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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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AMENDMENT NO. 2  
TO  
FORM S-4  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933  
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QUANTUM CORPORATION  
(Exact name of Registrant as specified in its charter)

<TABLE>					
<S>	Delaware	<C>	3572	<C>	94-2665054
	(State or other jurisdiction of incorporation or organization)		(Primary Standard Industrial Classification Code Number)		(I.R.S. Employer Identification No.)
</TABLE>					

	Quantum Corporation 500 McCarthy Blvd. Milpitas, CA 95035 (408) 894-4000	(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)	Richard L. Clemmer Chief Financial Officer Quantum Corporation 500 McCarthy Blvd. Milpitas, CA 95035 (408) 894-4000	(Name and address, including zip code, and telephone number, including area code, of agent for service)
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With copies to:

<TABLE>		<C>	
<S>	Steven E. Bochner Jeffrey A. Herbst Gil M. Labrucherie Wilson Sonsini Goodrich & Rosati Professional Corporation 650 Page Mill Road Palo Alto, CA 94304-1050		Raymond W. Wagner Simpson Thacher & Bartlett 425 Lexington Avenue New York, NY 10017-3954
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Approximate date of commencement of proposed sale to the public:  
As soon as practicable after the Registration Statement becomes effective.

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If any of the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

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The Registrant hereby amends this Registration Statement on such date or

dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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+The information is not complete and may be changed. We may not sell these +  
+securities until the registration statement filed with the Securities and +  
+Exchange Commission is effective. This prospectus is not an offer to sell +  
+these securities and it is not soliciting an offer to buy these securities in +  
+any state where the offer or sale is not permitted. +  
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June 10, 1999

Proxy Statement and Prospectus of

QUANTUM CORPORATION

Special Meeting of Stockholders to be

Held at 10 A.M., Local Time, on July 23, 1999

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DLT & Storage Systems Group COMMON STOCK Hard Disk Drive Group COMMON STOCK  
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To Our Stockholders

You are invited to attend a special meeting of our stockholders, to be held at our headquarters at 500 McCarthy Boulevard, Milpitas, California 95035.

At the special meeting, you will be asked to consider and adopt a tracking stock proposal recommended by our board of directors. We propose to adopt an amended and restated certificate of incorporation which would replace our existing common stock with two new classes of tracking stock called DLT & Storage Systems group stock and Hard Disk Drive group stock. DLT & Storage Systems group stock is intended to reflect separately the performance of our DLTtape(TM) and storage systems business. Hard Disk Drive group stock is intended to reflect separately the performance of our hard disk drive business.

If stockholders approve the tracking stock proposal, each share of your existing common stock will be changed into one share of DLT & Storage Systems group stock and 0.5 of a share of Hard Disk Drive group stock. We expect to effect the tracking stock proposal shortly following the special meeting and expect the tracking stock proposal to be tax-free to you and us. We will seek the listing of both the DLT & Storage Systems group stock and the Hard Disk Drive group stock on the Nasdaq National Market tier of The Nasdaq Stock Market under the symbols "QDSS" and "QHDD," respectively.

At the special meeting, you will also be asked to consider and approve a proposal to amend our employee stock purchase plan.

Our board of directors unanimously recommends that you vote in favor of the tracking stock proposal and the proposal to amend our employee stock purchase plan. This proxy statement and prospectus provides you with detailed information about the proposals. We encourage you to read this entire document carefully.

Michael A. Brown  
Chairman of the Board  
and Chief Executive Officer

The tracking stock proposal involves certain risks.  
Please read the "Risk Factors" beginning on page 10.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this proxy statement and prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This proxy statement and prospectus is dated June 10, 1999 and is first being mailed to stockholders on June 18, 1999.

HOW YOU CAN OBTAIN MORE INFORMATION

This proxy statement incorporates important business and financial information that is not included in or delivered with this document. You may request a copy of this information at no cost, by writing or telephoning us at the following address:

Quantum Corporation
500 McCarthy Boulevard
Milpitas, California 95035
Attention: Investor Relations
Telephone: 1-408-324-7044

To obtain timely delivery, you must make this request no later than five business days before July 23, 1999, the date of the special meeting.

[QUANTUM LOGO]

Notice of Special Meeting
of Stockholders

to be Held on July 23, 1999

June 18, 1999

We hereby give notice that a special meeting of our stockholders will be held at our headquarters at 500 McCarthy Boulevard, Milpitas, California. The special meeting will begin at 10:00 a.m., local time, and will be held for the following purposes and to transact any other business as may properly come before the meeting or any adjournments of the meeting:

- 1. To consider and act upon a proposal to adopt an amended and restated certificate of incorporation under which each outstanding share of our existing common stock will be changed into one share of DLT & Storage Systems group stock and 0.5 of a share of Hard Disk Drive group stock; and
2. To consider and act upon a proposal to adopt amendments to the Quantum corporation employee stock purchase plan.

The attached proxy statement and prospectus contains information relating to the two proposals.

Your board of directors has fixed the close of business on June 4, 1999 as the record date to determine the stockholders entitled to notice of and to vote at the special meeting. Only the stockholders of record at the close of business on that date will be entitled to vote at the meeting. A list of those stockholders will be available for inspection before or at the meeting. The transfer books of Quantum will not be closed.

By order of the board of directors,

Richard L. Clemmer

Executive Vice President, Finance, Chief Financial Officer and Secretary

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#### QUESTIONS AND ANSWERS ABOUT THE TRACKING STOCK PROPOSAL

If you have any questions relating to the matters discussed in this document, please call our Investor Relations Department at (408) 324-7044.

Q. Why am I receiving this proxy statement?

A. We are distributing this proxy statement and prospectus to you in connection with a proposal to adopt an amended and restated certificate of incorporation which would replace our existing common stock with two new classes of tracking stock. We are also distributing this proxy statement in connection with proposals to adopt amendments to our employee stock purchase plan.

Q. What would be the new tracking stocks?

A. The new tracking stocks would be the DLT & Storage Systems group stock and the Hard Disk Drive group stock. We refer to the DLT & Storage Systems group stock and the Hard Disk Drive group stock together as the "tracking stocks."

- . The DLT & Storage Systems group stock is intended to reflect the separate performance of our DLTtape and storage systems business. We refer to this business as the DLT & Storage Systems group.

- . The Hard Disk Drive group stock is intended to reflect the separate performance of our hard disk drive business. We refer to this business as the Hard Disk Drive group.

Investors commonly refer to this type of stock as tracking stock, targeted stock or letter stock, because the stock is intended to track or target the separate performance of a group of assets or a division of a company.

Q. How will I benefit from the tracking stock proposal?

A. Following the issuance of the DLT & Storage Systems group stock and the Hard Disk Drive group stock, you will be able to invest in either or both tracking stocks depending upon your investment objectives.

Q. What kind of financial information will I receive in the future?

A. You will continue to receive consolidated financial information for Quantum as a whole. In addition, you will receive separate operating results and other business and financial information for both the DLT & Storage Systems group and the Hard Disk Drive group.

Q. What will my existing shares represent if the tracking stock proposal is implemented?

A. Each share of your existing common stock will be changed into one share of DLT & Storage Systems group stock and 0.5 of a share of Hard Disk Drive group stock. For example, if you own 101 shares of existing common stock, you would receive 101 shares of DLT & Storage Systems group stock, 50 shares of Hard Disk Drive group stock and cash in lieu of one-half share of Hard Disk Drive group stock. The cash to be received would be equal to one-half of the closing price of the Hard Disk Drive group stock on the date the tracking stock proposal is implemented.

Q. Will the tracking stock proposal result in a change of control of Quantum?

A. No.

Q. Will the tracking stock proposal result in a spin-off?

A. No. This proposal will not result in a distribution or spin-off of our assets or liabilities and will not affect ownership of our assets or responsibility for our liabilities. Holders of DLT & Storage Systems group stock and Hard Disk Drive group stock will continue to be stockholders of a single company and subject to all risks associated with an investment in Quantum and all of our businesses, assets and liabilities. The tracking stocks do not represent ownership interests in either group and do not entitle their holders to any special rights to receive specific assets of either group.

Q. If I hold my shares through a broker, how do I vote on the tracking stock proposal?

A. You should contact your broker directly to determine the procedures through which you can vote on the tracking stock proposal.

Q. What are the consequences of my not voting on the tracking stock proposal?

A. Your failure to vote on the tracking stock proposal will have the same effect as a vote against the proposal.

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#### PROXY STATEMENT SUMMARY

This summary, together with the "Questions and Answers About the Tracking Stock Proposal" on the preceding page, highlights important selected information from this document. To understand the tracking stock proposal fully and for a more complete description of the legal terms of the tracking stock proposal, you should read carefully this entire document and the documents we have referred you to. We have included page references parenthetically to direct you to a more complete description of the topics presented in this summary.

Quantum

Our businesses are the DLT & Storage Systems group and the Hard Disk Drive group. Our principal executive offices are located at 500 McCarthy Boulevard, Milpitas, California 95035, and our telephone number is (408) 894-4000.

The DLT & Storage Systems Group (page 51)

The DLT & Storage Systems group designs, develops, manufactures, licenses and markets DLTtape drives, DLTtape media cartridges and tape libraries which are used to back-up large amounts of data stored on network servers. Digital Linear Tape, or DLTtape, is the DLT & Storage Systems group's half-inch tape technology that is the de facto industry standard for data back-up in the mid-range network server market, which includes network servers priced between \$10,000 and \$500,000. The DLT & Storage Systems group's DLTtape media cartridges are manufactured primarily by licensed third party manufacturers.

Tape back-up is used as an efficient and cost-effective means to make back-up and archive copies of large amounts of data often stored on network servers which are high speed computers that allow many computer users to access shared computer programs and data. Tape drives are devices that read and write data

typically stored on a network server's hard disk drive storage system to magnetic tape that is stored on a reel housed within the media cartridges. Tape drives provide relatively slower data access times when compared to hard disk drives but are able to cost-effectively store larger quantities of data that must be protected but infrequently accessed. Each tape drive reads and writes data on multiple media cartridges to store data in the same way a video cassette recorder is able to replay and record TV programs on multiple video cassette tapes. Tape libraries are systems that allow for the automatic functioning of multiple tape drives and media cartridges within a single storage system.

According to International Data Corporation, the DLT & Storage Systems group was the worldwide revenue leader for all categories of tape drives used for data storage and back-up in calendar year 1997 and is projected to have been the leader in calendar year 1998. According to Dataquest, DLTtape drives are projected to have accounted for 24% of total tape drive market revenue in calendar year 1998, up from 2% in calendar year 1994. The DLT & Storage Systems group is also a leader in the tape library market for mid-range network servers.

The DLT & Storage Systems group's acquisition of ATL Products, Inc. in October 1998 allowed the DLT & Storage Systems group to become the first provider of tape libraries that serve the entire tape library data storage market from desktop computers to enterprise class computers. The DLT & Storage Systems group also plans to enter the rapidly emerging market for network attached storage appliances by offering products designed to meet the requirements of workgroup computing environments where multiple computer users access shared data files over a local area network. Network attached storage appliances are storage devices which separately perform the storage function for networks of computers.

The Hard Disk Drive Group (page 69)

The Hard Disk Drive group designs, develops and markets a diversified product portfolio of hard disk drives featuring leading-edge technology. A hard disk drive is a storage device found in most computers that stores data on multiple rotating magnetic disks. Hard disk drives provide fast access to data that must be readily available to computer users. The Hard Disk Drive group's hard disk drives are designed for the desktop market and the high-end hard disk drive market which requires faster and higher capacity disk drives--as well as the emerging market for hard disk drives specially designed for

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consumer electronics applications such as new TV recording devices. The Hard Disk Drive group has been the leading volume supplier of hard disk drives for the desktop market for each of the past six years.

The Hard Disk Drive group designs desktop hard disk drives to meet the storage requirements of entry-level to high-performance desktop PCs in home and business environments. The Hard Disk Drive group 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.

#### The Special Meeting

Proposals to be Considered at the Meeting

You are asked to consider and vote upon the following proposals at the special meeting:

- . Proposal 1: The tracking stock proposal (page 21).
- . Proposal 2: Adoption of amendments to the Quantum Corporation Employee Stock Purchase Plan (page 85).

If either Proposal 1 or Proposal 2 is approved, we will implement it whether or not the other proposal is approved.

Vote Required to Approve the Proposals (page 21)

The following stockholder votes are required for approval of the proposals:

- . Proposal 1: The favorable vote of the holders of a majority of the

outstanding shares of our existing common stock.

- . Proposal 2: The favorable vote of the holders of a majority of the shares of our existing common stock represented in person or by proxy at the special meeting.

Our directors and executive officers beneficially owned approximately 1.5% of the outstanding shares of our existing common stock on June 4, 1999.

#### Comparison of Existing Common Stock with DLT & Storage Systems group stock and Hard Disk Drive group stock (page 29)

We have described below a comparison of our existing common stock and the DLT & Storage Systems group stock and Hard Disk Drive group stock. You should keep in mind that you will remain stockholders of a single company. The DLT & Storage Systems group and the Hard Disk Drive group will not be separate legal entities. As a result, you will continue to be subject to all of the risks associated with an investment in Quantum and all of our businesses, assets and liabilities. 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.

#### Dividends

Existing Common Stock. Historically, we have not paid dividends on our existing common stock. Dividends are at the discretion of our board of directors.

Tracking Stocks. We presently do not anticipate paying dividends on either tracking stock. Dividends will be at the discretion of our board of directors.

#### Voting Rights

Existing Common Stock. Holders of existing common stock have one vote per share.

Tracking Stocks. Holders of DLT & Storage Systems group stock will have one vote per share. Holders of Hard Disk Drive group stock will have more than, less than or exactly one vote per share depending on the relative market values of the two tracking stocks.

The holders of the two tracking stocks will vote together as a single class except for the limited class

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voting rights provided under Delaware law, by Nasdaq rules or as determined by our board of directors.

#### Rights on Sale of All or Substantially All Assets of a Group

Existing Common Stock. Holders of existing common stock have no special rights triggered by a sale of all or substantially all of the assets of a group.

Tracking Stocks. If we sell all or substantially all of the assets attributed to a group, we must either:

- . distribute an amount equal to the net proceeds of the sale, or
- . convert each share of that group's tracking stock into a number of shares of the other group's tracking stock at a 10% premium for the first five years following the implementation of the tracking stock proposal and without any premium after that five year period.

We will not be required to effect a distribution or conversion if we receive in the sale primarily equity securities of the acquiror or its parent, and the acquiror or its parent is or will be primarily engaged in one or more businesses similar or complementary to the group whose assets are sold.

#### Conversion at Option of Quantum

Existing Common Stock. We do not have the option of converting shares of our existing common stock into any other security of Quantum.

Tracking Stocks. We may convert either tracking stock into the other tracking stock at our option:

- . at a 10% premium for the first five years following the implementation of the tracking stock proposal; and
- . without any premium either after that five year period or if, at any time, there are adverse U.S. federal income tax law developments.

#### Redemption in Exchange for Stock of Subsidiary

Existing Common Stock. We do not have the option of redeeming shares of our existing common stock.

Tracking Stocks. Although we currently have no intention to do so, our board of directors may in the future decide to spin-off one of the groups from Quantum. In order to effect a spin-off, our board of directors has the power to redeem the outstanding shares of that group's tracking stock in exchange for shares of one or more of our wholly-owned subsidiaries then owning all of the assets and liabilities of that group.

#### Liquidation

Existing Common Stock. Holders of existing common stock share assets remaining for distribution to holders of common stock in equal amounts per share of existing common stock.

Tracking Stocks. Holders of DLT & Storage Systems group stock and Hard Disk Drive group stock will share assets remaining for distribution to holders of common stock on a per share basis in proportion to the liquidation units per share of the tracking stocks. Each share of DLT & Storage Systems group stock will have one liquidation unit. Each share of Hard Disk Drive group stock will have a number of liquidation units based on the relative market values of the two tracking stocks. We will fix the number of liquidation units per share of Hard Disk Drive group stock approximately two months after the implementation of the tracking stock proposal, and we will not change that number without the approval of the holders of the tracking stock adversely affected. For example, if the average market value on the date of determination was \$20 for the Hard Disk Drive group stock and \$40 for the DLT & Storage Systems group stock, each share of Hard Disk Drive group stock would have 0.5 liquidation units. Assuming 160 million shares of DLT & Storage Systems group stock and 80 million shares of Hard Disk Drive group stock were outstanding on the date of determination, the holders of DLT & Storage Systems group stock would be entitled to 80% of the assets remaining for distribution to common stockholders and the holders of Hard Disk Drive group stock would be entitled to 20% of those assets.

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#### Risk Factors (page 10)

When evaluating the tracking stock proposal, you should be aware that there are many risks, including those described under "Risk Factors."

#### Management and Allocation Policies (page 24)

We have established policies designed to accomplish the fundamental objective of the tracking stock proposal, which is to highlight the separate performance of each of the DLT & Storage Systems group and the Hard Disk Drive group and to allow each group to focus on its own business strategy and financial model. These policies establish guidelines to help us allocate debt, corporate overhead, interest, taxes and other shared activities between the two groups on an objective basis and to ensure that transactions between the DLT & Storage Systems group and the Hard Disk Drive group are made on terms that approximate those that could be obtained from unaffiliated third parties.

Our inter-group policies include:

- . the centralized management of most financial activities;
- . the allocation of indebtedness and preferred stock between groups or entirely to one group;
- . the accounting for transfers of cash or other property from one group to the other group;
- . access to our technology and know-how, other than products and services, by the groups;
- . the transfer of assets between groups at fair value, including sales of products and services between groups on terms that would be available from unaffiliated third parties in commercial transactions;
- . the allocation of corporate opportunities in the best interests of Quantum; and
- . the requirement that groups not engage in each other's principal businesses, except for joint transactions with each other and with third parties, but permitting indirect competition in certain situations.

Our board of directors may modify or rescind these policies, or may adopt additional policies, in its sole discretion without stockholder approval. However, our board of directors has no present intention to do so.

#### United States Federal Income Tax Considerations (page 41)



We have been advised by Ernst & Young LLP that no gain or loss will be recognized by you for federal income tax purposes as a result of the tracking stock proposal. However, the Internal Revenue Service could disagree. There are no court decisions or other authorities bearing directly on transactions similar to the tracking stock proposal. In addition, the Internal Revenue Service has announced that it will not issue rulings on the characterization of stock with characteristics similar to the DLT & Storage Systems group stock and the Hard Disk Drive group stock. Therefore, the tax treatment of the tracking stock proposal is subject to some uncertainty.

#### Clinton Administration Proposal

A recent proposal by the Clinton Administration would impose a corporate level tax on the issuance of stock similar to the DLT & Storage Systems group stock or the Hard Disk Drive group stock. If this proposal is enacted, we could be subject to tax on an issuance of DLT & Storage Systems group stock or Hard Disk Drive group stock after the date of enactment. If our stockholders approve the tracking stock proposal, our board of directors currently intends to implement the proposal, subject to further legislative developments relating to the Clinton Administration tax proposal.

#### No Dissenters' Rights

You will not have dissenters' or appraisal rights under Delaware law if the tracking stock proposal is implemented.

#### No Regulatory Approvals

No state or federal regulatory approvals are required for the tracking stock proposal.

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#### Proposal 2--Adoption of Amendments to the Quantum Corporation Employee Stock Purchase Plan (page 85)

This proposal relates to amendments to the Quantum Corporation Employee Stock Purchase Plan which would:

- . increase the number of shares available for issuance under the purchase plan from 1,366,401 to 3,366,401; and
- . add an automatic share replenishment provision to the purchase plan which will increase the number of shares reserved under the purchase plan each year beginning on April 1, 2000 and ending on and including April 1, 2005 by the lesser of:
  - (1) 5,000,000 shares;
  - (2) 2% of the outstanding common stock; or
  - (3) an amount determined by our board of directors.

The purpose of the proposed amendments to the purchase plan is to increase the number of shares available for issuance under the purchase plan. Our board of directors believes that the proposed amendments are in the best interests of Quantum and our stockholders for the following reasons:

- . our board of directors believes the purchase plan serves to incentivize current employees and to align their interests with those of our stockholders;
- . our board of directors believes that the purchase plan is an important element of our strategy to attract and retain qualified employees in a competitive market;
- . the automatic replenishment provision will provide the purchase plan with additional shares and avoid any adverse accounting consequences from running out of shares during an offering period; and
- . without the proposed share increase, we will exhaust the shares available for issuance under the purchase plan this year.

If the tracking stock proposal is approved by our stockholders, additional features will be added to the purchase plan to reflect the special features of the tracking stock, including:

- . two pools of tracking stock reserved under the purchase plan, each with automatic replenishment features, if this amendment is approved;
- . a special mechanism for the purchase of shares from each pool so that each participant purchases a proportionate number of shares of the Hard Disk Drive group stock and the DLT & Storage Systems group stock; and

- . a modified change of control provision to reflect the tracking stock capital structure.

Under the purchase plan, our board of directors has the authority to adopt these amendments related to the tracking stock proposal without stockholder approval.

Recommendation of the Board of Directors

Your board of directors has carefully considered each of these proposals and believes that the approval of these proposals by the stockholders is advisable and in the best interests of our company and our stockholders. Your board of directors unanimously recommends that you approve each of these proposals.

QUANTUM CORPORATION SELECTED FINANCIAL INFORMATION

This summary of financial information of Quantum for fiscal years 1995 to 1999 should be read along with Quantum's audited consolidated financial statements contained in this proxy statement. The summarized financial information, other than the statement of operations data for fiscal years 1995 and 1996 and the balance sheet data at March 31, 1995, 1996 and 1997, was taken from these financial statements.

A number of items affect the comparability of this information:

- . Through May 1997, we consolidated the results of a recording heads business acquired in October 1994. Recording heads are disk drive components that read and write data to the magnetic disks in a hard disk drive. The recording heads business generated losses from operations of \$67 million, \$70 million, \$110 million and \$9 million in fiscal years 1995 through 1998. In May 1997, we sold a 51% interest in these operations to Matsushita-Kotobuki Electronics Industries, Ltd. Subsequent losses of this joint venture using the equity method of accounting were \$66 million in fiscal year 1998 and \$41 million in the first half of fiscal year 1999. In October 1998, we and Matsushita-Kotobuki agreed to dissolve the joint venture and, as a result, we recorded a \$101 million loss from the investment in the third quarter of fiscal year 1999.
- . The results of operations for fiscal year 1998 include the effect of a \$103 million special charge, primarily for inventory write-offs and losses on purchase commitments, related to our high-end hard disk drive products.

