UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended December 31, 2000

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 31, 2001, Quantum Corporation had 151,177,142 shares of DLT & Storage Systems group common stock outstanding and 79,066,790 shares of Hard Disk Drive group common stock outstanding.

QUANTUM CORPORATION

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

QUANTUM CORPORATION

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

<TABLE>
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	Three Months Ended		Nine Months Ended	
	December 31, 2000	December 26, 1999	December 31, 2000	December 26, 1999
<S>	<C>	<C>	<C>	<C>
Revenue	$1,077,548	$1,253,555	$3,483,612	$3,461,914
Cost of revenue - on net sales	810,170	985,132	2,710,706	2,821,167
Cost of revenue - special charge (benefit)	-	-	(15,825)	57,068
Gross profit	267,378	268,423	788,731	583,679
Operating expenses:				
Research and development	97,890	86,334	283,780	269,220
Sales and marketing	65,407	56,050	193,107	164,730
General and administrative	32,630	35,553	102,673	95,267
Purchased in-process research and development	-	-	-	37,000
Special charge (benefit)	-	-	(90)	2,338
Merger costs	6,359	-	6,359	-
	202,286	177,937	585,829	568,555
Income from operations	65,092	90,486	202,902	15,124

Other income (expense):				
Interest income and other, net	11,358	9,952	36,572	29,509
Interest expense	(7,040)	(7,074)	(20,728)	(21,500)
	----------	----------	----------	----------
	4,318	2,878	15,844	8,009
Income before income taxes	69,410	93,364	218,746	23,133
Income tax provision	25,175	37,468	78,477	21,609
	----------	----------	----------	----------
Net income	$ 44,235	$ 55,896	$ 140,269	$ 1,524
	==========	==========	==========	==========
Quantum common stock (1):				
Net loss				$ (17,193)
				==========
Net loss per share:				
Basic				$ (0.10)
Diluted				$ (0.10)
Weighted average common shares:				
Basic				165,788
Diluted				165,788
DLT & Storage Systems group (1):				
Net income	$ 47,519	$ 50,790	$ 135,754	$ 63,287
	==========	==========	==========	==========
Net income per share:				
Basic	$ 0.32	$ 0.31	$ 0.92	$ 0.58
Diluted	$ 0.30	$ 0.30	$ 0.87	$ 0.56
Weighted average common shares:				
Basic	146,372	163,072	148,307	109,483
Diluted	156,229	168,082	155,886	113,721

</TABLE>

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<CAPTION>

Hard Disk Drive group (1):

<S>	<C>	<C>	<C>	<C>
Net income (loss)	$ (3,284)	$ 5,150	$ 4,515	$ (44,500)
	===========	===========	===========	===========
Net income (loss) per share:				
Basic	$ (0.04)	$ 0.06	$ 0.06	$ (0.81)
Diluted	$ (0.04)	$ 0.06	$ 0.05	$ (0.81)
Weighted average common shares:				
Basic	76,281	82,915	78,354	55,266
Diluted	76,281	86,004	84,553	55,266

</TABLE>

(1) As discussed in Note 2 of the Notes to Condensed Consolidated Financial Statements, a recapitalization occurred on August 3, 1999. As a result, earnings per share for Quantum Corporation common stock reflect earnings through the recapitalization date, while earnings for DLT & Storage Systems group common stock and Hard Disk Drive group common stock reflect results subsequent to that date.

See accompanying notes to condensed consolidated financial statements.

QUANTUM CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

<TABLE>
<CAPTION>

	December 31, 2000	March 31, 2000
	(unaudited)	
<S>	<C>	<C>
Assets		
Current assets:		
Cash and cash equivalents	$ 802,243	$ 918,262
Marketable securities	5,763	32,080
Accounts receivable, net of allowance for doubtful accounts of $19,634 and $23,110	576,390	609,225
Inventories	266,689	223,825
Deferred taxes	143,544	133,382
Other current assets	105,512	96,780
Total current assets	1,900,141	2,013,554
Property and equipment, net of accumulated depreciation of $340,031 and $299,671	232,947	236,685
Intangible assets, net	234,252	250,203
Other assets	62,070	33,510
	$2,429,410	$2,533,952
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 371,110	$ 470,210
Accrued warranty	101,762	99,560
Accrued compensation	89,560	90,452
Accrued special charges	17,354	44,284
Income taxes payable	66,803	43,363
Current portion of long-term debt	1,202	1,033
Other accrued liabilities	152,400	105,345
Total current liabilities	800,191	854,247
Deferred taxes	74,137	55,336
Long-term debt	36,926	37,838
Convertible subordinated debt	287,500	287,500
Stockholders' equity:		
Common stocks	739,773	737,020
Retained earnings	586,816	545,050
Accumulated other comprehensive income (loss)	(1,379)	16,961
Treasury stock, at cost	(94,554)	-
Total stockholders' equity	1,230,656	1,299,031
	$2,429,410	$2,533,952

</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 31, 2000	Nine Months Ended December 26, 1999
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	$ 140,269	$ 1,524
Adjustments to reconcile net income to net cash provided by operations:		
Special charge	(5,844)	33,779
Purchased in-process research and development	-	37,000
Depreciation	66,688	73,651
Amortization	23,359	23,268
Deferred income taxes	(1,222)	391
Compensation related to stock plans	14,281	2,356
Changes in assets and liabilities:		
Accounts receivable	32,736	10,367
Inventories	(42,390)	77,909
Accounts payable	(99,100)	(22,215)
Income taxes payable	22,519	(3,014)
Accrued warranty	2,202	23,604
Other assets and liabilities	(7,227)	6,786
Net cash provided by operating activities	146,271	265,406
Cash flows from investing activities:		
Investment in equity securities	(28,353)	-
Purchases of marketable securities	-	(37,890)
Maturities of marketable securities	2,032	55,831
Acquisition of intangible assets	-	(2,500)
Investment in property and equipment	(60,641)	(66,155)
Net cash used in investing activities	(86,962)	(50,714)
Cash flows from financing activities:		
Proceeds from long-term credit facilities	-	10,000
Principal payments on long-term credit facilities	(743)	(28,759)
Purchases of treasury stock	(240,848)	(265,877)
Proceeds from factoring	100,000	
Payments on factoring	(70,000)	
Proceeds from issuance of common stock, net	36,263	31,751
Net cash used in financing activities	(175,328)	(252,885)
Decrease in cash and cash equivalents	(116,019)	(38,193)
Cash and cash equivalents at beginning of period	918,262	772,368
Cash and cash equivalents at end of period	$ 802,243	$ 734,175
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 14,332	$ 14,535
Income taxes, net of (refunds)	$ 14,054	$ 27,145
Tangible and intangible assets acquired for shares of DSS and HDD 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 that, 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, 2000 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, 2000 included in its Annual Report on Form 10-K 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 was amended and restated, effective as of the close of business on August 3, 1999, designating two new classes of Quantum Corporation common stock, DLT & Storage Systems group ("DSS") common stock, $.01 par value per share and Hard Disk Drive group ("HDD") 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 DSS stock and one-half share of HDD stock. These two securities are intended to track separately the performance of the DLT & Storage Systems group and the Hard Disk Drive group.

3. Securitized Assets

HDD has an asset securitization program with Capital Factors Inc., under which the Company borrows against eligible accounts receivable, on a with recourse basis. At December 31, 2000, $37.5 million of accounts receivable were securitized under this program. Given the recourse nature of this arrangement, the securitized accounts receivable are included within the accounts receivable balance, with a loan of $30 million being included in other liabilities.

4. Inventories

Inventories consisted of the following:
(In thousands)

	December 31, 2000	March 31, 2000
Materials and purchased parts	$ 71,298	$ 49,206
Work in process	26,964	42,323
Finished goods	168,427	132,296
	$266,689	$223,825

5. Net Income (Loss) Per Share

DSS stock and HDD stock were created as a result of the recapitalization on August 3, 1999. Subsequent to this date, net income (loss) per share was computed individually for DSS and HDD. Prior to that date net income (loss) per share was calculated on a consolidated basis.

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

<TABLE>
<CAPTION>

(In thousands, except per share data)	Three Months Ended December 31, 2000		Three Months Ended December 26, 1999	
	DSSG	HDDG	DSSG	HDDG
Numerator:				
<S>	<C>	<C>	<C>	<C>
Numerator for basic and diluted net income (loss) per share - income (loss) available to common stockholders	$47,519	$(3,284)	$ 50,790	$ 5,150
Denominator:				

Denominator for basic net income (loss) per share - weighted average shares	146,372	76,281	163,072	82,915
Effect of dilutive securities: Outstanding options	9,857	-	5,010	3,089
Denominator for diluted net income (loss) per share - adjusted weighted average shares	156,229	76,281	168,082	86,004
Basic net income (loss) per share	$ 0.32	$ (0.04)	$ 0.31	$ 0.06
Diluted net income (loss) per share	$ 0.30	$ (0.04)	$ 0.30	$ 0.06

</TABLE>

<TABLE>
<CAPTION>

(In thousands, except per share data)	Nine Months Ended December 31, 2000		Period from August 4, 1999 to December 26, 1999		Period from April 1, 1999 to August 3, 1999
	DSSG	HDDG	DSSG	HDDG	Quantum Corporation
Numerator:					
<S>	<C>	<C>	<C>	<C>	<C>
Numerator for basic and diluted net income (loss) per share - income (loss) available to common stockholders	$135,754	$4,515	$ 63,287	$ (44,500)	$ (17,193)
Denominator:					
Denominator for basic net income (loss) per share - weighted average shares	148,307	78,354	109,483	55,266	165,788
Effect of dilutive securities: Outstanding options	7,579	6,199	4,238	-	-
Denominator for diluted net income (loss) per share - adjusted weighted average shares	155,886	84,553	113,721	55,266	165,788
Basic net income (loss) per share	$ 0.92	$ 0.06	$ 0.58	$ (0.81)	$ (0.10)
Diluted net income (loss) per share	$ 0.87	$ 0.05	$ 0.56	$ (0.81)	$ (0.10)

</TABLE>

The computation of diluted net income (loss) per share for DSS, HDD and Quantum for all periods presented, excluded the effect of the 7% convertible subordinated notes issued in July 1997, which are convertible into 6,206,152 shares of DSS common stock, or 21.587 shares per $1,000 note, and 3,103,076 shares of HDD common stock, or 10.793 shares per $1,000 note, because the effect would have been antidilutive.

Options to purchase 17,432,245 shares of HDD common stock were outstanding at December 31, 2000. However, the corresponding weighted average outstanding options were not included in the computation of diluted net loss per share for HDD for the three and nine month periods ended December 31, 2000, because the effect would have been antidilutive.

Options to purchase 26,411,958 shares of Quantum common stock were outstanding at August 3, 1999. However, the corresponding weighted average outstanding options were not included in the computation of diluted net loss per share for Quantum for the period April 1, 1999 through August 3, 1999, because the effect would have been antidilutive.

Options to purchase 13,411,973 shares of DSS common stock were outstanding for the three and nine months ended December 31, 2000, but were not included in the computation of diluted net

income per share because the options' exercise price was greater than the average market price of the common stock and, therefore, the effect would have been antidilutive.

Options to purchase 4,718,007 shares of HDD common stock were outstanding for the nine months ended December 31, 2000, but were not included in the computation of diluted net income per share because the options' exercise price was greater than the average market price of the common stock and, therefore, the effect would have been antidilutive.

6. Common Stock Repurchase

During fiscal year 2000, the Board of Directors authorized the Company to repurchase up to $700 million of the Company's common stock in open market or private transactions. Of the total repurchase authorization, $600 million was authorized for repurchase of either Quantum, DSS or HDD common stock. An additional $100 million was authorized for repurchase of HDD common stock.

Since the beginning of the authorization through December 31, 2000, the Company has repurchased a total of 3.9 million shares of Quantum common stock, 29.2 million shares of DSS common stock and 13.5 million shares of HDD common stock for a combined total of $566 million. For the three months ended December 31, 2000, there were no repurchases of common stock.

7. Credit Line

In April 2000, the Company entered into two unsecured senior credit facilities, each providing a $187.5 million revolving credit line and expiring in April 2001 and April 2003, respectively. At the Company's option, borrowings under the revolving credit lines bear interest at either the London interbank offered rate or a base rate, plus a margin determined by a leverage ratio with option periods of one to six months. At December 31, 2000, there were no outstanding balances drawn on these lines.

8. 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 26 U.S. patents, which it asserts that the Company has infringed. In October 1999 the case was transferred to a federal district court in New Orleans, Louisiana, where it has been joined with suits involving Maxtor Corporation and Minebea Company, Ltd. for the purposes of coordinated discovery under multi-district litigation rules. IBM has recently been sued by Papst and has been added to the multi-district proceedings. 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, in fiscal year 2000, Discovision Associates 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.

9. Special Charges

DLT & Storage Systems Group

During the fourth quarter of fiscal year 2000, DSS recorded a special charge of $40.1 million. The charge was primarily focused on DSS's DLTtape Division and reflected DSS's strategy to align its DLTtape drive operations with market conditions. These conditions include slower growth in the mid-range server market and increasing centralization of server backup through automation solutions, both of which have resulted in relatively flat DLTtape drive shipments. The special charge included a reduction of overhead expenses throughout the DLTape Division and an acceleration of DSS's low cost manufacturing strategy, which includes moving volume production of DLTtape drives from Colorado Springs, Colorado to Penang, Malaysia.

The special charge consisted of $13.5 million in facility related costs, $13.9 million for the write-off of investments in optical technology, $7.6 million for severance and benefits for terminated employees, $3.2 million for fixed assets write-offs, primarily related to the transfer of manufacturing to Penang, Malaysia and $1.9 million in other costs associated with the plan.

The facilities costs noted above include lease payments for vacant space in a facility in Colorado Springs, Colorado, the write-off of related leasehold improvements and manufacturing equipment, as well as the write-off of certain leasehold improvements at Quantum's facility in Penang, Malaysia, as this space is converted to DSS manufacturing. DSS expects the Colorado facility to be vacated by the end of fiscal year 2001.

The write-off of investments reflects DSS's decision to end its research on certain optical based storage solutions. As a result, DSS has written-off an equity investment and technology licenses related to optical technology.

