionally, we continue to be in close contact with Matsushita-Kotobuki and we understand that they will keep us updated of any new developments concerning any year 2000 issues. Our reliance on Matsushita-Kotobuki and other 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 our business, financial condition and results of operations. Based on the level of risk assessed of critical suppliers, we have developed contingency plans. However, we do not currently anticipate any significant disruption of service from these critical

suppliers. As of February 2000, we understand that Matsushita-Kotobuki and other critical suppliers have not experienced any major disruptions to their businesses related to year 2000 issues.

We have also worked closely with key customers to evaluate their readiness for year 2000. The ability of customers to deal with year 2000 issues may affect their operations and their ability to order and pay for products. As of February 2000, we understand that key customers have not experienced any major disruptions to their businesses related to year 2000 issues, nor have customer order patterns disrupted our normal course of business.

We believe that third party factors, rather than our internal systems and applications, would be the cause of our most reasonably likely worst case scenario. For example, since we deal extensively with third parties to manufacture and transport products and services, a failure of third party systems could result in a disruption of service, which may result in delays in shipments of our products. For internal systems, we have developed workarounds, which involve providing manual or other automated processes in lieu of normal procedures.

Our products are inherently year 2000 compliant with the possible exception of certain Meridian products manufactured or released before December 31, 1997. These Meridian products are no longer supported by Quantum. Our families of disk drive products have no internal date clocks, and therefore are not impacted by the year 2000 problem. Our DLTtape drives use a four-character string to describe the year and are not affected by the year 2000 problem. Additionally, we do not need to make any modifications to any disk or tape drive's internal firmware to accommodate the transition to the year 2000. We consider a disk drive or tape product to be year 2000 compliant when used in accordance with our product information. That product will not generate an error in data related to the year change from December 31, 1999 to January 1, 2000. Furthermore, year 2000 compliant products will correctly handle leap years, including leap years beginning January 1, 2000 and thereafter. However, the assessment of whether a complete computer system operates correctly depends on factors such as the operating system, basic input/output systems, software and components, which companies other than Quantum provide.

Costs incurred to date in addressing the year 2000 issue have been approximately $11 million, with $7.3 million and $3.7 million of this cost in the Hard Disk Drive group and the DLT & Storage Systems group, respectively. We currently expect that the total cost of addressing the year 2000 issue, including both incremental spending and redeployed resources, will not exceed $12 million, with $7.6 million and $4.4 million of this cost in the Hard Disk Drive group and the DLT & Storage Systems group, respectively. However, as the year 2000 progresses, we may use third-party vendors or service providers as necessary to address issues as yet unknown. The use of these third-party vendors or service providers may increase our expected costs. We have not deferred any significant system projects due to the year 2000 program. As our vigilant activities continue, these costs may change. In addition, our total cost estimate does not include potential costs related to any customer or other claims resulting from our failure to adequately correct past or future year 2000 issues.

As of February 2000, there were no reportable year 2000 computer issues in our systems, applications, processes or supply chains and we resumed normal business activities on schedule in January 2000. While this primary event horizon was successfully managed, we continue to maintain our vigilance as the year 2000 progresses. We do not expect any significant disruption to our operations or operating results as a result of year 2000 issues; however, the extent to which such issues may affect us is uncertain. We cannot assure you that we will be able to assess, identify and correct

as yet unknown year 2000 issues in a timely or successful manner. We also cannot assure you that our suppliers, service providers, customers or other third parties will remain free of year 2000 problems.

The foregoing statements regarding our year 2000 results and our expectations for resolving as yet unknown problems, and the costs associated therewith are forward-looking statements and actual results could vary. The severity of the problems to be resolved within Quantum, their affect on our suppliers and service providers, and the costs associated with third party consultants and software necessary to address these unknown issues could affect our success in addressing such issues.

Euro Impact

We believe that the adoption of a single currency, the Euro, by eleven European countries will not materially affect our business, information systems or consolidated financial position, operating results or cash flows.

Market Risk Disclosures

For financial market risks related to changes in interest rates and foreign currency exchange rates, reference is made to Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in the Company's Annual Report on Form 10-K for the year ended March 31, 1999.

The Company is exposed to equity price risk on its investment in TiVo, Inc. common stock. The Company entered into a strategic alliance with TiVo in fiscal year 1999 to supply hard disk drives utilizing Quantum's QuickView technology for integration into TiVo's Personal Video Recorder. At December 26, 1999, the fair market value of the Company's investment was approximately $29 million. As TiVo is a relatively new company and has recently introduced a new product in the consumer electronics market, the Company does not believe it is possible to reasonably estimate any future price movement of TiVo common stock.

Item 1. Financial Statements

QUANTUM CORPORATION
DLT & STORAGE SYSTEMS GROUP
CONDENSED COMBINED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(unaudited)

<TABLE>
<CAPTION>

	Three Months Ended		Nine Months Ended	
	December 26, 1999	December 27, 1998	December 26, 1999	December 27, 1998
<S>	<C>	<C>	<C>	<C>
Product revenue	$316,959	$330,634	$ 920,340	$827,938
Royalty revenue	48,821	35,861	133,282	84,717
Total revenue	365,780	366,495	1,053,622	912,655
Cost of revenue	201,692	205,194	567,678	506,005
Gross profit	164,088	161,301	485,944	406,650
Operating expenses:				
Research and development	31,322	28,155	89,527	72,085
Sales and marketing	30,821	21,715	82,810	49,348
General and administrative	16,376	11,140	46,013	24,851
Purchased in-process research and development	-	89,000	37,000	89,000
	78,519	150,010	255,350	235,284
Income from operations	85,569	11,291	230,594	171,366
Other income (expense):				
Interest income and other, net	3,797	1,741	13,967	9,931
Interest expense	(4,716)	(4,671)	(14,372)	(13,424)
	(919)	(2,930)	(405)	(3,493)
Income before income taxes	84,650	8,361	230,189	167,873
Income tax provision	33,860	38,945	106,874	102,749

Net income (loss)	$ 50,790	$(30,584)	$ 123,315	$ 65,124
	========	========	==========	========
Net income (loss) per share:				
Basic	$0.31	$(0.18)	$0.75	$0.41
Diluted	$0.30	$(0.18)	$0.72	$0.39
Weighted average common shares:				
Basic	163,072	165,820	165,037	158,687
Diluted	168,082	165,820	171,380	165,281

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

QUANTUM CORPORATION
DLT & STORAGE SYSTEMS GROUP
CONDENSED COMBINED BALANCE SHEETS
(In thousands)

<TABLE>
<CAPTION>

<S>	December 26, 1999 <C> (unaudited)	March 31, 1999 <C>
Assets		
Current assets:		
Cash and cash equivalents	$ 281,540	$ 272,643
Marketable securities	6,875	-
Accounts receivable, net of allowance for doubtful accounts of $3,115 and $2,507	226,246	254,228
Inventories	102,223	124,462
Deferred taxes	35,701	35,594
Other current assets	42,808	8,434
	----------	----------
Total current assets	695,393	695,361
Property and equipment, net of accumulated depreciation of $74,746 and $54,630	81,884	73,122
Intangible assets, net	284,641	220,368
Other assets	14,360	24,792
	----------	----------
	$1,076,278	$1,013,643
	==========	==========
Liabilities and Group Equity		
Current liabilities:		
Accounts payable	$ 86,941	$ 64,025
Accrued warranty	51,877	37,988
Accrued compensation	34,673	22,557
Current portion of long-term debt	733	683
Other accrued liabilities	34,391	32,850
	----------	----------
Total current liabilities	208,615	158,103
Deferred taxes	41,875	27,355
Long-term debt	25,418	37,974
Convertible subordinated debt	191,667	191,667
Group equity	608,703	598,544
	----------	----------
	$1,076,278	$1,013,643
	==========	==========

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

QUANTUM CORPORATION
DLT & STORAGE SYSTEMS GROUP
CONDENSED COMBINED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

<TABLE>

<CAPTION>

	Nine Months Ended December 26, 1999	Nine Months Ended December 27, 1998
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	$ 123,315	$ 65,124
Adjustments to reconcile net income to net cash provided by operations:		
Purchased in-process research and development	37,000	89,000
Depreciation	24,812	19,118
Amortization	20,334	10,302
Deferred income taxes	(107)	(2,042)
Compensation related to stock plans	1,593	2,709
Changes in assets and liabilities:		
Accounts receivable	28,346	(94,821)
Inventories	23,380	(10,469)
Accounts payable	20,801	31,367
Accrued warranty	13,304	(9,458)
Other assets and liabilities	(20,797)	40,786
Net cash provided by operating activities	271,981	141,616
Cash flows from investing activities:		
Purchases of marketable securities	(4,523)	-
Maturities of marketable securities	7,764	-
Acquisition of intangible assets	(2,500)	-
Investment in property and equipment	(26,812)	(25,093)
Net cash used in investing activities	(26,071)	(25,093)
Cash flows from financing activities:		
Proceeds from long-term credit facilities	6,667	25,212
Principal payments on long-term credit facilities	(19,173)	(26,617)
Inter-group payment for common stock issued	(2,835)	(15,118)
Purchases of treasury stock	(246,187)	(305,287)
Proceeds from issuance of common stock, net	24,515	16,771
Net cash used in financing activities	(237,013)	(305,039)
Increase (decrease) in cash and cash equivalents	8,897	(188,516)
Cash and cash equivalents at beginning of period	272,643	388,910
Cash and cash equivalents at end of period	$ 281,540	$ 200,394
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 9,656	$ 9,659
Income taxes, net of (refunds)	$ 7,367	$ (21,289)
Tangible and intangible assets acquired for shares of DSSG and HDDG common stock, net of cash acquired and liabilities assumed	$ 101,863	$ -

</TABLE>

See accompanying notes to condensed combined financial statements.

QUANTUM CORPORATION
DLT & STORAGE SYSTEMS GROUP

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS
(unaudited)

1. Basis of presentation

The accompanying unaudited condensed combined financial statements of the DLT & Storage Systems group ("DSSG"), together with the condensed combined financial statements of the Hard Disk Drive group ("HDDG") include all of the accounts in the condensed consolidated financial statements of Quantum. The separate group condensed combined financial statements give effect to the accounting policies applicable with the implementation of the tracking stock proposal. The separate DSSG and HDDG financial statements have been prepared on a basis that management believes to be reasonable and appropriate and include (i) the historical balance sheets, results of operations, and cash flows of businesses that comprise each of the groups, with all significant intragroup transactions and balances eliminated, (ii) in the case of DSSG's financial statements, corporate assets and liabilities of Quantum and related transactions identified with DSSG, including allocated portions of Quantum's debt and selling, general and administrative costs, and (iii) in the case of HDDG's financial statements, corporate assets and liabilities of Quantum and related transactions identified with HDDG, including allocated portions of Quantum's debt and selling, general and administrative costs. Intergroup transactions and balances are not eliminated in the separate financial statements of DSSG or HDDG.