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	At or For the Year Ended March 31,						
	1995	1996	1997	1998	1999		
	(In thousands, except per share amounts)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Statement of Operations							
Data							
Revenue.....	\$3,367,984	\$4,422,726	\$5,319,457	\$5,805,235	\$4,902,056		
Gross profit.....	563,713	542,417	768,741	875,521	871,338		
Research and development expenses.....	169,282	239,116	291,332	321,741	353,223		
Sales and marketing, general and administrative expenses.....	160,424	207,558	235,878	258,395	284,876		
Restructuring and other charges.....	--	209,122	--	--	--		
Purchased in-process research and development expense....	72,945	--	--	--	89,000		
Income (loss) from operations.....	161,062	(113,379)	241,531	295,385	144,239		
Loss from investee.....	--	--	--	(66,060)	(142,050)		
Net income (loss).....	\$ 81,591	\$ (90,456)	\$ 148,515	\$ 170,801	\$ (29,535)		
Net income (loss) per share:							
Basic.....	\$ 0.90	\$ (0.87)	\$ 1.27	\$ 1.25	\$ (0.18)		
Diluted.....	\$ 0.76	\$ (0.87)	\$ 1.04	\$ 1.07	\$ (0.18)		
Balance Sheet Data							
Property, plant and equipment, net.....	\$ 280,099	\$ 364,111	\$ 407,206	\$ 285,159	\$ 271,928		
Total assets.....	1,481,028	1,975,355	2,158,263	2,438,411	2,483,596		
Total long-term debt, convertible debt and redeemable preferred stock.....	327,500	598,158	422,906	327,485	344,461		

</TABLE>

## THE DLT &amp; STORAGE SYSTEMS GROUP SELECTED FINANCIAL INFORMATION

This summary of financial information of the DLT & Storage Systems group for fiscal years 1995 to 1999 should be read along with the DLT & Storage Systems group's audited combined financial statements contained in this proxy statement. The summarized financial information, other than the statement of operations data for fiscal years 1995 and 1996 and the balance sheet data at March 31, 1995, 1996 and 1997, was taken from these financial statements.

A number of items affect the comparability of this information.

- . In October 1994, the DLT & Storage Systems group acquired the DLTtape drive and DLTtape media cartridge business from Digital Equipment Corporation, and formed what is now the DLT & Storage Systems group. The results of operations for this business are not included in the DLT & Storage Systems group's financial statements for periods prior to the acquisition.
- . Prior to fiscal year 1999, almost all DLTtape media cartridges were sold directly by the DLT & Storage Systems group. However, during fiscal year 1999, increased DLTtape media availability allowed licensed third party DLTtape media cartridge manufacturers to sell DLTtape media cartridges for which the DLT & Storage Systems group receives royalties. Royalty receipts by the DLT & Storage Systems group are reported as royalty revenue, which is significantly lower than the equivalent DLTtape media cartridge product revenue for the DLT & Storage Systems group. However, this royalty model has generated income from operations comparable to that generated by DLTtape media cartridge sales made directly by the DLT & Storage Systems group.
- . During fiscal year 1997 and the first quarter of fiscal year 1998, the DLT & Storage Systems group's supply of DLTtape drives was not sufficient to meet demand. As a result, in the first half of fiscal year 1998 a few large customers began building up larger inventories of DLTtape drives than were required for their normal operations. As the DLT & Storage Systems group's manufacturing capacity increased and the DLT & Storage Systems group was able to meet customer demand for DLTtape drives, these customers reduced their orders to lower inventories to more typical levels. These actions resulted in reduced sales of DLTtape drives beginning in the third quarter of fiscal year 1998 and more significantly in the fourth quarter of fiscal year 1998 and the first quarter of fiscal year 1999.

Historical per share information is omitted because the DLT & Storage Systems group stock was not part of the capital structure for the periods presented. However, pro forma net income per share, reflecting the DLT & Storage Systems group stock to be issued under the tracking stock proposal, is presented for fiscal year 1999.

<TABLE>

<CAPTION>

At or For the Year Ended March 31,

	1995	1996	1997	1998	1999
-----					
(In thousands, except per share amounts)					
-----					
Statement of Operations Data					
<S>	<C>	<C>	<C>	<C>	<C>
Product revenue.....	\$ 88,005	\$335,565	\$719,925	\$1,162,725	\$1,181,273
Royalty revenue.....	--	--	8,088	27,075	121,463
-----					
Total revenue.....	88,005	335,565	728,013	1,189,800	1,302,736
Gross profit.....	32,752	126,610	270,339	502,214	579,919
Research and development expenses.....	6,933	24,968	30,039	62,825	99,330
Sales and marketing, general and administrative expenses.....	4,814	19,201	35,240	69,607	114,895
Purchased in-process research and development expense.....	4,218	--	--	--	89,000
Income from operations.....	16,787	82,441	205,060	369,782	276,694
Net income (loss).....	\$ (93)	\$ 34,973	\$107,460	\$ 223,659	\$ 122,991
Pro forma net income per share:					
Basic.....					\$ 0.77
Diluted.....					\$ 0.73
-----					
Balance Sheet Data					
Property, plant and equipment, net.....	\$ 25,047	\$ 30,135	\$ 39,114	\$ 57,399	\$ 73,122
Total assets.....	118,476	238,337	437,925	792,070	1,013,643
Total long-term debt, convertible debt and redeemable preferred stock .....	242,482	310,150	281,937	218,324	229,641
-----					

## THE HARD DISK DRIVE GROUP SELECTED FINANCIAL INFORMATION

This summary of financial information of the Hard Disk Drive group for fiscal years 1995 to 1999 should be read along with the Hard Disk Drive group's audited combined financial statements contained in this proxy statement. The summarized financial information, other than the statement of operations data for fiscal years 1995 and 1996 and the balance sheet data at March 31, 1995, 1996 and 1997, was taken from these financial statements.

A number of items affect the comparability of this information:

- . Through May 1997, the Hard Disk Drive group combined the results of a recording heads business acquired from Digital Equipment in October 1994. These operations generated operating losses of \$67 million, \$70 million, \$110 million and \$9 million in fiscal years 1995 through 1998. In May 1997, Quantum sold a 51% interest in these operations to Matsushita-Kotobuki. Subsequent losses of this joint venture using the equity method of accounting were \$66 million in fiscal year 1998 and \$41 million in the first half of fiscal year 1999. In October 1998, Quantum and Matsushita-Kotobuki agreed to dissolve the joint venture, and, as a result, the Hard Disk Drive group recorded an additional \$101 million loss from the investment in the third quarter of fiscal year 1999.
- . The results of operations for fiscal year 1998 include the effect of a \$103 million special charge, primarily for inventory write-offs and losses on purchase commitments, related to the Hard Disk Drive group's high-end hard disk drive products.

The Hard Disk Drive group currently has two primary product lines; desktop hard disk drives and high-end hard disk drives. The Hard Disk Drive group has two separate business units that support these two product lines. The Hard Disk Drive group's recording heads operation was transferred to Matsushita-Kotobuki and used in the manufacture of hard disk drives for the Hard Disk Drive group. The value at which the recording heads were transferred was recorded as an offset to cost of sales.

Historical per share information is omitted because the Hard Disk Drive group stock was not part of the capital structure for the periods presented. However, pro forma net loss per share, reflecting the Hard Disk Drive group stock to be issued under the tracking stock proposal, is presented for fiscal year 1999.

<TABLE>  
<CAPTION>

Statement of Operations Data	At or For the Year Ended March 31,				
	1995	1996	1997	1998	1999
Business unit:	(In thousands, except per share amounts)				
<S>	<C>	<C>	<C>	<C>	<C>
Desktop					
Revenue.....	\$2,737,585	\$3,349,735	\$4,004,828	\$3,981,614	\$3,079,437
Gross profit.....	499,133	511,390	565,681	453,278	232,036
Unit operating profit (loss).....	266,936	290,767	300,287	184,331	(49,132)
High-end					
Revenue.....	\$ 542,394	\$ 737,426	\$ 586,616	\$ 633,821	\$ 519,883
Gross profit (loss)...	47,468	(73,974)	(10,721)	(80,790)	59,383
Unit operating loss...	(56,106)	(416,620)	(154,184)	(250,136)	(83,323)
Recording heads					
Unit operating loss...	(66,555)	(69,967)	(109,632)	(8,592)	--
Loss from investee....	--	--	--	(66,060)	(142,050)
Combined group					
Revenue.....	\$3,279,979	\$4,087,161	\$4,591,444	\$4,615,435	\$3,599,320
Income (loss) from operations.....	144,275	(195,820)	36,471	(74,397)	(132,455)
Net income (loss).....	\$ 81,684	\$ (125,429)	\$ 41,055	\$ (52,858)	\$ (152,526)
Pro forma net loss per share					
Basic.....					\$ (1.90)
Diluted.....					\$ (1.90)
Balance Sheet Data					
Property, plant and equipment, net.....	\$ 255,051	\$ 333,976	\$ 368,092	\$ 227,760	\$ 198,806
Total assets.....	1,540,404	1,740,949	1,721,402	1,646,340	1,469,953
Total long-term debt, convertible debt and redeemable preferred stock.....	250,833	288,008	140,969	109,161	114,820

</TABLE>

## RISK FACTORS

The risk factors included through page 15 discuss risks arising from a capital structure with two separate classes of tracking stock. Beginning on page 15, we discuss risks which are specific to a particular group.

You will remain stockholders of one company and, therefore, financial effects on one group could adversely affect the other

Holders of DLT & Storage Systems group stock and Hard Disk Drive group stock will be stockholders of a single company. The DLT & Storage Systems group and the Hard Disk Drive group will not be 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 our businesses, assets and liabilities. The issuance of the DLT & Storage Systems group stock and the Hard Disk Drive group stock and the allocation of assets and liabilities and stockholders' equity between the DLT & Storage Systems group and the Hard Disk Drive group will not result in a distribution or spin-off to stockholders of any of our assets or liabilities and will 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 have attributed 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.

Holders of tracking stock will have stockholder rights specific to their group only in limited circumstances

Holders of DLT & Storage Systems group stock or Hard Disk Drive group stock generally will not have stockholder rights specific to their corresponding groups. Instead, holders will have customary stockholder rights relating to Quantum as a whole. For example, holders of DLT & Storage Systems group stock and Hard Disk Drive group stock would vote as a single class to approve a disposition of all or substantially all of the assets of Quantum. Holders of either tracking stock will only have the following rights with respect to their particular group:

- . an opportunity to receive dividends declared by our board of directors based on the available dividend amount for their group;
- . requirements for a mandatory dividend, redemption or conversion upon the disposition of all or substantially all of the assets of their group; and
- . a right to vote on matters as a separate voting class in the circumstances described under "Proposal 1--The Tracking Stock Proposal--Description of DLT & Storage Systems group stock and Hard Disk Drive group stock--Voting Rights."

Limits exist on voting power of tracking stock

In circumstances where the two classes of tracking stock vote together as a single class, Hard Disk Drive group stock may not initially have any influence on the outcome of stockholder voting

We expect that initially the DLT & Storage Systems group stock will have a substantial majority of the combined voting power of the tracking stocks. Except in limited circumstances requiring separate class voting, either class of tracking stock that is entitled to more than the number of votes required to approve any stockholder action could control the outcome of a vote--even if the matter involves a divergence or conflict of the interests of the holders of the DLT & Storage Systems group stock and the Hard Disk Drive group stock. These matters may include mergers and other extraordinary transactions.

In circumstances where a separate class vote is required, the class of tracking stock with less than majority voting power can block action

If Delaware law, Nasdaq rules or our board of directors requires a separate vote on a matter by the holders of either the DLT & Storage Systems group stock or the Hard Disk Drive group stock, those holders could prevent approval of the

matter--even if the holders of a majority of the total number of votes cast or entitled to be cast, voting together as a class, were to vote in favor of it.

In circumstances where the two classes of tracking stock vote together as a single class, holders of only one class of tracking stock can not ensure that their voting power will be sufficient to protect their interests

Since the relative voting power per share of DLT & Storage Systems group stock and Hard Disk Drive group stock will fluctuate based on the relative market values of the two classes of tracking stock, the relative voting power of a class of tracking stock could decrease. As a result, holders of shares of only one of the two classes of tracking stock cannot ensure that their voting power will be sufficient to protect their interests where the holders of the two tracking stocks vote together as a single class.

Stockholders may not have any remedies for breach of fiduciary duties if any action by directors and officers has a disadvantageous effect on either class of tracking stock

Stockholders may not have any remedies if any action or decision of our directors or officers has a disadvantageous effect on the DLT & Storage Systems group stock or the Hard Disk Drive group stock compared to the other class of tracking stock.

Recent cases in Delaware involving tracking stocks have established that decisions by directors or officers involving differing treatment of tracking stocks are judged under the business judgment rule unless self-interest is shown. The business judgment rule provides that, absent an abuse of discretion, a director or officer will be deemed to have satisfied his or her fiduciary duties to our company and our stockholders if that person is disinterested and acts in accordance with his or her good faith business judgment in the interests of our company and our stockholders as a whole. The business judgment rule could shield a decision by our directors or officers that adversely affects one class of stock but was believed to benefit our company and stockholders as a whole. Accordingly, because of the business judgment rule, holders of a tracking stock who are disadvantaged by an action of our directors or officers may not be able to successfully make claims alleging breach of fiduciary duty.

Stock ownership could cause directors and officers to favor one group over the other

Following the implementation of the tracking stock proposal, we expect that our directors and officers will have stock and option holdings in both the DLT & Storage Systems group stock and the Hard Disk Drive group stock. Anticipated differences in the trading values between the DLT & Storage Systems group stock and the Hard Disk Drive group stock will cause the relative values of their interests in the two tracking stocks to vary significantly. Accordingly, it is possible that they could have an incentive to favor one group over the other because of the relative values of their interests.

Numerous potential conflicts of interest exist between the classes of tracking stock which may be difficult to resolve by our board or which may be resolved adversely to one of the classes

Our board of directors may pay more or less dividends on one group's tracking stock than if that group was a separate company

Subject to the limitations referred to below, our board of directors has the authority to declare and pay dividends on the DLT & Storage Systems group stock and the Hard Disk Drive group stock in any amount. Our board of directors could, in its sole discretion, declare and pay dividends exclusively on the DLT & Storage Systems group stock, exclusively on the Hard Disk Drive group stock, or on both, in equal or unequal amounts. The performance of one group may cause our board of directors to pay more or less dividends on the tracking stock relating to the other group than if that other group was a stand-alone corporation. Our board of directors will not be required to consider the amount of dividends previously declared on each class, the respective voting or liquidation rights of each class or any other factor. In addition, Delaware law and the restated certificate of incorporation

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impose limitations on the amount of dividends which may be paid on each class of tracking stock. For additional information on these limitations, see "Proposal 1--The Tracking Stock Proposal--Dividend Policy" and "--Description of DLT & Storage Systems group stock and Hard Disk Drive group stock--Dividends."

Proceeds of mergers or consolidations may be allocated unfavorably

Because the restated certificate of incorporation does not specify how consideration to be received in a merger or consolidation involving Quantum will be allocated between the holders of DLT & Storage Systems group stock and

the holders of Hard Disk Drive group stock, our board of directors will make that determination. That determination could favor one group's stockholders at the expense of the other group's stockholders.

Holders of either class of tracking stock may be adversely affected by a conversion of one group's tracking stock

Our board of directors could, in its sole discretion and without stockholder approval, determine to convert shares of DLT & Storage Systems group stock into shares of Hard Disk Drive group stock, or vice versa at any time including when either or both classes of tracking stock may be considered to be overvalued or undervalued. Any conversion at a premium would dilute the interests in Quantum of the holders of the class of tracking stock being issued in the conversion. Any conversion would also preclude holders of both classes of tracking stock from retaining their investment in a security that is intended to reflect separately the performance of the relevant group. It would also give holders of shares of the class of tracking stock converted a greater or lesser premium than any premium that might be paid by a third-party buyer of all or substantially all of the assets of the group whose stock is converted. For additional information on the terms and conditions of a conversion of one tracking stock into the other, see "Proposal 1--The Tracking Stock Proposal--Description of DLT & Storage Systems Group Stock and Hard Disk Drive Group Stock--Conversion and Redemption."

Allocation of corporate opportunities could favor one group over the other

Our board of directors may be required to allocate corporate opportunities between the groups. In some cases, our directors could determine that a corporate opportunity, such as a business that we are acquiring, should be shared by the groups. These decisions could favor one group at the expense of the other. For additional information on the factors affecting these decisions, see "Proposal 1--The Tracking Stock Proposal--Management and Allocation Policies--Review of Corporate Opportunities."

Groups may compete with each other to the detriment of their businesses

The creation of two separate classes of tracking stock will not prevent the groups from competing with each other. Any competition between the groups could be detrimental to the businesses of either or both of the groups. Our Chief Executive Officer or our board of directors will permit indirect competition between the groups based on his or its good faith business judgment that competition is in the best interests of our company and all of our stockholders as a whole. In addition, the groups may compete in a business that is not a principal business of the other group. For additional information on our policy regarding competition, see "Proposal 1--The Tracking Stock Proposal--Management and Allocation Policies--Competition Between Groups."

Our board of directors may change our management and allocation policies without stockholder approval to the detriment of one group

Our board of directors may modify or rescind our policies with respect to the allocation of corporate overhead, taxes, debt, interest and other matters, or may adopt additional policies in its sole discretion without stockholder approval. A decision to modify or rescind these policies, or adopt additional policies, could have different effects on holders of DLT & Storage Systems group stock and holders of Hard Disk Drive group stock or could adversely affect one class of stockholders compared to the other class. For example, our board of directors could modify the policy regarding competition between the groups to prohibit indirect

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competition altogether. That prohibition could adversely affect the Hard Disk Drive group and beneficially affect the DLT & Storage Systems group by preventing the Hard Disk Drive group from selling its products to third party competitors of the DLT & Storage Systems group. Conversely, that prohibition could adversely affect the DLT & Storage Systems group and beneficially affect the Hard Disk Drive group by preventing the DLT & Storage Systems group from buying products from third party competitors of the Hard Disk Drive group.

Either group may finance the other group on terms unfavorable to one of the groups

We anticipate that we will transfer cash and other property between groups to finance their business activities. Our board of directors has not adopted specific criteria to determine whether a particular transfer of cash or property from one group to the other will be accounted for as a reallocation of "pooled" debt or preferred stock, a short-term or long-term loan or a sale of assets. These determinations, including the terms of any transactions accounted for as a loan, could be unfavorable to either group. For example, we cannot assure you that any terms that we fix for debt will approximate those that could have been obtained by the borrowing group if it were a stand-alone corporation. For additional information on the financing of the groups' operations, see "Proposal 1--The Tracking Stock Proposal--Management and

Allocation Policies--Financing Activities."

Holders of one group's tracking stock may receive less consideration upon a sale of assets than if the group were a separate company

The restated certificate of incorporation provides that if we dispose of all or substantially all of the assets of either group, we must, subject to certain exceptions,

- . distribute to holders of that group's tracking stock an amount equal to the net proceeds of the disposition; or
- . convert the outstanding shares of that group's tracking stock into shares of the other group's tracking stock at a 10% premium for the first five years following the implementation of the tracking stock proposal and without any premium after that five-year period.

If the group whose assets are disposed were a separate, independent company and its shares were acquired by another person, certain costs of that disposition, including corporate level taxes, might not be payable in connection with that acquisition. As a result, stockholders of the separate, independent company might receive a greater amount than the net proceeds that would be received by holders of the group's tracking stock. In addition, we can not assure you that the net proceeds per share of that group's tracking stock will be equal to or more than the market value per share of the tracking stock prior to or after announcement of a disposition. For additional information on the terms and conditions of a conversion upon a disposition assets of a group, see "Proposal 1--The Tracking Stock Proposal--Description of DLT & Storage Systems Group Stock and Hard Disk Drive Group Stock--Conversion and Redemption--Mandatory Dividend, Redemption or Conversion of Tracking Stock If Disposition of Group Assets Occurs."

It might be possible for an acquiror to obtain control of Quantum by purchasing shares of only one of the tracking stocks

A potential acquiror could acquire control of Quantum by acquiring shares of tracking stock having a majority of the voting power of all shares of tracking stock outstanding. Such a majority could be obtained by acquiring a sufficient number of shares of both classes of tracking stock or, if one class of tracking stock has a majority of the voting power, only shares of that class. We expect that initially the DLT & Storage Systems group stock will have a substantial majority of the voting power. As a result, initially, it might be possible for an acquiror to obtain control of Quantum by purchasing only shares of DLT & Storage Systems group stock.

Decisions by directors and officers that affect market values could adversely affect voting and conversion rights

The relative voting power per share of each class of tracking stock and the number of shares of one class of tracking stock issuable upon the conversion of the other class of tracking stock will vary depending upon the relative market values of

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the DLT & Storage Systems group stock and the Hard Disk Drive group stock. The market value of either or both classes of tracking stock could be adversely affected by market reaction to decisions by our board of directors or our management that investors perceive to affect differently one class of tracking stock compared to the other. These decisions could involve changes to our management and allocation policies, transfers of assets between groups, allocations of corporate opportunities and financing resources between groups and changes in dividend policies.

Market value of the stock received under the tracking stock proposal may be less than the market value of existing common stock

We can not assure you that the combined market values of a share of DLT & Storage Systems group stock and of 0.5 of a share of Hard Disk Drive group stock received under the tracking stock proposal will equal or exceed the market value of a share of our existing common stock.

Market price of either class of tracking stock may be affected by the number of market makers

The market price of the DLT & Storage Systems group stock or the Hard Disk Drive group stock may be affected by the number of market makers supporting the DLT & Storage Systems group stock or the Hard Disk Drive group stock.

Market price of tracking stock not included in stock market indices could decline

We can not assure you that the DLT & Storage Systems group stock or the Hard Disk Drive group stock will be included in any particular index. As a result, holders of our existing common stock that are required to own only stocks



included in a particular index would be required to sell immediately any class of tracking stock not included in that index. Not being included in a particular index could adversely affect the market price of that class of tracking stock.

Provisions governing tracking stock could discourage a change of control and the payment of a premium for shares

Our restated stockholder rights plan could prevent stockholders from profiting from an increase in the market value of their shares as a result of a change in control of our company by delaying or preventing a change in control. The existence of two classes of tracking stock could also present complexities and could pose obstacles, financial and otherwise, to an acquiring person. In addition, provisions of Delaware law, the restated certificate of incorporation and the by-laws may also deter hostile takeover attempts. For additional information on these provisions, see "Proposal 1--The Tracking Stock Proposal--Restated Rights Agreement" and "--Certain Anti-Takeover Provisions of Delaware Law and the Restated Certificate of Incorporation, the By-laws and the Restated Rights Agreement."

IRS could assert that the receipt of tracking stock is taxable

We have been advised by Ernst & Young LLP that no income, gain or loss will be recognized by you for federal income tax purposes as a result of the tracking stock proposal, except for any cash received instead of fractional shares of Hard Disk Drive group stock. However, the Internal Revenue Service could disagree. There are no court decisions or other authorities bearing directly on the effect of the features of the DLT & Storage Systems group stock and the Hard Disk Drive group stock. In addition, the Internal Revenue Service has announced that it will not issue rulings on the characterization of stock with characteristics similar to the DLT & Storage Systems group stock and the Hard Disk Drive group stock. It is possible, therefore, that the Internal Revenue Service could successfully assert that the receipt of the DLT & Storage Systems group stock or the Hard Disk Drive group stock as well as the subsequent conversion of one tracking stock into the other could be taxable to you and to us as ordinary income.

Recent Clinton Administration proposal could result in taxation on issuances of tracking stock

A recent proposal by the Clinton Administration would impose a corporate level tax on the issuance of stock similar to the DLT & Storage Systems group stock or the Hard Disk Drive group stock. If this proposal is enacted, we could be subject to tax on an issuance of DLT & Storage Systems group stock or Hard Disk Drive group stock after the date of enactment. If our stockholders approve the tracking stock proposal, our board of

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directors currently intends to implement the proposal, subject to further legislative developments relating to the Clinton Administration tax proposal.