DSS currently expects a workforce reduction of approximately 900 employees. The reduction in force primarily affects employees at DSS's manufacturing operations in Colorado Springs, Colorado, as well as administrative employees within the DLTtape Division. As of December 31, 2000, 294 employees have been terminated. DSS anticipates that the remaining employees will be terminated by the end of the fourth quarter of fiscal year 2001.

As of December 31, 2000, DSS had incurred cash expenditures of $5 million associated with employee severance and benefits, facilities and other costs. DSS expects to incur additional cash expenditures associated with the plan of approximately $6 million, which will be funded out of operations.

In the third quarter of fiscal year 2001, DSS reversed $7 million as a special charge benefit on the income statement. This reversal is primarily due to a revised estimate of the vacancy period related to a facility in Colorado Springs, Colorado.

The following tables summarize the activity related to the fourth quarter fiscal year 2000 special charge at December 31, 2000:

<TABLE>
<CAPTION>

(In thousands)	Severance And Benefits	Facilities Costs	Investments	Fixed Assets	Other Costs	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Special charge provision	$ 7,646	$13,500	$ 13,908	$ 3,163	$ 1,866	$ 40,083
Cash payments	(956)	--	--	--	(1,102)	(2,058)
Non-cash charges	--	--	(13,908)	(3,163)	--	(17,071)
Balance at Mar. 31, 2000	$ 6,690	$13,500	$ --	$ --	$ 764	$ 20,954
Cash payments	(2,737)	(105)	--	--	(68)	(2,910)
Non-cash charges	--	(5,219)	--	--	--	(5,219)
Special charge benefit	--	(7,000)	--	--	--	(7,000)
Balance at Dec. 31, 2000	$ 3,953	$ 1,176	$ --	$ --	$ 696	$ 5,825

</TABLE>

DSS recorded a special charge of $7 million in the third quarter of fiscal Year 2001. This is a result of DSS's decision to establish a close proximity between its design and manufacturing operations in order to accelerate time-to-market for future products within its DLTtape drive product family. This will impact engineering, marketing and administrative employees in Shrewsbury, Massachusetts, as these positions will be transitioned to Boulder, Colorado. The special charge is related to severance and benefits associated with terminated employees affected by this plan.

DSS currently expects a workforce reduction of approximately 200 employees. As of December 31, 2000, 43 employees have been terminated, representing $0.4 million in cash expenditures. DSS anticipates that the remaining employees will be terminated by the end of the fourth quarter of fiscal year 2001. DSS expects to incur additional cash expenditures associated with the plan of approximately $6.6 million, which will be funded out of operations.

The following table summarizes activity related to the third quarter fiscal year 2001 special charge through December 31, 2000:

(In thousands)	Severance And Benefits
Special charge provision	$7,000
Cash payments	(358)
Balance at Dec. 31, 2000	$6,642

Hard Disk Drive Group

During the second quarter of fiscal year 2000, HDD recorded a special charge of $59.4 million. The charge reflected HDD'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 streamlining HDD's logistics model in order to create a faster and more flexible fulfillment system, changes in 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 streamlining the global logistics model and changes 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. The affected facilities were vacated by the end of the third quarter of fiscal year 2001.

Subsequent to the end of the second quarter fiscal year 2000, HDD revised its estimate of costs required to implement the restructuring plan. HDD estimated that severance and benefits, inventory and other costs, which included the disposition of additional capital assets, would be more than previously estimated as a result of the planned changes in the customer service strategy. HDD also estimated that costs associated with vacating leased facilities would be less than previously estimated as a result of disposing of a major facility earlier than previously expected. Accordingly, HDD reallocated amounts between these categories during the second half of fiscal year 2000.

In the second quarter of fiscal year 2001, HDD reversed $15.9 million as a special charge benefit on the statement of operations. This reversal was primarily due to negotiated lease cancellations and reduced severance and benefits due to the attrition and redeployment of certain employees.

In connection with the charge, HDD currently expects a workforce reduction of approximately 513 employees, down from the original expectation of 600 employees. In addition, approximately 100 open and budgeted positions have been eliminated. The reduction in force primarily affects employees at HDD's drive configuration centers and warehouses in Milpitas, California and Dundalk, Ireland and employees within the desktop drive business. As of December 31, 2000, 513 employees have been terminated. The reserve balance remaining, primarily represents outstanding costs for outplacement services.

As of December 31, 2000, HDD had incurred $10 million in cash expenditures associated with employee severance and benefits, facilities and other costs. HDD expects to incur additional cash expenditures associated with the plan of approximately $5 million.

The following table summarizes activity related to the special charge at December 31, 2000.

<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	(3,906)	(1,394)	-	(1,663)	(6,963)
Non-cash charges	-	(5,646)	(15,588)	(8,800)	(30,034)
Adjustments	1,166	(7,852)	2,374	4,312	-
Balance at March 31, 2000	$ 5,093	$11,467	$ -	$ 5,849	22,409
Cash Payments	(2,459)	(561)	-	(281)	(3,301)
Non-cash charges	-	(1,650)	-	3,344	1,694
Special charge benefit	(2,284)	(7,787)	-	(5,844)	(15,915)
Balance at December 31, 2000	$ 350	$ 1,469	$ -	$ 3,068	$ 4,887

</TABLE>

10. Comprehensive Income

Accumulated other comprehensive income on the condensed consolidated balance sheets consists of unrealized gains (losses) on available for sale investments and foreign currency translation adjustments. Total comprehensive income , net of tax, for the three and nine months ended December 31, 2000 and December 26, 1999, is presented in the following table:

<TABLE>
<CAPTION>

(In thousands)	Three Months Ended		Nine Months Ended	
	December 31, 2000	December 26, 1999	December 31, 2000	December 26, 1999
<S>	<C>	<C>	<C>	<C>
Net income	$ 44,235	$ 55,896	$ 140,269	$ 1,524
Other comprehensive income -				
Unrealized gain (loss) on investments, net	(7,290)	17,568	(15,230)	17,568
Foreign currency translation adjustments	(908)	(176)	(3,110)	597
Comprehensive income	$ 36,037	$ 73,288	$ 121,929	$ 19,689

</TABLE>

11. Business Segment Information

Quantum Corporation's reportable segments are its two business groups, the Hard Disk Drive group and the DLT & Storage Systems group. HDD consists of desktop and high-end hard disk drives. DSS consists of DLTtape(TM) drives and media, Enterprise Solutions' autoloaders, libraries and solid state storage systems, and Snap's network attached storage solutions. The Company 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 31, 2000 and December 26, 1999 are presented in the following table:

<TABLE>
<CAPTION>

(In millions)	Three Months Ended					
	December 31, 2000			December 26, 1999		
	HDD	DSS	Total	HDD	DSS	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenue from external customers	$709	$369	$1,078	$888	$366	$1,254
Intersegment revenues		-		1	-	1
Segment operating profit (loss)	(9)	74	65	5	86	91

</TABLE>

<TABLE>
<CAPTION>

(In millions)	Nine Months Ended					
-	December 31, 2000			December 26, 1999		
	HDD	DSS	Total	HDD	DSS	Total
-						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenue from external customers	$2,386	$1,098	$3,484	$2,409	$1,053	$3,462
Intersegment revenues	10	-	10	1	-	1
Segment operating profit (loss)	(7)	210	203	(215)	230	15

</TABLE>

<TABLE>
<CAPTION>

(In millions)	Three Months Ended		Nine Months Ended	
	December 31, 2000	December 26, 1999	December 31, 2000	December 26, 1999
<S>	<C>	<C>	<C>	<C>

Income reconciliation:				
Total unit operating income	$ 65	$ 91	$ 203	$ 15
Unallocated amounts:				
Interest and other income	4	2	16	8
Income before income taxes	$ 69	$ 93	$ 219	$ 23

</TABLE>

12. Pending Events

On October 3, 2000, the Company entered into a definitive agreement with Maxtor Corporation to combine Maxtor and HDD in an all-stock transaction. The merger agreement provides that HDD's stockholders will receive 1.52 shares of Maxtor common stock for every share of HDD common stock they own. The transaction, which was unanimously approved by the Boards of Directors of both companies, is expected to be completed in early calendar 2001. The transaction is expected to be tax-free to Quantum and its stockholders. This transaction is subject to the approval of the stockholders of both companies and other customary conditions.

If the combination is completed,

a. Quantum's DLT & Storage Systems Group will operate as a legally separate, stand-alone company that will be known as Quantum Corporation;

b. DSS stockholders will continue to hold on a one-for-one basis, shares of the then-independent company comprising all of the operations and assets of the Quantum DLT & Storage Systems Group;

c. Outstanding Quantum HDD stock options, whether vested or unvested, and Quantum HDD restricted stock subject to repurchase, held by individuals other than employees transferred to the combined Maxtor-HDD company and former service providers, will be converted into Quantum DSS options and Quantum DSS restricted stock. All unvested Quantum DSS stock options held by employees who are either transferred to the combined Maxtor-HDD company or who are terminated in connection with the merger will be converted into shares of Quantum DSS restricted stock;

d. Quantum intends to sever approximately 600 employees.

These expectations are forward-looking statements and actual results may differ.

On October 24, 2000, the Company announced plans to make its server appliances subsidiary an independent, publicly-traded company called Snap Appliances, Inc. On October 30, 2000, Snap Appliances filed a registration statement with the Securities and Exchange Commission for the initial public offering ("IPO") of its common stock. Immediately following an IPO, Quantum expects to own at least 80% of Snap Appliances' outstanding common stock. Quantum intends to distribute these shares to DSS stockholders subject to receiving a favorable IRS ruling and Board of Directors approval. After the IPO, the remaining DSS business will be comprised of two business groups, Enterprise Solutions and DLTtape.

13. Subsequent Event

On February 7, 2001, Quantum announced that it signed a definitive agreement to acquire M4 Data (Holdings) Ltd., a privately held data storage company based in the United Kingdom. The acquisition enables Quantum to leverage M4 Data's complementary products and technologies to enhance the range of storage solutions offered to enterprise customers. M4 Data provides high performance tape automation products for the data storage market

Under the terms of the agreement, Quantum will acquire all the outstanding stock of M4 Data for approximately $56 million in consideration, including $13.4 million in cash, with the balance split between debt and equity. The purchase agreement also includes additional contingent consideration based on the achievement of future performance goals. The acquisition is expected to close by March 31, 2001, pending various tax and regulatory approvals and other customary closing conditions. The acquisition will be accounted for as a purchase, and Quantum expects that a portion of the purchase price will be assigned to in-process research and development, which will be expensed upon completion of the acquisition.

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

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 are phrased in the future tense or 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 ("DSS") and the Hard Disk Drive group ("HDD") as described in their respective sections of this report.

On October 3, 2000, the Company entered into a definitive agreement with Maxtor Corporation to combine Maxtor and HDD in an all-stock transaction. The merger agreement provides that HDD's stockholders will receive 1.52 shares of Maxtor common stock for every share of HDD common stock they own. The transaction, which was unanimously approved by the Boards of Directors of both companies, is expected to be completed in early calendar 2001. The transaction is expected to be tax-free to Quantum stockholders. This transaction is subject to the approval of the stockholders of both companies and other customary conditions.

On October 24, 2000 the Company announced plans to make its server appliances subsidiary an independent, publicly-traded company called Snap Appliances, Inc. On October 30, 2000 Snap Appliances filed a registration statement with the Securities and Exchange Commission for the initial public offering ("IPO") of its common stock. Immediately following the IPO, Quantum expects to own at least 80% of Snap Appliances' outstanding common stock. Quantum intends to distribute these shares to Quantum DSS stockholders subject to receiving a favorable IRS ruling and Board of Directors approval. After the IPO, the remaining DSS business will be comprised of two business groups, Enterprise Solutions and DLTtape.

Results of Operations

Revenue. Revenue in the three and nine months ended December 31, 2000 was $1.078 billion and $3.484 billion, respectively, compared to $1.254 billion and $3.462 billion, respectively, for the corresponding periods in fiscal year 2000. The decrease in revenue in the three months ended December 31, 2000 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.

The decreased revenue in the three month period reflected decreased shipments of desktop hard disk drives in conjunction with lower average unit prices. Units were lower than expected in the three months ended December 31, 2000 due to specific component shortage. The increase in high-end hard disk drive revenue was the result of higher sales volume due to the improved penetration of HSD's current generation Atlas V and Atlas 10K II products in the market.

The increase in storage systems revenue reflected an increase in shipments of tape libraries and enterprise solutions products, 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 DSS 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 31, 2000 represented 45% and 46% of revenue, respectively, compared to 48% and 47% of revenue, respectively, for the corresponding periods in fiscal year 2000. Sales to Compaq were 15% and 14% of revenue in the three and nine months ended December 31, 2000, respectively, compared to 13% and 12% of revenue, respectively, for the corresponding periods in fiscal year 2000, including sales to Digital Equipment. Sales to Dell Computer Corporation were less than 10% and 10% of revenue in the three and nine months ended December 31, 2000, respectively, compared to less than 10% of revenue in the corresponding periods in fiscal year 2000. Sales to Hewlett-Packard Company were less than 10% of revenue in the three and nine months ended December 31, 2000, respectively, compared to 11% and 12% of revenue, respectively, in the corresponding periods in fiscal year 2000.

Sales to computer equipment manufacturers and distribution channel customers were 56% and 35% of revenue, respectively, in the three months ended December 31, 2000, compared to 65% and 29%, respectively, in the three months ended December 26, 1999. For the nine months ended December 31, 1999, computer equipment manufacturer and distribution channel sales were 61% and 31% of revenue, respectively, compared to 61% and 33% of revenue, respectively, for the corresponding period in fiscal year 2000. The remaining revenue in the three and nine months ended December 31, 2000 represented media royalty revenue, sales to value added resellers and direct sales, and in the three and nine months ended December 26, 1999, represented media royalty revenue and sales to value added resellers.

Gross Margin Rate. The gross margin rate in the three months ended December 31, 2000 increased to 24.8% from 21.4% in the three months ended December 26, 1999. The gross margin rate for the first nine months of fiscal year 2000 was 22.6%, compared to 16.9% in the corresponding period in fiscal year 2000.