The condensed combined financial statements of the DLT & Storage Systems Group provide DSSG stockholders with financial information about the DLT & Storage Systems group operations. Holders of DSSG stock and HDDG stock are Quantum stockholders and are subject to all of the risks of an investment in Quantum and all of Quantum's businesses, assets and liabilities. Quantum retains ownership and control of all of the assets and operations of each group. Financial effects arising from one group that affect Quantum's consolidated results of operations or financial condition could, if significant, affect the results of operations or financial condition of the other group and the market price of the other group's stock. Any net losses of DSSG or HDDG, and dividends or distributions on, or repurchases of HDDG stock, or repurchases of preferred stock at a price per share greater than par value, will reduce the funds of Quantum legally available for payment of dividends on DSSG stock. As a result, DSSG's condensed combined financial statements should be read in conjunction with Quantum's condensed consolidated financial statements and HDDG's condensed combined financial statements. The condensed combined balance sheet as of March 31, 1999 has been derived from the audited financial statements included in the Registration Statement on Form S-4 (SEC File No. 333-75153) filed with the Securities and Exchange Commission, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

These interim 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.

2. Inventories

Inventories consisted of the following:
(In thousands)

<TABLE>
<CAPTION>

<S>	<C> December 26, 1999	<C> March 31, 1999
Materials and purchased parts	$ 42,871	$ 60,138
Work in process	33,500	22,154
Finished goods	25,852	42,170
	$102,223	$124,462

</TABLE>

3. Net income per share

On July 23, 1999, Quantum's stockholders approved the tracking stock proposal and Quantum implemented the tracking stock proposal on August 3, 1999. Accordingly, the net income per share for the periods presented below have been calculated in accordance with the Restated Certificate of Incorporation.

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

<TABLE>

<CAPTION>

(In thousands, except per share data)	Three Months Ended December 26, 1999	Three Months Ended December 27, 1998	Nine Months Ended December 26, 1999	Nine Months Ended December 27, 1998
<S>	<C>	<C>	<C>	<C>
Numerator:				
Numerator for basic and diluted net income (loss) per share - income (loss) available to common stockholders	$ 50,790	$(30,584)	$123,315	$ 65,124
Denominator:				
Denominator for basic net income (loss) per share - weighted average shares	163,072	165,820	165,037	158,687
Effect of dilutive securities: Outstanding options	5,010	-	6,343	6,594
Denominator for diluted net income (loss) per share - adjusted weighted average shares	168,082	165,820	171,380	165,281
Basic net income (loss) per share	$ 0.31	$ (0.18)	$ 0.75	$ 0.41
Diluted net income (loss) per share	$ 0.30	$ (0.18)	$ 0.72	$ 0.39

</TABLE>

The computation of diluted net income (loss) per share for the three and nine months ended December 26, 1999 and December 27, 1998 excluded the effect of the 7% convertible subordinated notes issued in July 1997, which are convertible into 6,206,152 shares of DSSG common stock, or 21.587 shares per $1,000 note, because the effect would have been antidilutive.

Options to purchase 22,540,250 shares of DSSG common stock were outstanding at December 27, 1998. However, the corresponding weighted average outstanding options were not included in the

computation of diluted net loss per share for the three months ended December 27, 1998 because the effect would have been antidilutive.

4. Group Equity

In September 1999, Quantum's DLT & Storage Systems group issued 4.1 million DSSG shares and 1.9 million HDDG shares it had acquired (and HDDG issued 0.1 million HDDG shares) to the stockholders of Meridian Data, Inc. ("Meridian") to complete the acquisition of Meridian. Substantially all of the shares DSSG issued to complete the acquisition were DSSG and HDDG shares held as treasury stock. The difference between the cost of the treasury stock and the value at which the shares were reissued resulted in a $3.5 million addition to paid-in-capital in the second quarter of fiscal year 2000. For additional information regarding the Meridian acquisition, refer to Note 5 of the Notes to Condensed Combined Financial Statements.

In May 1999, the Board of Directors authorized Quantum to repurchase a combined total of up to $200 million of Quantum's common stocks through the open market from time to time. In October 1999, the Board of Directors authorized an increase in Quantum's stock repurchase program to a combined total of up to $600 million. The increased authorization allows Quantum to repurchase its common stocks through the open market or through other mechanisms, including negotiated off market transactions. During the nine months ended December 26, 1999, DSSG repurchased 14 million shares of DSSG common stock and acquired 1.9 million shares of HDDG common stock for $246 million, and HDDG repurchased 3.3 million shares of HDDG common stock for $20 million.

5. Business Combination

On September 10, 1999, Quantum's DLT & Storage Systems group completed the acquisition of Meridian. Meridian is a developer and manufacturer of network attached storage solutions utilizing both conventional hard disk drive and optical disk technologies for the PC local area network environment. The acquisition has been accounted for as a purchase at a total cost of $115 million. The acquisition was completed with the issuance of 4.1 million shares of DSSG common stock and 2 million shares of HDDG common stock valued at $74 million and $18 million, respectively, on the date of acquisition in exchange for all outstanding shares of Meridian; the conversion of outstanding Meridian stock options into options to purchase 630,000 shares of DSSG common stock and 315,000 shares of HDDG common stock valued at $8 million and $2 million, respectively; and the assumption of Meridian liabilities and other acquisition costs of approximately $13 million. At the date of acquisition, Meridian had $11 million of cash and marketable securities and a net operating loss carryforward for U.S. federal income tax purposes of approximately $46 million. Meridian's results of operations are included in the financial statements from the date of acquisition, and the assets and liabilities acquired were recorded based on their fair values as of the date of acquisition. Pro forma results of operations have not been presented because the effect of the acquisition was not material to DSSG's financial position or results of operations.

The excess of the purchase price over the fair value of the net tangible assets acquired has been allocated to the following identifiable intangible assets: goodwill, trademarks, workforce in place, developed technology and in-process research and development. As of the acquisition date,

technological feasibility of the in-process technology has not been established and the technology has no alternative future use. Therefore, DSSG expensed $37 million of the purchase price as in-process research and development in the second quarter of fiscal year 2000. The remaining identifiable intangible assets, valued at $81 million, will be amortized on a straight-line basis over periods ranging from five to ten years.

The amount of the purchase price allocated to in-process research and development was determined by estimating the stage of development of each in-process research and development project at the date of acquisition, estimating cash flows resulting from the expected revenue generated from such projects, and discounting the net cash flows back to their present value using a discount rate of 21%, which represents a premium to Quantum's cost of capital. The expected revenue assumes an average compound annual revenue growth rate of 64% during calendar years 2000 through 2007. Expected total revenue from the purchased in-process projects peak in calendar year 2005 and then begin to decline as other new products are expected to be introduced. These projections are based on management's estimates of market size and growth, expected trends in technology and the expected timing of new product introductions. If products are not successfully developed, DSSG may not realize the value assigned to the in-process research and development projects. In addition, the value of the other acquired intangible assets may also become impaired.

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

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

Business Overview

The DLT & Storage Systems group ("DSSG") designs, develops, manufactures, licenses and markets DLTtape drives, DLTtape media cartridges and storage systems. DSSG's storage systems consist of DLTtape libraries, solid state storage systems, network attached storage servers and a new category of local area network storage appliance which incorporates a DLTtape library.

DLTtape products are used to back up large amounts of data stored on network servers. Digital Linear Tape, or DLTtape, is DSSG's half-inch tape technology that is the de facto industry standard for data back-up in the mid-range network server market. DSSG's DLTtape media cartridges are manufactured by licensed third party manufacturers.

DSSG's tape libraries serve the entire tape library data storage market from desktop computers to enterprise class computers. DSSG's local area network storage appliance which incorporates a DLTtape library is designed for remote site back-up that provides central management and Web based customer service. With the acquisition of Meridian Data, Inc. in September, 1999, DSSG has become a leader in the rapidly emerging market for network attached storage appliances with products which incorporate hard disk drives and an operating system designed to meet the requirements of entry and workgroup level computing environments where multiple computer users access shared data files over a local area network.

Prior to 1998, DSSG's DLTtape media cartridge revenue was derived from direct sales. Beginning in 1998, DSSG's licensed third party DLTtape media manufacturers also began selling DLTtape media cartridges. DSSG receives a royalty fee on DLTtape media cartridges sold by its licensees which, while resulting in lower revenue than DLTtape media sold directly by DSSG, generates comparable income from operations. DSSG prefers to have a substantial portion of

DLTtape media cartridge sales occur through its license model because this minimizes DSSG's operational risks and expenses and provides an efficient distribution channel. Currently, approximately 80% of media sales occur through this license model. DSSG believes that the large installed base of DLTtape drives and its licensing of DLTtape media cartridges give DSSG a unique competitive advantage.

DSSG has experienced relatively flat shipments for its DLTtape drives and is preparing for this trend to continue. DSSG is considering a variety of measures that could include reducing product cost, reducing overhead expenses and accelerating plans for a low cost manufacturing strategy.

Products

The DLT & Storage Systems group's products include:

DLT:

. DLTtape drives. DSSG offers three tape drive products--the DLT8000, the DLT7000 and the DLT4000. The DLT8000 provides a combination of 40 gigabytes ("GB") of native capacity (80GB compressed) and a sustained data transfer rate of 6 megabytes ("MB") per second (12MB compressed). The DLT7000 provides a combination of 35GB of native capacity (70GB compressed) and a sustained data transfer rate of 5MB per second (10MB compressed). The DLT4000 provides a combination of 20GB of native capacity (40GB compressed) and a sustained data transfer rate of 1.5MB per second (3MB compressed).

. DLTtape media cartridges. The DLTtape family of half-inch tape media cartridges are designed and formulated specifically for use with DLTtape drives. The capacity of a DLTtape media cartridge is up to 40GB (80GB compressed). DSSG's half-inch tape cartridges take advantage of shorter wavelength recording schemes to ensure read compatibility with future generations of DLTtape drives. The tape itself features a special high-grade metal particle formula that reduces tape and head wear. The result is tape that delivers a proven one million passes with a negligible impact on soft error rates and a 30-year archival life.

Storage Systems:

. Tape libraries. DSSG offers a broad line of automated DLTtape libraries that support a wide range of back-up and archival needs from workgroup servers to enterprise-class servers. DSSG's tape libraries range from its tape autoloaders which accommodate a single DLTtape drive and up to 280GB of storage capacity to the P3000 series library which features Prism Library Architecture/TM/ and can be configured in multiple units to scale up to 11.4 Terabytes of storage capacity. In addition, DSSG offers WebAdmin/TM/, the industry's first Internet browser-based tape library management system, allowing system administrators to monitor widely distributed storage systems at remote locations with point-and-click ease.

. Solid state storage systems. DSSG offers a family of solid state storage systems that are available in capacities ranging from 268MB to 3.2GB and have data access times 100 to 200 times faster than magnetic hard disk drives. Solid state storage systems store data on memory chips which enable significantly faster data access times than magnetic disks used in standard hard disk drives.