Under the restated certificate of incorporation, we may convert the DLT & Storage Systems group stock or the Hard Disk Drive group stock into shares of the other class without any premium if there are adverse U.S. federal income tax law developments. The proposal of the Clinton Administration would be such an adverse development if it is implemented or proposed to be implemented by an applicable federal legislative committee or its chair. For additional information on the events that could cause us to effect a conversion, see "Proposal 1--The Tracking Stock Proposal--Description of DLT & Storage Systems Group Stock and Hard Disk Drive Group Stock--Conversion and Redemption--Conversion of Common Stock at Option of Quantum at any Time" and "--United States Federal Income Tax Consequences."

Risk Factors Relating to the DLT & Storage Systems Group

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

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

The DLT & Storage Systems group's operating results depend on new product introductions which may not be successful

To compete effectively, the DLT & Storage Systems group must improve existing products and introduce new products, such as products based on Super DLTtape technology and network attached storage appliances. The DLT & Storage Systems group cannot assure you that:

- . it will introduce any of these new products in the time frame the DLT & Storage Systems group 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 the DLT & Storage Systems group's customers by meeting customer performance and quality specifications. A successful and timely customer qualification must occur before customers will place large product orders; or
- . it will achieve high volume production of these new products in a timely manner, if at all.

This risk is magnified because the DLT & Storage Systems group expects technological changes, customer requirements and increasing competition could result in declining sales and gross margins on its existing products.

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

The DLT & Storage Systems group 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. The DLT & Storage Systems group currently purchases the DLTtape media cartridges it sells primarily from Fuji Photo Film Co., Ltd. and Hitachi Maxell, Ltd. The DLT & Storage Systems group cannot assure you that Fuji or Maxell will continue to supply adequate high quality media

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cartridges in the future. If component shortages occur, or if the DLT & Storage Systems group experiences quality problems with component suppliers, shipments of products could be significantly delayed and/or costs significantly increased. In addition, the DLT & Storage Systems

from, one or more key customers could materially adversely impact the DLT & Storage Systems group's operating results.

Unpredictable end-user demand may cause excess or insufficient inventories which could result in inventory write-downs or losses and an adverse impact on the DLT & Storage Systems group's customer relationships

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

The DLT & Storage Systems group does not control licensee pricing or licensee sales of DLTtape media cartridges and as a result the DLT & Storage Systems group's royalty revenue may decline

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

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

From time to time, third parties allege the DLT & Storage Systems group's infringement of and need for a license under their patented or other proprietary technology. Adverse resolution of any third party infringement claim could subject the group to a single source for many components and sub-assemblies, which magnifies the risk of future shortages.

The DLT & Storage Systems group's sole supplier of tape heads is located in China and political instability, trade restrictions or currency fluctuations in China could have an adverse impact on the DLT & Storage Systems group's operating results.

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

The DLT & Storage Systems group's quarterly operating results could fluctuate significantly and past quarterly operating results should not be used to predict future performance

The DLT & Storage Systems group's quarterly operating results have fluctuated significantly in the past and could fluctuate significantly in the future. Quarterly operating results could be adversely affected by:

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

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

The DLT & Storage Systems group's sales are concentrated with a few customers. Customers are not obligated to purchase any minimum product volume and the DLT & Storage Systems group's relationships with its customers are terminable at

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will. The loss of, or a significant change in demand DLT & Storage Systems group 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.

#### Risk Factors Relating to the Hard Disk Drive Group

The Hard Disk Drive group's operating results depend on new product introductions which may not be successful

To compete effectively, the Hard Disk Drive group must frequently introduce new hard disk drives. The Hard Disk Drive group 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 the Hard Disk Drive group's customers by meeting customer performance and quality specifications. A successful and timely customer qualification must occur before customers will place large product orders;
- . it will quickly achieve high volume production of new hard disk drives;  
or
- . its new products will achieve market acceptance.

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

The Hard Disk Drive group's inability to successfully incorporate giant magneto-resistive recording heads into its hard disk drives would have an adverse impact on product sales

In calendar year 1999, the Hard Disk Drive group expects increasing industry-wide competition for hard disk drives that incorporate next generation

recording head technology known as giant magneto-resistive recording heads. IBM has already commenced shipment of hard disk drives which incorporate giant magneto-resistive recording heads. The Hard Disk Drive group cannot assure you that it will be able to incorporate giant magneto-resistive recording heads into its hard disk drives in a timely manner. If the Hard Disk Drive group is successful in incorporating giant magneto-resistive recording heads into its hard disk drives, the Hard Disk Drive group cannot assure you that such drives will achieve market acceptance.

The Hard Disk Drive group's quarterly operating results could fluctuate significantly and past quarterly operating results should not be used to predict future performance

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

- . the ability of Matsushita-Kotobuki, the Hard Disk Drive group's exclusive manufacturer, to quickly achieve high volume production of the Hard Disk Drive group'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 the Hard Disk Drive group's products are typically shipped.

The Hard Disk Drive group's prices and margins are subject to declines due to unpredictable end-user demand and oversupply of hard disk drives

End-user demand for the computer systems which contain the Hard Disk Drive group's hard disk drives has historically been subject to rapid and unpredictable fluctuations. As a result, the hard disk

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drive market tends to experience periods of excess capacity which typically lead to intense price competition. If intense price competition occurs, the Hard Disk Drive group may be forced to lower prices sooner and more than expected and transition to new products sooner than expected. For example, in fiscal year 1999 and the second half of fiscal year 1998, as a result of excess inventory in the desktop hard disk drive market, aggressive pricing and corresponding margin reductions materially adversely impacted the Hard Disk Drive group's operating results. The Hard Disk Drive group experienced similar conditions in the high-end hard disk drive market during most of fiscal years 1998 and 1999.

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

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

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

In the desktop hard disk drive market, the Hard Disk Drive group's primary competitors are Fujitsu Limited, IBM, Maxtor Corporation, Samsung Electronics Co., Ltd, Seagate and Western Digital Corporation. The desktop hard disk drive market is characterized by more competitiveness than that seen in the computer industry in general. The Hard Disk Drive group'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 the Hard Disk Drive group's products.

In the high-end hard disk drive market, the Hard Disk Drive group's primary competitors are Fujitsu, Hitachi, IBM, Seagate and Western Digital. Currently, Seagate and IBM have the largest market share for high-end hard disk drives. Intense technology and pricing competition has led to losses on the Hard Disk Drive group's high-end hard disk drive products over the past eight quarters. The Hard Disk Drive group does not anticipate that its high-end hard disk drive products will return to profitability prior to shipping its next generation products.

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

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

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

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

- . Quality and Delivery. The Hard Disk Drive group relies on Matsushita-Kotobuki to quickly achieve volume production of new hard disk drives at a competitive cost, to meet the Hard Disk Drive group's stringent quality requirements and to respond quickly to changing product delivery schedules. Failure of Matsushita-Kotobuki to satisfy these requirements could have a material adverse impact on the Hard Disk Drive group's operating results.
- . Purchase Forecasts. Matsushita-Kotobuki's production schedule is based on the Hard Disk Drive group's forecasts of its

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purchase requirements, and the Hard Disk Drive group has limited rights to modify short-term purchase orders. The failure of the Hard Disk Drive group to accurately forecast its requirements or successfully adjust Matsushita-Kotobuki's production schedule could lead to inventory shortages or surpluses.

- . Pricing. The Hard Disk Drive group negotiates pricing arrangements with Matsushita-Kotobuki on a quarterly basis. Any failure to reach competitive pricing arrangements would have a material adverse impact on the Hard Disk Drive group's operating results.
- . Capital Commitment. The Hard Disk Drive group's future growth will require that Matsushita-Kotobuki continue to devote substantial financial resources to property, plant and equipment to support the manufacture of the Hard Disk Drive group's products.
- . Manufacturing Capacity. If Matsushita-Kotobuki is unable or unwilling to meet the Hard Disk Drive group's manufacturing requirements, an alternative manufacturing source may not be available in the near-term.

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

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

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

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

From time to time, third parties allege the Hard Disk Drive group's infringement of and need for a license under their patented or other proprietary technology. For example, in August 1998 Quantum was named as one

of several defendants in a patent infringement lawsuit. The plaintiff, Papst Licensing GmbH, owns at least 24 U.S. patents, which it asserts that the Hard Disk Drive group has infringed. Adverse resolution of the Papst litigation or any other third party infringement claim could subject the Hard Disk Drive group to substantial liabilities and require it to refrain from manufacturing and selling certain products. The Hard Disk Drive group 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.

The Hard Disk Drive group's foreign manufacturing costs could be adversely impacted by fluctuations in currency exchange rates

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

#### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Many of the statements included in this proxy statement, including those under the captions

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"Proxy Statement Summary--The Tracking Stock Proposal," "Risk Factors," "Quantum Corporation-- Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business of the DLT & Storage Systems Group," "The DLT & Storage Systems Group--Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business of the Hard Disk Drive group" and "The Hard Disk Drive Group--Management's Discussion and Analysis of Financial Condition and Results of Operations" are forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements can be identified by the use of forward-looking terminology, such as "may," "will," "project," "estimate," "anticipate," "believe," "expect," "continue," "potential," "opportunity," or the negative of those terms or other variations of those terms or comparable terminology or expressions.

All forward-looking statements are inherently uncertain as they are based on various expectations and assumptions concerning future events and they are subject to numerous known and unknown risks and uncertainties. The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements.

In order to comply with the terms of the safe harbor, we note that a variety of the risks and uncertainties that we discuss in detail under "Risk Factors" could cause our actual results and experience to differ materially from those expected. Readers are cautioned not to place undue reliance on forward-looking statements in this proxy statement, which speak only as of the date of this proxy statement.

#### WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC's web site at <http://www.sec.gov>. You may also read and copy any document we file at the SEC's public reference room at 450 Fifth Street, N.W. Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room.

The SEC allows us to "incorporate by reference" the information we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this proxy statement, and information that we file later with the SEC will automatically update and supersede this information.

We incorporate by reference our documents listed below and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until the special meeting:

. Annual Report on Form 10-K for the fiscal year ended March 31, 1999.

You should rely only on the information incorporated by reference or provided in this proxy statement. We have not authorized anyone else to provide you with different information. You should not assume that the information in this proxy statement is accurate as of any date other than the date on the front of this document.

#### Date, Time and Place of Meeting

We are providing this proxy statement to you in connection with the solicitation of proxies by our board of directors for use at the special meeting. The special meeting will be held on July 23, 1999, at 10:00 a.m., local time, at our headquarters at 500 McCarthy Boulevard, Milpitas, California. This proxy statement is first being mailed to our stockholders on or about June 18, 1999.

#### Record Date

We have established June 4, 1999 as the record date for the special meeting. Only holders of record of shares of our existing common stock at the close of business on this date will be eligible to vote at the special meeting.

#### Proposals to be Considered at the Meeting

You will be asked to consider and vote on the two proposals described in this proxy statement.

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If either proposal is approved, we will implement it whether or not the other proposal is approved.

We do not expect that any other matter will be brought before the special meeting. If, however, other matters are properly presented, the individuals named on your proxy card will vote in accordance with their judgment with respect to those matters.

#### Vote Required to Approve the Proposals

The tracking stock proposal will require the favorable vote of the holders of a majority of the outstanding shares of our existing common stock. As a result, abstentions and broker non-votes on the tracking stock proposal will have the same effect as negative votes. Broker non-votes occur when a broker returns a proxy but does not have authority to vote on a particular proposal.

The proposal to amend our employee stock purchase plan will be decided by the favorable vote of a majority of the outstanding shares of our existing common stock represented in person or by proxy at the special meeting. Under Delaware law, abstentions will have the same effect as negative votes on this proposal, while broker non-votes will not affect the outcome of this proposal.

Each outstanding share of existing common stock has one vote on each proposal. As of June 4, 1999, the most recent practicable date prior to the date of this proxy statement, we had issued and outstanding approximately 167,739,218 shares of existing common stock. The shares of existing common stock held in our treasury will not be entitled to vote or counted in determining the number of outstanding shares.

Our directors and executive officers beneficially owned approximately 1.5% of the outstanding shares of our existing common stock on June 4, 1999.

#### Quorum

In order to carry on the business of the special meeting, we must have a quorum. This means a majority of the votes eligible to be cast by holders of shares of our existing common stock outstanding on the record date must be represented in person or by proxy at the special meeting. Abstentions and broker non-votes will count for quorum purposes.

#### Procedure for Voting by Proxy

If you properly fill in your proxy card and send it to us in time to vote, your shares will be voted as you have directed. If you sign the proxy card but do not make specific choices, the individuals named on your proxy card will vote your shares in favor of approval and adoption of each proposal. If you mark "abstain" on your proxy card, your shares will be counted as present for purposes of determining the presence of a quorum. If necessary, unless you have indicated on your proxy card that you wish to vote against either or both the proposals, the individuals named on your proxy card may vote in favor of a proposal to adjourn the special meeting to a later date in order to solicit and obtain sufficient votes for either of the proposals.

A proxy card is enclosed for your use. To vote without attending the special meeting in person, you should complete, sign, date and return the proxy card in the accompanying envelope, which is postage-paid if mailed in the United States. In addition, you may vote by telephone or via the Internet by following the instructions on the enclosed proxy card.

If you have completed and returned a proxy card, you can still vote in person at the special meeting. You may revoke your proxy before it is voted by:

- . submitting a new proxy card with a later date;
- . voting in person at the special meeting; or
- . filing with our company or with our transfer agent a written revocation of proxy.

Attendance at the special meeting will not of itself constitute revocation of a proxy.

#### PROPOSAL 1--THE TRACKING STOCK PROPOSAL

##### Description of the Tracking Stock Proposal

You are being asked to consider and approve the tracking stock proposal. If approved, the tracking stock proposal will allow Quantum to adopt a restated certificate of incorporation containing amendments to its certificate of incorporation under which each outstanding share of our existing

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common stock will be changed into one share of DLT & Storage Systems group stock and 0.5 of a share of Hard Disk Drive group stock.

Quantum will not issue any fractional shares of Hard Disk Drive group stock. Any stockholder entitled to receive a fractional share of Hard Disk Drive group stock will instead receive an amount of cash based on the closing price of Hard Disk Drive group stock on the date the tracking stock proposal is implemented.

If the tracking stock proposal is implemented, your rights as stockholders will be governed by Delaware law, the restated certificate of incorporation and our amended by-laws which have been filed with the SEC. The restated certificate of incorporation contains the terms of the DLT & Storage Systems group stock and the Hard Disk Drive group stock. Accordingly, you should carefully read the restated certificate of incorporation attached as Annex I.

If the tracking stock proposal is not approved, our existing common stock will not be changed into DLT & Storage Systems group stock and Hard Disk Drive group stock.

If the tracking stock proposal is approved, we plan to implement the proposal by filing the restated certificate of incorporation with the Secretary of State of the State of Delaware. We presently anticipate that this filing will be made as soon as possible after the special meeting. No state or federal regulatory approvals are required for the consummation of the tracking stock proposal.

Our board of directors may decide not to implement the tracking stock proposal for any reason at any time prior to the filing of the restated certificate of incorporation with the Secretary of State of the State of Delaware, either before or after stockholder approval.

##### Background of and Reasons for the Tracking Stock Proposal

Our board of directors approved the tracking stock proposal following its review of various alternatives for enhancing the overall return to our stockholders and for supporting our strategic objectives. Our board of directors believes that the historical price performance of our existing common stock has been more closely linked to the Hard Disk Drive group and fails to reflect adequately the value of the DLT & Storage Systems group. As a result, our stockholders have been unable to realize the full value of their shares.

At the same time, our board of directors recognized that our current capital structure impedes our ability to execute our strategic objectives and to further enhance shareholder value. Our management

has adopted a broad strategy focused on accelerating the growth of the DLT & Storage Systems group's DLTtape and storage systems business and strengthening the Hard Disk Drive group's position in the hard disk drive market. This strategy focuses primarily on:

- . extending the DLT & Storage Systems group's leading positions in the tape drive and tape library markets;
- . leveraging our strength and expertise in storage device sub-system and system technology to offer total storage solutions with increased functionality and performance; and
- . maintaining the Hard Disk Drive group's leading position in the desktop hard disk drive market and establishing leadership in the network server and workstation market.

To be successful in the execution of this strategy, we need to:



- . raise funds more cost effectively in the capital markets;
- . facilitate strategic acquisitions through the issuance of equity securities; and
- . attract and retain key personnel to advance the growth of Quantum as a whole.

The failure of the financial markets to value accurately the businesses of each group represents a significant impediment to the execution of this strategy.

We expect that the tracking stock proposal should encourage proper valuation of the businesses of each of the groups. The proposal is designed to highlight the separate performance of each of the DLT & Storage Systems group and the Hard Disk Drive group. The value of each class of tracking stock is intended to be based on the performance of

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the business to which it relates and influenced by the factors that affect the value of common stock generally, including earnings, growth prospects and comparable valuations. The tracking stock proposal will also encourage proper valuation of the groups by providing stockholders, analysts and other market participants with separate financial and other information to evaluate the respective businesses.

At a meeting held on October 20, 1998, our board of directors discussed with our management a variety of structural alternatives designed to enhance the value of the existing common stock to our stockholders and address our core strategy of building a more diversified storage business. In this discussion, our management evaluated the effect that each alternative would have on our ability to:

- . raise funds in the capital markets;
- . create a more valuable currency for strategic acquisitions; and
- . attract and retain key personnel to advance the growth of Quantum.

Following this discussion, our board of directors authorized management to continue its review of the alternatives. On January 29, 1999, our board of directors again met with management in order to formally evaluate the various strategies for enhancing shareholder value and advancing our strategic goals. Among the alternatives considered by our board of directors were:

- . the preservation of our current equity and operating structure;
- . the tracking stock proposal; and
- . the creation of separate equity securities of subsidiaries.

Because the preservation of the current equity and operating structure would not allow proper valuation of the DLT & Storage Systems group's business, our board concluded that the tracking stock proposal would be most likely to enhance shareholder value and address our strategic objectives. In reaching its conclusion, our board of directors consulted with Quantum's financial advisors, legal counsel and independent accountants.

On March 24, 1999, our board of directors confirmed its prior conclusions concerning alternatives available to Quantum and identified the following as the advantages of the tracking stock proposal:

- . The creation of two classes of tracking stock intended to reflect separately the performance of the DLT & Storage Systems group and the Hard Disk Drive group should increase shareholder value by more specifically tracking the earnings, cash flows, growth prospects and investment results of each group. The issuance of DLT & Storage Systems group stock should result in broader and more in-depth equity coverage of the DLT & Storage Systems group by financial analysts. As a result, investors should better understand the DLT & Storage Systems group and Quantum as a whole;
- . We expect that holders of Hard Disk Drive group stock and DLT & Storage Systems group stock could be separate and distinct investor groups;
- . The creation of two classes of tracking stock should enhance the ability of each group and its management to focus on that group's business strategy and financial model. At the same time, we will maintain a cohesive corporate identity and culture through incentive-based compensation which permits us to provide employees with participation in the long-term growth and financial success of Quantum as a whole;
- . The tracking stock proposal, in contrast to other alternatives, will retain for us the advantages of doing business as a single company and

allow each group to capitalize on relationships with the other group. As part of one company, each group will be in a position to benefit from cost savings and synergies with the other compared to the costs each group would incur if it operated separately. As part of a single organization, we expect to incur savings in corporate overhead expenses while preserving the benefits of credit availability and, more importantly, a shared strategy;

- . The availability of two different equity securities will enhance our financial and strategic flexibility to raise capital for the DLT & Storage Systems group and the Hard

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Disk Drive group and to engage in mergers, acquisitions, strategic investments, capital restructurings and other transactions affecting either group. In the ordinary course of business, our board of directors may consider these transactions from time to time but it has no current plans or intentions with respect to any specific transaction; and

- . The tracking stock proposal retains future restructuring flexibility by preserving our ability to undertake future capital restructuring and asset segmentation as well as to modify our capital structure.

Our board of directors also considered the following potential disadvantages of the tracking stock proposal:

- . The tracking stock proposal results in a complex capital structure that may not be well-understood by investors and thus could inhibit the efficient valuation of either or both classes of tracking stock;
- . The potential diverging or conflicting interests of the two groups and the issues that could arise in resolving any conflicts;
- . Investors in DLT & Storage Systems group stock and Hard Disk Drive group stock will be exposed to the risks of our consolidated businesses and liabilities because both groups remain legally a part of Quantum;
- . The market values of the DLT & Storage Systems group stock and the Hard Disk Drive group stock could be affected by market reaction to decisions by our board of directors and management that investors perceive to affect differently one class of tracking stock compared to the other; these decisions could include decisions regarding the allocation of assets, expenses, liabilities and corporate opportunities and financing resources between the groups;
- . The possible inability to use the pooling method of accounting in connection with future acquisitions using Hard Disk Drive group stock, and the possible inability or increased difficulty of receiving a ruling from the Internal Revenue Service in connection with a proposed acquisition to be effected using either DLT & Storage Systems group stock or Hard Disk Drive group stock; and
- . The uncertain tax treatment of tracking stock under current law, as well as the recent proposal by the Clinton Administration to impose a corporate level tax on the issuance of stock similar to the DLT & Storage Systems group stock and the Hard Disk Drive group stock, could require us to change our capital structure after their issuance to avoid adverse tax consequences.

Our board of directors determined that on balance the potential advantages of the tracking stock proposal outweigh the potential disadvantages and concluded that the tracking stock proposal is advisable and in the best interests of our company and our stockholders.

#### Recommendation of the Board of Directors

Our board of directors has carefully considered the tracking stock proposal and believes that the approval of the tracking stock proposal by the stockholders is advisable and in the best interests of our company and our stockholders. Our board of directors unanimously recommends that you approve the tracking stock proposal.

#### Management and Allocation Policies

Because the DLT & Storage Systems group and the Hard Disk Drive group will each be a part of a single company, we have carefully considered a number of issues with respect to the financing of the DLT & Storage Systems group and the Hard Disk Drive group, competition between groups, inter-group business transactions, access to technology and know-how, corporate opportunities and the allocation of debt, corporate overhead, interest, taxes and other support activities between the two groups. Our board of directors and management have established policies designed to accomplish the fundamental objective of the tracking stock proposal, which is to highlight the separate performance of each

of the DLT & Storage Systems group and the Hard Disk Drive group and to allow each group to focus on its own business strategy and financial model. These policies establish guidelines to help us to allocate costs and charges between the two groups on an objective basis and to ensure that transactions between the DLT & Storage Systems group and the Hard Disk Drive group are made on terms that approximate the terms that could be obtained from unaffiliated third parties.

Policies Subject to Change Without Stockholder Approval

We have summarized our management and allocation policies below. We are not requesting stockholder approval of these policies.

Our board of directors may modify or rescind these policies, or may adopt additional policies, in its sole discretion without stockholder approval. However, our board of directors has no present intention to do so. A decision to modify or rescind these policies, or adopt additional policies, could have different effects upon holders of DLT & Storage Systems group stock and holders of Hard Disk Drive group stock or could result in a benefit or detriment to one class of stockholders compared to the other class. Our board of directors would make any such decision in accordance with its good faith business judgment that such decision is in the best interests of our company and all of our stockholders as a whole.