The gross margin rate in the nine month period of fiscal year 2001 reflected the impact of a $15.8 million special charge benefit. The benefit was primarily due to negotiated lease cancellations and reduced severance and benefits due to the redeployment of employees. The gross margin excluding the impact of the benefit was 22.2% in the nine month period ended December 31, 2000. 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 benefit and 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 31, 2000, were $98 million, or 9.1% of revenue, and $284 million, or 8.1% of revenue, respectively, compared to $86 million, or 6.9% of revenue, and $269 million, or 7.8% of revenue, respectively, for the corresponding periods of fiscal year 2000. The increase in research and development expenses reflect the inclusion of Snap Appliances' expenses, which were only partially included in the prior year periods as the acquisition occurred on September 10, 1999. Other increases to R&D spending were pre-production builds of the next generation drive, Consumer Electronics' expansion and the development of the microdrive.

Sales and Marketing Expenses. Sales and marketing expenses in the three and nine months ended December 31, 2000, were $65 million, or 6.1% of revenue, and $193 million, or 5.5% of revenue, respectively, compared to $56 million, or 4.5% of revenue, and $165 million, or 4.8% of revenue, respectively, for the corresponding periods of fiscal year 2000. The increase in sales and marketing expenses reflected the inclusion of Snap Appliances expenses, which were only partially included in the prior year periods as the acquisition occurred on September 10, 1999. In addition to the acquisition of Snap, sales and marketing expenses increased while building market awareness for the Snap products, category awareness for NAS applications and infrastructure expansion of ATL. This was partially offset by a decrease in advertising expenses within the hard disk drive business.

General and Administrative Expenses. General and administrative expenses in the three and nine months ended December 31, 2000, were $33 million, or 3.0% of revenue, and $103 million, or 2.9% of revenue, respectively, compared to $36 million, or 2.8% of revenue, and $95 million, or 2.8% of revenue, respectively, for the corresponding periods of fiscal year 2000. The decrease in general and administrative expenses for the three month period year over year reflects the impact of a provision for bad debt due to the bankruptcy of a distributor in the third quarter of fiscal year 2000. Overall, the increase in general and administrative expenses for the nine month period year on year reflect the inclusion of Snap Appliances expenses, which were only partially included in the prior year periods as the acquisition occurred on September 10, 1999, increased expenses associated with DLTtape libraries and the expansion of ATL's infrastructure.

Purchased In-process Research and Development Expense. DSS expensed purchased in-process research and development of $37 million, as a result of the Meridian (Snap) acquisition in the second quarter ended September 10, 1999.

Merger Expenses. During the third quarter of fiscal year 2001, HDD recorded expenses of $6.4 million associated with the Maxtor-Quantum proposed merger. The merger costs were primarily associated with legal, accounting and underwriter fees.

Special Charge - HDD. During the second quarter of fiscal year 2000, HDD recorded a special charge of $59.4 million. The charge reflected HDD's strategy to modify the hard disk drive business to more closely align product development and our operating model with the requirements of the rapidly growing low-cost PC market. The special charge was associated primarily with streamlining HDD's logistics model in order to create a faster and more flexible fulfillment system, changes in 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 streamlining the global logistics model and changes 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.

HDD is proceeding according to plan and expects to realize more than $100 million in cost savings per year, beginning this fiscal year. The majority of the savings are expected in cost of revenue as a result of a more efficient distribution system and reduced customer service costs, with the remaining savings in research and development, as a result of the consolidation of product development programs. As compared to fiscal year 2000, HDD expects operating expenses to be relatively flat in fiscal year 2001, with increased investments in disk drive and other storage products, primarily reflected in research and development, offsetting the operating cost savings resulting from the special charge. These expectations are forward-looking statements and actual results may differ.

In the second quarter of fiscal year 2001, HDD reversed $15.9 million as a special charge benefit on the statement of operations. This reversal was primarily due to negotiated lease cancellations and reduced severance and benefits due to attrition and redeployment of certain employees. In addition, fixed assets that were intended to be written-off are now being utilized elsewhere in the organization as a result of technology and product roadmap plan.

Special Charge - DSS. During the fourth quarter of fiscal year 2000, DSS recorded a special charge of $40.1 million. The charge was primarily focused on DSS's DLTtape Division reflected DSS's strategy to align its DLTtape drive operations with market conditions. These conditions include slower growth in the mid-range server market and increasing centralization of server backup through automation solutions, both of which have resulted in relatively flat DLTtape drive shipments. The special charge included a reduction of overhead expenses throughout the DLTtape Division and an acceleration of DSS's low cost manufacturing strategy, which includes moving volume production of DLTtape drives from Colorado Springs, Colorado to Penang, Malaysia.

The special charge consisted of $13.5 million in facility related costs, $13.9 million for the write-off of investments in optical technology, $7.6 million for severance and benefits for terminated employees, $3.2 million for fixed asset write-offs, primarily related to the transfer of manufacturing to Penang, Malaysia and $1.9 million in other costs associated with the plan.

In the third quarter of fiscal year 2001, DSS reversed $7 million as a special charge benefit on the statement of operations. This reversal was primarily due to a revised estimate of the vacancy period related to a facility in Colorado Springs, Colorado.

DSS recorded a special charge of $7 million in the third quarter of fiscal year 2001. This is a result of DSS's decision to establish a close proximity between the design and manufacturing operations in order to accelerate time-to-market for future products within its DLTtape drive product family. This will impact engineering, marketing and administrative employees in Shrewsbury, Massachusetts, as these positions will be transitioned to Boulder, Colorado. The special charge is related to severance and benefits associated with terminated employees affected by this plan.

DSS is proceeding according to plan and expects to realize annual cost savings from the plans of approximately $50 million, beginning upon full implementation of the plans at the end of fiscal year 2001. Approximately $25 million of the savings are expected in cost of revenue as a result of reduced manufacturing costs, with the remaining amount in operating expenses, primarily research and development, as a result of ending research on certain optical-based storage solutions and a reduction in headcount. As compared to fiscal year 2000, DSS expects operating expenses to increase because of increased investments in storage systems products and marketing in fiscal year 2001 and as a result of including the Snap Appliances' operations for a full year following the acquisition of Meridian in September 1999. These expectations are forward-looking statements and actual results may differ.

Interest and Other Income/Expense. Net interest and other income for the three and nine months ended December 31, 2000 were $4.3 million and $15.8 million, respectively, compared to $2.9 million and $8.0 million, respectively for the corresponding periods of fiscal year 2000. The increase reflected increased interest income as a result of a higher average cash balance and higher interest rates.

Income Taxes. The Company's effective tax rate on income excluding nondeductible merger costs for the three and nine months ended December 31, 2000, was 33% and 35%, respectively, as compared to an effective benefit rate of 40% and 36%, respectively, for the corresponding periods in the prior year. The fiscal year 2001 effective tax rate reflects an increase in foreign earnings, which are taxed at less than the U.S. rate.

Liquidity and Capital Resources.

Cash, cash equivalents and marketable securities were $808 million at December 31, 2000 compared to $950 million at March 31, 2000. The Company used cash in the nine months ended December 31, 2000 to purchase $241 million of treasury stock, as discussed below. Other uses of cash included $60 million for investments in property and equipment. The Company generated approximately $146 million of cash from operations, primarily related to net income and non-cash expenses, partially offset by changes in other assets and liabilities and a decrease in accounts payable and an increase in inventories. Other sources of cash were $36 million in proceeds from the issuance of common stock and $30 million in proceeds from accounts receivable factoring.

The accounts receivable factoring resulted from an asset securitization program that HDD has with with Capital Factors Inc, under which the Company borrows against eligible accounts receivable on a with recourse basis. At December 31, 2000, $37.5 million of accounts receivable were securitized under the program. Because of the with recourse nature of the arrangement, the securitized accounts receivable are included within the accounts receivable balance, with a loan of $30 million being included in other liabilities.

During fiscal year 2000, the Board of Directors authorized the Company to repurchase up to $700 million of the Company's common stock in open market or private transactions. Of the total repurchase authorization, $600 million was authorized for repurchase of either Quantum, DSS or HDD common stock. An additional $100 million was authorized for repurchase of HDD common stock. Under these authorizations, as of December 31, 2000, the Company had repurchased a total of 3.9 million shares of Quantum common stock, 29.2 million shares of DSS common stock and 13.5 million shares of HDD common stock for a combined total of $566 million. During the first nine months of fiscal year 2001, the Company repurchased 13.5 million shares of DSS common stock and 10 million shares of HDD common stock for a combined total of $241 million.

In April 2000, the Company entered into two new unsecured senior credit facilities, each providing a $187.5 million revolving credit line and expiring in April 2001 and April 2003, respectively. At the Company's option, borrowings under the revolving credit lines bear interest at either the London interbank offered rate or a base rate, plus a margin determined by a leverage ratio with option periods of one to six months. At December 31, 2000, there were no outstanding balances drawn on these lines.

The Company expects to spend approximately $88 million in fiscal year 2001 for capital equipment and leasehold improvements. These capital expenditures will support the disk drive, tape drive and storage solutions businesses, research and development, and general corporate operations.

The Company believes that its existing capital resources, including the credit facilities 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. These expectations are forward-looking statements and actual results may be affected by the factors discussed in "Trends and Uncertainties Relating to the DLT & Storage Systems Group and Hard Disk Drive Group" in this report.

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.

Euro Impact

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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, 2000.

The Company is exposed to equity price risk on its investment in TiVo, Inc. common stock. The Company does not attempt to reduce or eliminate its market exposure on this security. 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 31, 2000, the fair market value of the Company's investment was approximately $5 million. As TiVo is a relatively new company and has 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.

In addition, Quantum's operating results are expected to be affected by charges to be incurred in connection with the merger of HDD and Maxtor. See "Trends and Uncertainties Relating to the DLT & Storage System Group" and "Trends and Uncertainties Relating to the Hard Disk Drive Group" in this report.

Item 1. Financial Statements

QUANTUM CORPORATION

DLT & STORAGE SYSTEMS GROUP

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

<TABLE>
<CAPTION>

	Three Months Ended		Nine Months Ended	
	December 31, 2000	December 26, 1999	December 31, 2000	December 26, 1999
<S>	<C>	<C>	<C>	<C>
Product revenue	$ 309,294	$ 316,959	$ 934,404	$ 920,340
Royalty revenue	59,977	48,821	162,802	133,282
Total revenue	369,271	365,780	1,097,206	1,053,622
Cost of revenue	205,861	201,692	616,123	567,678
Gross profit	163,410	164,088	481,083	485,944
Operating expenses:				
Research and development	31,412	31,322	99,142	89,527
Sales and marketing	39,027	30,821	114,840	82,810
General and administrative	19,316	16,376	56,727	46,013
Purchased in-process research and development	-	-	-	37,000
	89,755	78,519	270,709	255,350
Income from operations	73,655	85,569	210,374	230,594
Other income (expense):				
Interest income and other, net	4,767	3,797	14,928	13,967
Interest expense	(4,174)	(4,716)	(13,187)	

				(14,372)
	593	(919)	1,741	(405)
Income before income taxes	74,248	84,650	212,115	230,189
Income tax provision	26,729	33,860	76,361	106,874
Net income	$ 47,519	$ 50,790	$ 135,754	$ 123,315

</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 31, 2000 (unaudited) <C>	March 31, 2000 <C>
Assets		
Current assets:		
Cash and cash equivalents	$ 376,718	$ 336,720
Marketable securities	1,099	2,032
Accounts receivable, net of allowance for doubtful accounts of $4,011 and $3,492	258,577	214,107
Inventories	107,044	101,478
Deferred taxes	54,668	54,669
Other current assets	62,269	38,424
Total current assets	860,375	747,430
Property and equipment, net of accumulated depreciation of $109,800 and $80,997	84,479	78,137
Intangible assets, net	234,252	248,288
Other assets	26,350	12,149
	$1,205,456	$1,086,004
Liabilities and Group Equity		
Current liabilities:		
Accounts payable	$ 115,215	$ 94,596
Accrued warranty	58,882	52,593
Accrued compensation	44,684	36,379
Income taxes payable	68,632	-
Accrued special charge	12,467	20,954
Current portion of long-term debt	801	689
Due to the Hard Disk Drive group	-	30,100
Other accrued liabilities	42,376	27,749
Total current liabilities	343,057	263,060
Deferred taxes	33,603	13,578
Long-term debt	24,617	25,225
Convertible subordinated debt	191,667	191,667
Group equity	612,512	592,474
	$1,205,456	$1,086,004

</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 31, 2000	December 26, 1999
	---------	---------
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	$ 135,754	$ 123,315
Adjustments to reconcile net income to net cash provided by operations:		
Purchased in-process research and development	-	37,000
Depreciation	30,022	24,812
Amortization	20,803	20,334
Deferred income taxes	2	(107)
Compensation related to stock plans	9,819	1,593
Changes in assets and liabilities:		
Accounts receivable	(44,569)	28,346
Inventories	(5,092)	23,380
Accounts payable	20,619	20,801
Income taxes payable	68,632	-
Accrued warranty	6,289	13,304
Other assets and liabilities	(27,156)	(20,797)
	---------	---------
Net cash provided by operating activities	215,123	271,981
	---------	---------
Cash flows from investing activities:		
Investment in equity securities	(14,343)	-
Purchases of marketable securities	-	(4,523)
Maturities of marketable securities	2,032	7,764
Acquisition of intangible assets	-	(2,500)
Investment in property and equipment	(37,191)	(26,812)
	---------	---------
Net cash used in investing activities	(49,502)	(26,071)
	---------	---------
Cash flows from financing activities:		
Proceeds from long-term credit facilities	-	6,667
Principal payments on long-term credit facilities	(496)	(19,173)
Inter-group payment for common stock issued	-	(2,835)
Purchases of treasury stock	(146,251)	(246,187)
Proceeds from issuance of common stock, net	21,124	24,515
	---------	---------
Net cash used in financing activities	(125,623)	

(237,013)

Increase in cash and cash equivalents	39,998	8,897
Cash and cash equivalents at beginning of period	336,720	272,643
Cash and cash equivalents at end of period	$ 376,718	$ 281,540
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 9,470	$ 9,656
Income taxes, net of (refunds)	$ 11,224	$ 7,367
Tangible and intangible assets acquired for shares of DSS and HDD 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 ("DSS"), together with the unaudited condensed combined financial statements of the Hard Disk Drive group ("HDD"), include all of the accounts in the unaudited condensed consolidated financial statements of Quantum. The separate group unaudited condensed combined financial statements give effect to the accounting policies applicable with the implementation of the tracking stock proposal. The separate DSS and HDD 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 DSS's financial statements, corporate assets and liabilities of Quantum and related transactions identified with DSS, including allocated portions of Quantum's debt and selling, general and administrative costs, and (iii) in the case of HDD's financial statements, corporate assets and liabilities of Quantum and related transactions identified with HDD, 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 DSS or HDD.