. Network attached storage systems. DSSG's Snap! Server family of network attached storage appliances offers options for 10GB, 20GB and 40GB of network storage. These products provide the ease of plug-and-play features and can be directly attached to workgroup-level networks, providing instant additional network storage capacity. No special configurations are needed for ordinary use and advanced configuration options enable added value features.

. LANvault/TM/ tape backup appliance. DSSG recently announced the introduction of LANvault, a product that incorporates a backup appliance with a DLTtape library, a central management console and a customer service Web portal. This product is intended to meet the requirements for remote site backup and is designed as a plug-and-play appliance preloaded with industry-standard backup software for ease of installation and use.

Results of Operations

Revenue. Revenue in the three and nine months ended December 26, 1999 was $366 million and $1.054 billion, respectively, compared to $366 million and $913 million, respectively, for the corresponding periods in fiscal year 1999. Revenue in the three month period reflected increased revenue from sales of storage systems and increased DLTtape media royalties, offset by lower revenue from sales of DLTtape drives. The increase in revenue in the nine month period reflected increased revenue from sales of DLTtape drives, storage systems and increased DLTtape media royalties. Revenue from storage systems and DLTtape media royalties reached record highs in the three and nine month periods. The increase in storage systems revenue reflected an increase in shipments of tape libraries and the acquisition of ATL Products, Inc. in September 1998, and shipments of network attached storage systems following the acquisition of Meridian Data, Inc. in September 1999. The increase in DLTtape media royalties reflected an increase in sales of DLTtape media cartridges at licensed media manufacturers for which DSSG earns a royalty fee. The overall increase in sales of DLTtape media cartridges reflected sales of cartridges for use in both new DLTtape drives and to meet the ongoing new media needs of the installed base of DLTtape drives. The decrease in revenue from sales of DLTtape drives in the three month period reflected a decline in shipments and a decline in the average unit price, while the increase in DLTtape drive revenue in the nine month period reflected an increase in shipments, partially offset by a decline in the average unit price.

The table below summarizes the components of DSSG's revenue in the three and nine months ended December 26, 1999 and December 27, 1998:

<TABLE>
<CAPTION>

(in millions)	Three Months Ended December 26, 1999	Three Months Ended December 27, 1998	Nine Months Ended December 26, 1999	Nine Months Ended December 27, 1998
<S>	<C>	<C>	<C>	<C>
DLT drives	$ 215	$ 254	$ 654	$ 604
DLT media	42	41	105	154
DLT royalty	49	36	133	85
Storage systems	82	54	231	89
Intra-group elimination*	(22)	(19)	(69)	(19)
Revenue	$ 366	$ 366	$1,054	$ 913

</TABLE>

* Represents intra-group sales of DLTtape drives for incorporation into DSSG's tape libraries.

Sales to the top five customers in the three and nine months ended December 26, 1999 represented 49% and 48% of revenue, respectively, compared to 53% and 54% of revenue, respectively, for the corresponding periods in fiscal year 1999. These amounts reflected a retroactive combination of sales to Compaq and Digital Equipment as a result of their merger in June 1998. Sales to Compaq were 22% and 21% of revenue in the three and nine months ended December 26, 1999, respectively, compared to 25% and 26% of revenue, respectively, in the corresponding periods in fiscal year 1999, including sales to Digital Equipment. Sales to Hewlett Packard were less than 10% and 13% of revenue in the three and nine months ended December 26, 1999, respectively, compared to 13% of revenue in the corresponding periods in fiscal year 1999.

Sales to computer equipment manufacturers and distribution channel customers were 62% and 17% of revenue in the three months ended December 26, 1999, respectively, compared to 68% and 16% of revenue in the three months ended December 27, 1998. For the nine months ended December 26, 1999, computer equipment manufacturer and distribution channel sales were 64% and 16% of revenue, compared to 74% and 17% of revenue in the corresponding period of fiscal year 1999. The remaining revenue in the three and nine months ended December 26, 1999 and December 27, 1998 represented media royalty revenue and sales to value-added resellers.

Gross Margin Rate. The gross margin rate in the three months ended December 26, 1999, was 44.9%, compared to 44.0% in the three months ended December 27, 1998. The gross margin rate for the first nine months of fiscal year 2000 was 46.1% compared to 44.6% for the corresponding period of fiscal year 1999. The increase in the gross margin rate reflected an increase in the proportion of overall revenue represented by DLTtape media royalty revenue partially offset by a decline in the gross margin rate earned on DLTtape drives.

Research and Development Expenses. Research and development expenses in the three and nine months ended December 26, 1999, were $31 million, or 8.6% of revenue, and $90 million, or 8.5% of revenue, respectively, compared to $28 million, or 7.7% of revenue, and $72 million, or 7.9% of revenue, respectively, in the corresponding periods in fiscal year 1999. The increase in research and development expenses reflected the inclusion of Meridian's expenses which were not included in the prior year periods as the acquisition occurred on September 10, 1999, and higher research and development expenses related to new tape drive products and other new information storage products, including Super DLTtape technology. The increase in the nine month period also reflected the inclusion of ATL's expenses which were not included in the first two quarters of fiscal year 1999 as the acquisition occurred on September 28, 1998.

Sales and Marketing Expenses. Sales and marketing expenses in the three and nine months ended December 26, 1999, were $31 million, or 8.4% of revenue, and $83 million, or 7.9% of revenue, respectively, compared to $22 million, or 5.9% of revenue, and $49 million, or 5.4% of revenue, respectively, in the corresponding periods in fiscal year 1999. The increase in sales and marketing expenses reflected the inclusion of Meridian's expenses and an increase in marketing and advertising costs associated with DLTtape products. The increase in the nine month period also reflected the inclusion of ATL's expenses.

General and Administrative Expenses. General and administrative expenses in the three and nine months ended December 26, 1999, were $16 million, or 4.5% of revenue, and $46 million, or 4.4% of revenue, respectively, compared to $11 million, or 3.0% of revenue, and $25 million, or 2.7% of revenue, respectively, in the corresponding periods of fiscal year 1999. The increase in general and administrative expenses reflected the inclusion of Meridian's expenses, the amortization of

intangible assets, particularly goodwill, and the expansion of DSSG's infrastructure. The increase in the nine month period also reflected the inclusion of ATL's expenses.

Purchased In-process Research and Development Expense. DSSG expensed purchased in-process research and development costs of $37 million as a result of the Meridian acquisition in the second quarter of fiscal year 2000, and $89 million as a result of the acquisition of ATL in the third quarter of fiscal year 1999. For additional information regarding the Meridian acquisition and the costs associated with in-process research and development, refer to Note 5 of the Notes to Condensed Combined Financial Statements.

Interest and Other Income/Expense. Net interest and other income and expense in the three and nine months ended December 26, 1999 was $0.9 million expense and $0.4 million expense, respectively, compared to $2.9 million expense and $3.5 million expense, respectively, in the corresponding periods of fiscal year 1999. The decrease in expense for the three and nine month periods reflected increased interest income and a $2.6 million gain on the sale of an equity investment recognized in the first quarter of fiscal year 2000.

Income Taxes. No tax benefit was recognizable for the charges for purchased in-process research and development related to the acquisition of Meridian in the second quarter of fiscal year 2000 and the acquisition of ATL in the third quarter of fiscal year 1999. DSSG's effective tax rate, excluding charges, for the three and nine months ended December 26, 1999, and December 27, 1998, was 40%.

Liquidity and Capital Resources

Operating Activities. DSSG generated cash from operations of $272 million in the nine months ended December 26, 1999 compared to $142 million in the nine months ended December 27, 1998. The increase primarily reflected collection of accounts receivable and a reduction in inventories.

Investing Activities. Investments in the nine months ended December 26, 1999 were $26 million, consisting primarily of investments in property and equipment. Investments in the nine months ended December 27, 1998 totaled $25 million.

Financing Activities. At December 26, 1999, and March 31, 1999, Quantum's debt allocated to DSSG was $218 million and $230 million, respectively. Debt allocated to DSSG bears interest at a rate equal to the weighted average interest rate of Quantum's total debt, calculated on a quarterly basis. At December 26, 1999, Quantum had total debt of $327 million with an average interest rate of 8.5%. In the nine months ended December 26, 1999, DSSG used cash to purchase $246 million of treasury stock, as discussed below, and to pay off ATL's line of credit.

In September 1999, Quantum's DLT & Storage Systems group issued 4.1 million DSSG shares and 1.9 million HDDG shares it had acquired (and HDDG issued 0.1 million HDDG shares) to the stockholders of Meridian to complete the acquisition of Meridian. Substantially all of the shares DSSG issued to complete the acquisition were DSSG and HDDG shares held as treasury stock. The difference between the cost of the treasury stock and the value at which the shares were reissued

resulted in a $3.5 million addition to paid-in-capital in the second quarter of fiscal year 2000. For additional information regarding the Meridian acquisition, refer to Note 5 of the Notes to Condensed Combined Financial Statements.

In May 1999, the Board of Directors authorized Quantum to repurchase a combined total of up to $200 million of Quantum's common stocks through the open market from time to time. In October 1999, the Board of Directors authorized an increase in Quantum's stock repurchase program to a combined total of up to $600 million. The increased authorization allows Quantum to repurchase its common stocks through the open market or through other mechanisms, including negotiated off market transactions. During the nine months ended December 26, 1999, DSSG repurchased 14 million shares of DSSG common stock and acquired 1.9 million shares of HDDG common stock for $246 million, and HDDG repurchased 3.3 million shares of HDDG common stock for $20 million.

In December 1998, ATL entered into a senior credit facility that provides a $35 million revolving credit line to ATL. The revolving credit line is co-terminous with Quantum's $500 million revolving credit line, expiring in June 2000. As amended, at the option of ATL, borrowings under the revolving credit line bear interest at either London interbank offered rate plus a margin determined by Quantum's total funded debt ratio, or at a base rate, with option periods of two weeks to six months. At December 26, 1999, there was no outstanding balance drawn on this line.

In June 1997, Quantum entered into an unsecured senior credit facility that provides a $500 million revolving credit line and expires in June 2000. At Quantum's option, borrowings under the revolving credit line bear interest at either London interbank offered rate plus a margin determined by our total funded debt ratio, or at a base rate, with option periods of one to six months. At December 26, 1999, there was no outstanding balance drawn on this line.

DSSG expects to spend approximately $45 million in fiscal year 2000 for capital equipment and leasehold improvements. These capital expenditures will support the DLTtape product line, production of Super DLTtape products and DSSG's general infrastructure.

DSSG expects its cash flow from operations, together with available financing sources, 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 our expectations.

In the future, Quantum may seek to raise cash through the issuance of debt or equity securities. There can be no assurance that such financing would be available on terms favorable to Quantum if at all.