Fiduciary and Management Responsibilities

Because the DLT & Storage Systems group and the Hard Disk Drive group will continue to be a part of a single company, our directors and officers will have the same fiduciary duties to holders of DLT & Storage Systems group stock and the Hard Disk Drive group stock that they currently have to the holders of our existing common stock. Under Delaware law, absent an abuse of discretion, a director or officer will be deemed to have satisfied his or her fiduciary duties to our company and our stockholders if that person is disinterested and acts in accordance with his or her good faith business judgment in the interests of our company and all of our stockholders as a whole. Our board of directors and our Chief Executive Officer, in establishing policies with regard to intracompany matters such as business transactions between groups and allocations of assets, liabilities, debt, corporate overhead, taxes, interest, corporate opportunities and other matters, will consider various factors and information which could benefit or cause detriment to the stockholders of the respective groups and will make determinations in the best interests of our company and all of our stockholders as a whole. Our board of directors currently intends to follow a policy that transactions and transfers between groups be made on a fair value basis. Fair value approximates the terms and conditions that would be negotiated between third parties in an arm's length transaction. However, our board of directors could modify this policy without stockholder approval if it deems a modification to be in the interests of our company and our stockholders as a whole.

Because the tracking stock proposal will result in no change in our corporate structure, Michael A. Brown, the Chairman of the Board of Directors and Chief Executive Officer, will have the same duties and responsibilities for the management of our assets and businesses which comprise the DLT & Storage Systems group and the Hard Disk Drive group following the implementation of the tracking stock proposal as he has now. The individuals named below will hold the positions listed next to their names and will continue to have the same general responsibilities following the implementation of the tracking stock proposal as they have now. The costs attributable to their responsibilities will be allocated as discussed below under "--Financial Statements; Allocation Matters--Support Activities."

<TABLE>

<CAPTION>

Officer -----	Position -----
<C>	<S>
Michael A. Brown....	Chairman of the Board and Chief Executive Officer
Richard L. Clemmer..	Executive Vice President, Finance, Chief Financial Officer and Secretary
Curt Francis.....	Vice President, Corporate Development
Jerald L. Maurer....	Executive Vice President, Human Resources, Real Estate, Corporate Services
Peter van Cuylenburg.....	President, the DLT & Storage Systems group
John J. Gannon.....	President, the Hard Disk Drive group

</TABLE>

Our Chief Executive Officer, with the approval of our board of directors, has designated separate management teams for each of the DLT & Storage Systems group and the Hard Disk Drive group to ensure that the efforts of each team of managers are focused on the business and operations for which they have responsibility. These individuals are named in "Business of the DLT & Storage Systems group--Management" and "Business of the Hard Disk Drive group--

#### Tracking Stock Ownership of Directors and Officers

As a policy, our board of directors will periodically monitor the ownership of shares of DLT & Storage Systems group stock and shares of Hard Disk Drive group stock by our directors and officers and our option grants to them so that their interests are generally aligned with the two classes of tracking stock and with their duty to act in the best interests of our company and our stockholders as a whole. However, because of the anticipated differences in trading values between the DLT & Storage Systems group stock and the Hard Disk Drive group stock, the relative values of their interests in the two tracking stocks will vary significantly. Accordingly, it is possible that they could have an incentive to favor one group over the other because of the relative values of their interests.

#### Financing Activities

We will continue to manage most financial activities on a centralized basis. These activities include the investment of surplus cash, the issuance and repayment of short-term and long-term debt, the issuance and repurchase of common stock and the issuance and repurchase of any preferred stock. If we transfer cash or other property allocated to one group to the other group, we will account for that transfer in one of the following ways:

- . As a reallocation of "pooled" debt or preferred stock, as described under "Company Debt and Preferred Stock" below;
- . As a short-term or long-term loan between groups, or as a repayment of a previous borrowing, as described under "Inter-group Loans" below; or
- . As a sale of assets between groups.

Our board of directors has not adopted specific criteria to determine which of the foregoing will be applied to a particular transfer of cash or property from one group to the other. Our board of directors will make these determinations, either in specific instances or by setting generally applicable policies, in the exercise of its business judgment. These determinations will be based on all relevant circumstances, including the financing needs and objectives of the receiving group, the investment objectives of the transferring group, the availability, cost and time associated with alternative financing sources, prevailing interest rates and general economic conditions. We will make all transfers of assets from one group to the other on a fair value basis for the foregoing purposes, as determined by our board of directors. However, that policy is subject to change by our board of directors without stockholder approval. For additional information on our policy regarding asset transfers between groups, see "--Transfers of Assets Between Groups."

Although we may allocate our debt and preferred stock between groups, the debt and preferred stock will remain our obligations and all of our stockholders will be subject to the risks associated with those obligations. For additional information on these risks, see "Risk Factors--You will remain stockholders of one company; and, therefore, financial effects on one group could adversely affect the other."

Company Debt and Preferred Stock. We will allocate our debt between the groups or, if we so determine, in its entirety to a particular group. We will allocate preferred stock, if issued, in a similar manner. We refer to debt and preferred stock allocated between groups as being "pooled."

Cash allocated to one group that is used to repay pooled debt or redeem pooled preferred stock will decrease that group's allocated portion of the pooled debt or preferred stock. Cash or other property allocated to one group that is transferred to the other group will, if so determined by our board of directors, decrease the transferring group's allocated portion of the pooled debt or preferred stock and, correspondingly, increase the recipient group's allocated portion of the pooled debt or preferred stock.

Pooled debt will bear interest for group financial statement purposes at a rate equal to the weighted average interest rate of the debt calculated on a quarterly basis and applied to the average pooled debt balance during the period. Preferred stock, if issued and if pooled in a manner similar to the pooled debt, will bear dividends for group financial statement purposes at a rate based on the weighted average dividend rate of the preferred stock similarly calculated and applied. Any expense related to increases in pooled debt or preferred stock will be reflected in the weighted average interest or dividend rate of such pooled debt or preferred stock as a whole.

If we allocate debt for a particular financing in its entirety to one group, that debt will bear interest for group financial statement purposes at the rate

that we determine. If we allocate preferred stock in its entirety to one group, we will charge the dividend cost to that group in a similar manner. If the interest or dividend cost is higher than our actual cost, the other group will receive a credit for an amount equal to the difference as compensation for the use of our credit capacity. Any expense related to debt or preferred stock that is allocated in its entirety to a group will be allocated in whole to that group.

**Inter-group Loans.** Cash or other property that we allocate to one group that is transferred to the other group, could, if so determined by our board of directors, be accounted for either as a short-term loan or as a long-term loan. Short-term loans and, unless our board of directors determines otherwise, long-term loans will bear interest at a rate equal to the weighted average interest rate of our pooled debt. If we do not have any pooled debt, our board of directors will determine the rate of interest for such loan. Our board of directors will establish the terms on which long-term loans between the groups will be made, including interest rate if not based on our weighted average interest rate, amortization schedule, maturity and redemption terms.

**Equity Issuances and Repurchases and Dividends.** We will reflect all financial effects of issuances and repurchases of shares of DLT & Storage Systems group stock or shares of Hard Disk Drive group stock entirely in the financial statements of that group. We will reflect financial effects of dividends or other distributions on, and purchases of, shares of DLT & Storage Systems group stock or Hard Disk Drive group stock entirely in the respective financial statements of the DLT & Storage Systems group or the Hard Disk Drive group.

#### Competition Between Groups

Neither the DLT & Storage Systems group nor the Hard Disk Drive group will engage in the principal business of the other, except for joint transactions with each other. The DLT & Storage Systems group's principal business is the design, manufacture and sale of DLTtape drives and media and storage systems and subsystems, including tape libraries and network attached storage appliances. The Hard Disk Drive group's principal business is the design, manufacture and sale of hard disk drives that are incorporated as a component in a system, subsystem or appliance. Our board of directors may designate one or more additional businesses as principal businesses of either the DLT & Storage Systems group or the Hard Disk Drive group in the future.

Joint transactions may include joint ventures or other collaborative arrangements to develop, market, manufacture, sell and support new products and services. Third parties may also participate in joint transactions. The terms of any joint transactions will be determined by our Chief Executive Officer or, in appropriate circumstances, our board of directors.

With the approval of our Chief Executive Officer or, in appropriate circumstances, our board of directors, the groups may engage in indirect competition in their principal businesses from time to time. This competition could involve, for example:

- . The Hard Disk Drive group selling its products to a third party for use in the third party's products which compete with the DLT & Storage Systems group 's products;
- . The DLT & Storage Systems group's inclusion of a third party's products rather than the Hard Disk Drive group's products, in the DLT & Storage Systems group's products; or
- . Quantum licensing technology to a third party that is a competitor of one group.

Our Chief Executive Officer or our board of directors will permit indirect competition between the groups based on his or its good faith business judgment that such competition is in the best interests of our company and all of our stockholders as a whole. In addition, the groups may compete in a business which is not a principal business of the other group.

#### Transfers of Assets Between Groups

The restated certificate of incorporation permits the transfer of assets between groups without stockholder approval. Our board of directors has determined that all such transfers will be made at

fair value, as determined by our board of directors. However, that policy is subject to change by our board of directors without stockholder approval. The consideration for such transfers may be paid by one group to the other in cash or other consideration, as determined by our board of directors.

Our board of directors has adopted specific policies for the sale of products and services between groups and joint transactions with each other and

third parties as set forth below.

**Sales of Products and Services Between Groups.** One group will sell products or services to the other group on terms that would be available from unaffiliated third parties in commercial transactions. If the terms of a transaction are not available from a third party, the purchasing group will pay for such products and services at fair value. However, that policy is subject to change by our board of directors without stockholder approval.

**Joint Transactions.** The groups may from time to time engage in transactions jointly, including with third parties. Research and development and other services performed by one group for a joint venture or other collaborative arrangement will be charged at fair value. However, that policy is subject to change by our board of directors without stockholder approval.

#### Access to Technology and Know-How

Each group will have access to all of our technology and know-how, excluding products and services of the other group, that may be useful in that group's business, subject to obligations and limitations applicable to Quantum and to such exceptions that our board of directors may determine. The groups will consult with each other on a regular basis concerning technology issues that affect both groups.

#### Review of Corporate Opportunities

Our board of directors will review any significant matter which involves the allocation of a corporate opportunity to either the DLT & Storage Systems group or the Hard Disk Drive group or in part to the DLT & Storage Systems group and in part to the Hard Disk Drive group. Delaware law requires our board of directors to make its determination with regard to the allocation of any such opportunity and the benefit of that opportunity in accordance with their good faith business judgment of the best interests of our company and all of our stockholders as a whole. Among the factors that our board of directors may consider in making this allocation is:

- . whether a particular corporate opportunity is principally related to the business of the DLT & Storage Systems group or the Hard Disk Drive group, as described under "--Competition Between Groups";
- . whether one group, because of its managerial or operational expertise, will be better positioned to undertake the corporate opportunity; and
- . existing contractual agreements and restrictions.

#### Financial Statements; Allocation Matters

We will prepare financial statements in accordance with generally accepted accounting principles, consistently applied, for the DLT & Storage Systems group and the Hard Disk Drive group. These financial statements, taken together, will comprise all of the accounts included in our consolidated financial statements. The financial statements of each of the DLT & Storage Systems group and the Hard Disk Drive group will reflect the financial condition, results of operations and cash flows of the businesses included in the corresponding group.

Group financial statements will also include allocated portions of our debt, interest, support activities and taxes. We will make these allocations for the purpose of preparing each group's financial statements; however, holders of DLT & Storage Systems group stock and the Hard Disk Drive group stock will continue to be subject to all of the risks associated with an investment in our company and all of our businesses, assets and liabilities. For additional information on these risks, see "Risk Factors--You will remain stockholders of one company and, therefore, financial effects on one group could adversely affect the other."

In addition to allocating debt and interest as described above under "--Financing Activities" and assets as described above under "--Transfers of Assets Between Groups," our board of directors has

adopted the following allocation policies, each of which is reflected in the financial statements of the respective groups included in this proxy statement:

- . **Support Activities.** We will directly charge specifically identified costs for certain support activities to the DLT & Storage Systems group and the Hard Disk Drive group based upon the use of such activities. Where determinations based on use alone are not practical, we will use other methods and criteria to provide a reasonable allocation of the cost of certain other support activities attributable to the groups. Such allocated support activities include certain selling and marketing, executive management, human resources, corporate finance, legal and corporate planning activities.

- . Taxes. We will determine the income tax provisions of Quantum and its subsidiaries which own assets allocated between the groups on a consolidated basis. We will allocate consolidated income tax provisions and related tax payments or refunds between the groups based principally on the taxable income and tax credits directly attributable to each group. These allocations will reflect each group's contribution, whether positive or negative, to Quantum's consolidated taxable income and the consolidated tax liability and tax credit position. We will credit tax benefits to the group generating those benefits if those benefits can be used on a consolidated basis. Inter-group transactions will be treated and taxed as if each group was a stand-alone company.

Current and deferred taxes and taxes payable or refundable allocated to each group in these historical financial statements differ from those that would have been allocated to each group had they filed separate income tax returns.

#### Dividend Policy

Historically, we have not paid dividends on our existing common stock. We presently intend to retain all earnings for use in our business and do not anticipate paying dividends on either the DLT & Storage Systems group stock or the Hard Disk Drive group stock in the foreseeable future.

Our board of directors does not currently intend to change the above-described dividend policy but reserves the right to do so at any time based primarily on the financial condition, results of operations and business requirements of the respective groups and of Quantum as a whole. Future dividends on the DLT & Storage Systems group stock and Hard Disk Drive group stock will be payable when, as and if declared by our board of directors out of the lesser of (1) all funds of Quantum legally available for the payment of dividends and (2) the amount calculated under the definition of that group's available dividend amount contained in the restated certificate of incorporation in Annex I. We encourage you to carefully read these definitions. Each group's available dividend amount is intended to be similar to the amount that would be legally available for the payment of dividends on the stock for that group under Delaware law if that group were a separate company. See "--Description of DLT & Storage Systems Group Stock and Hard Disk Drive Group Stock--Dividends."

In making its dividend decisions regarding the DLT & Storage Systems group stock and the Hard Disk Drive group stock, our board of directors will rely on the respective financial statements of the DLT & Storage Systems group and the Hard Disk Drive group. See the financial statements of the DLT & Storage Systems group and the Hard Disk Drive group included in this proxy statement.

#### Description of DLT & Storage Systems Group Stock and Hard Disk Drive Group Stock

We have summarized below the material terms of the DLT & Storage Systems group stock and the Hard Disk Drive group stock. The summary is not complete. We encourage you to read the restated certificate of incorporation which is attached as Annex I.

#### Authorized and Outstanding Shares

Our existing certificate of incorporation authorizes us to issue 504 million shares of stock, consisting of 500 million shares of common stock, par value \$0.01 per share, and 4 million shares of preferred stock, par value \$0.01 per share. Of the 4 million shares of preferred stock, our board of directors has designated a total of 1 million shares of

Series A Junior Participating Preferred Stock in connection with our existing stockholder rights plan. Our board of directors may issue shares of preferred stock in series, without stockholder approval. As of June 4, 1999, approximately 167,739,218 shares of existing common stock and no shares of preferred stock were issued and outstanding.

The restated certificate of incorporation will authorize us to issue 1.62 billion shares of stock as follows: 1 billion shares of a class of common stock, designated as Quantum Corporation--the DLT & Storage Systems group Common Stock, .6 billion shares of a class of common stock, designated as Quantum Corporation--the Hard Disk Drive group Common Stock, and 20 million shares of preferred stock. Shares of each class of stock will have a par value of \$0.01 per share. We will be able to issue shares of preferred stock in series, without stockholder approval. Of the 20 million authorized shares of preferred stock, our board of directors has designated a total of 1,600,000 shares of two series of junior participating preferred stock in connection with our restated stockholder rights plan. For additional information on our restated rights plan, see "--Restated Rights Agreement."

As a result of the tracking stock proposal, assuming the number of shares of existing common stock then outstanding is the same as the number outstanding on June 4, 1999, 167,739,218 shares of DLT & Storage Systems group stock and 83,869,609 shares of the Hard Disk Drive group stock will be issued and outstanding.

#### Reasons for Increase in Authorized Common Stock

Our board of directors believes that an increase in the number of authorized shares of common stock at this time is in the best interests of our company so that we can implement the tracking stock proposal and have available the number of shares needed for a possible future conversion, dividends, acquisitions, capital raising, our restated stockholder rights plan and employee benefit plans.

The authorization of at least 167,739,218 shares of DLT & Storage Systems group stock and at least 83,869,609 shares of Hard Disk Drive group stock is needed for the tracking stock proposal to be implemented. In addition, Quantum has outstanding \$288 million principal amount of 7% convertible subordinated notes due 2004, which are convertible at the option of the holder at any time prior to maturity into shares of our existing common stock at a conversion price of \$46.325. Following the implementation of the tracking stock proposal, each of those notes will be convertible into shares of DLT & Storage Systems group stock and shares of Hard Disk Drive group stock. The number of shares of DLT & Storage Systems group stock and Hard Disk Drive group stock into which each note will be convertible is equal to the numbers of such shares which the holder of the note would receive under the tracking stock proposal had the note been converted immediately prior to the implementation of the tracking stock proposal. We have also reserved 25,940,985 shares of our existing common stock for issuance under our employee benefit plans. For additional information on the effect of the tracking stock proposal on the outstanding options and convertible notes, see "--Effect on Existing Options and Convertible Notes."

Further, as described under "--Conversion and Redemption," our board of directors has the right to convert one class of tracking stock into the other at a 10% premium for the first five years following the implementation of the tracking stock proposal and without premium after that five year period and in certain other circumstances. The number of shares issuable in a conversion will vary based on the relative market values of the two classes of tracking stock and the number of outstanding shares of tracking stock being converted.

Our board of directors may also pick a stock dividend in one class of tracking stock on that class of tracking stock. If our board of directors determines that a conversion or a stock dividend is in the best interests of Quantum, but at that time sufficient authorized shares of tracking stock are not available, our stockholders would be required to approve an amendment to the restated certificate of incorporation.

Other than the issuance of shares under our outstanding convertible subordinated notes and our employee benefit plans, we have no present understanding or agreement for the issuance of any additional shares of DLT & Storage Systems group stock or Hard Disk Drive group stock. Although our board of directors has no present intention of doing

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so, the additional shares that would be authorized for issuance if the tracking stock proposal is implemented could be issued in one or more transactions that would make a takeover of Quantum more difficult and, therefore, less likely, even though a takeover might be financially beneficial to our company and our stockholders. For additional information on provisions of Delaware law, our restated certificate of incorporation, our by-laws and our restated rights agreement that might defer a takeover, see "--Certain Anti-Takeover Provisions of Delaware Law and the Restated Certificate of Incorporation, the By-laws and the Restated Rights Agreement." We have no knowledge of any person or entity that intends to seek a controlling interest in our company or to make a takeover proposal.

We may issue the authorized but unissued shares of DLT & Storage Systems group stock and Hard Disk Drive group stock for any proper corporate purpose, which could include any of the purposes set forth above. We will not solicit the approval of our stockholders for the issuance of additional authorized shares of DLT & Storage Systems group stock or Hard Disk Drive group stock unless our board of directors believes that approval is advisable or is required by Nasdaq regulations or Delaware law.

#### Dividends

Dividends on our existing common stock are limited to our legally available funds under Delaware law and subject to the prior payment of dividends on any preferred stock. Dividends on the DLT & Storage Systems group stock and the Hard Disk Drive group stock will be subject to the same limitations as dividends on our existing common stock. Dividends on the DLT & Storage Systems group stock and dividends on the Hard Disk Drive group stock will also be limited to an amount not greater than the available dividend amount for the



relevant group.

Under Delaware law, the amount of legally available funds for dividends is determined on the basis of our entire company, and not only the respective groups. As a result, the amount of legally available funds will reflect the amount of any net losses of each group, any distributions on DLT & Storage Systems group stock, Hard Disk Drive group stock or any preferred stock and any repurchases of DLT & Storage Systems group stock, Hard Disk Drive group stock or preferred stock at a price per share greater than par value. Dividend payments on the DLT & Storage Systems group stock and on the Hard Disk Drive group stock could be precluded because legally available funds are not available under Delaware law, even though the available dividend amount test for the particular relevant group was met. We can not assure you that there will be an available dividend amount for either group.

Accordingly, the payment of dividends on either group's stock will be subject to the prior payment of dividends on any outstanding shares of preferred stock and the limitations described above. Subject to these restrictions, our board of directors will be able, in its sole discretion, to declare and pay dividends exclusively on the DLT & Storage Systems group stock, exclusively on the Hard Disk Drive group stock or on both, in equal or unequal amounts without having to take into account the relative available dividend amounts for the two groups, the amount of prior dividends declared on either class, the respective voting or liquidation rights of either class or any other factor.

#### Conversion and Redemption

Our existing certificate of incorporation currently does not provide for either mandatory or optional conversion or redemption of our existing common stock. The tracking stock proposal will permit the conversion or redemption of the DLT & Storage Systems group stock and the Hard Disk Drive group stock as described below.

Mandatory Dividend, Redemption or Conversion of Tracking Stock If Disposition of Group Assets Occurs. If we dispose of all or substantially all of the properties and assets of either group, we are required to take action that returns the value of those assets to the holders of that group's tracking stock. That action could take the form of a cash dividend, a redemption of shares or a conversion into the other group's tracking stock.

Accordingly, if we sell all or substantially all of one group's assets in a transaction other than one described below under "--Exceptions to the Dividend, Redemption or Conversion Requirement if a Disposition Occurs," we will:

- . pay a dividend to the holders of shares of that group's tracking stock in cash and/or

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securities or other property having a fair value equal to the net proceeds of the disposition; or

- . (1) if the disposition involves all of the properties and assets, redeem all outstanding shares of that group's tracking stock in exchange for cash and/or securities or other property having a fair value equal to the net proceeds of the disposition; or

(2) if the disposition involves substantially all, but not all, of the properties and assets, redeem a number of whole shares of that group's tracking stock in exchange for cash and/or securities or other property having a fair value equal to the net proceeds of the disposition; the number of shares so redeemed will have in the aggregate an average market value, during the period of ten consecutive trading days beginning on the 26th trading day following the disposition date, closest to the net proceeds; or

- . convert each outstanding share of that group's tracking stock into a number of shares of the other group's tracking stock equal to 110% of the ratio of the average market value of one share of stock of the group whose assets are disposed to the average market value of one share of stock of the other group during the 10-trading day period beginning on the 26th trading day following the disposition date. However, if the disposition is consummated after the fifth anniversary of the implementation of the tracking stock proposal, the number of shares to be received as a result of a conversion will equal 100% of the applicable ratio.

We may only pay a dividend or redeem shares of tracking stock if we have legally available funds under Delaware law and the amount to be paid to holders is less than or equal to the available dividend amount for the group. We will pay the dividend or complete the redemption or conversion on or prior to the 95th trading day following the disposition date.

For purposes of determining whether a disposition has occurred, "substantially all of the properties and assets" attributed to either group

means a portion of the properties and assets:

- . that represents at least 80% of the then fair value of the properties and assets attributed to that group; or
- . from which were derived at least 80% of the aggregate revenues of that group for the immediately preceding twelve fiscal quarterly periods.

The "net proceeds" of a disposition means an amount equal to what remains of the gross proceeds of the disposition after any payment of, or reasonable provision is made as determined by our board of directors for:

- . any taxes payable by us, or which would have been payable but for the utilization of tax benefits attributable to the group not subject to the disposition, in respect of the disposition or in respect of any resulting dividend or redemption;
- . any transaction costs, including, without limitation, any legal, investment banking and accounting fees and expenses; and
- . any liabilities of or attributed to the group whose assets are disposed, including, without limitation, any liabilities for deferred taxes, any indemnity or guarantee obligations incurred in connection with the disposition or otherwise, any liabilities for future purchase price adjustments and any preferential amounts plus any accumulated and unpaid dividends in respect of the preferred stock attributed to that group.