The condensed combined financial statements of the DLT & Storage Systems Group provide DSS stockholders with financial information about the DLT & Storage Systems group operations. Holders of DSS stock and HDD 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 DSS or HDD, and dividends or distributions on, or repurchases of HDD stock, at a price per share greater than par value, will reduce the funds of Quantum legally available for payment of dividends on DSS stock. As a result, DSS's condensed combined financial statements should be read in conjunction with Quantum's condensed consolidated financial statements and HDD's condensed combined financial statements. The condensed combined balance sheet of DSS as of March 31, 2000 has been derived from the audited financial statements of DSS included in Quantum's Annual Report on Form 10-K 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>	December 31, 2000 <C>	March 31, 2000 <C>
Materials and purchased parts	$ 64,917	$ 41,819
Work in process	25,611	37,024
Finished goods	16,516	22,635
	$107,044	$101,478

</TABLE>

3. Common Stock Repurchase

During fiscal year 2000, the Board of Directors authorized Quantum to repurchase up to $700 million of Quantum's common stock in open market or private transactions. Of the total repurchase authorization, $600 million was authorized for repurchase of either Quantum, DSS or HDD common stock. An additional $100 million was authorized for repurchase of HDD common stock.

Since the beginning of the authorization through December 31, 2000, Quantum has repurchased a total of 3.9 million shares of Quantum common stock, 29.2 million shares of DSS common stock and 13.5 million shares of HDD common stock for a combined total of $566 million. For the three months ended December 31, 2000, there were no repurchases of common stock.

4. Credit Line

In April 2000, Quantum entered into two new unsecured senior credit facilities, each providing a $187.5 million revolving credit line and expiring in April 2001 and April 2003, respectively. At Quantum's option, borrowings under the revolving credit lines bear interest at either the London interbank offered rate or a base rate, plus a margin determined by a leverage ratio with option periods of one to six months. At December 31, 2000, there were no outstanding balances drawn on these lines.

5. Special Charge

During the fourth quarter of fiscal year 2000, DSS recorded a special charge of $40.1 million. The charge was primarily focused on DSS's DLTtape Division and reflected DSS's strategy to align its DLTtape drive operations with market conditions. These conditions include slower growth in the mid-range server market and increasing centralization of server backup through automation solutions, both of which have resulted in relatively flat DLTtape drive shipments. The special charge included a reduction of overhead expenses throughout the DLTape Division and an acceleration of DSS's low cost manufacturing strategy, which includes moving volume production of DLTtape drives from Colorado Springs, Colorado to Penang, Malaysia.

The special charge consisted of $13.5 million in facility related costs, $13.9 million for the write-off of investments in optical technology, $7.6 million for severance and benefits for terminated employees, $3.2 million for fixed assets write-offs, primarily related to the transfer of manufacturing to Penang, Malaysia and $1.9 million in other costs associated with the plan.

The facilities costs noted above include lease payments for vacant space in a facility in Colorado Springs, Colorado, the write-off of related leasehold improvements and manufacturing equipment, as well as the write-off of certain leasehold improvements at Quantum's facility in Penang, Malaysia, as this space is converted to DSS manufacturing. DSS expects that the Colorado facility will be vacated by the end of fiscal year 2001.

The write-off of investments reflects DSS's decision to end its research on certain optical based storage solutions. As a result, DSS has written-off an equity investment and technology licenses related to optical technology.

DSS currently expects a workforce reduction of approximately 900 employees. The reduction in force primarily affects employees at DSS's manufacturing operations in Colorado Springs, Colorado, as well as administrative employees within the DLTtape Division. As of December 31, 2000, 294 employees have been terminated.

DSS anticipates that the remaining employees will be terminated by the end of the fourth quarter of fiscal year 2001.

As of December 31, 2000, DSS had incurred cash expenditures of $5 million associated with employee severance and benefits, facilities and other costs. DSS expects to incur additional cash expenditures associated with the plan of approximately $6 million, which will be funded out of operations.

In the third quarter of fiscal year 2001, DSS reversed $7 million as a special charge benefit on the income statement. This reversal is primarily due to a revised estimate of the vacancy period related to a facility in Colorado Springs, Colorado.

The following tables summarize the activity related to the fourth quarter fiscal year 2000 special charge through December 31, 2000:

<TABLE>
<CAPTION>

(In thousands)	Severance And Benefits	Facilities Costs	Investments	Fixed Assets	Other Costs	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Special charge provision	$ 7,646	$13,500	$ 13,908	$ 3,163	$ 1,866	$ 40,083
Cash payments	(956)	--	--	--	(1,102)	(2,058)
Non-cash charges	--	--	(13,908)	(3,163)	--	(17,071)
Balance at Mar. 31, 2000	$ 6,690	$13,500	$ --	$ --	$ 764	$ 20,954
Cash payments	(2,737)	(105)	--	--	(68)	(2,910)
Non-cash charges	--	(5,219)	--	--	--	(5,219)
Special charge benefit	--	(7,000)	--	--	--	(7,000)
Balance at Dec. 31, 2000	$ 3,953	$ 1,176	$ --	$ --	$ 696	$ 5,825

</TABLE>

DSS recorded a special charge of $7 million in the third quarter of fiscal year 2001. This is a result of DSS's decision to establish a close proximity between its design and manufacturing operations in order to accelerate time-to-market for future products within its DLTtape drive product family. This will impact engineering, marketing and administrative employees in Shrewsbury, Massachusetts, as these positions will be transitioned to Boulder, Colorado. The special charge is related to severance, benefits and costs associated with terminated employees affected by this plan.

DSS currently expects a workforce reduction of approximately 200 employees. As of December 31, 2000, 43 employees have been terminated, representing $0.4 million in cash expenditures. DSS anticipates that the remaining employees will be terminated by the end of the fourth quarter of fiscal

year 2001. DSS expects to incur additional cash expenditures associated with the plan of approximately $6.6 million, which will be funded out of operations.

The following table summarizes activity related to the third quarter fiscal year 2001 special charge at December 31, 2000:

(In thousands)	Severance And Benefits
Special charge provision	$7,000
Cash payments	(358)
Non-cash charges	--
Special charge benefit	--
Balance at Dec. 31, 2000	$6,642

6. Comprehensive Income

Accumulated other comprehensive income included in group equity on the condensed combined balance sheets of the DLT & Storage System group consists of foreign currency translation adjustments. Total comprehensive income for the three months and nine months ended December 31, 2000 and December 26, 1999 is presented in the following table:

<TABLE>
<CAPTION>

(In thousands)	Three Months Ended	Nine Months Ended

	December 31, 2000	December 26, 1999	December 31, 2000	December 26, 1999
<S>	<C>	<C>	<C>	<C>
Net income	$ 47,519	$50,790	$135,754	$123,315
Other comprehensive income -		--		--
Foreign currency translation adjustments	(175)	--	(408)	--
Comprehensive income	$ 47,344	$50,790	$135,346	$123,515

</TABLE>

7. Pending Events

On October 3, 2000, Quantum entered into a definitive agreement with Maxtor Corporation to combine Maxtor and HDD in an all-stock transaction. The merger agreement provides that HDD's stockholders will receive 1.52 shares of Maxtor common stock for every share of HDD common stock they own. The transaction, which was unanimously approved by the Boards of Directors of both companies, is expected to be completed in early 2001. The transaction is expected to be tax-free to Quantum and its stockholders. This transaction is subject to the approval of stockholders of both companies and other customary conditions.

If the combination is completed,

a. Quantum's DLT & Storage Systems Group will operate as a legally separate, stand-alone company that will be known as Quantum Corporation;

b. DSS stockholders will continue to hold on a one-for-one basis, shares of the then-independent company comprising all of the operations and assets of the Quantum DLT & Storage System Group;

c. Outstanding Quantum HDD stock options, whether vested or unvested, and Quantum HDD restricted stock subject to repurchase, held by individuals other than employees transferred to the combined Maxtor-HDD company and former service providers, will be converted into Quantum DSS options and Quantum DSS restricted stock. All unvested Quantum DSS stock options held by employees who are either transferred to the combined Maxtor-HDD company or who are terminated in connection with the merger will be converted into shares of Quantum DSS restricted stock;

d. Quantum intends to sever approximately 600 employees.

These expectations are forward-looking statements and actual results may differ.

On October 24, 2000, Quantum announced plans to make its server appliances subsidiary an independent, publicly-traded company called Snap Appliances, Inc. On October 30, 2000, Snap Appliances filed a registration statement with the Securities and Exchange Commission for the initial public offering ("IPO") of its common stock. Immediately following the IPO, Quantum will own at least 80% of Snap Appliances' outstanding common stock. Quantum intends to distribute these shares to DSS stockholders subject to receiving a favorable IRS ruling and Board of Directors approval. After the IPO, the remaining DSS business will be comprised of two business groups, Enterprise Solutions and DLTtape.

8. Subsequent Event

On February 7, 2001, Quantum announced that it signed a definitive agreement to acquire M4 Data (Holdings) Ltd., a privately held data storage company based in the United Kingdom. The acquisition enables Quantum to leverage M4 Data's complementary products and technologies to enhance the range of storage solutions offered to enterprise customers. M4 Data provides high performance tape automation products for the data storage market.

Under the terms of the agreement, Quantum will acquire all the outstanding stock of M4 Data for approximately $56 million in consideration, including $13.4 million in cash, with the balance split between debt and equity. The purchase agreement also includes additional contingent consideration based on the achievement of future performance goals. The acquisition is expected to close by March 31, 2001, pending various tax and regulatory approvals and other customary closing conditions. The acquisition will be accounted for as a purchase, and Quantum expects that a portion of the purchase price will be assigned to in-process research and development, which will be expensed upon completion of the acquisition.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - DLT & Storage Systems Group

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 are phrased in the future tense or 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 ("DSS") designs, develops, manufactures, licenses and markets DLTtape/TM/ drives, DLTtape media cartridges and storage solutions. DSS's storage solutions consist of DLTtape libraries, network attached storage solutions, solid state storage systems and service. Digital Linear Tape, or DLTtape, is DSS's half-inch tape technology that is the industry standard for mid-range UNIX and NT system backup and archive applications. DSS recently introduced a new family of tape drive products based on Super DLTtape technology, targeted to serve workgroup, mid-range and enterprise business needs. Super DLTtape technology is an extension of the DLTtape technology product set. Super DLTtape continues to build on generations of DLTtape success while ensuring compatibility with previous DLTtape formats.

DSS's tape libraries are part of our Enterprise Solutions business and serve the entire tape library data storage market from desktop computers to enterprise class computers. DSS offers a broad line of automated tape libraries that are used to manage, store and transfer data in enterprise networked computing environments.

DSS is a leading provider of network attached storage, or NAS, solutions for workgroups. DSS's NAS appliances offer a combination of interoperability, reliability, ease of use and cost-effectiveness that we believe is better suited to the storage needs of workgroups than other storage alternatives. Our Snap Server appliances utilize our optimized hardware and proprietary operating system, the Snap OS, to enable our customers to add additional storage capacity to a network quickly, inexpensively and conveniently. The target end-users for Snap Server appliances are workgroups within small to large organizations and application service providers and Internet service providers.

DLTtape drives store data on DLTtape media cartridges. Historical use of DLTtape drives has shown that drives use many media cartridges per year. DSS's DLTtape media cartridges are manufactured and sold by licensed third party manufacturers. DSS receives a royalty fee on DLTtape media cartridges sold by its licensees which, while resulting in lower revenue than DLTtape media sold directly by DSS, generates comparable income from operations. DSS prefers

to sell a substantial portion of DLTtape media cartridge through its license model because this minimizes DSS's operational risks and expenses and provides an efficient distribution channel. Currently, approximately 85% of media sales occur through this license model.

On October 24, 2000, Quantum announced plans to make its server appliances subsidiary an independent, publicly-traded company called Snap Appliances, Inc. On October 30, 2000 Snap Appliances filed a registration statement with the Securities and Exchange Commission for the initial public offering ("IPO") of its common stock. Immediately following the IPO, Quantum expects to own at least 80% of Snap Appliances' outstanding common stock. Quantum intends to distribute these shares to DSS stockholders subject to receiving a favorable IRS ruling and Board of Directors approval. After the IPO, the remaining DSS business will be comprised of two business groups, Enterprise Solutions and DLTtape.

Products

The DLT & Storage Systems group's products include:

DLT:

. Super DLTtape(TM) drives. DSS recently introduced a new family of tape drive products based on Super DLTtape technology, targeted to serve workgroup, mid-range and enterprise business needs. The mid-range market including workgroup and department servers, large corporate departments and mid-size automated libraries will see a drive with a native capacity of 110GB (220GB compressed) and a sustained transfer rate of 11MB per second (22MB compressed). In response to high performance enterprise needs, DSS also offers a Super DLTtape drive with a sustained transfer rate of greater than 16MB per second (32MB compressed). Super DLTtape drives are expected to begin volume shipment in the first half of calendar year 2001.

- DLTtape drives. DSS currently offers three tape drive products--the DLT8000, the DLT7000 and the DLT4000. The DLT8000 provides a combination of 40GB of native capacity (80GB compressed) and a sustained data transfer rate of 6MB 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 is designed and formulated specifically for use with DLTtape drives. The capacity of a DLTtape media cartridge is up to 40GB (80GB compressed). DSS'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. DSS has qualified the one supplier of Super DLTtape media and is currently qualifying others; the tape will include enhanced features to support Super DLTtape products.

Storage Solutions:

- Tape libraries. DSS 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. DSS's tape libraries range from its tape autoloaders which accommodate a single DLTtape drive and up to 280GB of storage capacity to the P6000 series library which features Prism Library Architecture(TM) and can be configured in multiple units to scale up to 22.8 terabytes of storage capacity. In addition, DSS 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. DSS offers two families of solid state storage systems--the Rushmore(TM) Ultra series and the Rushmore eSystem Accelerators. The Rushmore Ultra Solid State Disks are available in capacities ranging from 268MB to 3.2GB and have data access times of less than 50 microseconds, 100 to 200 times faster than magnetic hard disk drives. The Rushmore eSystem Accelerator is a comprehensive set of hardware, tools, services and consulting bundled into one package. With capacities ranging from 536MB to 3.2GB, the Rushmore eSystem Accelerator delivers data access times of less than 25 microseconds, more than 18,000 accesses to information per second for time-critical applications.