Trends and Uncertainties Relating to the DLT & Storage Systems Group

Holders of DSSG stock remain stockholders of one company and, therefore, financial effects on HDDG could adversely affect DSSG

Holders of DSSG stock and HDDG stock are stockholders of a single company. DSSG and HDDG are not separate legal entities. As a result, stockholders will continue to be subject to all of the risks of an investment in Quantum and all of its businesses, assets and liabilities. The issuance of the DSSG stock and the HDDG stock and the allocation of assets and liabilities and stockholders' equity between DSSG and HDDG did not result in a distribution or spin-off to stockholders of any Quantum assets or liabilities and did not affect ownership of our assets or responsibility for our liabilities or those of our subsidiaries. The assets we attribute to one group could be subject to the

liabilities of the other group, whether such liabilities arise from lawsuits, contracts or indebtedness that we attribute to the other group. If we are unable to satisfy one group's liabilities out of the assets we attribute to it, we may be required to satisfy those liabilities with assets we attribute to the other group.

Financial effects from one group that affect our consolidated results of operations or financial condition could, if significant, affect the results of operations or financial condition of the other group and the market price of the tracking stock relating to the other group. In addition, net losses of either group and dividends and distributions on, or repurchases of, either class of tracking stock or repurchases of preferred stock at a price per share greater than par value will reduce the funds we can pay on each class of tracking stock under Delaware law. For these reasons, you should read our consolidated financial information with the financial information we provide for each group.

Competition may increase in the tape drive market as a result of large competitors introducing tape drive products based on new technology standards

DSSG competes with companies that develop, manufacture, market and sell tape drive products. DSSG's principal competitors include Exabyte Corporation, Hewlett-Packard, Seagate Technology, Inc., Sony Corporation and StorageTek. These competitors are aggressively trying to develop new tape drive technologies that compete more successfully with DLTtape technology. Hewlett-Packard, IBM and

Seagate have formed a consortium to develop new linear tape drive products. DSSG expects products based on this developing technology standard to target the high-capacity data back-up market and to compete with DSSG's products based on Super DLTtape technology. Such competition could have a material adverse impact on DSSG's operating results.

DSSG's operating results depend on new product introductions which may not be successful

To compete effectively, DSSG must improve existing products and introduce new products, such as products based on Super DLTtape technology and network attached storage appliances. DSSG cannot assure you that:

- it will introduce any of these new products in the time frame DSSG currently forecasts;
- it will not experience technical or other difficulties that could prevent or delay the introduction of these new products;
- its new products will achieve market acceptance;
- its new products will be successfully or timely qualified with DSSG's customers by meeting customer performance and quality specifications. A successful and timely customer qualification must occur before customers will place large product orders; or
- it will achieve high volume production of these new products in a timely manner, if at all.

This risk is magnified because DSSG expects technological changes, changes in customer requirements and increasing competition could result in declining sales and gross margins on its existing products.

Reliance on a limited number of third-party suppliers could result in significantly increased costs and delays in the event these suppliers experience shortages or quality problems

DSSG depends on a limited number of suppliers for components and sub-assemblies, including recording heads, media cartridges and integrated circuits, all of which are essential to the manufacture of DLTtape drives and tape libraries. DSSG currently purchases the DLTtape media cartridges it sells primarily from Fuji Photo Film Co., Ltd. and Hitachi Maxell, Ltd. DSSG cannot assure you that Fuji or Maxell will continue to supply adequate high quality media cartridges in the future. If component shortages occur, or if DSSG experiences quality problems with component suppliers, shipments of products could be significantly delayed and/or costs significantly increased. In addition, DSSG qualifies only a single source for many components and sub-assemblies, which magnifies the risk of future shortages.

DSSG's sole supplier of tape heads is located in China and political instability, trade restrictions or currency fluctuations in China could have an adverse impact on DSSG's operating results.

DSSG's sole supplier of tape heads is located in China and political instability, trade restrictions, changes in tariff or freight rates or currency fluctuations in China could result in increased costs, delays in shipment and could have an adverse impact on DSSG's operating results.

DSSG's quarterly operating results could fluctuate significantly and past quarterly operating results should not be used to predict future performance

DSSG's quarterly operating results have fluctuated significantly in the past and could fluctuate significantly in the future. Quarterly operating results could be adversely affected by:

- an inadequate supply of DLTtape media cartridges;
- customers canceling, deferring or rescheduling significant orders as a result of excess inventory levels or other factors;
- declines in network server demand;
- failure to complete shipments in the last month of a quarter during which a substantial portion of DSSG's products are typically shipped; or
- increased competition.

A majority of sales come from a few customers and these customers have no minimum or long-term purchase commitments

DSSG's sales are concentrated with a few customers. Customers are not obligated to purchase any minimum product volume and DSSG's relationships with its customers are terminable at will. The loss of, or a significant change in demand from, one or more key customers could materially adversely impact DSSG's operating results.

Unpredictable end-user demand may cause excess inventories which could result in inventory write-downs or losses or insufficient inventories which could have an adverse impact on DSSG's customer relationships

Unpredictable end-user demand, combined with the computer equipment manufacturer trend toward carrying minimal inventory levels, increases the risk that DSSG will manufacture and custom configure too much or too little inventory for particular customers. Significant excess inventory could result in inventory write-downs and losses while inventory shortages could adversely impact DSSG's relationship with its customers, either of which could adversely impact DSSG's operating results.

DSSG does not control licensee pricing or licensee sales of DLTtape media cartridges and as a result DSSG's royalty revenue may decline

DSSG receives a royalty fee based on sales of DLTtape media cartridges by Fuji and Maxell. Under DSSG's license agreements with Fuji and Maxell, each of the licensees determine the pricing and number of units of DLTtape media cartridges sold by it. In addition, other companies may begin to sell DLTtape media cartridges under license agreements. As a result, DSSG's royalty revenue will vary depending upon the level of sales and prices set by Fuji, Maxell and potentially other licensees. In addition, lower licensee pricing could require DSSG to lower its prices on direct sales of DLTtape media cartridges which would adversely impact DSSG's margins for this product.

Third party infringement claims could result in substantial liability and significant costs

From time to time, third parties allege DSSG's infringement of and need for a license under their patented or other proprietary technology. Adverse resolution of any third party infringement claim could subject DSSG to substantial liabilities and require it to refrain from manufacturing and selling certain products. In addition, the costs incurred in intellectual property litigation can be substantial, regardless of the outcome.

Item 1. Financial Statements

QUANTUM CORPORATION
HARD DISK DRIVE GROUP
CONDENSED COMBINED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(unaudited)

<TABLE>
<CAPTION>

	Three Months Ended December 26, 1999	Three Months Ended December 27, 1998	Nine Months Ended December 26, 1999	Nine Months Ended December 27, 1998
<S>	<C>	<C>	<C>	<C>
Revenue	$889,024	$ 959,086	$2,409,729	$2,680,660
Cost of revenue - on net sales	784,645	881,298	2,254,856	2,489,959
Cost of revenue - special charge	-	-	57,068	-
Gross profit	104,379	77,788	97,805	190,701
Operating expenses:				
Research and development	55,012	59,766	179,693	182,774
Sales and marketing	25,229	29,427	81,920	85,518
General and administrative	19,177	13,538	49,254	38,722
Special charge	-	-	2,338	-
	99,418	102,731	313,205	307,014
Income (loss) from operations	4,961	(24,943)	(215,400)	(116,313)
Other income (expense):				
Interest income and other, net	6,154	5,683	15,541	12,329
Interest expense	(2,357)	(2,238)	(7,127)	(6,712)
Loss from investee	-	(100,700)	-	(142,050)
	3,797	(97,255)	8,414	(136,433)

Income (loss) before income taxes	8,758	(122,198)	(206,986)	(252,746)
Income tax provision (benefit)	3,608	(46,230)	(85,265)	(101,346)
Net income (loss)	$ 5,150	$ (75,968)	$ (121,721)	$ (151,400)
Net income (loss) per share:				
Basic	$0.06	$(0.92)	$(1.47)	$(1.91)
Diluted	$0.06	$(0.92)	$(1.47)	$(1.91)
Weighted average common shares:				
Basic	82,915	82,910	83,043	79,344
Diluted	86,004	82,910	83,043	79,344

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

QUANTUM CORPORATION
HARD DISK DRIVE GROUP
CONDENSED COMBINED BALANCE SHEETS
(In thousands)

<TABLE>
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<S>	December 26, 1999 (unaudited) <C>	March 31, 1999 <C>
Assets		
Current assets:		
Cash and cash equivalents	$ 452,635	$ 499,725
Marketable securities	9,726	24,426
Accounts receivable, net of allowance for doubtful accounts of $20,029 and $9,623	410,308	392,329
Inventories	93,065	147,524
Deferred taxes	60,297	72,107
Other current assets	126,023	96,401
Total current assets	1,152,054	1,232,512
Property and equipment, net of accumulated depreciation of $208,540 and $236,987	151,476	198,806
Intangible assets, net	2,736	5,199
Other assets	32,847	33,436
	$1,339,113	$1,469,953
Liabilities and Group Equity		
Current liabilities:		
Accounts payable	$ 299,328	$ 342,344
Accrued warranty	49,217	38,917
Accrued compensation	36,715	51,048
Income taxes payable	30,397	33,411
Current portion of long-term debt	366	341
Other accrued liabilities	92,696	57,841
Total current liabilities	508,719	523,902
Deferred taxes	40,385	39,985
Long-term debt	12,709	18,987
Convertible subordinated debt	95,833	95,833
Group equity	681,467	791,246
	$1,339,113	$1,469,953

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

QUANTUM CORPORATION
HARD DISK DRIVE GROUP
CONDENSED COMBINED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

<TABLE>
<CAPTION>

	Nine Months Ended	
	December 26,	December 27,

<S>	<C> 1999	<C> 1998
Cash flows from operating activities:		
Net loss	$(121,721)	$(151,400)
Adjustments to reconcile net loss to net cash provided by (used in) operations:		
Special charge	33,779	-
Loss from investee	-	124,809
Depreciation	48,839	49,989
Amortization	2,934	3,510
Deferred income taxes	498	2,480
Compensation related to stock plans	763	1,355
Changes in assets and liabilities:		
Accounts receivable	(17,979)	168,511
Inventories	54,459	66,462
Accounts payable	(43,016)	(71,873)
Income taxes payable	(3,014)	(12,118)
Accrued warranty	10,300	9,050
Other assets and liabilities	27,583	23,187
Net cash provided by (used in) operating activities	(6,575)	213,962
Cash flows from investing activities:		
Purchases of marketable securities	(33,367)	(68,360)
Maturities of marketable securities	48,067	115,508
Investment in property and equipment	(39,343)	(63,478)
Proceeds from disposition of property and equipment	-	139
Net cash used in investing activities	(24,643)	(16,191)
Cash flows from financing activities:		
Proceeds from long-term credit facilities	3,333	8,333
Principal payments on long-term credit facilities	(9,586)	(231)
Inter-group proceeds for common stock issued	2,835	15,118
Purchases of treasury stock	(19,690)	-
Proceeds from issuance of common stock, net	7,236	8,386
Net cash provided by (used in) financing activities	(15,872)	31,606
Increase (decrease) in cash and cash equivalents	(47,090)	229,377
Cash and cash equivalents at beginning of period	499,725	253,240
Cash and cash equivalents at end of period	$ 452,635	$ 482,617
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 4,879	$ 4,830
Income taxes	$ 19,778	$ 20,043

</TABLE>

See accompanying notes to condensed combined financial statements.