We may elect to pay the dividend or redemption price either in the same form as the proceeds of the disposition were received or in any other combination of cash, securities or other property that our board of directors or, in the case of securities that have not been publicly traded for a period of at least 15 months, an independent investment banking firm, determines will have an aggregate market value of not less than the fair value of the net proceeds.

The following illustration demonstrates the provisions requiring a mandatory dividend, redemption or conversion if a disposition occurs

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prior to the fifth anniversary of the implementation of the tracking stock proposal.

- . If 160 million shares of DLT & Storage Systems group stock and 80 million shares of Hard Disk Drive group stock were outstanding,
- . the net proceeds of the disposition of substantially all, but not all, of the assets of the Hard Disk Drive group equals \$1.5 billion,
- . the average market value of the Hard Disk Drive group stock during the 10-trading day valuation period was \$20 per share and
- . the average market value of the DLT & Storage Systems group stock during the same valuation period was \$40 per share,

then we could do any of the following:

- (1) pay a dividend to the holders of shares of Hard Disk Drive group stock equal to:

<TABLE>			
<S>	net proceeds	<C>	<C>
		=	\$1.5 billion
-----			
	number of outstanding shares of Hard Disk Drive group stock		80 million shares
		=	\$18.75 per share
</TABLE>			

- (2) redeem for \$20 per share a number of shares of Hard Disk Drive group stock equal to:

<TABLE>			
<S>	net proceeds	<C>	<C>
		=	\$1.5 billion
-----			
	average market value of Hard Disk Drive group stock		\$20 per share
		=	75,000,000 shares
</TABLE>			

- (3) convert each outstanding share of Hard Disk Drive group stock into a number of shares of DLT & Storage Systems group stock equal to:

<TABLE>						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
	average market					

1.1	x	value of Hard Disk Drive group stock ----- average market value of DLT & Storage Systems group stock	=	1.1	x	\$20 per share ----- \$40 per share
			=	.55 shares		

</TABLE>

Exceptions to the Dividend, Redemption or Conversion Requirement if a Disposition Occurs. We are not required to take any of the above actions for any disposition of all or substantially all of the properties and assets attributed to either group in a transaction or series of related transactions that results in our receiving for those properties and assets primarily equity securities of any entity which:

- . acquires those properties or assets or succeeds to the business conducted with those properties or assets or controls such acquiror or successor; and
- . is primarily engaged or proposes to engage primarily in one or more businesses similar or complementary to the businesses conducted by that group prior to the disposition, as determined by our board of directors.

The purpose of this exception is to enable us technically to dispose of properties or assets of a group to other entities engaged or proposing to engage in businesses similar or complementary to those of that group without requiring a dividend on, or a conversion or redemption of, the class of common stock of that group, so long as we hold an equity interest in that entity. A joint venture in which we own a direct or indirect equity interest is an example of such an acquiror. We are not required to control that entity, whether by ownership or contract provisions.

We are also not required to effect a dividend, redemption or conversion if the disposition is:

- . of all or substantially all of our properties and assets in one transaction or a series of related transactions in connection with our dissolution, liquidation or winding up and the distribution of our assets to stockholders;
- . on a pro rata basis, such as in a spin-off, to the holders of all outstanding shares of the tracking stock of the group whose assets are disposed; or
- . made to any person or entity controlled by us, as determined by our board of directors.

Notices If Disposition of Group Assets Occurs. Not later than the 20th trading day after the consummation of a disposition, we will announce publicly by press release:

- . the estimated net proceeds of the disposition;
- . the number of shares outstanding of the tracking stock of the group whose assets are disposed; and

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- . the number of shares of that group's tracking stock into or for which convertible securities are then convertible, exchangeable or exercisable and the conversion, exchange or exercise price of those convertible securities.

Not earlier than the 36th trading day and not later than the 40th trading day after the consummation of the disposition, we will announce publicly by press release whether we will pay a dividend or redeem shares of tracking stock with the net proceeds of the disposition or convert the shares of tracking stock of the group whose assets are disposed into the other groups of tracking stock.

We will mail to each holder of shares of the group whose assets are disposed the additional notices and other information required by the restated certificate of incorporation.

Conversion of Common Stock at Option of Quantum at Any Time. During the five years following the implementation of the tracking stock proposal, our board of directors may at any time convert each share of DLT & Storage Systems group stock into a number of shares of Hard Disk Drive group stock equal to 110% of the ratio of the average market values of the DLT & Storage Systems group stock to the Hard Disk Drive group stock over a 20-trading day period. Conversely,

during that period our board of directors may also at any time convert each share of Hard Disk Drive group stock into a number of shares of DLT & Storage Systems group stock equal to 110% of the ratio of the average market values of the Hard Disk Drive group stock to the DLT & Storage Systems group stock over a 20-trading day period. Following the fifth anniversary of the implementation of the tracking stock proposal, the number of shares to be received as a result of a conversion will equal 100% of the applicable ratio. This means that the holders of the tracking stock being converted will not receive any premium in a conversion. We will calculate the ratio of average market values as of the fifth trading day prior to the date we mail the conversion notice to holders.

However, if a tax event occurs at any time, a factor of 100% rather than 110% will be applied to the ratio of the average market values. This means that the holders of the tracking stock being converted will not receive any premium in a conversion.

"Tax event" means the receipt by our company of an opinion of a tax advisor that, as a result of:

- . any amendment to, or change in, the laws or regulations interpreting the laws of the United States or any political subdivision or taxing authority, including any announced proposed change by an applicable legislative committee or its chair in those laws or by an administrative agency in those regulations; or
- . any official or administrative pronouncement, action or judicial decision interpreting or applying those laws or regulations,

it is more likely than not that for United States federal income tax purposes:

- . Quantum or our stockholders are, or at any time in the future will be, subject to tax upon the issuance of shares of either DLT & Storage Systems group stock or Hard Disk Drive group stock; or
- . either DLT & Storage Systems group stock or Hard Disk Drive group stock is not or at any time in the future will not be treated solely as stock of Quantum.

For purposes of rendering this opinion, the tax advisor will assume that any legislative or administrative proposals will be adopted or enacted as proposed.

These provisions allow us the flexibility to recapitalize the two tracking stocks into one class of common stock that would, after the recapitalization, represent an equity interest in all of our businesses. The optional conversion or redemption could be exercised at any future time if our board of directors determines that, under the facts and circumstances then existing, an equity structure consisting of two tracking stocks was no longer in the best interests of all of our stockholders. A conversion could be exercised, however, at a time that is disadvantageous to the holders of one of the tracking stocks. For additional information on the risks of a conversion and the limited remedies available to stockholders, see "Risk Factors--Stockholders may not have any remedies for breach of fiduciary duties if any action by directors and officers has a disadvantageous effect on either class of tracking stock" and "--Numerous potential conflicts of interest exist

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between classes of tracking stock which may be difficult to resolve by our board of directors or which may be resolved adversely to one of the classes."

Conversion would be based upon the relative market values of the DLT & Storage Systems group stock and the Hard Disk Drive group stock. Many factors could affect the market values of the DLT & Storage Systems group stock or the Hard Disk Drive group stock, including our results of operations and those of each of the groups, trading volume and general economic and market conditions. Market values could also be affected by decisions by our board of directors or our management that investors perceive to affect differently one class of tracking stock compared to the other. These decisions could include changes to our management and allocation policies, transfers of assets between groups, allocations of corporate opportunities and financing resources between the groups and changes in dividend policies.

The following illustration demonstrates the calculation of the number of shares issuable upon conversion of one class of common stock into shares of the other class at our option if:

- . a tax event has not occurred,
- . five years have not elapsed since the implementation of the tracking stock proposal,
- . 160 million shares of DLT & Storage Systems group stock and 80 million shares of Hard Disk Drive group stock were outstanding immediately prior to a conversion,

- . the average market value of one share of the Hard Disk Drive group stock over the 20-trading day valuation period was \$20, and
- . the average market value of one share of the DLT & Storage Systems group stock over the same valuation period was \$40,

then each share of Hard Disk Drive group stock could be converted into .55 shares of DLT & Storage Systems group stock based on the following calculation:

<TABLE>				
<S>	<C>	<C>	<C>	<C>
1.1	x	\$20	=	.55 shares
		---		
		\$40		
</TABLE>				

Redemption in Exchange for Stock of Subsidiary. Although we currently have no intention to do so, our board of directors may redeem on a pro rata basis all of the outstanding shares of DLT & Storage Systems group stock or Hard Disk Drive group stock for shares of the common stock of one or more of our wholly-owned subsidiaries which own all of the assets and liabilities attributed to the relevant group. We may redeem shares of tracking stock for subsidiary stock only if we have legally available funds under Delaware law.

As a result of a redemption, holders of each class of tracking stock would hold securities of separate legal entities operating in distinct lines of business. This redemption could be authorized by our board of directors at any time in the future if it determines that, under the facts and circumstances then existing, an equity structure comprised of the DLT & Storage Systems group stock and the Hard Disk Drive group stock is no longer in the best interests of all of our stockholders as a whole.

Selection of Shares for Redemption. If less than all of the outstanding shares of a class of tracking stock are to be redeemed, we will redeem those shares proportionately from among the holders of outstanding shares of that tracking stock or by such method as may be determined by our board of directors to be equitable.

Fractional Interests; Transfer Taxes. We will not be required to issue fractional shares of any capital stock or any fractional securities to any holder of either class of tracking stock upon any conversion, redemption, dividend or other distribution described above. If a fraction is not issued to a holder, we will pay cash instead of that fraction.

We will pay all documentary, stamp or similar issue or transfer taxes that may be payable in respect of the issue or delivery of any shares of capital stock and/or other securities on conversion or redemption of shares.

#### Voting Rights

Variable Voting. Currently, holders of our existing common stock have one vote per share on all matters submitted to stockholders.

Under the restated certificate of incorporation the entire voting power of our stockholders will be

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vested in the holders of tracking stock. Holders of the tracking stocks will be entitled to vote on any matter on which our stockholders are, by law or by the provisions of the restated certificate of incorporation or our by-laws, entitled to vote, except as otherwise provided by law, by the terms of any outstanding preferred stock or by any provision of the restated certificate of incorporation restricting the power to vote on a specified matter to other stockholders.

Holders of tracking stock will vote as a single class on each matter on which holders of common stock are generally entitled to vote.

On all matters as to which both classes of tracking stock will vote together as a single class:

- . each share of DLT & Storage Systems group stock will have one vote; and
- . each share of Hard Disk Drive group stock will have a number of votes equal to the quotient of the average market value of a share of Hard Disk Drive group stock over the 20-trading day period ending on the 10th trading day prior to the record date for determining the holders of tracking stock entitled to vote, divided by the average market value of a share of DLT & Storage Systems group stock over the same period.

Accordingly, the relative per share voting rights of the DLT & Storage Systems group stock and the Hard Disk Drive group stock will fluctuate depending on changes in the relative market values of shares of the classes of tracking stock.

We expect that, upon implementation of the tracking stock proposal, the DLT & Storage Systems group stock will have a substantial majority of the voting power because we expect that the aggregate market value of the outstanding shares of DLT & Storage Systems group stock will be substantially greater than the aggregate market value of the outstanding shares of Hard Disk Drive group stock.

We will set forth the number of outstanding shares of DLT & Storage Systems group stock and Hard Disk Drive group stock in our Annual Report on Form 10-K and our Quarterly Reports on Form 10-Q filed under the Securities Exchange Act of 1934. We will disclose in any proxy statement for a stockholders' meeting the number of outstanding shares and per share voting rights of the DLT & Storage Systems group stock and the Hard Disk Drive group stock.

If shares of only one class of tracking stock are outstanding, each share of that class will have one vote. If either class of tracking stock is entitled to vote as a separate class with respect to any matter, each share of that class will, for purpose of such vote, have one vote on such matter.

Fluctuations in the relative voting rights of the DLT & Storage Systems group stock and the Hard Disk Drive group stock could influence an investor interested in acquiring and maintaining a fixed percentage of the voting power of our stock to acquire such percentage of both classes of tracking stock, and would limit the ability of investors in one class to acquire for the same consideration relatively more or less votes per share than investors in the other class.

The holders of DLT & Storage Systems group stock and Hard Disk Drive group stock will not have any rights to vote separately as a class on any matter coming before our stockholders, except for the limited class voting rights provided under Delaware law described below, by Nasdaq rules or as determined by our board of directors. In addition to the approval of the holders of a majority of the voting power of all shares of tracking stock voting together as a single class, the approval of a majority of the outstanding shares of the DLT & Storage Systems group stock or the Hard Disk Drive group stock, voting as a separate class, would be required under Delaware law to approve any amendment to the restated certificate of incorporation that would change the par value of the shares of the class or alter or change the powers, preferences or special rights of the shares of the class so as to affect them adversely. As permitted by Delaware law, the restated certificate of incorporation will provide that an amendment to the restated certificate of incorporation that increases or decreases the number of authorized shares of DLT & Storage Systems group stock or Hard Disk Drive group stock will only require the approval of the holders of a majority of the voting power of all shares of tracking stock, voting together as a single class, and will not require the approval of the holders of the class of tracking stock affected by the amendment, voting as a separate class.

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The following illustration demonstrates the calculation of the number of votes each share of Hard Disk Drive group stock would be entitled on all matters on which holders of DLT & Storage Systems group stock and Hard Disk Drive group stock vote as a single class. If the average market value for the 20-trading day valuation period was \$20 for the Hard Disk Drive group stock and \$40 for the DLT & Storage Systems group stock, each share of DLT & Storage Systems group stock would have one vote and each share of Hard Disk Drive group stock would have 0.5 votes based on the following calculation:

<TABLE>			
<S>	<C>		<C>
\$20	=		0.5 votes
---			
\$40			
</TABLE>			

Assuming 160 million shares of DLT & Storage Systems group stock and 80 million shares of Hard Disk Drive group stock were outstanding, the shares of DLT & Storage Systems group stock would represent 80% of our total voting power and the shares of Hard Disk Drive group stock would represent 20% of our total voting power.

Cumulative Voting. Currently, a holder of our existing common stock may, in the election of directors, cumulate his or her votes in order to give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which such holder's shares are entitled. We currently have six directors. Alternatively, a holder may distribute such number of votes among up to the number of directors to be elected. Under the restated certificate of incorporation, a holder will continue to be able to cumulate his or her votes in the election of directors following the implementation of the tracking stock proposal. The total number of votes that a holder may cumulate will be equal to the number of directors to be elected multiplied by the total

number of votes to which such holder's shares of DLT & Storage Systems group stock and shares of Hard Disk Drive group stock are entitled.

#### Liquidation

Currently, in the event of our liquidation, dissolution or termination after payment, or provision for payment, of our debts and other liabilities and the payment of full preferential amounts to which the holders of any preferred stock are entitled, holders of existing common stock are entitled to share equally in our remaining net assets.

Under the restated certificate of incorporation, in the event of our dissolution, liquidation or winding up, the holders of DLT & Storage Systems group stock and Hard Disk Drive group stock will be entitled to receive our assets remaining for distribution to holders of common stock on a per share basis in proportion to the liquidation units per share of such class, after payment or provision for payment of the debts and other liabilities and full preferential amounts to which holders of any preferred stock are entitled.

Each share of DLT & Storage Systems group stock will have one liquidation unit. Each share of Hard Disk Drive group stock will have a number of liquidation units equal to the quotient of the average market value of a share of Hard Disk Drive group stock over the 20-trading day period ending on the 40th trading day after the initial issuance of the DLT & Storage Systems group stock and the Hard Disk Drive group stock under the tracking stock proposal, divided by the average market value of a share of DLT & Storage Systems group stock over the same period.

After the number of liquidation units to which each share of Hard Disk Drive group stock is entitled has been calculated in accordance with this formula, that number will not be changed without the approval of holders of the class of common stock adversely affected except as described below. As a result, after the date of the calculation of the number of liquidation units to which the Hard Disk Drive group stock is entitled the liquidation rights of the holders of the respective classes of tracking stock may not bear any relationship to the relative market values or the relative voting rights of the two classes. We consider that liquidation is a remote contingency, and our financial advisors believe that, in general, these liquidation provisions will be immaterial to trading in the DLT & Storage Systems group stock and the Hard Disk Drive group stock.

No holder of DLT & Storage Systems group stock will have any special right to receive specific assets of the DLT & Storage Systems group and no holder of Hard Disk Drive group stock will have any special right to receive specific assets of the Hard Disk Drive group in the case of our dissolution, liquidation or winding up.

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If we subdivide or combine the outstanding shares of either class of tracking stock or declare a dividend or other distribution of shares of either class of tracking stock to holders of that class of tracking stock, the number of liquidation units of either class of tracking stock will be appropriately adjusted. This adjustment will be made by our board of directors, to avoid any dilution in the aggregate, relative liquidation rights of any class of tracking stock.

Neither a merger nor consolidation of Quantum into or with any other corporation, nor any sale, transfer or lease of all or any part of our assets, will, alone, be deemed a liquidation or winding up of Quantum, or cause the dissolution of Quantum, for purposes of these liquidation provisions.

#### Determinations by the Board of Directors

Any determinations made in good faith by our board of directors under any provision described under "Description of DLT & Storage Systems group stock and Hard Disk Drive group stock," and any determinations with respect to any group or the rights of holders of shares of either class of common stock, will be final and binding on all of our stockholders, subject to the rights of stockholders under applicable Delaware law and under the federal and state securities laws.

#### Preemptive Rights

Neither the holders of the DLT & Storage Systems group stock nor the holders of the Hard Disk Drive group stock will have any preemptive rights or any rights to convert their shares into any other securities of Quantum.

#### Restated Rights Agreement

We have issued existing preferred share purchase rights to all holders of our existing common stock under a rights agreement dated as of July 28, 1998 between our company and Harris Trust and Savings Bank, as rights agent. Each existing right entitles the holder to purchase shares of Series A Junior Participating Preferred Stock under conditions described in the existing rights

agreement. The existing rights expire on August 4, 2008.

Pursuant to the tracking stock proposal, our board of directors has determined to amend and restate the existing rights agreement and to exchange for all existing rights:

- . one right for each share of DLT & Storage Systems group stock, which will allow holders to purchase shares of a newly designated Series B Junior Participating Preferred Stock of Quantum if a "distribution date" occurs; and
- . one right for each share of Hard Disk Drive group stock, which will allow holders to purchase shares of a newly designated Series C Junior Participating Preferred Stock of Quantum if a "distribution date" occurs.

We refer to the DLT & Storage Systems group rights and the Hard Disk Drive group rights as the "rights." The restated rights agreement contains provisions designed to, among other things:

- . reflect our new equity structure; and
- . reset the prices at which rights issued under the restated rights agreement may be exercised for shares of participating preferred stock.

A "distribution date" will occur upon the earlier of:

- . the tenth day after a public announcement that a person or group of affiliated or associated persons other than us or our employee benefit plans (an "acquiring person") has acquired beneficial ownership of (1) 20% or more of the shares of DLT & Storage Systems group stock then outstanding or (2) 20% or more of the shares of Hard Disk Drive group stock then outstanding; or
- . the tenth business day or a later day determined by our board of directors following the commencement of a tender or exchange offer that would result in such person or group beneficially owning such number of shares.

Until the distribution date, the rights will be transferred only with the common stock.

Following the distribution date, holders of rights will be entitled to purchase from us:

- . in the case of a DLT & Storage Systems group right, one one-thousandth of a share

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of Series B Junior Participating Preferred Stock at a purchase price to be determined by our board of directors, subject to adjustment; and

- . in the case of an Hard Disk Drive group right, one one-thousandth of a share of Series C Participating Junior Preferred Stock at a purchase price to be determined by our board of directors, subject to adjustment.

An existing right entitles the holder to purchase one one-thousandth of a share of participating preferred stock at a purchase price of \$115 upon the occurrence of a distribution date under the existing rights agreement. In adopting the restated rights agreement, our board of directors determined that \$115 would not represent the long term value of a share of DLT & Storage Systems group stock or Hard Disk Drive group stock.

If any person or group becomes an acquiring person:

- . The Hard Disk Drive group right will entitle its holder to purchase, at the Series B purchase price, a number of shares of DLT & Storage Systems group stock with a market value equal to twice the Series B Purchase Price; and
- . The Hard Disk Drive group right will entitle its holder to purchase, at the Series C purchase price, a number of shares of Hard Disk Drive group stock with a market value equal to twice the Series C Purchase Price.

In certain circumstances after the rights have been triggered, we may exchange the rights, other than rights owned by an acquiring person, at an exchange ratio of one share of DLT & Storage Systems group stock per the DLT & Storage Systems group right and one share of Hard Disk Drive group stock per the Hard Disk Drive group right.

If, following the time a person becomes an acquiring person:

- . Quantum is acquired in a merger or other business combination transaction and Quantum is not the surviving corporation;



- . any person consolidates or merges with Quantum and all or part of the common stock is converted or exchanged for securities, cash or property of any other person; or
- . 50% or more of Quantum's assets or earning power is sold or transferred,

each the DLT & Storage Systems group right and each Hard Disk Drive group right will entitle its holder to purchase, for the Series B purchase price or Series C purchase price, a number of shares of common stock of the surviving entity in any such merger, consolidation or other business combination or the purchaser in any such sale or transfer with a market value equal to twice the Series B purchase price or Series C purchase price.

The rights will expire on August 4, 2008, unless we extend or terminate them as described below.

At any time until a public announcement that an acquiring person has become such, our board of directors may redeem all of the rights at a price of \$0.01 per right. On the redemption date, the right to exercise the rights will terminate and the only right of the holders of rights will be to receive this price.

A holder of a right will not have any rights as a stockholder of Quantum, including the right to vote or to receive dividends, until a right is exercised.

At any time prior to the occurrence of a distribution date, we may, without the approval of any holders of rights, supplement or amend any provision of the restated rights agreement in any manner, whether or not such supplement or amendment is adverse to any holders of the rights. From and after the occurrence of a distribution date, we may, without the approval of any holders of rights, supplement or amend the restated rights agreement:

- . to cure any ambiguity,
- . to correct or supplement any provision that may be defective or inconsistent,
- . subject to certain exceptions, to shorten or lengthen any time period thereunder, or
- . in any manner that we may deem necessary or desirable and which does not adversely affect the interests of the holders of Rights, other than an acquiring person.

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The restated rights agreement contains provisions designed to prevent the inadvertent triggering of the rights. For example, it gives a person who has inadvertently acquired 20% or more of the outstanding shares of a class of tracking stock and does not have any intention of changing or influencing the control of Quantum the opportunity to sell a sufficient number of shares so that such acquisition would not trigger the rights. In addition, the rights will not be triggered and a divestiture of shares will not be required by our repurchase of shares of tracking stock outstanding which could raise the proportion of shares held by a person to over the applicable 20% threshold. However, any person who exceeds such threshold as a result of our stock repurchases will trigger the rights if the person subsequently acquires any additional shares of tracking stock.

We have filed a copy of the form of the restated rights agreement with the SEC as an exhibit to the registration statement of which this proxy statement is a part. Upon request, we will provide you with a copy of the restated rights agreement free of charge.

Certain Anti-Takeover Provisions of Delaware Law and the Restated Certificate of Incorporation, the By-laws and the Restated Rights Agreement

The following discussion concerns certain provisions of Delaware law, the restated certificate of incorporation, our by-laws, and the restated rights agreement that could be viewed as having the effect of discouraging an attempt to obtain control of Quantum. These provisions are similar in many respects to those currently applicable to us.