- Network attached storage solutions. DSS's Snap! Server(TM) family of network attached storage appliances, include the Snap Server 1000, Snap Server 2000, and Snap Server 4100, including storage capacities ranging from 15GB to 240GB. Snap Servers connect directly to a network and can be easily and seamlessly integrated with other network devices. To install a Snap Server, a user simply connects the appliance to a network and a power source and then turns on the appliance. The entire installation process can take less than five minutes and does not require an information technology professional. The Snap OS includes a file system that can simultaneously function in a variety of operating environments, including Apple MacOS, Linux, Microsoft Windows, Novell Netware and UNIX. The Snap hardware includes motherboards with standard components, hard disk drives, memory and processors. The Snap Server 1000 features 15GB or 30GB of storage capacity, one disk drive, and a 3.5 pound desktop or portable form factor. The Snap Server 2000 features 60GB of storage capacity, two disk drives, desktop form factor, and RAID 0, 1. The Snap Server 4100 features 120GB or 240GB of storage capacity, four disk drives, 1U rack form factor, and RAID 0, 1 and 5.

Results of Operations

Revenue. Revenue in the three and nine months ended December 31, 2000 was $369 million and $1.097 billion, respectively, compared to $366 million and $1.054 billion, respectively, for the corresponding periods in fiscal year 2000. The increase in revenue reflected increased sales of DLTtape libraries and Snap servers, and increased DLTtape media royalties. Sales of tape libraries reached a record high in the third quarter of fiscal year 2001. Sales of Snap Server network attached storage appliances also reached a record high without comparable sales in the prior year nine month period, as DSS's sales of Snap servers resulted from the acquisition of Meridian in September 1999. The increase in units of DLTtape media cartridges sold reflects 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 increase in DLTtape media royalties reflected an increase in the sales of DLTtape

media cartridges by licensed media manufacturers for which DSS earns a royalty fee. Revenue from sales of DLTtape drives declined, reflecting decreased shipments and a decline in average unit prices due to competitive pricing.

The table below summarizes the components of DSS's revenue in the three and nine months ended December 31, 2000 and December 26, 1999:

<TABLE>
<CAPTION>

(in millions)	Three Months Ended		Nine Months Ended	
	December 31, 2000	December 26, 1999	December 31, 2000	December 26, 1999
<S>	<C>	<C>	<C>	<C>
DLT drives	$ 187	$ 215	$ 598	$ 654
DLT media	28	42	90	105
DLT royalty	60	49	163	133
Storage systems	116	82	326	231
Intra-group elimination*	(22)	(22)	(80)	(69)
Revenue	$ 369	$ 366	$ 1,097	$ 1,054

</TABLE>

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

Sales to the top five customers in the three and nine months ended December 31, 2000 represented 42% and 44% of revenue, respectively, compared to 49% and 48% of revenue, respectively, for the corresponding periods in fiscal year 2000. Sales to Compaq were 19% and 18% of revenue in the three and nine months ended December 31, 2000, respectively, compared to 22% and 21% of revenue, respectively, in the corresponding periods in fiscal year 2000, including sales to Digital Equipment. Sales to Hewlett Packard were 10% and 12% of revenue in the three and nine months ended December 31, 2000, respectively, compared to less than 10% and 13% of revenue, respectively, in the corresponding periods in fiscal year 2000.

Sales to computer equipment manufacturers and distribution channel customers were 59% and 15% of revenue, respectively, in the three months ended December 31, 2000, compared to 62% and 17% of revenue, respectively, in the three months ended December 26, 1999. For the nine months ended December 31, 2000, computer equipment manufacturer and distribution channel sales were 60% and 15% of revenue, respectively, compared to 64% and 16% of revenue, respectively, in the corresponding period of fiscal year 2000. The remaining revenue in the three and nine months ended December 31, 2000 represented media royalty revenue, sales to value-added resellers and direct sales, and in the three and nine months ended December 26, 1999, represented media royalty revenue and sales to value-added resellers.

Gross Margin Rate. The gross margin rate in the three months ended December 31, 2000, was 44.3%, compared to 44.9% in the three months ended December 26, 1999. The gross margin rate for the first nine months of fiscal year 2001 was 43.8% compared to 46.1% for the corresponding period of fiscal year 2000. The decrease reflected lower DLTtape drive margins as a result of price declines, partially offset by an increase in the proportion of overall revenue represented by DLTtape media royalty revenue.

Research and Development Expenses. Research and development expenses in the three and nine months ended December 31, 2000, were $31 million, or 8.5% of revenue, and $99 million, or 9% of revenue, respectively, compared to $31 million, or 8.6% of revenue, and $90 million, or 8.5% of

revenue, respectively, in the corresponding periods of fiscal year 2000. The increase in the nine month period reflected the inclusion of Snap Appliances' expenses for the entire period. These expenses were not comparatively included in the prior year nine month period as the Meridian acquisition occurred on September 10, 1999.

Sales and Marketing Expenses. Sales and marketing expenses in the three and nine months ended December 31, 2000, were $39 million, or 10.5% of revenue, and $115 million, or 10.4% of revenue, respectively, compared to $31 million, or 8.4% of revenue, and $83 million, or 7.9% of revenue, respectively, in the corresponding periods of fiscal year 2000. The increase in the three month period was the result of additional marketing expense to build category awareness for NAS applications and brand awareness for the Snap server product line. The increase in the nine month period reflected the inclusion of Snap Appliances' expenses for the entire period and an increase in sales and marketing costs associated with the expansion of our Enterprise Solutions' business. Snap Appliances' expenses were not comparatively included in the prior year nine month period as the Meridian acquisition occurred on September 10, 1999.

General and Administrative Expenses. General and administrative expenses in the three and nine months ended December 31, 2000, were $19 million, or 5.1% of revenue, and $57 million, or 5.1% of revenue, respectively, compared to $16 million, or 4.5% of revenue, and $46 million, or 4.4% of revenue, respectively, in the corresponding periods of fiscal year 2000. The increase in general and administrative expenses in the three month period reflected increased Enterprise Solutions and Snap expenses. The increase in the nine month period reflected the inclusion of Snap Appliances' expenses for the entire period and increased Enterprise Solutions expenses. Snap Appliances' expenses were not comparatively included in the prior year nine month period as the Meridian acquisition occurred on September 10, 1999.

Purchased In-process Research and Development Expense. DSS expensed purchased in-process research and development of $37 million, as a result of the Meridian acquisition in the second quarter ended September 26, 1999.

Special Charge. During the fourth quarter of fiscal year 2000, DSS recorded a special charge of $40.1 million. The charge was primarily focused on DSS's DLTtape Division and reflected DSS's strategy to align its DLTtape drive operations with market conditions. These conditions include slower growth in the mid-range server market and increasing centralization of server backup through automation solutions, both of which have resulted in relatively flat DLTtape drive shipments. The special charge included a reduction of overhead expenses throughout the DLTtape Division and an acceleration of DSS's low cost manufacturing strategy, which includes moving volume production of DLTtape drives from Colorado Springs, Colorado to Penang, Malaysia.

The special charge consisted of $13.5 million in facility related costs, $13.9 million for the write-off of investments in optical technology, $7.6 million for severance and benefits for terminated employees, $3.2 million for fixed asset write-offs, primarily related to the transfer of manufacturing to Penang, Malaysia and $1.9 million in other costs associated with the plan.

expenses, primarily research and development, as a result of ending research on certain optical-based storage solutions. As compared to fiscal year 2000, DSS expects operating expenses to increase because of increased investments in storage systems products and marketing in fiscal year 2001 and as a result of including the Snap Appliances' operations for a full year following the acquisition of Meridian in September 1999. These expectations are forward-looking statements and actual results may differ.

In the third quarter of fiscal year 2001, DSS reversed $7 million as a special charge benefit on the income statement. This reversal was primarily due to a revised estimate of the vacancy period related to a facility in Colorado Springs, Colorado.

DSS recorded a special charge of $7 million in the third quarter of fiscal year 2001. This is a result of DSS's decision to establish a close proximity between its design and manufacturing operations in order to accelerate time-to-market for future products within its DLTtape drive product family. This will impact engineering, marketing and administrative employees in Shrewsbury, Massachusetts, as these positions will be transitioned to Boulder, Colorado. The special charge is related to severance and benefits associated with terminated employees affected by this plan.

DSS is proceeding according to plan and expects to realize annual cost savings from the plans of approximately $50 million, beginning upon full implementation of the plans at the end of fiscal year 2001. Approximately $25 million of the savings are expected in cost of revenue as a result of reduced manufacturing costs, with the remaining amount in operating expenses, primarily research and development, as a result of ending research on certain optical-based storage solutions and a reduction in headcount. As compared to fiscal year 2000, DSS expects operating expenses to increase because of increased investments in storage systems products and marketing in fiscal year 2001 and as a result of including the Snap Appliances' operations for a full year following the acquisition of Meridian in September 1999. These expectations are forward-looking statements and actual results may differ.

Interest and Other Income/Expense. Net interest and other income/expense for the three and nine months ended December 31, 2000 was $0.6 million income and $1.7 million income, respectively, compared to $0.9 million expense and $0.4 million expense, respectively, for the corresponding periods of fiscal year 2000. The turnabout of expense to income reflected increased interest income as a result of higher average cash balances and higher interest rates.

Income Taxes. DSS's effective tax rate for the three and nine months ended

December 31, 2000 and December 26, 1999, was 36% and 40%, respectively. The decrease in the fiscal year 2001 effective tax rate reflects an increase in foreign earnings, which are taxed at less than the U.S. rate.

Liquidity and Capital Resources

DSS cash, cash equivalents and marketable securities were $378 million at December 31, 2000 compared to $339 million at March 31, 2000. DSS used cash in the nine months ended December 31, 2000 to purchase $146 million of treasury stock, as discussed below. Other uses of cash included approximately $37 million for investments in property and equipment. DSS generated cash from operations of $215 million, primarily reflecting net income, increases in income taxes payable and accounts payable, partially offset by increases in other assets and accounts receivable. Other sources of cash included $21 million from the issuance of common stock.

During fiscal year 2000, the Board of Directors authorized Quantum to repurchase up to $700 million of Quantum's common stock in open market or private transactions. Of the total repurchase authorization, $600 million was authorized for repurchase of either Quantum, DSS or HDD common stock. An additional $100 million was authorized for repurchase of HDD common stock.

Under these authorizations, as of December 31, 2000, Quantum had repurchased a total of 3.9 million shares of Quantum common stock, 29.2 million shares of DSS common stock and 13.5 million shares of HDD common stock for a combined total of $566 million. During the first nine months of fiscal year 2001, Quantum repurchased 13.5 million shares of DSS common stock and 10 million shares of HDD common stock for a combined total of $241 million.

In April 2000, Quantum entered into two unsecured senior credit facilities, each providing a $187.5 million revolving credit line and expiring in April 2001 and April 2003, respectively. At Quantum's option, borrowings under the revolving credit lines bear interest at either the London interbank offered rate or a base rate, plus a margin determined by a leverage ratio with option periods of one to six months. At December 31, 2000, there were no outstanding balances drawn on these lines.

DSS expects to spend approximately $55 million in fiscal year 2001 for capital equipment and leasehold improvements. These capital expenditures will support the introduction and manufacturing of Super DLTtape products; manufacturing DLTtape drives in its new location, Penang, Malaysia; and DSS's general infrastructure.

DSS believes that its existing capital resources, including the credit facilities 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 DSS'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.

Trends and Uncertainties Relating to the DLT & Storage Systems Group

Holders of DSS stock remain stockholders of Quantum Corporation, which, prior to the completion of the merger of HDD and Maxtor, includes common stock of HDD, and therefore, financial effects on HDD could adversely affect DSS.

Holders of DSS stock and HDD stock are stockholders of a single company. DSS and HDD 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 DSS stock and HDD stock and the allocation of assets and liabilities and stockholders' equity between DSS and HDD 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.

The split-off of Quantum HDD may be determined not to be tax-free, which would result in Quantum or its stockholders, or both, incurring a substantial tax liability.

Maxtor and Quantum have agreed not to request a ruling from the Internal Revenue Service (the "IRS"), or any state tax authority confirming that the structure of the combination of Maxtor with Quantum HDD will not result in any federal income tax or state income or franchise tax to Quantum, the newly formed subsidiary of Quantum or the holders of Quantum HDD common stock. Instead, Maxtor and Quantum have agreed to effect the split-off and the merger on the basis of an opinion from Ernst & Young LLP, Quantum's tax advisors, and a tax opinion insurance policy issued by a syndicate of major insurance companies covering up to $340 million of tax loss to Quantum caused by the split-off and merger.

If Quantum incurs non-insured tax as a result of the split-off, Quantum's financial condition and operating results could be negatively affected.

If the split-off was determined to be taxable to Quantum, Quantum would not be able to recover the tax either from Maxtor or under the insurance policy under the following circumstances:

- If the tax loss was not covered by the policy because it fell under one of two exclusions described above, insurance proceeds would not be available to cover the loss.
- If the tax loss was caused by Quantum's own acts or those of a third party that made the split-off taxable (for instance, an acquisition of control of Quantum during the two year period following the closing). Maxtor would not be obligated to indemnify Quantum for the tax.
- If Maxtor was obligated to indemnify Quantum for the tax but was not able to make the payment, Quantum would nevertheless be obligated, as the taxpayers to make the payment.

In any of these circumstances, the tax payments due from Quantum could be substantial. In order to pay the tax, Quantum would have to either deplete its existing cash resources or borrow money to cover its tax obligation. Quantum's payment of the tax prior to Maxtor's payment to it under Maxtor's indemnification obligations, or in circumstances where those obligations do not apply, could harm Quantum's business, financial condition and operating results.

Quantum may be harmed as a result of operating solely as a DLTtape and storage solutions business.