QUANTUM CORPORATION
HARD DISK DRIVE GROUP
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS
(unaudited)

1. Basis of presentation

The accompanying unaudited condensed combined financial statements of the Hard Disk Drive group ("HDDG"), together with the condensed combined financial statements of the DLT & Storage Systems group ("DSSG") include all of the accounts in the condensed consolidated financial statements of Quantum. The separate group condensed combined financial statements give effect to the accounting policies applicable with the implementation of the tracking stock proposal. The separate HDDG and DSSG financial statements have been prepared on a basis that management believes to be reasonable and appropriate and include (i) the historical balance sheets, results of operations, and cash flows of businesses that comprise each of the groups, with all significant intragroup transactions and balances eliminated, (ii) in the case of HDDG's financial statements, corporate assets and liabilities of Quantum and related transactions identified with HDDG, including allocated portions of Quantum's debt and selling, general and administrative costs, and (iii) in the case of DSSG's financial statements, corporate assets and liabilities of Quantum and related transactions identified with DSSG, including allocated portions of Quantum's debt and selling, general and administrative costs. Intergroup transactions and balances are not eliminated in the separate financial statements of HDDG or DSSG.

The condensed combined financial statements of the Hard Disk Drive group provide HDDG stockholders with financial information about the Hard Disk Drive group operations. Holders of HDDG stock and DSSG stock are Quantum stockholders and are subject to all of the risks of an investment in Quantum and all of Quantum's businesses, assets and liabilities. Quantum retains ownership and control of all of the assets and operations of each group. Financial effects arising from one group that affect Quantum's consolidated results of operations or financial condition could, if significant, affect the results of operations or financial condition of the other group and the market price of the other group's stock. Any net losses of HDDG or DSSG, and dividends or distributions on, or repurchases of DSSG stock, or repurchases of preferred stock at a price per share greater than par value, will reduce the funds of Quantum legally available for payment of dividends on HDDG stock. As a result, HDDG's condensed combined financial statements should be read in conjunction with Quantum's condensed consolidated financial statements and DSSG's condensed combined financial statements. The condensed combined balance sheet as of March 31, 1999 has been derived from the audited financial statements included in the Registration Statement on Form S-4 (SEC File No. 333-75153) filed with the Securities and Exchange Commission, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

These interim 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.

<TABLE>
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2. Inventories

Inventories consisted of the following:
(In thousands)

	December 26, 1999	March 31, 1999
Materials and purchased parts	$ 3,483	$ 2,204
Work in process	6,453	5,377
Finished goods	83,129	139,943
	$93,065	$147,524

</TABLE>

3. Net income (loss) per share

On July 23, 1999, Quantum's stockholders approved the tracking stock proposal and Quantum implemented the tracking stock proposal on August 3, 1999. Accordingly, the net loss per share for the periods presented below have been calculated in accordance with the Restated Certificate of Incorporation.

The following table sets forth the computation of basic and diluted net income (loss) per share:
<TABLE>
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(In thousands, except per share data)	Three Months Ended		Nine Months Ended	
	December 26, 1999	December 27, 1998	December 26, 1999	December 27, 1998
<S>	<C>	<C>	<C>	<C>
Numerator:				
Numerator for basic and diluted net income (loss) per share - income (loss) available to common stockholders	$ 5,150	$(75,968)	$(121,721)	$(151,400)
Denominator:				
Denominator for basic net income (loss) per share - weighted average shares	82,915	82,910	83,043	79,344
Effect of dilutive securities:				
Outstanding options	3,089	-	-	-
Denominator for diluted net income (loss) per share - adjusted weighted average shares	86,004	82,910	83,043	79,344

Basic net income (loss) per share	$ 0.06	$ (0.92)	$ (1.47)	$ (1.91)
Diluted net income (loss) per share	$ 0.06	$ (0.92)	$ (1.47)	$ (1.91)

</TABLE>

The computation of diluted net income (loss) per share for the three and nine months ended December 26, 1999 and December 27, 1998 excluded the effect of the 7% convertible subordinated notes issued in July 1997, which are convertible into 3,103,076 shares of HDDG common stock, or 10.793 shares per $1,000 note, because the effect would have been antidilutive.

Options to purchase 14,164,881 and 11,270,125 shares of HDDG common stock were outstanding at December 26, 1999 and December 27, 1998, respectively. However, the corresponding weighted average outstanding options were not included in the computation of diluted net loss per share for the nine months ended December 26, 1999, and the three and nine months ended December 27, 1998, because the effect would have been antidilutive.

4. Group Equity

In May 1999, the Board of Directors authorized Quantum to repurchase a combined total of up to $200 million of Quantum's common stocks through the open market from time to time. In October 1999, the Board of Directors authorized an increase in Quantum's stock repurchase program to a combined total of up to $600 million. The increased authorization allows Quantum to repurchase its common stocks through the open market or through other mechanisms, including negotiated off market transactions. During the nine months ended December 26, 1999, DSSG repurchased 14 million shares of DSSG common stock and acquired 1.9 million shares of HDDG common stock for $246 million, and HDDG repurchased 3.3 million shares of HDDG common stock for $20 million.

5. Litigation

On August 7, 1998, Quantum was named as one of several defendants in a patent infringement lawsuit filed in the U.S. District Court for the Northern District of Illinois, Eastern Division. The plaintiff, Papst Licensing GmbH, owns at least 24 U.S. patents which it asserts that Quantum has infringed. Quantum 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 completed a full study of all the patents asserted by Papst and there can be no assurance that Quantum has not infringed these or other patents owned by Papst. Recently, on Papst's motion, the case was transferred to a federal district court in New Orleans, Louisiana, where it has been joined with suits brought against Papst by Hewlett-Packard and Minebea Company, Ltd. for the purposes of coordinated discovery under multi-district litigation rules. Quantum does not believe that the transfer will affect the final disposition of this matter in a significant way. The final results of this litigation, as with any litigation, are uncertain. In addition, the costs of engaging in litigation with Papst will be substantial.

Quantum is also subject to other legal proceedings and claims that arise in the ordinary course of its business. For example, both Cambrian Consultants and Discovision Associates have brought patents they hold to Quantum's attention. 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 Quantum, the ultimate outcome of any litigation is uncertain. Were an unfavorable outcome to occur, the impact could be material to Quantum.

6. Special Charge

During the second quarter of fiscal year 2000, HDDG recorded a special charge of $59.4 million. The charge reflected HDDG's strategy to modify the hard disk drive business to more closely align product development and the business' operating model with the requirements of the rapidly

growing low-cost PC market. The special charge was associated primarily with the streamlining of HDDG's logistics model in order to create a faster and more flexible fulfillment system, changes in the customer service strategy and consolidation of certain product development programs.

The special charge consisted of $26.4 million related to facilities costs, $13.2 million in asset write-offs related to the streamlining of the global logistics model and change in customer service strategy, $7.8 million in severance and benefits for terminated employees, and approximately $12 million in other costs associated with the plan.

The facilities costs noted above include lease payments on facilities to be vacated in and around Milpitas, California and Singapore, the write-off of related leasehold improvements, and other maintenance expenses associated with the vacated facilities. HDDG expects that the affected facilities will be vacated by the end of the second quarter of fiscal year 2001.

In connection with the charge, HDDG currently expects a workforce reduction of approximately 600 employees. In addition, approximately 100 open requisitions and budgeted positions have been eliminated. The reduction in force primarily affects employees at HDDG's drive configuration centers and warehouses in Milpitas, California and Dundalk, Ireland and employees within the desktop drive business. Approximately 160 of the 600 employees had been terminated as of December 26, 1999. HDDG anticipates that the remaining employees will be terminated by the end of the second quarter of fiscal year 2001.

During the quarter ended December 26, 1999, HDDG revised its estimate of costs required to implement the restructuring plan. HDDG currently estimates that severance and benefits and other costs, which include the disposition of additional capital assets, will be more than previously estimated as a result of the planned changes in the customer service strategy. HDDG also estimates that costs associated with vacating leased facilities will be less than previously estimated as a result of vacating a major facility earlier than previously expected. Accordingly, HDDG has reallocated amounts between these categories.

As of December 26, 1999, HDDG had incurred $5 million in cash expenditures associated with employee severance and benefits, facilities and other costs. HDDG expects to incur additional cash expenditures associated with the plan of approximately $20 million.

The following table summarizes activity related to the special charge at December 26, 1999:
<TABLE>
<CAPTION>
(In thousands)

	Severance And Benefits	Facilities Costs	Inventory	Other Costs	Total
Special charge provision	$ 7,833	$ 26,359	$ 13,214	$ 12,000	$ 59,406
Cash payments	(2,923)	(944)	-	(1,495)	(5,362)
Non-cash charges	-	(9,532)	(13,214)	(9,742)	(32,488)
Adjustments	1,070	(7,159)	-	6,089	-
Balance at December 26, 1999	$ 5,980	$ 8,724	$ -	$ 6,852	$ 21,556

</TABLE>

7. Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) included in group equity on the condensed combined balance sheets of the Hard Disk Drive group consists of unrealized gains on available for sale investments and foreign currency translation adjustments. Total comprehensive income (loss), net of tax, for the three and nine months ended December 26, 1999 and December 27, 1998, is presented in the following table:
<TABLE>
<CAPTION>
(In thousands)

	Three Months Ended		Nine Months Ended	
	December 26, 1999	December 27, 1998	December 26, 1999	December 27, 1998
Net income (loss)	$ 5,150	$(75,968)	$(121,721)	$(151,400)
Other comprehensive income -				
Change in unrealized gain on investments, net	17,568	-	17,568	-
Foreign currency translation adjustments	(176)	2,055	597	2,238
Comprehensive income (loss)	$22,542	$(73,913)	$(103,556)	$(149,162)

</TABLE>

8. Business Units

The Hard Disk Drive group currently has two primary product lines, desktop hard disk drives and high-end hard disk drives. HDDG has two separate business units that support these two product lines. In addition, HDDG participated in the manufacture of recording heads through its 49% equity interest in a recording heads joint venture with Matsushita-Kotobuki Electronics, Ltd., from May 16, 1997 through October 28, 1998 when the joint venture was dissolved.

The desktop business unit designs, develops and markets desktop hard disk drives designed to meet the storage requirements of entry-level to high-end desktop personal computers in home and business environments. The high-end business unit designs, develops and markets high-end hard disk drives designed to meet the storage requirements of network servers, workstations and storage subsystems. In the future, the two HDDG business units may become a single business unit as their markets begin to converge and be reported on a combined basis.