#### Delaware Law

Section 203 of the Delaware General Corporation Law. Under certain circumstances, Section 203 of the Delaware General Corporation Law limits the ability of an "interested stockholder" to effect various business combinations with Quantum for a three-year period following the time that such stockholder became an interested stockholder. An "interested stockholder" is defined as a holder of 15% or more of the outstanding voting stock.

An interested stockholder may engage in a business combination transaction with Quantum within the three-year period only if:

- . our board of directors approved the transaction before the stockholder became an interested stockholder or approved the transaction in which the stockholder became an interested stockholder;
- . the interested stockholder acquired at least 85% of the voting stock in the transaction in which it became an interested stockholder; or
- . our board of directors and the holders of shares entitled to cast two-thirds of the votes entitled to be cast by all of the outstanding voting shares held by all disinterested stockholders approve the transaction.

#### Restated Certificate of Incorporation and By-laws

Authorized Shares. The restated certificate of incorporation will provide that we may from time to time issue shares of preferred stock in one or more series, the terms of which will be determined by our board of directors, and common stock of either class. We will not solicit approval of our stockholders unless our board of directors believes that approval is advisable or is required by Nasdaq regulations or Delaware law. This could enable our board of directors to issue shares to persons friendly to current management which could render more difficult or discourage an attempt to obtain control of Quantum by means of a merger, tender offer, proxy contest or otherwise, and protect the continuity of our management. These additional shares also could be used to dilute the stock ownership of persons seeking to obtain control of our company.

Stockholder Proposals and Nominations The by-laws provide that any stockholder may present a nomination for a directorship at an annual meeting of stockholders only if advance notice of such nomination has been delivered to Quantum not less than 20 days or more than 60 days prior to the meeting. If less than 30 days notice or public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder must be received not later than 10 days after the notice was mailed or the disclosure made. Similarly, any stockholder may present a proposal at an annual

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meeting only if advance notice of the proposal has been delivered to Quantum not less than 60 days or more than 90 days prior to the meeting. If less than 70 days notice or public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder must be received not later than 10 days after the notice was mailed or the disclosure made. The foregoing notices must describe the proposal to be brought at the meeting or the nominee for director, as applicable, as well as provide personal information regarding the stockholder giving the notice, the number of shares owned by the stockholders, his or her interest in such proposal and, with respect to nominations for directorships, whether the stockholder intends to request cumulative voting in the election of directors at the meeting. For additional information on cumulative voting, see "--Description of DLT & Storage Systems group stock and Hard Disk Drive group stock--Voting Rights--Cumulative Voting." These procedural requirements could have the effect of delaying or preventing the submission of matters proposed by any stockholder to a vote of the stockholders.

#### Restated Rights Agreement

As described under "--Restated Rights Agreement," the restated rights agreement will permit disinterested stockholders to acquire additional shares of Quantum or of an acquiring company at a substantial discount in the event of certain described changes in control. The restated rights agreement is intended to discourage anyone from buying shares of common stock having more than 20% of the voting power of either class of tracking stock shares without board of directors' approval.

#### United States Federal Income Tax Considerations

The following discussion is a summary of the principal United States federal income tax consequences of the implementation of the tracking stock proposal. This discussion, including the Ernst & Young LLP opinion discussed below, is based on the Internal Revenue Code of 1986, Treasury Department regulations, published positions of the Internal Revenue Service, and court decisions now in effect, all of which are subject to change. In particular, Congress could enact legislation affecting the treatment of stock with characteristics similar to the DLT & Storage Systems group stock and the Hard Disk Drive group stock, or the Treasury Department could issue regulations or other guidance that change current law. Any future legislation or regulations (or other guidance) could apply retroactively to the implementation of the tracking stock proposal. See "--Clinton Administration Proposal" below.

This discussion addresses only those of you who hold your existing common stock and would hold your DLT & Storage Systems group stock and Hard Disk Drive group stock as a capital asset and did not acquire your shares in a compensatory transaction, including the exercise of employee stock options. We have included this discussion for general information only; it does not discuss

all aspects of United States federal income taxation that may be relevant to you in light of your particular tax circumstances. This discussion does not apply to you if you are a tax-exempt organization, S corporation or other pass-through entity, mutual fund, small business investment company, regulated investment company, insurance company or other financial institution, broker-dealer or are otherwise subject to special treatment under the federal income tax laws. This discussion also does not apply to those of you who hold your existing common stock as part of a straddle, hedging or conversion transaction. You should consult your own tax advisor with regard to the application of the federal income tax laws, as well as to the applicability and effect of any state, local, or foreign tax laws to which you may be subject.

#### Tax Implications of the Tracking Stock Proposal to Stockholders

In the opinion of Ernst & Young LLP, the tracking stock proposal will result in a tax-free reorganization for federal income tax purposes. This means that:

- . You will not recognize any income, gain or loss on the exchange of your existing common stock for shares of DLT & Storage Systems group stock and Hard Disk Drive group stock;
- . You will recognize capital gain or loss on any cash received in lieu of fractional shares of Hard Disk Drive group stock equal to the difference between the amount of cash

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received and the basis allocated to the fractional shares;

- . Your basis in the existing common stock held immediately before the implementation of the tracking stock proposal will be allocated between the DLT & Storage Systems group stock and Hard Disk Drive group stock received, including any fractional shares deemed received, in proportion to the fair market value of such DLT & Storage Systems group stock and Hard Disk Drive group stock on the date the tracking stock proposal is implemented;
- . Your holding period of the DLT & Storage Systems group stock and Hard Disk Drive group stock will include the holding period of the existing common stock; and
- . Any gain or loss recognized upon a subsequent sale or exchange of either the DLT & Storage Systems group stock or Hard Disk Drive group stock will be capital gain or loss.

#### Tax Implications of a Conversion of DLT & Storage Systems group stock or Hard Disk Drive group stock

Ernst & Young LLP has advised that if we exercise our option to convert one class of tracking stock into the other class of tracking stock, that conversion will be tax-free to you. You will have a carry-over adjusted tax basis in your newly received tracking stock and generally a holding period that includes the holding period of the tracking stock you surrendered in the exchange.

#### No Internal Revenue Service Ruling

No ruling has been sought from the Internal Revenue Service. The Internal Revenue Service has announced that it will not issue any advance rulings on the classification of an instrument that has certain voting and liquidation rights in an issuing corporation but whose dividend rights are determined by reference to the earnings of a segregated portion of the issuing corporation's assets, including assets held by a subsidiary. In addition, there are no court decisions or other authorities that bear directly on the effect of the features of the DLT & Storage Systems group stock and Hard Disk Drive group stock. The opinion of Ernst & Young LLP is not binding on the Internal Revenue Service or the courts and merely represents its best judgment based upon existing authorities and certain assumptions and customary representations made to Ernst & Young LLP by management.

It is possible, therefore, that the Internal Revenue Service could assert successfully that the receipt of the DLT & Storage Systems group stock and Hard Disk Drive group stock as well as the subsequent exchange of the DLT & Storage Systems group stock and Hard Disk Drive group stock could be taxable to you and to us. The Internal Revenue Service could also successfully assert that gain from a subsequent sale of the Hard Disk Drive group stock or the DLT & Storage Systems group stock is taxable as ordinary income rather than capital gain. Once again, you should consult your own tax advisor.

#### Clinton Administration Proposal

A recent proposal by the Clinton Administration would impose a corporate level tax on the issuance of stock similar to the DLT & Storage Systems group stock or the Hard Disk Drive group stock. For a description of the risks associated with this proposal, see "Risk Factors--Recent Clinton Administration Proposal could result in taxation of issuance of tracking stock."

## Nasdaq Listings

We will seek the listing of both the DLT & Storage Systems group stock and the Hard Disk Drive group stock on Nasdaq under the symbols "QDSS" and "QHDD," respectively.

## Exchange Procedures

Shortly after the implementation of the tracking stock proposal, you will receive instructions on how you may, at your option, exchange your existing stock certificates for new certificates representing your DLT & Storage Systems group stock and your Hard Disk Drive group stock.

## Stock Transfer Agent and Registrar

Our existing transfer agent, Harris Trust and Savings Bank, will act as the registrar and transfer agent for both the DLT & Storage Systems group stock and the Hard Disk Drive group stock.

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## Financial Advisors

Lehman Brothers Inc. and Salomon Smith Barney Inc. are acting as financial advisors in connection with the tracking stock proposal. We have paid \$1 million in fees to each of them. We will pay each of them an advisory fee equal to 0.15% of the increase in our market capitalization comparing the market capitalization of the DLT & Storage Systems group stock and Hard Disk Drive group stock during the ten-trading day period beginning 90 days after implementation of the tracking stock proposal to the market capitalization of our existing common stock during the ten-trading period prior to public announcement of the tracking stock proposal. The market capitalization of our existing common stock during that ten-trading day period was \$3.2 billion. We will receive a credit against the advisory fee for the \$1 million we have previously paid to them. If the increase in market capitalization of the DLT & Storage Systems group stock and Hard Disk Drive group stock using average closing prices during the ten-trading day period beginning 180 days after the implementation of the tracking stock proposal is at least 90% of the increase in the market capitalization of the DLT & Storage Systems group stock and the Hard Disk Drive group stock determined above, we will pay each of the financial advisors an additional fee equal to 15% of the advisory fee.

We have also agreed to reimburse these advisors for their reasonable out-of-pocket expenses, including the fees and expenses of their lawyers, and to indemnify them against liabilities under the Securities Act of 1933 and certain other liabilities.

## Effect on Existing Options and Convertible Notes

If the tracking system proposal is implemented, each outstanding stock option under our existing stock option plans will be converted into separately exercisable options to acquire one share of DLT & Storage Systems group stock and 0.5 of a tracking stock proposal share of Hard Disk Drive group stock. The exercise price for the resulting DLT & Storage Systems group stock options and Hard Disk Drive group stock options will be calculated by multiplying the exercise price under the existing stock option by a fraction, the numerator of which is the opening price of the applicable class of tracking stock underlying the option on the first date that stock is traded after the implementation of the tracking stock proposal and the denominator of which is the sum of the opening prices for the DLT & Storage Systems group stock and the Hard Disk Drive group stock.

If the tracking stock proposal is implemented, each of our 7% convertible subordinated notes, which currently are convertible into shares of existing common stock, will become convertible into shares of DLT & Storage Systems group stock and shares of Hard Disk Drive group stock. The number of shares of DLT & Storage Systems group stock and Hard Disk Drive group stock into which each note will be convertible is equal to the numbers of the shares which the holder of the note would receive under the tracking stock proposal had such note been converted immediately prior to the implementation of the tracking stock proposal. The notes will not be separately convertible into solely DLT & Storage Systems group stock or solely Hard Disk Drive group stock. The exercise price and maturity date of each convertible note will not be affected by the implementation of the tracking stock proposal.

## No Dissenters' Rights

Under Delaware law, stockholders who dissent from the tracking stock proposal will not have appraisal rights.

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## OPERATIONS

You should read this discussion with our consolidated financial statements. Historical results and percentage relationships may not necessarily be indicative of operating results for any future periods.

### Recent Developments

In May 1999, we announced a definitive agreement to acquire Meridian Data, Inc. Meridian is a developer and manufacturer of network attached storage solutions utilizing both conventional hard disk drive and optical disk technologies for the PC local area network environment. The closing of this acquisition is subject to approval of Meridian's stockholders and certain other closing conditions. For additional information on the terms and conditions of the Meridian acquisition, see "--Liquidity and Capital Resources."

On June 3, 1999, we announced that our first quarter earnings are currently expected to be in the range of \$.05 to \$.15 for the quarter ending June 27, 1999, on sequentially lower revenues. The expected decline in revenue and earnings is attributed to aggressive pricing in the desktop hard disk drive market.

### Results of Operations

#### Fiscal Year 1999 Compared With Fiscal Year 1998

Revenue. Revenue in fiscal year 1999 was \$4.9 billion, compared to \$5.8 billion in fiscal year 1998, a decrease of 16%. The decrease in revenue reflected lower revenue from sales of desktop and high-end hard disk drives, partially offset by an increase in DLTtape drive revenue, total DLTtape media cartridge revenue and consolidation of ATL's revenue effective September 28, 1998. We continued to experience favorable market conditions for DLTtape products, and experienced strong demand and increased sales for these products in the second half of fiscal year 1999 as compared to the second half of fiscal year 1998. The decline in desktop hard disk drive revenue reflected a decline in average unit prices and, to a lesser extent, a lower level of shipments to leading computer equipment manufacturers. The decline in average unit prices reflected the intense competitive pricing pressures in fiscal year 1999, and the growth of the low cost PC market, which has become a higher proportion of the overall desktop PC market. Although high-end hard disk drive shipments increased in fiscal year 1999, increased competitive pricing pressures resulted in reduced average unit prices and lower high-end hard disk drive revenue.

Sales to our top five customers in fiscal year 1999 represented 42% of revenue, compared to 45% of revenue in fiscal year 1998. These amounts reflected a retroactive combination of the sales to Compaq and Digital Equipment as a result of their merger in June 1998. Sales to Compaq were 14% of revenue in fiscal year 1999, compared to 18% of revenue in fiscal year 1998, including sales made to Digital Equipment. Sales to Hewlett-Packard were 14% of revenue in fiscal year 1999, compared to 13% of revenue in fiscal year 1998.

Sales to computer equipment manufacturers and distribution channel customers were 63% and 34% of revenue, respectively, in fiscal year 1999 compared to 63% and 37% of revenue in fiscal year 1998. The remaining revenue in fiscal year 1999 represented DLTtape media cartridge royalty revenue and sales to value added resellers.

Gross Margin Rate. Our gross margin rate in fiscal year 1999 was 17.8%, compared to 15.1% in fiscal year 1998. The gross margin rate in fiscal year 1998 reflected the impact of a \$103 million special charge related to the transition to a new generation of high-end disk drive products, and consisted primarily of inventory write-offs and adjustments, and losses related to firm inventory purchase commitments. Excluding the special charge, the gross margin rate was 16.9% in fiscal year 1998. The 0.9 percentage point increase in fiscal year 1999 reflected increased revenues from DLTtape media cartridge royalties, as well as an increased proportion of revenue from higher margin DLTtape and library products. This was partially offset by the decline in gross margins earned on desktop hard disk drives as a result of intense competitive pricing pressures in fiscal year 1999.

Research and Development Expenses. Research and development expenses in fiscal year 1999 were \$353 million, or 7.2% of revenue, compared to \$322 million, or 5.5% of revenue, in fiscal year 1998. This increase reflected higher expenses related to new tape drive products and new

information storage products and technologies, including Super DLTtape technology and, to a significantly lesser extent, optical storage technology and the consolidation of ATL's expenses.

Sales and Marketing Expenses. Sales and marketing expenses in fiscal year 1999 were \$191 million, or 3.9% of revenue, compared to \$169 million, or 2.9% of revenue, in fiscal year 1998. This increase reflected the consolidation of ATL's expenses and an increase in marketing and advertising costs associated

with DLTtape products.

**General and Administrative Expenses.** General and administrative expenses in fiscal year 1999 were \$94 million, or 1.9% of revenue, compared to \$89 million, or 1.5% of revenue, in fiscal year 1998. The increase in general and administrative expenses reflected the expansion of the DLT & Storage Systems group's infrastructure to support increased revenue and earnings growth and the consolidation of ATL's expenses, partially offset by the impact of cost control efforts.

**Purchased In-process Research and Development Expense.** We expensed purchased in-process research and development costs of \$89 million as a result of the ATL acquisition in fiscal year 1999. For additional information regarding the ATL acquisition and the costs associated with in-process research and development, see Note 5 of the Notes to Consolidated Financial Statements.

**Interest and Other Income/Expense.** Net interest and other income and expense in fiscal year 1999 was \$2.4 million expense, compared to \$1.5 million income in fiscal year 1998. The expense in fiscal year 1999 reflected a \$6.8 million write-down of an equity investment.

**Loss from Investee.** Our investment and operating results related to our recording heads business have resulted in significant losses. We acquired a recording heads business from Digital Equipment in October 1994. In May 1997, we sold a 51% majority interest in our recording heads operations to Matsushita-Kotobuki, and formed a recording heads joint venture with Matsushita-Kotobuki. On October 28, 1998, we and Matsushita-Kotobuki agreed to dissolve the recording heads joint venture. In connection with the dissolution, we recorded a \$101 million loss in the third quarter of fiscal year 1999. This loss included a write-off of our investment in the recording heads joint venture, a write-down of our interest in facilities in Louisville, Colorado, and Shrewsbury, Massachusetts that were occupied by the recording heads joint venture, warranty costs resulting from magneto-resistive recording heads manufactured by the recording heads joint venture, and our 49% pro rata share in funding the recording heads joint venture's repayment of its obligations, primarily bank debt, accounts payable and other liabilities. See Note 6 of the Notes to Consolidated Financial Statements for additional discussion of the dissolution of the recording heads joint venture.

**Income Taxes.** Our effective tax rate in fiscal year 1999, excluding the write-off of the purchased in-process research and development, was 33%, compared to 26% in fiscal year 1998. The higher effective tax rate was primarily attributable to decreased benefits from foreign earnings taxed at less than the U.S. rate, a lower research and development credit, and increased state taxes. The remaining state valuation allowance was reversed in fiscal year 1998 as a result of the realization of the state deferred tax assets through tax planning. No tax benefit was currently recognizable for the charge for purchased in-process research and development.

**Net Income (Loss).** We reported a net loss of \$30 million in fiscal year 1999, compared to net income of \$171 million in fiscal year 1998. The decrease reflected the charge for purchased in-process research and development of \$89 million, the \$101 million loss related to the recording heads joint venture dissolution and the increase in operating expenses.

#### Fiscal Year 1998 Compared With Fiscal Year 1997

**Revenue.** Revenue in fiscal year 1998 was \$5.8 billion, compared to \$5.3 billion in fiscal year 1997, an increase of 9%. The increase in revenue reflected an increase in DLTtape drive and DLTtape media cartridge product shipments, as well as an increase in shipments across our other key product lines, including desktop and high-end hard disk drives. The increase in DLTtape drive revenue reflected growth in market acceptance of DLTtape technology and a shift in sales mix to higher storage capacity products which carry a higher per unit price. However, the average price at each storage capacity level of DLTtape drives and DLTtape media cartridges declined when compared with fiscal year 1997.

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The increase in DLTtape drive shipments reflected an increase in tape drive production volume, which was at a level high enough to meet product demand beginning in the third quarter of fiscal year 1998. However, the general availability of DLTtape drives resulted in sequentially lower DLTtape drive sales in the fourth quarter of fiscal year 1998 as a few large computer equipment manufacturer customers reduced purchases in order to adjust their inventory levels.

Declines in average unit prices for both desktop and high-end hard disk drive products substantially offset the increase in disk drive shipments. Oversupply and intensely competitive pricing, particularly in the second half of fiscal year 1998 and more significantly for the high-end disk drive products, caused such declines.

Sales to our top five customers were 45% of revenue in fiscal year 1998, compared to 43% in fiscal year 1997. These amounts reflect a retroactive combination of sales to Compaq and Digital Equipment as a result of their merger in June 1998. Sales to Compaq were 18% of revenue in fiscal year 1998, compared to 16% of revenue in fiscal year 1997, including sales to Digital Equipment. Sales to Hewlett-Packard were 13% of revenue in fiscal year 1998, compared to 11% of revenue in fiscal year 1997.

Sales to computer equipment manufacturers and distribution channel customers were 63% and 37% of revenue, respectively, for fiscal years 1998 and 1997.

Gross Margin Rate. Our gross margin rate increased 0.6 percentage points to 15.1% in fiscal year 1998, from 14.5% in fiscal year 1997. The increase in the gross margin rate reflected an increase in the gross margin rate earned on DLTtape drives and DLTtape media cartridges. In addition, DLTtape drive and DLTtape media cartridge products, which achieved a significantly higher gross margin rate than our other products, represented a higher proportion of our overall revenue in fiscal year 1998. The erosion of gross margins earned on hard disk drives, particularly in the second half of fiscal year 1998, and the \$103 million special charge in the third quarter of fiscal year 1998 largely offset these increases. The special charge related to the transition to a new generation of high-end disk drive products consisted primarily of inventory write-offs and adjustments, and losses related to firm inventory purchase commitments. Excluding the special charge, the gross margin rate was 16.9% in fiscal year 1998. The erosion of gross margins earned on hard disk drives and the special charge both reflected the oversupply and intensely competitive pricing in the desktop and high-end disk drive markets, particularly in the second half of fiscal year 1998.

Research and Development Expenses. Research and development expenses in fiscal 1998 were \$322 million, or 5.5% of revenue, compared with \$291 million, or 5.5% of revenue, in fiscal year 1997. The \$31 million increase in research and development expenses reflected higher expenses related to pre-production activity on new products, as well as expenses related to new information storage products and technologies, including Super DLTtape technology and, to a significantly lesser extent, optical storage technology.

Sales and Marketing Expenses. Sales and marketing expenses in fiscal year 1998 were \$169 million, or 2.9% of revenue, compared with \$149 million, or 2.8% of revenue, in fiscal year 1997. This increase primarily reflected the increased costs associated with supporting our higher sales volume.

General and Administrative Expenses. General and administrative expenses in fiscal year 1998 were \$89 million, or 1.5% of revenue, compared with \$87 million, or 1.6% of revenue, in fiscal year 1997.

Interest and Other Income/Expense. Net interest and other income and expense in fiscal year 1998 was income of \$1 million, compared with expense of \$41 million in fiscal year 1997. A decrease in interest expense, reflecting an approximately \$172 million year-over-year decrease in the average level of debt used to finance operations, and an increase in the year-over-year average level of cash, combined to cause this change.

Loss from Investee. The loss from investee reflected our equity share in the operating losses of the recording heads joint venture since May 16, 1997, when this joint venture was formed. Prior to May 16, 1997, we fully consolidated our recording heads operations. Our total losses from recording heads operations for fiscal year 1998 was \$75 million, compared to \$110 million for fiscal year 1997. The loss from investee for fiscal year 1998

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included a charge of approximately \$5 million, which represented our share of a third quarter charge in the recording heads joint venture's operating results for severance, equipment write-offs, lease termination and other costs associated with the recording heads joint venture's strategic actions. A combination of reduced unit prices, operating costs, manufacturing yields, product transitions and soft demand for certain recording heads programs, primarily those related to high-end disk drive products, resulted in losses by the recording heads joint venture.

Income Taxes. Our effective tax rate for fiscal years 1998 and 1997 was 26%. The state valuation allowance was reversed in fiscal year 1998 as a result of the realization of the state deferred tax assets through tax planning.

Net Income. We reported after-tax earnings of \$171 million in fiscal year 1998, compared to \$149 million in fiscal year 1997. The increase reflected increased sales and margins on DLTtape products, increased interest income, decreased interest expense, and lower net losses related to our involvement in recording heads operations due to our reduced ownership of these operations. Higher margins on DLTtape products, as compared with the eroded gross margins on hard disk drives, resulted in tape drive and DLTtape media cartridge products becoming a more significant source of our operating income in fiscal year 1998, particularly during the second half of the fiscal year. Lower margins on sales of desktop and high-end hard disk drives and the \$103 million

special charge related to high-end hard disk drives partially offset these increases.