Quantum's operations have consisted of the DLTtape and storage solutions business and the hard disk drive business. Operating results of the Quantum DSS business alone may be adversely affected by the loss of one or more of the following benefits that Quantum HDD has contributed to Quantum:

- The ability to leverage the expertise of Quantum HDD in areas related to Quantum HDD's core competency in hard disk drives;
- The opportunity to jointly develop various products, such as online storage solutions
- The ability to more effectively enable and cost reduce data storage solutions;
- Use of the goodwill and brand recognition associated with Quantum HDD;
- The benefit of Quantum as a whole having a larger market capitalization related to the two tracking stocks;
- Diversification associated with a single company serving the DLTtape, storage solutions and hard disk drive markets;

Maxtor's failure to perform under the indemnification agreement in connection with Quantum's convertible debt would harm Quantum's business.

Maxtor has agreed to assume responsibility for payments on up to $95,833,000 of Quantum's convertible debt. If Maxtor fails to indemnify Quantum under the indemnification agreement for Maxtor's portion of the convertible debt, Quantum could experience a material adverse effect on its business and financial performance.

Risks related to the Quantum DSS business following the merger.

- Quantum's DSS business may experience difficulty attracting and retaining quality employees, which may hurt its ability to operate its business effectively.

  The ability of Quantum DSS to maintain its competitive technological position will depend, in large part, on its ability to attract and retain highly qualified technical and managerial personnel. The combination of Quantum DSS and Quantum HDD has resulted in faster growth and greater scale for Quantum. After the split-off and merger, without the benefits of a combined business, Quantum DSS may not experience the same success in attracting quality employees. Competition for qualified personnel is intense. There is a risk that some key employees will depart as a result of the split-off and merger. In addition, the announcement of the proposed split-off of Quantum HDD may impede Quantum DSS ability to attract new employees. Lack of success in attracting qualified employees could lead to lower than expected operating results and delays in the introduction of new products and could have a negative effect on the ability of Quantum DSS to support customers.

- The historical financial information of Quantum DSS may not be representative of its future results as a separate company.

  The historical financial information of Quantum DSS does not necessarily reflect what its financial position, operating results, and cash flows would have been had it been a separate, stand-alone entity during the periods presented. In addition, the historical information is not necessarily indicative of what its operating results, financial position and cash flows will be in the future. Quantum DSS has not made adjustments to reflect many significant changes that may occur in its cost structure, funding and operations as a result of its separation from Quantum HDD, including changes in its employee base, legal structure, costs associated with reduced economics of scale, marketing expenses related to establishing a new brand identify, and costs associated with being a public stand-alone company.

- Quantum may incur additional special charges as a result of the merger.

  Although Maxtor has agreed to hire or pay severance for up to 535 current Quantum corporate division employees, the Quantum DSS business may determine that the Quantum infrastructure, including employees and assets, after the merger is not in alignment with the requirements of the Quantum DSS business. Such a determination could result in significant charges attributable to hiring or terminating Quantum employees or undertaking the acquisition or divestiture of certain assets, which could adversely impact the operating results of the Quantum DSS business.

If the contemplated combination of the HDD business with Maxtor is not successfully completed, this could have a negative impact on Quantum's results of operations.

Though Quantum has publicly announced that it currently intends to combine its HDD business with Maxtor, the transaction remains subject to the approval of Maxtor and Quantum stockholders, and other customary conditions. If the transaction is not consummated, Quantum's results of operations could be negatively impacted due to, among other things, market, customer and employee perception of the terminated transaction.

The HDD merger could result in substantial compensation charges to Quantum.

Outstanding Quantum HDD stock options, whether vested or unvested, and Quantum HDD restricted stock subject to repurchase, held by individuals other than employees transferred to the combined Maxtor-HDD company and former service providers, will be converted into Quantum DSS options and Quantum DSS restricted stock. All unvested Quantum DSS stock options held by employees who are either transferred to the combined Maxtor-HDD company or who are terminated in connection with the merger will be converted into shares of Quantum DSS restricted stock. This conversion, while intended to preserve the existing value of the converted securities, will result in a compensation charge and dilution to Quantum DSS. In addition, Quantum DSS restricted stock subject to repurchase held by employees who are transferred to the combined Maxtor-HDD company will remain restricted stock held by those employees. Based on current stock and option values and an estimate of Quantum employees to be terminated or transferred to the combined company, Quantum estimates that the transaction will result in dilution to the remaining DSS business of approximately 6 to 7 million shares and non-cash special compensation charges to be approximately $94 million to $134 million, based on low and high HDD and DSS per share common stock prices, respectively, since the beginning of October 2000, of $7.9375 and $12.75 for HDD common stock, and $11.3125 and $16.125 for DSS common stock.

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

DSS competes with companies that develop, manufacture, market and sell tape drive products. DSS's principal competitors include Exabyte Corporation, Hewlett-Packard, Seagate Technology, Inc., Sony Corporation and Storage Technology Corporation. These competitors are aggressively trying to develop new tape drive technologies to compete more successfully with products based on DLTtape technology. Hewlett-Packard, IBM Corporation and Seagate have formed a consortium to develop new linear tape drive products. DSS expects products based on this developing technology standard to target the high-capacity data back-up market and to compete with DSS's products based on Super DLTtape technology. Such competition could have a material adverse impact on DSS's operating results.

DSS's operating results depend on new product introductions, which may not be successful.

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

- It will introduce any of these new products in the time frame DSS 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 DSS'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.

These risks are magnified because DSS expects that 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.

DSS 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.

DSS currently purchases the DLTtape media cartridges it sells primarily from Fuji Photo Film Co., Ltd. and Hitachi Maxell, Ltd. DSS cannot provide assurance that Fuji or Maxell will continue to supply an adequate number of high quality media cartridges in the future. If component shortages occur, or if DSS experiences quality problems with component suppliers, shipments of products could be significantly delayed and/or costs significantly increased. In addition, DSS qualifies only a single source for many components and sub-assemblies, which magnifies the risk of future shortages.

DSS's main supplier of tape heads is located in China. 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 DSS's operating results.

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

DSS's quarterly operating results have fluctuated significantly in the past and could fluctuate significantly in the future. As a result, you should not use DSS's past quarterly operating results to predict future performance. 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 DSS'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.

DSS's sales are concentrated with a few customers. Customers are not obligated to purchase any minimum product volume and DSS'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 DSS's operating results.

Unpredictable end-user demand, combined with the computer equipment manufacturer trend toward carrying minimal inventory levels, increases the risk that DSS 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 DSS's relationship with its customers, either of which could adversely impact DSS's operating results.

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

DSS receives a royalty fee based on sales of DLTtape media cartridges by Fuji and Maxell. Under DSS's license agreements with Fuji and Maxell, each of the licensees determines 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, DSS'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 DSS to lower its prices on direct sales of DLTtape media cartridges, which would adversely impact DSS's margins for this product.

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

From time to time, third parties allege DSS's infringement of and need for a license under their patented or other proprietary technology. 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. Adverse resolution of any third party infringement claim could subject DSS 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.

Power outages which currently impact companies with facilities in California may adversely affect Quantum's California facilities.

Quantum conducts operations in the state of California and relies on a continuous power supply to conduct operations. California's current energy crisis could disrupt Quantum's operations and increase expenses. In the event of an acute power shortage, that is, when power reserves for the state of California fall below 1.5%, California has on some occasions implemented, and may in the future continue to implement, rolling blackouts throughout the state. Although state lawmakers are working to minimize the impact, if blackouts interrupt our power supply, Quantum may be temporarily unable to continue operations at its facilities. Any such interruption in Quantum's ability to continue operations at its facilities could delay the development of products and manufacturing processes. Future interruptions could damage Quantum's reputation and could result in lost revenue, either of which could harm Quantum's business and results of operations. Furthermore, the deregulation of the energy industry instituted in 1996 by the California government and shortages in wholesale electricity supplies have caused power prices to increase. If wholesale prices continue to increase, Quantum's operating expenses will likely increase which will have a negative effect on Quantum's operating results.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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 Quantum's Annual Report on Form 10-K for the year ended March 31, 2000.

In addition, Quantum's operating results are expected to be affected by charges to be incurred in connection with the merger of HDD and Maxtor. See "Trends and Uncertainties Relating to the DLT & Storage System Group."

Item 1. Financial Statements

QUANTUM CORPORATION

HARD DISK DRIVE GROUP

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

(unaudited)

<TABLE>
<CAPTION>

<S>	Three Months Ended December 31, 2000 <C>	Three Months Ended December 26, 1999 <C>	Nine Months Ended December 31, 2000 <C>	Nine Months Ended December 26, 1999 <C>
Revenue	$708,565	$889,024	$2,395,925	$2,409,729
Cost of revenue - on net sales	604,597	784,645	2,104,102	2,254,856
Cost of revenue - special charge (benefit)	-	-	(15,825)	57,068
Gross profit	103,968	104,379	307,648	97,805
Operating expenses:				
Research and development	66,478	55,012	184,638	179,693
Sales and marketing	26,380	25,229	78,267	81,920
General and administrative	13,314	19,177	45,946	49,254
Special charge (benefit)	-	-	(90)	2,338
Merger costs	6,359	-	6,359	-
	112,531	99,418	315,120	313,205
Income (loss) from operations	(8,563)	4,961	(7,472)	(215,400)
Other income (expense):				
Interest income and other, net	6,591	6,154	21,644	15,541
Interest expense	(2,866)	(2,357)	(7,541)	(7,127)
	3,725	3,797	14,103	8,414
Income (loss) before income taxes	(4,838)	8,758	6,631	(206,986)
Income tax provision (benefit)	(1,554)	3,608	2,116	(85,265)
Net income (loss)	$ (3,284)	$ 5,150	$ 4,515	$ (121,721)

</TABLE>

See accompanying notes to condensed combined financial statements.

QUANTUM CORPORATION

HARD DISK DRIVE GROUP

CONDENSED COMBINED BALANCE SHEETS
(In thousands)
(unaudited)

<TABLE>
<CAPTION>

	December 31, 2000 (unaudited)	March 31, 2000

<S> <C> <C>

Assets		
Current assets:		
Cash and cash equivalents	$ 425,525	$ 581,542
Marketable securities	4,664	30,048
Accounts receivable, net of allowance for doubtful accounts of $15,623 and $19,618	317,813	395,118
Inventories	159,645	122,347
Due from the DLT & Storage Systems group	-	30,100
Deferred taxes	88,876	78,713
Other current assets	43,243	58,356
Total current assets	1,039,766	1,296,224
Property and equipment, net of accumulated depreciation of $230,231 and $218,674	148,468	158,548
Intangible assets, net	-	1,915
Other assets	35,720	21,361
	$1,223,954	$1,478,048
Liabilities and Group Equity		
Current liabilities:		
Accounts payable	$ 255,895	$ 375,614
Accrued warranty	42,880	46,967
Accrued compensation	44,876	54,073
Income taxes payable (receivable)	(1,829)	44,284
Accrued special charge	4,887	22,409
Current portion of long-term debt	401	344
Other accrued liabilities	110,024	77,596
Total current liabilities	457,134	621,287
Deferred taxes	40,534	41,758
Long-term debt	12,309	12,613
Convertible subordinated debt	95,833	95,833
Group equity	618,144	706,557
	$1,223,954	$1,478,048

</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 31, 2000	December 26, 1999
<S>	<C>	<C>
Cash flows from operating activities:		
Net loss	$ 4,515	$(121,721)
Adjustments to reconcile net loss to net cash provided by (used in) operations:		
Special charge	(5,844)	33,779
Depreciation	36,666	48,839
Amortization	2,556	2,934
Deferred income taxes	(1,224)	498

Compensation related to stock plans	4,462	763
Changes in assets and liabilities:		
Accounts receivable	77,305	(17,979)
Inventories	(37,298)	54,459
Accounts payable	(119,719)	(43,016)
Income taxes payable	(46,113)	(3,014)
Accrued warranty	(4,087)	10,300
Other assets and liabilities	19,929	27,583
Net cash used in operating activities	(68,852)	(6,575)
Cash flows from investing activities:		
Investment in equity securities	(14,010)	-
Purchases of marketable securities	-	(33,367)
Maturities of marketable securities	-	48,067
Investment in property and equipment	(26,281)	(39,343)
Proceeds from disposition of property and equipment	2,831	-
Net cash used in investing activities	(37,460)	(24,643)
Cash flows from financing activities:		
Proceeds from long-term credit facilities	-	3,333
Principal payments on long-term credit facilities	(247)	(9,586)
Inter-group proceeds for common stock issued	-	2,835
Purchases of treasury stock	(94,597)	(19,690)
Proceeds from factoring	100,000	-
Payments on factoring	(70,000)	-
Proceeds from issuance of common stock, net	15,139	7,236
Net cash used in financing activities	(49,705)	(15,872)
Decrease in cash and cash equivalents	(156,017)	(47,090)
Cash and cash equivalents at beginning of period	581,542	499,725
Cash and cash equivalents at end of period	$ 425,525	$ 452,635
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 4,862	$ 4,879
Income taxes	$ 2,830	$ 19,778

</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 ("HDD"), together with the unaudited condensed combined financial statements of the DLT & Storage Systems group ("DSS"), include all of the accounts in the unaudited condensed consolidated financial statements of Quantum. The separate group unaudited condensed combined financial statements give effect to the accounting policies applicable with the implementation of the tracking stock proposal. The separate HDD and DSS 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 HDD's financial statements, corporate assets and liabilities of Quantum and related transactions identified with HDD, including allocated portions of Quantum's debt and selling, general and administrative costs, and (iii) in the case of DSS's financial statements, corporate assets and liabilities of Quantum and related transactions identified with DSS, 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 HDD or DSS.

The condensed combined financial statements of the Hard Disk Drive group provide HDD stockholders with financial information about the Hard Disk Drive group operations. Holders of HDD stock and DSS 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 HDD or DSS, and dividends or distributions on, or repurchases of DSS stock, at a price per share greater than par value, will reduce the funds of Quantum legally available for payment of dividends on HDD stock. As a result, HDD's condensed combined financial statements should be read in conjunction with Quantum's condensed consolidated financial statements and DSS's condensed combined financial statements. The condensed combined balance sheet as of March 31, 2000 has been derived from the audited financial statements of HDD included in Quantum's Annual Report on Form 10-K 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. Securitized Assets

HDD has an asset securitization program with Capital Factors Inc., under which Quantum borrows against eligible accounts receivable, on a with recourse basis. At December 31, 2000, $37.5 million of accounts receivable were securitized under this program. Given the recourse nature of this arrangement, the securitized accounts receivable are included within the accounts receivable balance, with a loan of $30 million being included in other liabilities.