Results for HDDG's business units for the three and nine months ended December 26, 1999 and December 27, 1998 are presented in the following table:
<TABLE>
<CAPTION>

(In millions)	Three Months Ended December 26, 1999	Three Months Ended December 27, 1998	Nine Months Ended December 26, 1999	Nine Months Ended December 27, 1998
<S>	<C>	<C>	<C>	<C>
Business unit:				
Desktop				
Revenue	$ 754	$ 830	$2,052	$2,294
Unit operating income (loss)	13	(6)	(182)	(54)
High-end				
Revenue	135	129	357	386
Unit operating loss	(8)	(19)	(33)	(62)
Recording heads				
Loss from investee	-	(101)	-	(142)

(In millions)	Three Months Ended December 26, 1999	Three Months Ended December 27, 1998	Nine Months Ended December 26, 1999	Nine Months Ended December 27, 1998
Loss reconciliation:				
Total unit operating income (loss)	$ 5	$ (25)	$ (215)	$ (116)
Loss from investee	-	(101)	-	(142)
Unallocated amounts:				
Interest and other income/(expense)	4	3	8	5
Income (loss) before income taxes	$ 9	$(122)	$ (207)	$ (253)

</TABLE>

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

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

Business Overview

The Hard Disk Drive group ("HDDG") designs, develops and markets a diversified product portfolio of hard disk drives featuring leading-edge technology. HDDG's hard disk drives are designed for the desktop market and the high-end market which requires faster and higher capacity disk drives--as well as the emerging market for hard disk drives specially designed for consumer electronics applications such as new TV recording devices. HDDG has been the leading volume supplier of hard disk drives for the desktop market for each of the past seven years. According to Dataquest, HDDG's market share in the desktop market has grown from 3% in 1990 to an industry leading 22% in 1999.

HDDG designs desktop hard disk drives to meet the storage requirements of entry-level to high-performance desktop PCs in home and business environments. HDDG also designs high-end hard disk drives to store data on large computing systems such as network servers. These high-end hard disk drives are generally used for:

- dedicated sites that store large volumes of data;
- network servers such as those used for Internet and intranet services, online transaction processing and enterprise wide applications;
- high-speed computers used for specialized engineering design software; and
- computer systems incorporating a large number of shared hard disk drives.

HDDG also designs hard disk drives for the developing consumer electronics market. These hard disk drives utilize Quantum QuickView--HDDG's hard disk drive technology designed for consumer electronics. The use of hard disk drive technology makes it possible to simultaneously record and playback video content and to rapidly and inexpensively access large amounts of video content--capabilities that are not as well suited to competing technologies such as video tape and digital video disk.

Products

Desktop products. HDDG offers two families of desktop hard disk drives--the Quantum Fireball/TM/ and Quantum Fireball Plus. The Quantum Fireball family offers 3.5-inch hard disk drives for consumer and commercial PCs, as well as entry-level workstations and network servers. Fireball Plus offers superior performance for power users. HDDG offers the Shock Protection System/TM/, Shock Protection System II and Data Protection System/TM/ with its desktop products. These features substantially reduce failure rates and provide increased reliability and performance. Shock Protection System II provides enhanced protection against both operating and non-operating shock. Along with providing enhanced protection against shock during handling and integration, Shock Protection System II guards against kicks and jolts while the PC is running to reduce field failures. HDDG has also incorporated feature enhancements of the Quiet Drive Technology into recently introduced Quantum desktop drives. This technology has been pioneered through a combination of proprietary design innovations and unique drive features that enable Quantum to develop drives that emit dramatically reduced levels of noise. It was first introduced over a year ago in QuickView drives targeted for the noise-sensitive consumer electronics market and has continued to be refined with technology and feature enhancements.

High-end products. HDDG also offers a broad line of high-end 3.5-inch hard disk drives--the Quantum Atlas and Quantum Atlas 10K families. The Quantum Atlas family offers high-capacity hard disk drives for high performance storage-intensive applications such as enterprise servers and storage subsystems. HDDG also offers the Shock Protection System and Data Protection System with its high-end products.

The table below sets forth key performance characteristics for HDDG's current products:
<TABLE>
<CAPTION>

Products	Capacity per Disk (GB)	Product Capacity (GB)	Rotational Speed (RPM)	Platform
Fireball CX	6.8	6.4 to 20.4	5,400	Desktop PCs--Value, with Ultra ATA/66 interface, Shock Protection System and Data Protection System
Fireball lct 08	8.7	4.3 to 26.0	5,400	Desktop PCs--Value, with Ultra ATA/66 interface, Shock Protection System II and Data Protection System
Fireball lct 10	10.3	5.0 to 30.0	5,400	Desktop PCs--Value, with Ultra ATA/66 interface, Shock Protection System II and Data Protection System
Fireball Plus KX	6.8	6.8 to 27.3	7,200	Desktop PCs--Performance, with Ultra ATA/66 interface, Shock Protection System and Data Protection System
Fireball Plus LM	10.3	10.2 to 30.0	7,200	Desktop PCs--Performance, with Ultra ATA/66 interface, Shock Protection System and Data Protection System

Atlas IV	4.5	9.1 to 36.4	7,200	Servers, Workstations and Storage Subsystems, with Ultra 160/m SCSI interface, Shock Protection System
Atlas V	9.1	9.1 to 36.7	7,200	Servers, Workstations and Storage Subsystems, with Ultra 160/m SCSI interface, Shock Protection System II and Data Protection System
Atlas 10K	3.0	9.1 to 36.4	10,000	Enterprise Servers and Storage Subsystems, with Ultra 160/m SCSI interface or Fibre Channel optional interface, 3-inch media, Shock Protection System
Atlas 10K II	4.5	9.2 to 73.4	10,000	Enterprise Servers and Storage Subsystems, with Ultra 160/m SCSI interface or Fibre Channel optional interface, 3-inch Media, Shock Protection System II and Data Protection System

</TABLE>

Results of Operations

Revenue. Revenue in the three and nine months ended December 26, 1999 was $889 million and $2.410 billion, respectively, compared to $959 million and $2.681 billion, respectively, for the corresponding periods in fiscal year 1999. The decrease in revenue reflected lower revenue from sales of desktop hard disk drives.

- Desktop hard disk drive revenue in the three and nine months ended December 26, 1999 was $754 million and $2.052 billion, respectively, compared to $830 million and $2.294 billion, respectively, for the corresponding periods in fiscal year 1999. While shipments of desktop hard disk drives increased in the three and nine month periods, lower average unit prices resulted in reduced desktop hard disk drive revenue. Desktop shipments reached a record high in the third quarter of fiscal year 2000 reflecting increased demand, particularly from computer equipment manufacturers, and a strong desktop PC market. The strong market conditions resulted in some easing of the intense competitive pricing pressures of prior quarters.

- High-end hard disk drive revenue for the three and nine months ended December 26, 1999 was $135 million and $357 million, respectively, compared to $129 million and $386 million, respectively, for the corresponding periods in fiscal year 1999. Shipments of high-end hard disk drives increased in the three and nine month periods, reaching a

record high in the third quarter of fiscal year 2000 as HDDG completed a transition to new high-end products. However, continued pricing pressures in the high-end market resulted in lower average unit prices, limiting the revenue increase in the three month comparative period and resulting in reduced revenue in the nine month comparative period.

Sales to the top five customers in the three and nine months ended December 26, 1999 represented 51% and 50% of revenue, respectively, compared to 45% and 48% of revenue, respectively, for the corresponding periods in fiscal year 1999. These amounts reflected a retroactive combination of sales to Compaq and Digital Equipment as a result of their merger in June 1998 as well as a retroactive combination of sales to Ingram Micro and Electronic Resources as a result of the completion of their merger in July 1999. Sales to Hewlett-Packard were 12% of revenue in the three and nine months ended December 26, 1999 compared to 11% and 14% of revenue, respectively, for the corresponding periods in fiscal year 1999. Sales to Dell Computer were 12% of revenue in the three months ended December 26, 1999 and were less than 10% of revenue in the nine months ended December 26, 1999 and the corresponding periods in fiscal year 1999. Sales to Ingram Micro were 12% and 13% of revenue in the three and nine months ended December 26, 1999, respectively, and were less than 10% of revenue for the corresponding periods in fiscal year 1999, including sales to Electronic Resources.

Sales to computer equipment manufacturers and distribution channel customers were 66% and 34% of revenue in the three months ended December 26, 1999, respectively, compared to 60% and 40% of revenue in the three months ended December 27, 1998. For the nine months ended December 26, 1999, computer equipment manufacturers and distribution channel sales were 60% and 40% of revenue, compared to 61% and 39% for the corresponding period of fiscal year 1999.

Gross Margin Rate. The gross margin rate in the three months ended December 26, 1999 increased to 11.7% from 8.1% in the three months ended December 27, 1998. The gross margin rate for the first nine months of fiscal year 2000 was 4.1%, compared to 7.1% in the corresponding period in fiscal year 1999. The gross margin rate in the nine-month period of fiscal year 2000 reflected the impact of a $57.1 million special charge as discussed below. The gross margin rate excluding the impact of the charge was 6.4% in the nine-month period ended December 26, 1999.

- The desktop gross margin rate for the three and nine months ended December 26, 1999 was 10.5% and 1.5%, respectively, compared to 7.6% and 6.6% for the corresponding periods in fiscal year 1999. Excluding the desktop portion of the special charge of $51.4 million, the gross margin rate was 4.0% for the nine-month period ended December 26, 1999. The increase in the gross margin rate for the three-month period ended December 26, 1999 reflected the transition to new lower cost, higher margin products, cost reductions associated with the special charge, and the strong desktop PC market. Excluding the impact of the special charge, the decrease in the gross margin rate for the nine-month period ended December 26, 1999 reflected the intense competitive pricing pressures in the desktop market, particularly in the first two quarters of fiscal year 2000.

- The high-end gross margin rate for the three and nine months ended December 26, 1999 was 18.8% and 18.6%, respectively, compared to 11.7% and 10.4% for the corresponding periods in fiscal year 1999. Excluding the high-end portion of the special

charge of $5.7 million, the gross margin rate was 20.2% in the nine-month period ended December 26, 1999. The increase in gross margins reflected the transition to new, higher margin products.

Research and Development Expenses. Research and development expenses in the three and nine months ended December 26, 1999, were $55 million, or 6.2% of revenue, and $180 million, or 7.5% of revenue, respectively, compared to $60 million, or 6.2% of revenue, and $183 million, or 6.8% of revenue, respectively, in the corresponding periods in fiscal year 1999. The decrease in research and development expenses reflected expense reductions resulting from modifications to the hard disk drive business associated with the special charge taken in the second quarter of fiscal year 2000.

Sales and Marketing Expenses. Sales and marketing expenses in the three and nine months ended December 26, 1999, were $25 million, or 2.8% of revenue, and $82 million, or 3.4% of revenue, respectively, compared to $29 million, or 3.1% of revenue, and $86 million, or 3.2% of revenue, respectively, in the corresponding periods of fiscal year 1999. The decrease in sales and marketing expenses reflected reduced advertising costs and lower commissions as the result of the reduced level of revenue.