#### Recent Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income," which we implemented in fiscal year 1999. SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components--revenue, expenses, gains, and losses--in a full set of general-purpose financial statements. The adoption of SFAS No. 130 changed our financial statement presentation but does not have an impact on our financial position or results of operations.

In June 1997, the FASB issued SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," which requires certain financial and description information about a company's reportable operating segments. We adopted SFAS No. 131 in fiscal year 1999. The adoption of SFAS No. 131 applies solely to disclosure and does not have an impact on our financial position or results of operations.

#### Liquidity and Capital Resources

Cash, cash equivalents and marketable securities were \$797 million at March 31, 1999 compared to \$714 million at March 31, 1998. We used cash in fiscal year 1999 primarily to purchase \$305 million of treasury stock, as discussed below, and to invest in property and equipment. Cash was provided by operating activities, primarily sales, the collection of accounts receivable, and a reduction in inventories.

In September 1998, we issued 16.9 million shares, including the reissuance of treasury shares, to the shareholders of ATL to complete the acquisition of ATL. The difference between the cost of the treasury stock and the value at which we reissued the shares resulted in a \$63 million reduction to retained earnings in fiscal year 1999. For additional information regarding the ATL acquisition, see Note 5 of the Notes to Consolidated Financial Statements.

During fiscal year 1999, we completed the share repurchase authorized by our board of directors of a total of 15.5 million shares. The total cost of such repurchases was \$305 million. Our intent in effecting the repurchase was to minimize the dilutive impact of the shares issued to complete the acquisition of ATL.

In December 1998, ATL entered into a senior credit facility that provides a \$35 million revolving credit line to ATL. The revolving credit line is co-terminous with our \$500 million revolving credit line, expiring in June 2000. At the option of ATL, borrowings under the revolving credit line bear interest at either the London interbank offered rate plus a margin determined by our total funded debt ratio, or at a base rate, with option periods of one to six months. At March 31, 1999, \$18 million was outstanding on ATL's revolving credit line.

We filed a registration statement which became effective on July 24, 1997, pursuant to which we may issue debt or equity securities, in one or more

series or issuances, limited to \$450 million aggregate public offering price. Under the registration statement, in July 1997, we issued \$288 million of 7% convertible subordinated notes. The notes mature on August 1, 2004, and are convertible at the option of the holder at any time prior to maturity, unless previously redeemed, into shares of our common stock at a conversion price of \$46.325 per share. We have the option to redeem the notes on or after August 1, 1999 and prior to August 1, 2001, under certain conditions related to the price of our common stock. Subsequent to August 1, 2001, we may redeem the notes at any time. In the event of certain changes involving all or substantially all of our common stock, the holder would have the option to redeem the notes. Redemption prices range from 107% of the principal to 100% at maturity. The notes are unsecured obligations subordinated in right of payment to all of our existing and future senior indebtedness.

In June 1997, we entered into an unsecured senior credit facility that provides a \$500 million revolving credit line and expires in June 2000. At our option, borrowings under the revolving credit line bear interest at either the London interbank offered rate plus a margin determined by our total funded debt ratio, or at a base rate, with option periods of one to six months. At March 31, 1999, there was no outstanding balance drawn on this line.

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



We expect to spend approximately \$155 million in fiscal year 2000 for capital equipment and leasehold improvements. These capital expenditures will support the disk drive and tape drive businesses, research and development, and general corporate operations.

We believe that our existing capital resources, including the credit facility and any cash generated from operations, will be sufficient to meet all currently planned expenditures and sustain operations for the next 12 months. However, this belief assumes that operating results and cash flow from operations will meet our expectations.

See Note 7 of the Notes to Consolidated Financial Statements for additional information regarding long-term debt.

In May 1999, we announced a definitive agreement to acquire Meridian Data, Inc., pending approval of Meridian's stockholders and certain other closing conditions. Meridian is a developer and manufacturer of network attached storage solutions utilizing both conventional hard disk drive and optical disk technologies for the PC local area network environment.

Under the terms of the proposed agreement, Meridian's stockholders will receive either our existing common stock or both DLT & Storage Systems group stock and Hard Disk Drive group stock, depending on the timing and outcome of the tracking stock proposal and the proposed Meridian acquisition, which is expected to be completed by September 1999. If the acquisition is completed prior to the implementation of the tracking stock proposal, each outstanding share of Meridian's common stock will be converted into 0.489 of a share of our existing common stock, subject to adjustment based on the trading range of our existing common stock prior to the completion of the acquisition. If the tracking stock proposal is implemented prior to the completion of the Meridian acquisition, each outstanding share of Meridian's common stock will be converted into 0.489 of a share of DLT & Storage Systems group stock and 0.2445 of a share of Hard Disk Drive group stock, subject to adjustment based on the trading range of DLT & Storage Systems group stock and Hard Disk Drive group stock prior to the completion of the acquisition. In addition, under the terms of the proposed transaction, all Meridian stock options will be assumed by us. The acquisition will be accounted for as a purchase, and we expect to recognize a charge for purchased in-process research and development upon closing of the acquisition.

Meridian had revenue of \$4 million and \$18 million in the quarter ended March 31, 1999, and the year ended December 31, 1998, respectively. At March 31, 1999, Meridian had total cash and marketable securities of \$15 million. At December 31, 1998, Meridian had a net operating loss carryforward for U.S. federal income tax purposes of approximately \$32 million.

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In May 1999, we announced that the Board of Directors authorized the repurchase of up to \$200 million of our existing common stock through open market purchases made from time to time. In part, the intent of the repurchase would be to offset the dilutive impact of the shares issued to complete the Meridian acquisition. There are currently no other specific plans for shares that might be repurchased.

Year 2000

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

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

- . In the inventory phase we are listing and reviewing for criticality and risk all hardware, software, equipment, infrastructure, and desktop tools and applications.
- . In the assessment phase, we are determining whether we are converting, replacing or eliminating the impacted system or application.
- . In the resolution phase, we are developing and carrying out a formal plan.
- . Under stringent procedures in the testing phase, we are validating the system and application on its functionality to perform seamlessly in the year 2000.
- . In the certification phase, we are documenting and verifying all test results.

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

- . The critical level reflects short-term failure which would have a severe impact on our business operations and result in significant downtime or a manual effort to perform the required functions. Without this system or application, our business could not function.
- . Key level applications or systems, although required by us, are not mandatory for business survival. We do not expect the failure of key level applications to cause significant disruption to our operations. We can defer the work or devise manual back-up procedures to handle the interim needs.
- . Active level applications, although currently in use, are not required for our normal operations. We do not expect their failure to result in any disruption to our business.

We have made significant progress in our preparedness for year 2000. We have assessed and remedied all critical areas of our own operations, which include information technology, operating equipment with embedded chips or software and products. We have also certified readiness of these critical areas. We expect to complete assessment, resolution, testing, and certification of critical and key third parties by the end of May 1999.

We are currently addressing key level areas of our own operations, which includes information technology, operating equipment with embedded chips or software and products.

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- . The inventory phase is approximately 80% complete with an expected completion date of May 31, 1999.
- . The assessment phase is approximately 10% complete, with an expected completion date of June 30, 1999.
- . The resolution phase is expected to be complete by June 30, 1999.
- . The testing and certification phases are expected to be complete by August 31, 1999.

We are also developing contingency plans, based in part on the assessment results. Development of contingency plans is expected to be complete by August 31, 1999.

Our failure to complete critical readiness assessments, critical corrective actions or implement viable contingency plans in a timely matter could have a material adverse effect on our business, financial condition and operating results.

As indicated above, our risk assessment includes understanding the year 2000 readiness of our suppliers. Our risk assessment process associated with suppliers includes soliciting and analyzing responses to questionnaires distributed to these suppliers, as well as onsite interviews with certain critical suppliers. Critical suppliers include a number of suppliers with operations in China, India and Mexico that are our sole source of certain components for tape drives. We have received 100% of responses from an initial survey sent to suppliers and have received 100% of responses from a second follow-up survey sent to those identified as critical suppliers. To further assess year 2000 readiness, we are conducting on-site visits of certain critical suppliers and expect to complete these visits by the end of May 1999.

The year 2000 readiness of Matsushita-Kotobuki, our hard disk drive manufacturing partner, is of particular importance. Matsushita-Kotobuki implemented a year 2000 compliance project plan in April 1998, similar in content and structure to that employed by us. We have been informed that all of

Matsushita-Kotobuki's critical processes, applications and hardware have been tested and certified for year 2000 compliance. Also, we understand that all key and active processes, applications and hardware will be year 2000 compliant and certified by the end of June 1999. We hold regular meetings to verify that Matsushita-Kotobuki is, and will remain, on schedule. Additionally, we are currently performing limited on-site evaluations of Matsushita-Kotobuki operations in Japan, Singapore and Ireland, and expect completion by the end of May 1999. Our reliance on Matsushita-Kotobuki and other critical suppliers, and therefore, on the proper functioning of their information systems and software, means that any failure by these critical suppliers to address year 2000 issues could have a material adverse impact on our business, financial condition and results of operations. Based on the level of risk assessed of critical suppliers, we may develop contingency plans, including the possibility of a planned increase in inventory or other measures.

We are also working closely with key customers to evaluate their readiness for year 2000 and are currently performing on-site visits as deemed necessary. The ability of customers to deal with year 2000 issues may affect their operations and their ability to order and pay for products. Based on the level of risk assessed, we may develop contingency plans to address possible changes in customer order patterns.

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

Our products are inherently year 2000 compliant; our families of disk drive products have no internal date clocks, and therefore are not impacted by the year 2000 problem. Our DLT tape drives use a four-character string to describe the year and will not be affected by the year 2000 problem. Additionally, we do not need to make any modifications to any disk or tape drive's internal firmware to accommodate the transition to the year 2000. We consider a disk drive or tape product to be year 2000 compliant when used in accordance with our product information. That product will not generate an error in data related to the year change

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from December 31, 1999 to January 1, 2000. Furthermore, year 2000 compliant products will correctly handle leap years, including leap years beginning January 1, 2000 and thereafter. However, the assessment of whether a complete computer system operates correctly depends on factors such as the operating system, basic input/output systems, software and components, which companies other than Quantum provide.

Costs incurred to date in addressing the year 2000 issue have been approximately \$8.2 million, with \$5.5 million and \$2.7 million of this cost in the Hard Disk Drive group and the DLT & Storage Systems group, respectively. Based on assessment and resolution projects underway, we currently expect that the total cost of addressing the year 2000 issue, including both incremental spending and redeployed resources, will not exceed \$15 million, with \$10.3 million and \$4.7 million of this cost in the Hard Disk Drive group and the DLT & Storage Systems group, respectively. We expect a majority of the cost to relate to the redeployed resources. However, as the year 2000 efforts continue, we may use third-party vendors or service providers as necessary to assure that we successfully meet program milestones. The costs related to the year 2000 effort in fiscal year 1999 represented approximately 10% of our total information technology budget for the fiscal year and are expected to represent approximately 10% of our total information technology budget for fiscal year 2000. We have not deferred any significant system projects due to the year 2000 program. As our risk assessment and correction activities continue, these costs may change. In addition, our total cost estimate does not include potential costs related to any customer or other claims resulting from our failure to adequately correct year 2000 issues.

Based on assessment and remediation completed to date, we do not expect any significant disruption to our operations or operating results as a result of year 2000 issues. We are taking all steps we believe are appropriate to identify and resolve any year 2000 issues; however, the extent such issues may affect us is uncertain. We cannot assure you that we will be able to assess, identify and correct year 2000 issues in a timely or successful manner. We also cannot assure you that our suppliers, service providers, customers or other third parties will be year 2000 compliant.

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

addressing year 2000 issues.

#### Euro Impact

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

#### BUSINESS OF THE DLT & STORAGE SYSTEMS GROUP

The DLT & Storage Systems group designs, develops, manufactures, licenses and markets DLTtape drives, DLTtape media cartridges and tape libraries which are used to back-up large amounts of data stored on network servers. Digital Linear Tape, or DLTtape, is the DLT & Storage Systems group's half-inch tape technology that is the de facto industry standard for data back-up in the mid-range network server market, which includes network servers priced between \$10,000 and \$500,000. The DLT & Storage Systems group's DLTtape media cartridges are manufactured primarily by licensed third party manufacturers.

Tape back-up is used as an efficient and cost-effective means to make back-up and archive copies of large amounts of data often stored on network servers which are high speed computers that allow many computer users to access shared computer programs and data. Tape drives are devices that read and write data typically stored on a network server's hard disk drive storage system to magnetic tape that is stored on a reel housed within the media cartridges. Tape drives provide relatively slower data access times when compared to hard disk drives but tape drives are able to cost-effectively store larger quantities of data that must be protected but infrequently accessed. Each tape drive reads and writes data on multiple media cartridges to store data in the same way a video cassette recorder is able to replay and record TV programs on multiple video cassette tapes. Tape libraries are systems that allow for the automatic functioning of multiple tape drives and media cartridges within a single storage system.

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According to International Data Corporation, the DLT & Storage Systems group was the worldwide revenue leader for all categories of tape drives used for data storage and back-up in calendar year 1997 and is projected to have been the leader in calendar year 1998. According to Dataquest, DLTtape drives are projected to have accounted for 24% of total tape drive market revenue in calendar year 1998, up from 2% in calendar year 1994. The DLT & Storage Systems group is also a leader in the tape library market for mid-range network servers.

The DLT & Storage Systems group's acquisition of ATL in October 1998 allowed the DLT & Storage Systems group to become the first provider of tape libraries that serve the entire tape library data storage market from desktop computers to enterprise class computers. The DLT & Storage Systems group also plans to enter the rapidly emerging market for network attached storage appliances by offering products designed to meet the requirements of workgroup computing environments where multiple computer users access shared data files over a local area network. Network attached storage appliances are storage devices which separately perform the storage function for networks of computers.

DLTtape drives require compatible DLTtape media cartridges. Historical use of DLTtape drives has shown that each drive uses approximately 15-20 media cartridges per year. Growth in the installed base of DLTtape drives will result in increasing demand for DLTtape media cartridges.

The installed base of DLTtape drives at the beginning of fiscal year 1999 was approximately 600,000, and grew to over 1 million during the fiscal year. The larger installed base resulted in shipments of approximately 14 million DLTtape media cartridges in fiscal year 1999. The DLT & Storage Systems group expects the installed base to grow at least by the same amount in fiscal year 2000. This expectation is a forward-looking statement and actual results may be affected by the factors discussed in "--Risk Factors Relating to the DLT & Storage Systems group." In September 1998, in an effort to continue to expand the installed base of DLTtape drives, the DLT & Storage Systems group also began licensing a third party supplier to manufacture and sell DLTtape drives. The DLT & Storage Systems group will receive a royalty fee on all sales of DLTtape drives by this licensee.

Historically, the DLT & Storage Systems group derived revenue from the direct sale of both DLTtape drives and DLTtape media cartridges. Beginning in 1998, the DLT & Storage Systems group's licensed third party DLTtape media manufacturers began selling DLTtape media cartridges. The DLT & Storage Systems group receives a royalty fee on all DLTtape media cartridges sold by its licensees which, while resulting in lower revenue than DLTtape media sold directly by the DLT & Storage Systems group, generates comparable income from operations. The DLT & Storage Systems group prefers DLTtape media cartridge sales to occur through its license model because this minimizes the DLT & Storage Systems group's operational risks and expenses and provides a more efficient distribution channel. The DLT & Storage Systems group believes that

the large installed base of DLTtape drives and its licensing of DLTtape drives and media cartridges give the DLT & Storage Systems group a unique competitive advantage.

#### Industry Background

The importance of stored digital content has moved from a peripheral concern to the central issue in computing. This is a result of several factors including:

- . Growth in Digital Content. Digital content--data, graphics, video and audio--is growing at an exponential rate. This growth has been made possible by new technologies that make it easy and cost-effective to transform, move, access and store mass amounts of digital content. When one gets cash from an ATM machine, starts a personal computer, buys gas with a charge card, goes to the doctor or dentist, makes a hotel or airline reservation or checks a book out of the library--one is either tapping into stored digital content, creating new digital content that has to be stored somewhere, or both.
- . Shift from Mainframe to Networked Server Computing. Within enterprises, there has been a fundamental shift from mainframe to networked server computing that allows many users to share data and applications stored on a single high-speed computer or network of high-speed computers. This shift has resulted in the

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distribution of mission critical information from the mainframe to network servers. It has also contributed significantly to the volume growth of digital content, and has significantly increased the complexity of managing digital content.

- . Dramatic Growth of Internet. The Internet has grown dramatically from a relatively small research-based network to a worldwide network of networks. The Internet has created greater volumes of stored digital content, given further momentum to the growth of networked servers within businesses, and created the entirely new medium of exchange known as electronic commerce.

As businesses increasingly depend on stored digital content, it must be secure from human or technical errors, available 24 hours a day, seven days a week, and recoverable after a disaster. Storage system solutions must reliably and efficiently capture, protect, manage, back up and archive stored content.

Because digital content is growing so rapidly in volume and importance, the demand for storage and back-up capacity is also growing rapidly. International Data Corporation estimates that worldwide storage needs are growing by up to 100% per year. This rapid growth is providing many opportunities for products and services that are integral to total storage solutions, including devices such as tape drives; systems and subsystems such as tape libraries; storage management software; and storage services such as data back-up, disaster recovery, media management.

Overview of the Tape Storage Market. The rapid growth in mission-critical digital content has created a demand for high reliability, high capacity, high performance data back-up systems. Tape storage is the lowest cost means of storing large quantities of digital content when compared with fixed or removable digital storage devices, because tape allows for larger storage surface areas. Tape storage also offers the lowest price/capacity ratio of any removable storage technology. As a result, tape storage has been used for many years to back up and archive mission critical data stored on hard disk drives and data that is not frequently accessed but is retained for long periods of time.

Historically, the tape storage market has tracked the evolution of the computer systems market. Tape storage initially served the mainframe back-up and archival market. As the workstation computing market began to grow at the end of the 1980s and into the 1990s, new tape drives were designed to meet the back-up and archival needs of the workstation market. These tape drives included the 4mm and 8mm tape media, which offered the capacities and lower price points required for this market. As the Unix and Windows NT network server markets grew rapidly, the tape market for mid-range network servers emerged. Unix and Windows NT are popular operating systems used for network servers. The mid-range network server market requires tape storage solutions with high capacity, high performance, high reliability and greater scalability. The mid-range network server market is expected to continue to grow as a result of the continued expansion of the Unix and Windows NT network server markets.

Emerging Storage Industry Trends. During the past ten years, the computer industry has been transformed by the emergence of dominant platforms, networked computing and plug-and-play ease of use. The storage industry is now beginning to experience similar changes as a result of the following:

- . Storage architectures. Enterprise-level storage architectures attempt to

solve a very complex problem for an entire enterprise--integrating storage management across diverse, distributed computers, networks and operating systems. These architectures are high-end solutions, designed to meet enterprise-wide transaction processing needs, and may require the installation of an entire proprietary data storage system.

- . Storage area networks. Storage area networks are intended to function at the high-end server level where most enterprise storage is based. Storage area networks are dedicated high-speed networks that expedite the movement of data from one part of the system to another without tying up servers or clogging local area networks.
- . Network attached storage appliances. Network attached storage appliances help overcome difficulties in sharing and

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protecting data created in workgroup computing environments where multiple users access shared data files over a local area network. They allow users to easily add plug-and-play storage capacity to networks without having to disable the network server, an inconvenient and expensive task. Network attached storage appliances and storage area networks are complementary because they focus on different segments of an organization's total digital content storage needs--workgroup vs. enterprise. The DLT & Storage Systems group expects both approaches to co-exist for the foreseeable future.

- . New storage intelligence. Storage area networks and network attached storage appliances require intelligence at the storage system level, and the performance of both can be substantially improved with intelligence at the device and sub-system levels. System level intelligence allows for plug-and-play installation of storage devices, communication between storage devices, such automated data transfer from disk to tape.

#### The DLT & Storage Systems Group Solution

The DLT & Storage Systems group designs and manufactures DLTtape drives, DLTtape media cartridges and tape libraries that address many of the diverse storage needs of workgroups and enterprises. The DLT & Storage Systems group plans to enter the rapidly emerging market for network attached storage appliances with products targeted at workgroup computing environments where multiple users access shared data files over a local area network.

The DLT & Storage Systems group's DLTtape technology has emerged as the de facto industry standard for data back-up in the mid-range network server market primarily for the following reasons:

- . Higher capacity/cost-effectiveness. More digital information can be stored on DLTtape than 4mm or 8mm tape as a result of the greater media recording area of half-inch tape, patented linear recording pattern and single reel media cartridge design. As a result, DLTtape technology compares favorably on a price-to-capacity basis.
- . Higher performance. The time periods allocated for network servers to back up and archive data are becoming shorter. DLTtape drive's faster data transfer rates address this issue.
- . Higher reliability. The DLT & Storage Systems group believes that DLTtape technology has proven more reliable than 4mm or 8mm tape technology. This high reliability is due in part to the DLTtape drive's patented head guide assembly that reduces tape wear and ensures data tracking accuracy. Specifically, when compared to 4mm and 8mm tape drives, DLTtape drives have much lower tape-to-head friction and no contact between the rollers and the tape media's magnetic coating.
- . Greater scalability. DLTtape products have higher capacity and compatibility to previous generations of DLTtape products, providing a scalable data back-up solution that can cost-effectively grow with an organization's data back-up needs.

The DLT & Storage Systems group's current storage solutions have the following core strengths:

- . Broad industry acceptance of DLTtape technology. The broad acceptance of DLTtape technology in the mid-range network server market has resulted in DLTtape becoming an industry platform for data protection. The DLT & Storage Systems group maintains close relationships with leading computer equipment manufacturers. The DLT & Storage Systems group believes these computer equipment manufacturers will set the industry standards, drive product volume and continue to advance the market position of DLTtape technology. In addition, many companies, including the DLT & Storage Systems group's customers and competitors, design products based on DLTtape technology including storage sub-systems, network servers and storage management software. The emergence of DLTtape also has enabled

the development of an entirely new market segment of mid-range tape libraries. DLTtape products are incorporated into the DLT & Storage Systems group's tape libraries as well as

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many of the DLT & Storage Systems group's competitor's products. As a result, many companies base significant portions of their business on DLTtape technology.

- . A broad tape library family. The DLT & Storage Systems group's ATL acquisition allowed it to become the first company in the industry to provide tape libraries that serve the entire tape library market from desktop to enterprise wide data storage. The DLT & Storage Systems group's broad line of tape libraries is particularly attractive to computer equipment manufacturers customers who often prefer to deal with a limited number of suppliers.
- . A unique storage system architecture. The DLT & Storage Systems group's Prism Library Architecture(TM), on which many of the DLT & Storage Systems group's tape libraries are built, is a unique architecture which enables storage systems to incorporate both tape drives and hard disk drives within the same tape library. This enables tape libraries to take advantage of both the speed of hard disk drives and the cost-effectiveness of tape storage.
- . Efficient storage management capabilities. The DLT & Storage Systems group's WebAdmin(TM), the industry's first Internet browser-based tape library management system, allows system administrators to monitor widely distributed storage systems at remote locations with point-and-click ease.

#### The DLT & Storage Systems Group Strategy

The DLT & Storage Systems group's strategy is to leverage its strength and expertise in storage device technology and storage systems into broader industry leadership in storage systems and services. The DLT & Storage Systems group's goal is to develop not only the devices that store digital content, but also the intelligence that adds performance and functionality to storage devices and the systems that support network digital content storage.