3. Inventories

Inventories consisted of the following:
(In thousands)

	December 31, 2000	March 31, 2000
Materials and purchased parts	$ 6,381	$ 7,387
Work in process	1,353	5,299
Finished goods	151,911	109,661
	$159,645	$122,347

======== ========

4. Common Stock Repurchase

During fiscal year 2000, the Board of Directors authorized Quantum to repurchase up to $700 million of Quantum's common stock in open market or private transactions. Of the total repurchase authorization, $600 million was authorized for repurchase of either Quantum, DSS or HDD common stock. An additional $100 million was authorized for repurchase of HDD common stock.

Since the beginning of the authorization through December 31, 2000, Quantum has repurchased a total of 3.9 million shares of Quantum common stock, 29.2 million shares of DSS common stock and 13.5 million shares of HDD common stock for a combined total of $566 million. For the three months ended December 31, 2000, there were no repurchases of common stock.

5. Credit Line

In April 2000, Quantum entered into two unsecured senior credit facilities, each providing a $187.5 million revolving credit line and expiring in April 2001 and April 2003, respectively. At Quantum's option, borrowings under the revolving credit lines bear interest at either the London interbank offered rate or a base rate, plus a margin determined by a leverage ratio with option periods of one to six months. At December 31, 2000, there were no outstanding balances drawn on these lines.

6. 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 26 U.S. patents, which it asserts that Quantum has infringed. In October, 1999 the case was transferred to a federal district court in New Orleans, Louisiana, where it has been joined with suits involving Maxtor Corporation and Minebea

Company, Ltd. for the purposes of coordinated discovery under multi-district litigation rules. IBM has recently been sued by Papst and has been added to the multi-district proceedings. 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.

7. Special Charge

During the second quarter of fiscal year 2000, HDD recorded a special charge of $59.4 million. The charge reflected HDD'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 streamlining HDD's logistics model in order to create a faster and more flexible fulfillment system, changes in 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 streamlining the global logistics model and changes 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. The affected facilities were vacated by the end of the third quarter of fiscal year 2001.

Subsequent to the end of the second quarter fiscal year 2000, HDD revised its estimate of costs required to implement the restructuring plan. HDD estimated that severance and benefits, inventory and other costs, which included the disposition of additional capital assets, would be more than previously estimated as a result of the planned changes in the customer service strategy. HDD also estimated that costs associated with vacating leased facilities would be less than previously estimated as a result of disposing of a major facility earlier than previously expected. Accordingly, HDD reallocated amounts between these categories during the second half of fiscal year 2000.

In the second quarter of fiscal year 2001, HDD reversed $15.9 million as a special charge benefit in the statement of operations. This reversal was primarily due to negotiated lease cancellations and reduced severance and benefits due to the redeployment of certain employees.

In connection with the charge, HDD currently expects a workforce reduction of approximately 513 employees, down from the original expectation of 600 employees. In addition, approximately 100 open and budgeted positions have been eliminated. The reduction in force primarily affects employees at HDD's drive configuration centers and warehouses in Milpitas, California and Dundalk, Ireland and employees within the desktop drive business. As of December 31, 2000, 513 employees have been terminated. The reserve balance remaining, primarily represents outstanding costs for outplacement services.

As of December 31, 2000, HDD had incurred $10 million in cash expenditures associated with employee severance and benefits, facilities and other costs. HDD expects to incur additional cash expenditures associated with the plan of approximately $5 million.

The following table summarizes activity related to the special charge through December 31, 2000.

<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	(3,906)	(1,394)	-	(1,663)	(6,963)
Non-cash charges	-	(5,646)	(15,588)	(8,800)	(30,034)
Adjustments	1,166	(7,852)	2,374	4,312	-
Balance at March 31, 2000	$ 5,093	$11,467	$ -	$ 5,849	22,409
Cash Payments	(2,459)	(561)	-	(281)	(3,301)
Non-cash charges	-	(1,650)	-	3,344	1,694
Special charge benefit	(2,284)	(7,787)	-	(5,844)	(15,915)
Balance at December 31, 2000	$ 350	$ 1,469	$ -	$ 3,068	$ 4,887

</TABLE>

8. 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 (losses) on available for sale investments and foreign currency translation adjustments. Total comprehensive income (loss) for the three and nine months ended December 31, 2000 and December 26, 1999, is presented in the following table:

<TABLE>
<CAPTION>

(In thousands)	Three Months Ended		Nine Months Ended	
	December 31, 2000	December 26, 1999	December 31, 2000	December 26, 1999
<S>	<C>	<C>	<C>	<C>
Net income (loss)	$ (3,284)	$ 5,150	$ 4,515	$(121,721)
Other comprehensive income -				
Unrealized gain (loss) on investments, net	(7,290)	17,568	(15,230)	17,568
Foreign currency translation adjustments	(733)	(176)	(2,702)	597
Comprehensive income (loss)	$(11,307)	$ 22,542	$(13,417)	$(103,556)

</TABLE>

9. Business Segment Information

The Hard Disk Drive group currently has two primary product lines, desktop hard Risk drives and high-end hard disk drives. HDD has two separate business units that support these two product lines.

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 HDD business units may become a single business unit as their markets begin to converge and be reported on a combined basis.

Results for HDD's business units for the three months and nine months ended December 31, 2000 and December 26, 1999 are presented in the following table:

<TABLE>
<CAPTION>

(In thousands)	Three Months Ended		Nine Months Ended	
	December 31, 2000	December 26, 1999	December 31, 2000	December 26, 1999
<S>	<C>	<C>	<C>	<C>
Business unit:				
Desktop				
Revenue	$518	$754	$1,848	$2,052
Unit operating income (loss)	(27)	13	(51)	(182)
High-end				
Revenue	191	135	548	357
Unit operating income (loss)	18	(8)	44	(33)

</TABLE>

<TABLE>
<CAPTION>

(In thousands)	Three Months Ended		Nine Months Ended	
	December 31, 2000	December 26, 1999	December 31, 2000	December 26, 1999
<S>	<C>	<C>	<C>	<C>
Income (loss) reconciliation:				
Total unit operating income (loss)	$ (9)	$ 5	$ (7)	$ (215)
Unallocated amounts:				
Interest and other income	4	4	14	8
Income (loss) before income taxes	$ (5)	$ 9	$ 7	$ (207)

</TABLE>

10. Pending Event

On October 3, 2000 Quantum entered into a definitive agreement with Maxtor Corporation to combine Maxtor and HDD in an all-stock transaction. The merger agreement provides that HDD stockholders will receive 1.52 shares of Maxtor common stock for every share of HDD common stock they own. The transaction, which was unanimously approved by the Boards of Directors of both companies, is expected be completed in early calendar 2001. The transaction is expected to be tax-free to Quantum stockholders. This transaction is subject to the approval of the stockholders of both companies and other customary conditions. These expectations are forward-looking statements and actual results may differ.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Hard Disk Drive Group

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 are phrased in the future tense or 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 ("HDD") designs, develops and markets a diversified product portfolio of hard disk drives featuring leading-edge technology. HDD's hard disk drives are designed for the desktop market which requires economy and reliability 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 devices such as personal video recorders, personal audio recorders, cable and set-top boxes, Internet appliances and digital video editing. HDD has been a leading volume supplier of hard disk drives for the desktop market for each of the past seven years.

HDD designs desktop hard disk drives to meet the storage requirements of entry-level to high-performance desktop PCs in home and business environments. HDD 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.

HDD also pioneered hard disk drive applications for the developing consumer electronics market. These hard disk drive applications utilize Quantum QuickView--HDD's hard disk drive technology designed especially for consumer electronics. Quantum QuickView technology makes it possible to simultaneously record and play back audio and video content and to instantly and inexpensively access large amounts of audio and video content--capabilities that are not as well suited to competing technologies such as video tape and optical media.

On October 3, 2000, Quantum entered into a definitive agreement with Maxtor Corporation to combine Maxtor and HDD in an all-stock transaction. The merger agreement provides that HDD

stockholders will receive 1.52 shares of Maxtor common stock for every share of HDD common stock they own. The transaction, which was unanimously approved by the Boards of Directors of both companies, is expected to be completed in early calendar 2001. The transaction is expected to be tax-free to Quantum stockholders. This transaction is subject to the approval of the stockholders of both companies and other customary conditions.

Products

Desktop products. HDD 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. HDD 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. HDD 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 Quantum QuickView drives targeted for the noise-sensitive consumer electronics market and has continued to be refined with technology and feature enhancements.

High-end products. HDD 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 families offer high-capacity hard disk drives for high performance storage-intensive applications such as enterprise servers and storage subsystems. HDD also offers the Shock Protection System, Shock Protection System II, Data Protection System and Quiet Drive Technology with its high-end products, and has incorporated the Shock Protection System III into its recently introduced Atlas 10K III. Shock Protection System III is a further enhancement to Shock Protection I & II, guarding against one of the leading causes of hard disk drive failure - mistreatment during handling and integration.

The table below sets forth key performance characteristics for HDD's current products:

<TABLE>
<CAPTION>

Products	Capacity per Disk (GB)	Product Capacity (GB)	Rotational Speed (RPM)	Platform
<S>	<C>	<C>	<C>	<C>
Fireball lct 10	10.3	5.1 to 30.0	5,400	Desktop PCs--Value, with Ultra ATA/66 interface, Shock Protection System II, Data Protection System and Quiet Drive Technology
Fireball lct 15	15.0	7.5 to 30.0	4,400	Desktop PCs--Value, with Ultra ATA/66 interface, Shock

				Protection System II, Data Protection System and Quiet Drive Technology
Fireball lct 20	20.4	10.0 to 40.0	4,500	Desktop PCs--Value, with Ultra ATA/100 interface, Shock Protection System II, Data Protection System and Quiet Drive Technology

</TABLE>

<TABLE>

<S>	<C>	<C>	<C>	<C>
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
Fireball Plus AS	20.0	10.2 to 60.0	7,200	Desktop PCs--Performance, with Ultra ATA/100 interface, Shock Protection System II, Data Protection System and Quiet Drive Technology
Atlas V	9.1	9.1 to 36.7	7,200	Servers, Workstations and Storage Subsystems, with Ultra 160 SCSI interface, Shock Protection System II and Data Protection System
Atlas 10K II	7.3	9.2 to 73.4	10,000	Enterprise Servers, Workstations and Storage Subsystems, with Ultra 160 SCSI interface, Shock Protection System II, Data Protection System and Quiet Drive Technology

</TABLE>

Results of Operations

Revenue. Revenue in the three and nine months ended December 31, 2000 was $709 million and $2.396 billion, respectively, compared to $889 million and $2.410 billion, respectively, for the corresponding periods in fiscal year 2000. The decrease in revenue for the three and nine month periods primarily reflected lower revenue from sales of desktop hard disk drives.

- Desktop hard disk drive revenue in the three and nine months ended December 31, 2000 was $518 million and $1.848 billion, respectively, compared to $754 million and $2.052 billion, respectively, for the corresponding periods in fiscal year 2000. The decreased revenue in the three and nine month periods reflected decreased shipments of desktop hard disk drives in conjunction with lower average unit prices. During the three months ended December 31, 2000, revenue and units shipped were lower than expected due to specific component shortage.

- High-end hard disk drive revenue for the three and nine months ended December 31, 2000 was $191 million and $548 million, respectively, compared to $135 million and $357 million million, respectively, for the corresponding periods in fiscal year 2000. The increase in revenue was the result of higher sales volume due to the improved penetration of the current generation Atlas V and Atlas 10K II products in the market.

Sales to the top five customers represented 49% revenue in the three and nine months ended December 31, 2000, compared to 51% and 50% of revenue, respectively, for the corresponding periods in fiscal year 2000. These amounts reflected 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 Compaq were 13% and 12% of revenue in the three and nine months ended December 31, 2000, respectively, compared to less than 10% of revenue in the corresponding periods of fiscal year 2000. Sales to Hewlett-Packard were less than 10% of revenue in the three and nine months ended December 31, 2000 compared to 12% of revenue for the corresponding periods in fiscal year 2000. Sales to Dell Computer were 11% of revenue in the three months ended December 31, 2000 and 12% of revenue in the corresponding period in fiscal year 2000. Sales to Dell Computer were 13% and less than 10% of revenue in the nine months ended December 31, 2000 and the corresponding period in fiscal year 2000, respectively. Sales to Ingram Micro were 10% and less than 10% of revenue in the three and nine months ended December 31, 2000, respectively, and were 12% and 13% of revenue, respectively, for the corresponding periods in fiscal year 2000, including sales to Electronic Resources.

Sales to computer equipment manufacturers and distribution channel customers were 55% and 45% of revenue, respectively, in the three months ended December 31, 2000, compared to 66% and 34% of revenue, respectively, in the three months ended December 26, 1999. For the nine months ended December 31, 2000, computer equipment manufacturers and distribution channel sales were 62% and 38% of revenue, respectively, compared to 60% and 40%, respectively, for the corresponding period of fiscal year 2000.

Gross Margin Rate. The gross margin rate in the three months ended December 31, 2000 increased to 14.7% from 11.7% in the three months ended December 26, 1999. The gross margin rate for the first nine months of fiscal year 2001 was 12.8%, compared to 4.1% in the corresponding period in fiscal year 2000. The gross margin rate in the nine month period of fiscal year 2001 reflected the impact of a $15.8 million special charge benefit. The benefit was primarily due to negotiated lease cancellations and reduced severance and benefits due to the redeployment of employees. The gross margin excluding the impact of the benefit was 12.2% in the nine month period ended December 31, 2000. The gross margin rate in the nine month period of fiscal year 2000 reflected the impact of a $57.1 million special charge related to HDD'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 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 31, 2000 was 10.2% and 8.9%, respectively, compared to 10.5% and 1.5%, respectively, for the corresponding periods in fiscal year 2000. Excluding the desktop portion of the special charge benefit of $15.5 million in fiscal year 2001, the gross margin rate was 8.0% in the nine month period ended December 31, 2000. Excluding the desktop portion of the special charge of $51.4 million in fiscal year 2000, the gross margin rate was 4.0% for the nine month period ended December 26, 1999. Excluding the impact of the benefit and charge, the increase in gross margin rate reflected the transition to new lower cost, higher margin products in an environment characterized by continued competitive pricing pressures.