General and Administrative Expenses. General and administrative expenses in the three and nine months ended December 26, 1999, were $19 million, or 2.2% of revenue, and $49 million, or 2.0% of revenue, respectively, compared to $14 million, or 1.4% of revenue, and $39 million, or 1.4% of revenue, respectively, in the corresponding periods of fiscal year 1999. The increase in general and administrative expenses reflected an increase in the provision for bad debt due to the bankruptcy of a distributor in the third quarter of fiscal year 2000 and implementation of a new quality program at the beginning of fiscal year 2000.

Special Charge. During the second quarter of fiscal year 2000, HDDG recorded a special charge of $59.4 million, of which $57.1 million is included in cost of sales and $2.3 million is included in operating expenses. The charge reflected HDDG's strategy to modify the hard disk drive business to more closely align product development and the business's operating model with the requirements of the rapidly growing low-cost PC market. The special charge was associated primarily with the streamlining of HDDG's logistics model in order to create a faster and more flexible fulfillment system, changes in the customer service strategy and consolidation of certain product development programs. Upon full implementation of the plan, HDDG expects to realize more than $100 million in cost savings per year, beginning in fiscal year 2001.

The special charge consisted of $26.4 million related to facilities costs, $13.2 million in asset write-offs related to the streamlining of the global logistics model and change in customer service strategy, $7.8 million in severance and benefits for terminated employees, and approximately $12 million in other costs associated with the plan.

During the quarter ended December 26, 1999, HDDG revised its estimate of costs required to implement the restructuring plan. HDDG currently estimates that severance and benefits and other costs, which include the disposition of additional capital assets, will be more than previously estimated as a result of the planned changes in the customer service strategy. HDDG also estimates that costs associated with vacating leased facilities will be less than

previously estimated as a result of vacating a major facility earlier than previously expected. Accordingly, HDDG has reallocated amounts between these categories.

Interest and Other Income/Expense. Net interest and other income and expense in the three and nine months ended December 26, 1999 was $3.8 million and $8.4 million income, respectively, compared to $3.4 million and $5.6 million income, respectively, in the corresponding periods of fiscal year 1999. The increase in income for the three month period reflected foreign exchange gains while the increase for the nine month period reflected higher interest income.

Loss from Investee. The loss from investee reflected HDDG's 49% equity share in the operating losses of its recording heads joint venture with Matsushita-Kotobuki, which was dissolved in the third quarter of fiscal year 1999. HDDG's share of the loss in the joint venture for the three and nine months ended December 27, 1998 was $100.7 million and $142.1 million, respectively.

Income Taxes. HDDG recorded a tax provision of $3.6 million and a tax benefit of $85.3 million for the three and nine months ended December 26, 1999, for an effective tax rate of 41%, as compared to effective rates of 38% and 40% for the corresponding periods in fiscal year 1999. The increased benefit for the nine month period is primarily attributable to increased state tax benefits.

Liquidity and Capital Resources

Operating Activities. HDDG used cash of $7 million in operating activities in the nine months ended December 26, 1999. HDDG generated cash from operations of $214 million in the nine months ended December 27, 1998. The use of cash primarily reflected reduced collections of accounts receivable compared to the prior year period, as a result of the reduced level of revenue in the nine month period of fiscal year 2000, and a reduction in accounts payable.

Investing Activities. Investments in the nine months ended December 26, 1999 were $25 million, which consisted primarily of investments in property and equipment. Investments in the nine months ended December 27, 1998 totaled $16 million.

Financing Activities. At December 26, 1999, and March 31, 1999, Quantum's debt allocated to HDDG was $109 million and $115 million, respectively. Debt allocated to HDDG bears interest at a rate equal to the weighted average interest rate of Quantum's total debt, calculated on a quarterly basis. At December 26, 1999, Quantum had total debt of $327 million with an average interest rate of 8.5%. As discussed below, in the nine months ended December 26, 1999, HDDG used cash to purchase $20 million of treasury stock.

In May 1999, the Board of Directors authorized Quantum to repurchase a combined total of up to $200 million of Quantum's common stocks through the open market from time to time. In October 1999, the Board of Directors authorized an increase in Quantum's stock repurchase program to a combined total of up to $600 million. The increased authorization allows Quantum to repurchase it's common stocks through the open market or through other mechanisms, including negotiated off market transactions. During the nine months ended December 26, 1999, DSSG repurchased 14

million shares of DSSG common stock and acquired 1.9 million shares of HDDG common stock for $246 million, and HDDG repurchased 3.3 million shares of HDDG common stock for $20 million.

In December 1998, ATL entered into a senior credit facility that provides a $35 million revolving credit line to ATL. The revolving credit line is co-terminous with Quantum's $500 million revolving credit line, expiring in June 2000. As amended, at the option of ATL, borrowings under the revolving credit line bear interest at either London interbank offered rate plus a margin determined by Quantum's total funded debt ratio, or at a base rate, with option periods of two weeks to six months. At December 26, 1999, there was no outstanding balance drawn on this line.

In June 1997, Quantum entered into an unsecured senior credit facility that provides a $500 million revolving credit line and expires in June 2000. At Quantum's option, borrowings under the revolving credit line bear interest at either London interbank offered rate plus a margin determined by our total funded debt ratio, or at a base rate, with option periods of one to six months. At December 26, 1999, there was no outstanding balance drawn on this line.

HDDG expects to spend approximately $60 million in fiscal year 2000 for capital equipment and leasehold improvements. These capital expenditures will support the development and introduction of new disk drive products.

HDDG expects its cash flow from operations, together with available financing sources, 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 HDDG's expectations.

In the future, Quantum may seek to raise cash through the issuance of debt or equity securities. There can be no assurance that such financing would be available on terms favorable to Quantum if at all.

In fiscal year 1999, Quantum entered into a strategic alliance with TiVo, Inc., to supply hard disk drives utilizing Quantum's QuickView technology for integration into TiVo's Personal Video Recorder. As part of the agreement, Quantum received warrants to purchase approximately 875,000 shares of TiVo common stock. On September 30, 1999, subsequent to the end of Quantum's fiscal second quarter, Quantum exercised its warrants immediately prior to TiVo's initial public offering. Quantum is not allowed to sell TiVo common stock for a six month period following the initial public offering and is accounting for its investment as an available for sale security. As there are currently restrictions upon the sale of this security, Quantum's Hard Disk Drive group has classified its investment as part of other current assets. The fair market value of this investment at December 26, 1999, was approximately $29 million.

Trends and Uncertainties Relating to the Hard Disk Drive Group

Holders of HDDG stock remain stockholders of one company and, therefore, financial effects on DSSG could adversely affect HDDG

Holders of HDDG stock and DSSG stock are stockholders of a single company. HDDG and DSSG are not separate legal entities. As a result, stockholders will continue to be subject to all of the risks of an investment in Quantum and all of its businesses, assets and liabilities. The issuance of the HDDG stock and the DSSG stock and the allocation of assets and liabilities and stockholders' equity between HDDG and DSSG did not result in a distribution or spin-off to stockholders of any Quantum assets or liabilities and did not affect ownership of our assets or responsibility for our

liabilities or those of our subsidiaries. The assets we attribute to one group could be subject to the liabilities of the other group, whether such liabilities arise from lawsuits, contracts or indebtedness that we attribute to the other group. If we are unable to satisfy one group's liabilities out of the assets we attribute to it, we may be required to satisfy those liabilities with assets we attribute to the other group.

Financial effects from one group that affect our consolidated results of operations or financial condition could, if significant, affect the results of operations or financial condition of the other group and the market price of the tracking stock relating to the other group. In addition, net losses of either group and dividends and distributions on, or repurchases of, either class of tracking stock or repurchases of preferred stock at a price per share greater than par value will reduce the funds we can pay on each class of tracking stock under Delaware law. For these reasons, you should read our consolidated financial information with the financial information we provide for each group.

HDDG's operating results depend on new product introductions which may not be successful

To compete effectively, HDDG must frequently introduce new hard disk drives. HDDG cannot assure you that:

- it will successfully or timely develop or market any new hard disk drives in response to technological changes or evolving industry standards;

- it will not experience technical or other difficulties that could delay or prevent the successful development, introduction or marketing of new hard disk drives;

- it will successfully qualify new hard disk drives, particularly high-end disk drives, with HDDG's customers by meeting customer performance and quality specifications. A successful and timely customer qualification must occur before customers will place large product orders;

- it will quickly achieve high volume production of new hard disk drives; or

- its new products will achieve market acceptance.

These risks are magnified because HDDG expects technological changes, short product life cycles and intense competitive pressures to result in declining sales and gross margins on its current generation products.

HDDG's quarterly operating results could fluctuate significantly and past quarterly operating results should not be used to predict future performance

HDDG's quarterly operating results have fluctuated significantly in the past and may fluctuate significantly in the future. As a result, you should not use HDDG's past quarterly operating results to predict future performance. Quarterly operating results could be adversely affected by:

- the ability of Matsushita-Kotobuki, HDDG's exclusive manufacturer, to quickly achieve high volume production of HDDG's hard disk drives;
- customers canceling, deferring or rescheduling significant orders;
- returns by customers of unsold hard disk drives for credit;
- decline in PC demand; or
- failure to complete shipments in the last month of a quarter during which a substantial portion of HDDG's products are typically shipped.

HDDG's prices and margins are subject to declines due to unpredictable end-user demand and oversupply of hard disk drives

End-user demand for the computer systems which contain HDDG's hard disk drives has historically been subject to rapid and unpredictable fluctuations. As a result, the hard disk drive market tends to experience periods of excess capacity which typically lead to intense price competition. If intense price competition occurs, HDDG may be forced to lower prices sooner and more than expected and transition to new products sooner than expected. For example, in fiscal year 1999 and the second half of fiscal year 1998, as a result of excess inventory in the desktop hard disk drive market, aggressive pricing and corresponding margin reductions materially adversely impacted HDDG's operating results. HDDG experienced similar conditions in the high-end hard disk drive market during most of fiscal years 1998 and 1999.

Growth of the lower priced PC markets is putting downward pressure on HDDG's desktop hard disk drive prices and margins

The growth of the lower priced PC market has led to a shift toward lower priced desktop hard disk drives, and to significantly reduced gross margins. HDDG expects the trend toward lower prices on hard disk drives to continue. If HDDG is unable to lower the cost of its desktop hard disk drives accordingly, gross margins will continue to decrease.

Intense competition in the desktop and high-end hard disk drive market could adversely impact HDDG's operating results

In the desktop hard disk drive market, HDDG's primary competitors are Fujitsu Limited, IBM, Maxtor Corporation, Samsung Electronics Co., Ltd., Seagate and Western Digital Corporation. The desktop hard disk drive market is characterized by more competitiveness than that seen in the computer industry in general. HDDG's operating results and competitive position could be negatively impacted by the introduction of competitive products with higher performance, higher reliability and/or lower cost than HDDG's products. For example, in the first half of fiscal year 2000, certain competitors reduced prices for their products significantly. As a result, HDDG's operating results were materially adversely impacted.