- The high-end gross margin rate for the three and nine months ended December 31, 2000 was 26.9% and 26.2%, respectively, compared to 18.8% and 18.6%, respectively, for the corresponding periods in fiscal year 2000. Excluding the high-end portion of the special charge benefit of $0.3 million in fiscal year 2001, the gross margin rate was 26.1% in the nine month period ended December 31, 2000. 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. Excluding the impact of the benefit and charge, the increase in the gross margin rate reflected higher sales volumes, the transition to new high performance products and the mix shift towards higher capacity, higher margin products.

Research and Development Expenses. Research and development expenses in the three and nine months ended December 31, 2000, were $66 million, or 9.4% of revenue, and $185 million, or 7.7% of revenue, respectively, compared to $55 million, or 6.2% of revenue, and $180 million, or 7.5% of revenue, respectively, in the corresponding periods of fiscal year 2000. The increase in research and development expenses for the three and nine month periods is primarily the result of the next

generation drive pre-production builds, increased spending to support Consumer Electronics' strategic intent expansion and the development of the microdrive.

Sales and Marketing Expenses. Sales and marketing expenses in the three and nine months ended December 31, 2000, were $26 million, or 3.7% of revenue, and $78 million, or 3.3% of revenue, respectively, compared to $25 million, or 2.8% of revenue, and $82 million, or 3.4% of revenue, respectively, in the corresponding periods of fiscal year 2000. The increase in sales and marketing expenses for the three month period in fiscal year 2001 primarily reflects an increase in advertising expenses, while the nine month period reflects an overall decrease in advertising costs.

General and Administrative Expenses. General and administrative expenses in the three and nine months ended December 31, 2000, were $13 million, or 1.9% of revenue, and $46 million, or 1.9% of revenue, respectively, compared to $19 million, or 2.2% of revenue, and $49 million, or 2% of revenue, respectively, in the corresponding periods of fiscal year 2000. The decrease in general and administrative expenses for the three and nine month periods reflects the impact of a provision for bad debt due to the bankruptcy of a distributor in the third quarter of fiscal year 2000.

Merger Expenses. During the third quarter of fiscal year 2001, HDD recorded expenses of $6.4 million associated with the Maxtor-Quantum proposed merger. The merger costs were primarily associated with employee retention, legal, accounting and underwriter fees.

Special Charge. During the second quarter of fiscal year 2000, HDD recorded a special charge of $59.4 million. The charge reflected HDD'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 streamlining HDD's logistics model in order to create a faster and more flexible fulfillment system, changes in 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 streamlining the global logistics model and changes 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.

HDD is proceeding according to plan and expects to realize more than $100 million in cost savings per year, beginning in fiscal year 2001. The majority of the savings are expected in cost of revenue as a result of a more efficient distribution system and reduced customer service costs, with the remaining savings in research and development, as a result of the consolidation of product development programs. As compared to fiscal year 2000, HDD expects operating expenses to be relatively flat in fiscal year 2001, with increased investments in disk drive and other storage products, primarily reflected in research and development, offsetting the operating cost savings resulting from the special charge. These expectations are forward-looking statements and actual results may differ.

In the second quarter of fiscal year 2001, HDD reversed $15.9 million as a special charge benefit in the statement of operations. This reversal was primarily due to negotiated lease cancellations and reduced severance and benefits due to attrition and redeployment of certain employees. In addition, fixed assets that were intended to be written-off are now being utilized elsewhere in the organization as a result of technology and product roadmap plans.

Interest and Other Income/Expense. Net interest and other income for the three and nine months ended December 31, 2000 were $3.7 million and $14.1 million, respectively, compared to net interest and other income of $3.8 million and $8.4 million, respectively, for the corresponding periods of fiscal year 2000. The increase reflected increased interest income as a result of a higher average cash balance and higher interest rates.

Income Taxes. HDD recorded a tax benefit of $1.6 million and a tax provision of $2 million for the three and nine months ended December 31, 2000. These amounts reflect an effective tax rate on income excluding nondeductible merger costs of (102%) and 16% as compared to an effective rate of 41% for the corresponding periods in the prior year.

Liquidity and Capital Resources

Cash, cash equivalents and marketable securities were $430 million at December 31, 2000, compared to $612 million at March 31, 2000. HDD used cash in the nine months ended December 31, 2000, to purchase $95 million of treasury stock, as discussed below. Other uses of cash included approximately $26 million for investments in property and equipment and $14 million in equity securities. Cash used in operating activities was $69 million, primarily reflecting net income of $5 million and a decrease in accounts receivable, offset by decreases in accounts payable, income taxes payable and an increase in inventories. Other sources of cash were $115 million in proceeds from factoring and the issuance of common stock, being partially offset by payments on factoring of $70 million.

HDD has an asset securitization program with Capital Factors, Inc., under which we borrow against our eligible accounts receivable on a with recourse basis. At December 31, 2000, $37.5 million of accounts receivable were securitized under the program and included in our accounts receivable balance with a loan of $30 million being included in other liabilities.

During fiscal year 2000, the Board of Directors authorized Quantum to repurchase up to $700 million of Quantum's common stock in open market or private transactions. Of the total repurchase authorization, $600 million was authorized for repurchase of either Quantum, DSS or HDD common stock. An additional $100 million was authorized for repurchase of HDD common stock. Under these authorizations, as of December 31, 2000, Quantum had repurchased a total of 3.9 million shares of Quantum common stock, 29.2 million shares of DSS common stock and 13.5 million shares of HDD common stock for a combined total of $566 million. During the first nine months of fiscal year 2001, Quantum repurchased 13.5 million shares of DSS common stock and 10 million shares of HDD common stock for a combined total of $241 million.

In April 2000, Quantum entered into two unsecured senior credit facilities, each providing a $187.5 million revolving credit line and expiring in April 2001 and April 2003, respectively. At Quantum's option, borrowings under the revolving credit lines bear interest at either the London interbank offered rate or a base rate, plus a margin determined by a leverage ratio with option periods of one to six months. At December 31, 2000, there were no outstanding balances drawn on these lines.

HDD expects to spend approximately $33 million in fiscal year 2001 for capital equipment and leasehold improvements. These capital expenditures will support the development and introduction of new disk drive products.

HDD believes that its existing capital resources, including the credit facilities 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 HDD'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.

Trends and Uncertainties Relating to the Hard Disk Drive Group

Holders of HDD stock remain stockholders of Quantum Corporation, which prior to the completion of the merger of HDD and Maxtor, includes common stock of DSS, and, therefore, financial effects on DSS could adversely affect HDD.

Holders of HDD stock and DSS stock are stockholders of a single company. HDD and DSS 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 HDD stock and the DSS stock and the allocation of assets and liabilities and stockholders' equity between HDD and DSS 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 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.

If the contemplated combination of the HDD business with Maxtor is not successfully completed, this could have a negative impact on Quantum's results of operations. Though Quantum has publicly announced that it currently intends to combine its HDD business with Maxtor, the transaction remains subject to the approval of Maxtor and Quantum stockholders, and other customary conditions. If the transaction is not consummated, Quantum's results of operations could be negatively impacted due to, among other things, market, customer and employee perception of the terminated transaction.

The split-off of Quantum HDD may be determined not to be tax-free, which would result in Quantum, or its stockholders, or both, incurring a substantial tax liability.

Maxtor and Quantum have agreed not to request a ruling from the Internal Revenue Service (the "IRS"), or any state tax authority confirming that the structure of the combination of Maxtor with

Quantum HDD will not result in any federal income tax or state income or franchise tax to Quantum, the newly formed subsidiary of Quantum or the holders of Quantum HDD common stock. Instead, Maxtor and Quantum have agreed to effect the split-off and the merger on the basis of an opinion from Ernst & Young LLP, Quantum's tax advisors, and a tax opinion insurance policy issued by a syndicate of major insurance companies covering up to $340 million of tax loss to Quantum caused by the split-off and merger.

Quantum may be harmed as a result of operating solely as a DLTtape and storage solutions business.

Quantum's operations have consisted of the DLTtape and storage solutions business and the hard disk drive business. Operating results of the Quantum DSS business alone may be adversely affected by the loss of one or more of the following benefits that Quantum HDD has contributed to Quantum:

- The ability to leverage the expertise of Quantum HDD in areas related to Quantum HDD's core competency in hard disk drives;
- The opportunity to jointly develop various products, such as online storage solutions
- The ability to more effectively enable and cost reduce data storage solutions;
- Use of the goodwill and brand recognition associated with Quantum HDD;
- The benefit of Quantum as a whole having a larger market capitalization

related to the two tracking stocks;

- Diversification associated with a single company serving the DLTtape, storage solutions and hard disk drive markets;

Maxtor's failure to perform under the indemnification agreement in connection with Quantum's convertible debt would harm Quantum's business.

Maxtor has agreed to assume responsibility for payments on up to $95,833,000 of Quantum's convertible debt. If Maxtor fails to indemnify Quantum under the indemnification agreement for Maxtor's portion of the convertible debt, Quantum could experience a material adverse effect on its business and financial performance.

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

To compete effectively, HDD must frequently introduce new hard disk drives. HDD 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 HDD's customers by meeting customer performance and quality specifications. A successful

and timely customer qualification must occur before customers will place large product orders;Risks related to the Quantum DSS business following the merger.

- 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 HDD expects technological changes, short product life cycles and intense competitive pressures to result in declining sales and gross margins on its current generation products.

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

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

- the ability of MKE, HDD's exclusive manufacturer, to quickly achieve high volume production of HDD'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 HDD's products are typically shipped.

HDD'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 that contain HDD'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, HDD may be forced to lower prices sooner and more than expected and transition to new products sooner than expected. For example, in the second quarter of fiscal year 2001, as a result of oversupply in the desktop hard disk drive market, aggressive pricing and corresponding margin reductions materially adversely impacted HDD's operating results.

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

The growth of the lower priced PC market has led to a shift toward lower priced desktop hard disk drives. HDD expects the trend toward lower prices on hard disk drives to continue. If HDD is unable to lower the cost of its desktop hard disk drives accordingly, operating results could be materially adversely affected.

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

In the desktop hard disk drive market, HDD's primary competitors are Fujitsu Limited, IBM, Maxtor Corporation, Samsung Electronics Co., Ltd., Seagate Technologies, Inc. and Western Digital Corporation. The desktop hard disk drive market is characterized by more competitiveness than that seen in the computer industry in general. HDD'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 HDD's products. For example, in the first half of fiscal year 2000, certain competitors reduced prices for their products significantly. As a result, HDD's operating results were materially adversely affected.

In the high-end hard disk drive market, HDD's primary competitors are Fujitsu, Hitachi, IBM and Seagate. Currently, Seagate and IBM have the largest market share for high-end hard disk drives.

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

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

Because HDD depends on MKE for the manufacture of all hard disk drives, adverse material developments in this critical manufacturing relationship would adversely affect HDD's operating results

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

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

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

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

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

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

MKE 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

MKE 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 HDD's hard disk drives. MKE may qualify only a single source for certain components and sub-assemblies, which can magnify the risk of component shortages. Component shortages have constrained HDD's sales growth in the past, and HDD believes that it will periodically experience component shortages in the future. If MKE experiences quality problems with its component suppliers, HDD'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

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

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

From time to time, third parties allege HDD'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 26 U.S. patents, which it asserts that HDD has infringed. In fiscal year 2000, Discovision Associates brought some of its patents to HDD's attention. Adverse resolution of the Papst or any other third party infringement claim could subject HDD to substantial liabilities and require it to refrain from manufacturing and selling certain products. HDD 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.

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

MKE 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 MKE's manufacturing costs and could result in higher product prices and/or declining margins for HDD's products.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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 Quantum's Annual Report on Form 10-K for the year ended March 31, 2000.

HDD is exposed to equity price risk on its investment in TiVo, Inc. common stock. HDD does not attempt to reduce or eliminate its market exposure on this security. HDD 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 31, 2000, the fair market value of HDD's investment was approximately $5 million. As TiVo is a relatively new company and has introduced a new product in the consumer electronics market, HDD does not believe it is possible to reasonably estimate any future price movement of TiVo common stock.

QUANTUM CORPORATION

PART II - OTHER INFORMATION

Item 1. Legal proceedings

The information contained in Note 7 of the Notes to Condensed Consolidated Financial Statements and Note 6 of the Notes to Condensed Combined Financial Statements of the Hard Disk Drive group is incorporated into this Part II, Item 1 by reference.

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.

On December 8, 2000, Quantum filed a Form 8-K reporting that its Hard Disk Drive Group's revenue and units for the fiscal third quarter will be lower than expected.

On December 14, 2000, Quantum filed a Form 8-K/A reporting that on October 3, 2000, Quantum Corporation, ("Quantum"), Maxtor Corporation, ("Maxtor"), Insula Corporation, ("Insula"), and Hawaii Acquisition Corporation, ("Merger Sub"), entered into an Agreement and Plan of Merger and Reorganization, (the "Merger Agreement"), pursuant to which Quantum has agreed to sell its Hard Disk Drive Group, (the "HDD Business"), to Maxtor, (the "Disposition"). Under the terms of the Disposition, Quantum will assign to Spinco and Spinco will assume the assets and liabilities of the HDD Business. Immediately following the assignment and assumption, Quantum will redeem all shares of HDD common stock from the holders of such shares in exchange for shares of Spinco common stock (the "Redemption"). On or about December 6, 2000, the parties to the Merger Agreement elected to amend and restate the Merger Agreement to provide for the transaction to be effected by a merger of Spinco directly into Maxtor immediately following the Redemption, (the "Merger"), with Maxtor continuing after the Merger as the surviving corporation and to effect certain other changes (the "Amended and Restated Merger Agreement"). As a result of the Merger, each share of Spinco common stock (formerly HDD common stock prior to the Redemption) will be converted into the right to receive 1.52 shares of Maxtor common stock.

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 12, 2001 By: /s/ Richard L. Clemmer

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

QUANTUM CORPORATION

INDEX TO EXHIBITS

Exhibit Number	Exhibit
10.1 (1)	Amended and Restated Agreement and Plan of Merger and Reorganization dated as of October 3, 2000 by and among Quantum Corporation, Maxtor Corporation, Insula Corporation and Hawaii Corporation (excluding exhibits).

Footnotes to Exhibits	Footnote
(1)	As filed with Maxtor's Registration Statement on Form S-4 filed with the Securities and Exchange Commission on January 23, 2001.