In the high-end hard disk drive market, HDDG's primary competitors are Fujitsu, Hitachi, IBM, Seagate and Western Digital. Currently, Seagate and IBM have the largest market share for high-end hard disk drives. Intense technology and pricing competition has led to losses on HDDG's high-end hard disk drive products over the past 11 quarters.

A majority of sales come from a few customers that have no minimum or long-term purchase commitments

HDDG's sales are concentrated with a few customers. Customers are not obligated to purchase any minimum product volume and HDDG's customer relationships are terminable at will. The loss of, or a significant change in demand from, one or more key HDDG customers could have a material adverse impact on HDDG's operating results.

Because HDDG depends on Matsushita-Kotobuki for the manufacture of all hard disk drives, adverse material developments in this critical manufacturing relationship would adversely impact HDDG's operating results

HDDG's relationship with Matsushita-Kotobuki is critical to the Hard Disk Drive group's operating results and overall business performance. HDDG's dependence on Matsushita-Kotobuki includes the following principal risks:

- Quality and Delivery. HDDG relies on Matsushita-Kotobuki to quickly achieve volume production of new hard disk drives at a competitive cost, to meet HDDG's stringent quality requirements and to respond quickly to changing product delivery schedules. Failure of Matsushita-Kotobuki to satisfy these requirements could have a material adverse impact on HDDG's operating results.

- Purchase Forecasts. Matsushita-Kotobuki's production schedule is based on HDDG's forecasts of its purchase requirements, and HDDG has limited rights to modify short-term purchase orders. The failure of HDDG to accurately forecast its requirements or successfully adjust Matsushita-Kotobuki's production schedule could lead to inventory shortages or surpluses.

- Pricing. HDDG negotiates pricing arrangements with Matsushita-Kotobuki on a quarterly basis. Any failure to reach competitive pricing arrangements would have a material adverse impact on HDDG's operating results.

- Capital Commitment. HDDG's future growth will require that Matsushita-Kotobuki continue to devote substantial financial resources to property, plant and equipment to support the manufacture of HDDG's products.

- Manufacturing Capacity. If Matsushita-Kotobuki is unable or unwilling to meet HDDG's manufacturing requirements, an alternative manufacturing source may not be available in the near-term.

Matsushita-Kotobuki depends on a limited number of component and sub-assembly suppliers and component shortages and quality problems or delays from these suppliers could result in increased costs and reduced sales

Matsushita-Kotobuki depends on a limited number of qualified suppliers for components and sub-assemblies, including recording heads, media and integrated circuits, all of which are essential to the manufacture of HDDG's hard disk drives. Matsushita-Kotobuki may qualify only a single source for certain components and sub-assemblies, which can magnify the risk of component shortages. Component shortages have constrained HDDG's sales growth in the past, and HDDG believes that it will periodically experience component shortages. If Matsushita-Kotobuki experiences quality problems with its component suppliers, HDDG's hard disk drive shipments could be significantly delayed or costs could be significantly increased.

Unexpected warranty costs could have a material adverse impact on operating results

HDDG warrants its products against defects for a period of one to five years. Actual warranty costs could have a material adverse impact on HDDG's operating results if the actual unit failure rate or unit repair costs are greater than those for which HDDG established a warranty accrual.

Third party infringement claims could result in substantial liability and significant costs

From time to time, third parties allege HDDG's infringement of and need for a license under their patented or other proprietary technology. For example, in August 1998 Quantum was named as one of several defendants in a patent infringement lawsuit. The plaintiff, Papst Licensing GmbH, owns at least 24 U.S. patents, which it asserts that HDDG has infringed. Recently, both Cambrian Consultants and Discovision Associates have brought patents to Quantum's attention. Adverse resolution of the Papst litigation or any other third party infringement claim could subject HDDG to substantial liabilities and require it to refrain from manufacturing and selling certain products. HDDG cannot assure you that licenses to any technology owned by Papst or any other third party alleging infringement could be obtained on commercially reasonable terms, or at all. In addition, the costs of litigation could be substantial, regardless of the outcome.

HDDG's foreign manufacturing costs could be adversely impacted by fluctuations in currency exchange rates

Matsushita-Kotobuki generally purchases manufacturing components at prices denominated in U.S. dollars. However, significant increases in currency exchange rates against the U.S. Dollar could increase Matsushita-Kotobuki's manufacturing costs and could result in higher product prices and/or declining margins for HDDG's products.

QUANTUM CORPORATION

PART II - OTHER INFORMATION

Item 1. Legal proceedings

Refer to Note 6 of the Notes to Condensed Consolidated Financial Statements and Note 5 of the Notes to Condensed Combined Financial Statements of the Hard Disk Drive group.

Item 2. Changes in securities - Not Applicable

Item 3. Defaults upon senior securities - Not Applicable

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

Item 5. Other information - Not Applicable

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

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

(b) Reports on Form 8-K.

None.

SIGNATURE

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

QUANTUM CORPORATION
(Registrant)

Date: February 9, 2000 By: /s/ Richard L. Clemmer

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

QUANTUM CORPORATION
INDEX TO EXHIBITS

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Exhibit Number	Exhibit
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10.1	FOURTH AMENDMENT TO CREDIT AGREEMENT, dated November 8, 1999, among Quantum Corporation, certain financial institutions (collectively, the "Banks"), Canadian Imperial Bank of Commerce as administrative agent for the Banks, ABN AMRO Bank, N.V., and CIBC Inc., as co-arrangers for the Banks, ABN, as syndication agent for the Banks, Bank of America N.A., as documentation agent for the Banks, and BankBoston , N.A., The Bank of Nova Scotia, Fleet National Bank and The Industrial Bank of Japan, Limited, as co-agents for the Banks.
27.1	Financial Data Schedule

Footnotes to Exhibits	Footnote
None	

</TABLE>

EXHIBIT 10.1

FOURTH AMENDMENT TO CREDIT AGREEMENT

1. Reference is made to that certain Credit Agreement dated as of June 6, 1997 (the "Credit Agreement"), as amended by that certain First Amendment to Credit Agreement dated as of June 26, 1998, as further amended by that certain Second Amendment to Credit Agreement dated as of December 18, 1998 and as further amended by that certain Third Amendment to Credit Agreement dated as of August 31, 1999 by and among Quantum Corporation, a Delaware corporation (the "Borrower"), each of the financial institutions listed in Schedule I to the Credit Agreement (individually, a "Bank" and, collectively, the "Banks"), Canadian Imperial Bank of Commerce, as administrative agent for the Banks (in such capacity, "Administrative Agent"), ABN AMRO Bank, N.V ("ABN"), and CIBC Inc., as co-arrangers for the Banks, ABN, as syndication agent for the Banks, Bank of America, N.A. (formerly known as Bank of America National Trust and Savings Association), as documentation agent for the Banks, and BankBoston, N.A., The Bank of Nova Scotia, Fleet National Bank and The Industrial Bank of Japan, Limited, as co-agents for the Banks (as amended, the "Credit Agreement").

2. The Banks executing this Amendment constituting Majority Banks hereby agree that, subject to the satisfaction of the conditions set forth in Paragraph 3 below, Subparagraph 5.02(f) of the Credit Agreement is hereby amended by changing clause (iv) thereof to read in its entirety as follows:

> (iv) Borrower may purchase Equity Securities pursuant to stock repurchase programs, provided that the aggregate payments under such programs do not exceed (A) during fiscal year 1999, twenty-three percent (23%) of Tangible Net Worth as determined as of the fiscal quarter ending March 31, 1998, (B) during fiscal year 2000, twenty percent (20%) of Tangible Net Worth as determined as of the fiscal quarter ending June 27, 1999 plus an additional seventy five million dollars ($75,000,000), and (C) during all other fiscal years until the Maturity Date, ten percent (10%) of Tangible Net Worth as determined as of the fiscal quarter immediately preceding the date of determination;

3. The amendment effected by Paragraph 2 above shall become effective as of 8:30 a.m. Pacific Standard Time November 8, 1999 (the "Effective Date"), subject to: (1) receipt by Orrick, Herrington & Sutcliffe LLP, counsel to Administrative Agent, on or prior to the Effective Date, of a duly executed copy of this Amendment from Borrower and the Banks constituting the Majority Banks; and (2) receipt by Administrative Agent on behalf of each individual Bank that executes this Amendment on or prior to the Effective Date of a non refundable amendment fee payable to each such Bank in the amount of five thousand dollars ($5,000).

4. This Amendment shall be governed by and construed in accordance with the laws of the State of California without reference to conflicts of law rules.

IN WITNESS WHEREOF, the undersigned has caused this Amendment to be executed as of November 8, 1999.

QUANTUM CORPORATION

By: /s/ Andrew Kryder

Name: Andrew Kryder
Title: Vice President, Finance & General Counsel

ABN AMRO BANK N.V.

By: /s/ Nanci H. Meyer

Name: Nanci H. Meyer
Title: Vice President

By: /s/ Robert N. Hartinger

Name: Robert N. Hartinger

Title: Senior Vice President

BANKBOSTON, N.A.

By: /s/ John B. Desmond

Name: John B. Desmond
Title: Vice President

BANKBOSTON, N.A.

By: /s/ Thomas W. Davies

Name: Thomas W. Davies
Title: Senior Vice President

THE BANK OF NOVA SCOTIA

By: /s/ John Quick

Name: John Quick
Title: Managing Director

BANQUE NATIONALE DE PARIS

By: /s/ Michael D. McCorriston

Name: Michael D. McCorriston
Title: Vice President

By: /s/ David W. Low

Name: David W. Low
Title: Vice President & Manager

CANADIAN IMPERIAL BANK OF COMMERCE

By: /s/ Carter Harned

Name: Carter Harned
Title: CIBC World Markets Corp., AS AGENT

GENERAL ELECTRIC CAPITAL CORPORATION, as a Bank

By: /s/ Gregory Hong

Name: Gregory Hong
Title: Duly Authorized Signatory

KEYBANK NATIONAL ASSOCIATION, as a Bank

By: /s/ Kevin P. McBride

Name: Kevin P. McBride
Title: Senior Vice President

MELLON BANK, as a Bank

By: /s/ John N. Cate

Name: John N. Cate
Title: Vice President

THE INDUSTRIAL BANK OF JAPAN, LIMITED

By: /s/ Albert Bracht

Name: Albert Bracht
Title: Senior Vice President

THE MITSUBISHI TRUST AND BANKING CORPORATION

By: /s/ Beatrice E. Kossodo

Name: Beatrice E. Kossodo
Title: Senior Vice President

UNION BANK OF CALIFORNIA, N.A.

By: /s/ Glenn Leyrer

Name: Glenn Leyrer
Title: Vice President

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