The primary components of the DLT & Storage Systems group's business strategy are:

- . Extend the DLT & Storage Systems group's number one position in the tape drive and media cartridge market. The DLT & Storage Systems group plans to execute this strategy by:
  - 1) introducing new products such as those based on Super DLTtape technology, which has the potential to expand the DLT & Storage Systems group's technology leadership in the mid-range tape market. Super DLTtape technology will feature native data transfer rates of 10-40GB per second and native capacities of 100-500GB. The DLT & Storage Systems group plans to introduce its first product based on Super DLTtape technology in calendar year 1999.
  - 2) leveraging its relationships with licensees of its DLTtape drives and DLTtape media cartridges in order to expand the market for these products. The DLT & Storage Systems group's strategy is to expand the market for DLTtape drives, particularly the international market, further increasing demand for compatible DLTtape media cartridges.
  - 3) increasing the awareness of the need for data back-up. A research study commissioned by the DLT & Storage Systems group found that an estimated 88% of companies participating in the study did not have an effective disaster recovery plan in place. The DLT & Storage Systems group and 20 other companies have jointly launched the "Prove It" campaign to help companies evaluate, improve and implement effective disaster recovery plans.
- . Expand into the network attached storage appliance market. The DLT & Storage Systems group plans to introduce network attached storage appliances designed to meet the requirements of workgroup computing where multiple users access shared data files and data over a local area network. The DLT & Storage Systems group is developing a tape-based appliance featuring a fully integrated controller; pre-loaded back-up software; a tape library incorporating standard DLTtape drives and media

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cartridges; automatic connectivity for remote website management; and plug-and-play installation capability. The DLT & Storage Systems group is also developing a hard disk drive-based appliance featuring a fully

integrated controller, file system and hard disk drive(s), and plug-and-play installation capability.

- . Further expand into the enterprise storage market. The DLT & Storage Systems group believes that the planned introduction of new products based on Super DLTtape technology, with higher storage capacity, faster data transfer rates, and the added benefits derived from the Prism Library Architecture and WebAdmin, will enable the DLT & Storage Systems group to further expand into the enterprise storage market. The DLT & Storage Systems group believes that the introduction of its enterprise-level P3000 series tape library in the fall of 1998 is the first step towards this expansion.
- . Expand storage services business. Through its acquisition of ATL, the DLT & Storage Systems group believes that it is now in a position to capitalize on the growing market opportunity to provide services for both the management of data and storage systems and the protection of data. The DLT & Storage Systems group believes that customers will increasingly rely on third parties to provide storage management services such as remote monitoring, trouble-shooting and maintenance of storage systems.

#### Products

The DLT & Storage Systems group's products include:

- . DLTtape drives. The DLT & Storage Systems group 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 6 megabytes (MB) per second (12MB compressed). The DLT7000 provides a combination of 35GB of native capacity (70GB compressed) and a sustained data transfer rate of 5MB per second (10MB compressed). The DLT4000 provides a combination of 20GB of native capacity (40GB compressed) and a sustained data transfer rate of 1.5MB per second (3MB compressed). The DLT & Storage Systems group expects to introduce a next generation DLTtape drive in calendar year 1999.
- . DLTtape media cartridges. The DLTtape family of half-inch tape media cartridges are designed and formulated specifically for use with DLTtape drives. The capacity of a DLTtape media cartridge is up to 40GB (80GB compressed). The DLT & Storage Systems group's half-inch tape cartridges take advantage of shorter wavelength recording schemes to enable read compatibility with future generations of DLTtape drives such as those based on Super DLTtape technology.
- . Tape libraries. The DLT & Storage Systems group 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. The DLT & Storage Systems group's tape libraries range from its tape autoloaders which accommodate a single DLTtape drive and up to 280GB of storage capacity to the P3000 series library which features Prism Library Architecture and can be configured in multiple units to scale up to 11.4 Terabytes of storage capacity.
- . Solid state storage systems. The DLT & Storage Systems group offers two families of solid state storage systems that are available in capacities ranging from 134MB to 3.2GB and have data access times that are up to 15 times faster than magnetic hard disk drives. Solid state storage systems store data on memory chips rather than magnetic disks used in standard hard disk drives. Solid state storage systems function within a computer system as if they were hard disk drives and enable significantly faster data access times.

#### Customers

The DLT & Storage Systems group's DLTtape drives have achieved broad market acceptance in the mid-range network server market with leading computer equipment manufacturers such as Compaq, Dell Computer Corporation, Hewlett-Packard, IBM,

StorageTek and Sun Microsystems, Inc. Customers for the DLT & Storage Systems group's tape libraries include Compaq, Sun Microsystems, Hewlett-Packard, IBM and EMC Corporation. To protect the competitive position of its tape library customers, the DLT & Storage Systems group operates the tape library portion of its business through its wholly owned ATL subsidiary which maintains an arms-length relationship with the DLT & Storage Systems group's DLTtape drive business.

Because the leading computer equipment manufacturers have a dominant market share for the computer systems into which the DLT & Storage Systems group's products are incorporated, the DLT & Storage Systems group's sales are concentrated with several key customers. Sales to the DLT & Storage Systems



group's top five customers in fiscal year 1999 represented 53% of revenue, compared to 63% of revenue in fiscal year 1998. These amounts reflected a retroactive combination of the sales to Compaq and Digital Equipment as a result of their merger in June 1998. Sales to Compaq were 25% of revenue in fiscal year 1999, compared to 36% of revenue in fiscal year 1998, including sales made to Digital Equipment. Sales to Hewlett-Packard were 13% of revenue in fiscal year 1999, compared to 11% of revenue in fiscal year 1998.

#### Sales and Marketing

The DLT & Storage Systems group markets its products directly to manufacturers of computer systems and workstations and to distributors, resellers and systems integrators through its worldwide sales force. The DLT & Storage Systems group also sells DLTtape media cartridges through its web site.

The DLT & Storage Systems group supports international sales and operations by maintaining a European headquarters in Neuchatel, Switzerland; a Japanese headquarters in Tokyo; and additional sales offices in Singapore and throughout the world. The DLT & Storage Systems group's international sales, including sales to foreign subsidiaries of United States companies, were 29% of the DLT & Storage Systems group's total revenue in fiscal year 1999, and 24% and 22% of total revenue in fiscal years 1997 and 1998, respectively.

#### Strategic Licensing Partners

Fuji and Maxell have historically been the primary manufacturers of DLTtape media cartridges for the DLT & Storage Systems group. The DLT & Storage Systems group's license agreements with Fuji and Maxell allow those companies to independently sell DLTtape media cartridges for which the DLT & Storage Systems group receives royalty fees. The DLT & Storage Systems group believes these strategic license agreements can expand the market for DLTtape technology and provide customers with multiple sources for DLTtape media cartridges.

In September 1998, the DLT & Storage Systems group entered into a manufacturing license and marketing agreement with Tandberg, a European-based data storage company, through which Tandberg can become an independent manufacturer of DLTtape drives, as well as products currently under development based on Super DLTtape technology. Under the terms of the agreement, the DLT & Storage Systems group will receive royalties on all DLTtape drives that Tandberg sells. Tandberg has indicated that it expects to begin manufacturing DLTtape drives in the second half of calendar year 1999. Tandberg has also agreed to market a full spectrum of DLTtape drives, DLTtape media cartridges and tape libraries. With Tandberg's strong name recognition and established distribution channels in the European market, the DLT & Storage Systems group expects Tandberg to strengthen international sales of DLTtape drives, DLT tape media cartridges and tape libraries. The DLT & Storage Systems group also expects Tandberg to provide an alternative source of DLTtape drives for the DLT & Storage Systems group's computer equipment manufacturer customers.

#### Manufacturing

The DLT & Storage Systems group manufactures DLTtape drives, autoloaders and solid state storage systems in its Colorado Springs, Colorado facility and tape libraries in its Irvine, California facility. The DLT & Storage Systems group also has a logistics site in Dundalk, Ireland. All of the DLT & Storage Systems group's DLTtape media cartridges are manufactured by third parties--primarily Fuji and Maxell.

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#### Research and Development

The DLT & Storage Systems group invested approximately \$30 million, \$63 million and \$99 million in research and development in fiscal years 1997, 1998 and 1999, respectively. The DLT & Storage Systems group is focusing its research and development efforts on the development of new DLTtape drives, autoloaders and libraries, solid state storage systems, network attached storage appliances and software storage architectures. In particular, the DLT & Storage Systems group is currently developing a tape drive based on Super DLTtape technology. The DLT & Storage Systems group maintains research and development facilities in Shrewsbury, Massachusetts; Irvine, California; Boulder, Colorado; and Milpitas, California.

#### Competition

In the mid-range network server market for tape drives, the DLT & Storage Systems group competes primarily with Exabyte, Hewlett-Packard, Sony and StorageTek. In particular, Hewlett-Packard, IBM and Seagate have formed a consortium to develop new tape drive products using linear tape open technology. Such products will target the high-capacity data storage market and are expected to compete with Super DLTtape technology. Key competitive factors in the tape storage market include capacity, reliability, durability, scalability, compatibility and cost.

ADIC, Breece Hill, Exabyte, Hewlett-Packard, Overland Data and StorageTek

also offer tape libraries incorporating DLTtape technology. If DLTtape continues to maintain broad market acceptance in the mid-range network server market, the DLT & Storage Systems group believes many of these companies will continue to improve the functionality and performance of their tape libraries designed for DLTtape technology. The DLT & Storage Systems group also expects increased competition from large integrated computer equipment companies, many of whom have historically incorporated their own tape storage products into their mainframe systems, and are broadening their focus on the enterprise-wide computing market.

The DLT & Storage Systems group believes that, although there are several start-up companies focusing on the development of workgroup-level network attached storage appliances, it will be the first established storage company to enter this market. In addition, several established competitors provide department-level network attached storage appliances at higher price points including Network Appliance, Inc. and Auspex Systems, Inc. Large traditional suppliers of general purpose computer servers also offer specialized server storage solutions. Any one of these companies, or any other company, could introduce network attached storage appliances or another similar storage solution targeted at workgroup-level applications that could result in increased competition with the DLT & Storage Systems group's network attached storage appliances.

#### Warranty and Service

The DLT & Storage Systems group generally warrants its products against defects for a period of one to three years from the date of sale. The DLT & Storage Systems group generally provides warranty service on DLTtape drives on a return to factory basis. The DLT & Storage Systems group's tape libraries generally have a warranty period of one year, with service agreements available to customers for additional years of warranty service. The DLT & Storage Systems group maintains in-house product repair facilities in Colorado Springs, Colorado, and Dundalk, Ireland to support warranty and service obligations for tape drives, libraries and solid state storage systems. The DLT & Storage Systems group also performs tape library warranty service in its facility in Irvine, California. In addition, third party service providers throughout the world perform tape library warranty service.

#### Employees

At March 31, 1999, the DLT & Storage Systems group had approximately 1,950 regular employees. In addition, approximately 860 employees perform services for both the DLT & Storage Systems group and the Hard Disk Drive group. In the advanced electronics industry, competition for highly skilled employees is intense. The DLT & Storage Systems group believes that a great part of its future success will depend on the DLT & Storage Systems group's ability to attract and retain highly skilled employees. None of the DLT & Storage Systems group's employees are represented by a union, and the DLT & Storage

Systems group has experienced no work stoppages. The DLT & Storage Systems group believes that its employee relations are favorable.

#### Management

The following table sets forth certain information with respect to the executive officers of the DLT & Storage Systems group:

<TABLE>

<CAPTION>

Name	Age	Position
----	---	-----
<C>	<C>	<S>
Peter van Cuylenburg..	51	President
Kevin Daly, Ph.D.....	54	Chief Executive Officer of ATL
Ed Gardner.....	48	Vice President, Human Resources
Brodie Keast.....	43	Vice President and General Manager, DLT
George Saliba.....	47	Chief Technology Officer and Vice President, Advanced Storage Products
Tex Schenkkan.....	42	Vice President and General Manager, New Businesses

</TABLE>

Mr. van Cuylenburg has been President of the DLT & Storage Systems group since joining Quantum in 1996. From 1993 to 1995, Mr. van Cuylenburg served as Executive Vice President, responsible for the systems sector, at Xerox Corporation. From 1992 to 1993, Mr. van Cuylenburg was President and Chief Operating Officer at NeXT Computer Inc.

Dr. Daly has been Chief Executive Officer and Chairman of ATL since ATL's formation in 1991. Since 1985, Dr. Daly was with ATL's former parent, Odetics, Inc., most recently as Chief Technical Officer and a member of the Board of Directors. From 1974 to 1985, he was Director of the Control and Dynamics Division of the Charles Stark Draper Laboratory in Cambridge, Massachusetts.

During this time he was also Adjunct Professor at MIT. Dr. Daly is currently chairman of the Industrial Advisory Board of the Center for Research on Information Technology and Organizations at the University of California, Irvine.

Mr. Gardner has been Vice President, Human Resources since 1997. Mr. Gardner joined Quantum in 1996 as Director of Human Resources for the High-End Storage Division and technology and engineering. Prior to joining Quantum, Mr. Gardner served as Vice President of Human Resources and Facilities at Spectro Physics Lasers Inc. for eight years.

Mr. Keast has been Vice President and General Manager of the DLT division since 1997. Mr. Keast joined Quantum in 1996 as Vice President of Marketing for the DLT division. Prior to joining Quantum, Mr. Keast spent 11 years at Apple in a variety of marketing management positions.

Mr. Saliba has been Chief Technology Officer and Vice President of the Advanced Storage Products division since 1998. From 1995 to 1998 Mr. Saliba served as Vice President of Engineering for the DLT division. Following the acquisition of certain businesses from Digital Equipment, Mr. Saliba joined the Company in 1994 as Director of Engineering. Previously, he spent eight years as Group Engineering Manager for Digital Equipment's tape products group.

Mr. Schenkkan has been Vice President and General Manager, New Businesses since 1998. Before joining Quantum in 1996 as Vice President of Corporate Development, Mr. Schenkkan spent 12 years at Hewlett-Packard where he held a variety of marketing management and business development positions.

#### Technology

Both the DLT & Storage Systems group and the Hard Disk Drive group will have access to all of Quantum's technology and know-how, excluding products and services of the other group, that may be useful in that group's business. The DLT & Storage Systems group and the Hard Disk Drive group will consult each other on a regular basis concerning technology issues that affect both groups.

Quantum has been granted and/or owns by assignment 477 United States patents. In general, these patents have 17-year terms from the date of issuance. Quantum also has certain foreign patents and applications relative to certain of the products and technologies. Although the DLT & Storage Systems group believes that its patents and applications have significant value, the rapidly changing computer industry technology makes the DLT & Storage Systems group's future success

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dependent primarily upon the technical competence and creative skills of our personnel rather than on patent protection.

Several companies and individuals have approached the DLT & Storage Systems group concerning the need for a license under patented technology that the DLT & Storage Systems group assertedly used, or is assertedly using, in the manufacture and sale of one or more of its products. The DLT & Storage Systems group conducts ongoing investigations into these assertions and presently believes that any licenses ultimately determined to be required could be obtained on commercially reasonable terms. However, the DLT & Storage Systems group cannot assure you that such licenses are presently obtainable, or if later determined to be required, could be obtained on commercially reasonable terms or at all.

Quantum has signed cross-licensing agreements with Hewlett-Packard, IBM, Seagate and others. These agreements enable the DLT & Storage Systems group to use certain patents owned by these companies, and enables these companies to use certain patents owned by Quantum.

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#### THE DLT & STORAGE SYSTEMS GROUP

##### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read this discussion along with the DLT & Storage Systems group's combined financial statements contained in this proxy statement. Historical results and percentage relationships may not necessarily be indicative of operating results for any future periods.

#### Overview

The DLT & Storage Systems group derives its revenue from the following sources:

- . DLTtape Drives. The DLT & Storage Systems group has generally experienced increasing sales and attractive gross margins for its DLTtape drives due to increasing acceptance of DLTtape drives as the de facto industry

standard in the mid-range network server market. During fiscal years 1997 through 1999, the number of

mid-range network servers with tape storage back-up capability increased significantly with the growth of mission critical server-based computing, and the DLT & Storage Systems group expects this trend to continue.

- . DLTtape Media Cartridges and Royalty. The DLT & Storage Systems group derives a substantial portion of its revenue from direct sales of DLTtape media cartridges and royalties received from licensed DLTtape media cartridge providers. As the installed base of DLTtape drives increases, additional DLTtape media cartridges are consumed resulting in continuing purchases during the productive life of the DLTtape drive. DLTtape media cartridges are manufactured for the DLT & Storage Systems group primarily by Fuji and Maxell. These media cartridge manufacturers are first required to satisfy all of the DLT & Storage Systems group's media cartridge requirements, after which time they are permitted to sell to third parties in exchange for a royalty fee payable to the DLT & Storage Systems group.

Prior to fiscal year 1999, almost all DLTtape media cartridges were sold directly by the DLT & Storage Systems group. However, during fiscal year 1999, increased DLTtape media cartridge availability allowed the media cartridge manufacturers to sell DLTtape media cartridges, for which the DLT & Storage Systems group receives royalties. The DLT & Storage Systems group estimates that in fiscal year 1999, sales by the media cartridge manufacturers accounted for approximately two-thirds of total DLTtape media cartridge sales, and the DLT & Storage Systems group accounted for the balance. This compares to fiscal year 1998 sales by the media cartridge manufacturers of approximately one-quarter of total DLTtape media cartridge sales. Royalty receipts by the DLT & Storage Systems group are reported as royalty revenue, which is significantly lower than the equivalent DLTtape media cartridge revenue for the DLT & Storage Systems group. However, this royalty model has generated income from operations comparable to that generated by DLTtape media cartridge sales made directly by the DLT & Storage Systems group.

- . Storage Systems. Storage systems revenue includes both tape libraries and services and solid state storage systems. The acquisition of ATL in September 1998 combined ATL's mid-range to high-end tape library product line and services with the DLT & Storage Systems group's autoloader products, thereby increasing sales in the storage systems category. Sales of solid state storage systems have been declining in large part due to falling dynamic random access memory prices, which have translated into lower unit prices for these products, and a slight decline in unit volume.

The table below summarizes the components of the DLT & Storage Systems group's revenue:

<TABLE>  
<CAPTION>

	Year Ended March 31,			<C>	<C>
	1997	1998	1999		
	(In thousands)				
<S>	<C>	<C>	<C>	<C>	<C>
DLTtape Drives and Media Cartridges					
Tape drives.....	\$392,387	\$ 783,831	\$ 871,977		
Media cartridge product.....	220,404	283,480	195,064		
Media cartridge royalty.....	8,088	27,075	121,463		
Storage Systems					
Tape libraries and service.....	95,981	87,197	148,342		
Solid state storage systems.....	11,153	8,217	5,764		
Intra-group elimination*.....	--	--	(39,874)		
Total revenue.....	\$728,013	\$1,189,800**	\$1,302,736**		

</TABLE>

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\* Represents intra-group sales of DLTtape drives for incorporation into the DLT & Storage Systems group's tape libraries.

\*\* Based on reports received from the media cartridge manufacturers, the DLT & Storage Systems group estimates that if it had sold directly all DLTtape media cartridges sold by the media cartridge manufacturers and, accordingly, not collected any royalty revenue, its total revenue would have increased by \$65 million and \$301 million in fiscal years 1998 and 1999, respectively. This shift in revenue did not have any significant effect on the DLT & Storage Systems group's operating income.

Fluctuating Quarterly Revenue

The discussion below describes the principal factors resulting in fluctuation of the DLT & Storage Systems group's quarterly revenue for fiscal years 1997, 1998 and 1999.

- . DLTtape Drive Inventory Correction. During fiscal year 1997 and the first quarter of fiscal year 1998, the DLT & Storage Systems group's supply of DLTtape drives was not sufficient to meet demand. As a result, in the first half of fiscal year 1998 a few large customers began building up larger inventories of DLTtape drives than were required for their normal operations. As the DLT & Storage Systems group's manufacturing capacity increased and the DLT & Storage Systems group was able to meet customer demand for DLTtape drives, these customers reduced their orders to lower inventories to more typical levels. These actions resulted in reduced sales of DLTtape drives beginning in the third quarter of fiscal year 1998 and more significantly in the fourth quarter of fiscal year 1998 and the first quarter of fiscal year 1999.
- . Shift in DLTtape Media Cartridge Revenue to Royalty Revenue. From the third quarter of fiscal year 1998 to the fourth quarter of fiscal year 1999, DLTtape media cartridge revenue decreased from \$65 million to \$41 million as an increasing percentage of DLTtape media sales were made by the media cartridge manufacturers. During this same period, the DLT & Storage Systems group's royalty revenue from sales of DLTtape media cartridges grew from under \$10 million to over \$30 million. The royalty revenue approximates the income from operations that the DLT & Storage Systems group would have earned had the DLTtape media cartridges been directly sold by the DLT & Storage Systems group.
- . ATL Acquisition. The DLT & Storage Systems group completed the ATL acquisition at the beginning of the third quarter of fiscal year 1999. This increased DLTtape library and service revenue in this quarter as the acquisition combined ATL's mid-range to high-end DLTtape library revenue with the DLT & Storage Systems group's entry-level DLTtape library revenue.

The table below summarizes the DLT & Storage Systems group's total revenue by quarter for fiscal years 1997, 1998 and 1999.

<TABLE>  
<CAPTION>

Fiscal Year	Total Revenue			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(In thousands)			
<S>	<C>	<C>	<C>	<C>
1999.....	\$255,702	\$290,458	\$366,495	\$390,081
1998.....	265,005	338,523	330,279	255,993
1997.....	128,451	152,917	203,338	243,307

</TABLE>

Results of Operations

Fiscal Year 1999 Compared With Fiscal Year 1998

Revenue. Total the DLT & Storage Systems group revenue in fiscal year 1999 was \$1.3 billion, compared to \$1.2 billion in fiscal year 1998, an increase of 9%. The increase in revenue reflected increases in DLTtape drive revenue and total DLTtape media cartridge revenue, and combining ATL's revenue effective September 28, 1998. The increase in DLTtape drive revenue reflected strong demand in the second half of fiscal year 1999. Including sales by licensed media cartridge manufacturers, total DLTtape media cartridge revenue increased. However, direct DLTtape media cartridge sales by the DLT & Storage Systems group declined reflecting the shift in a substantial portion of DLTtape media cartridge revenue from sales by the DLT & Storage Systems group to royalties from the media cartridge manufacturers.

Sales to the DLT & Storage Systems group's top five customers in fiscal year 1999 represented 53% of revenue, compared to 63% of revenue in fiscal year 1998. These amounts reflected a retroactive combination of the sales to Compaq and Digital Equipment as a result of their merger in June 1998. Sales to Compaq were 25% of revenue in fiscal year 1999, compared to 36% of revenue in fiscal year 1998, including sales made to Digital Equipment. Sales to Hewlett-Packard were 13% of revenue in fiscal year 1999, compared to 11% of revenue in fiscal year 1998.

In fiscal year 1999, sales to computer equipment manufacturers and distribution channel customers were 71% and 17% of revenue, respectively,

compared to 79% and 21% of revenue, respectively, in fiscal year 1998. The remaining revenue in fiscal year 1999 represented media royalty revenue and sales to value-added resellers.

**Gross Margin Rate.** The gross margin rate in fiscal year 1999 was 44.5%, compared to 42.2% in fiscal year 1998. The 2.3 percentage point increase reflected an increase in the proportion of overall revenue represented by royalty revenue. Declines in the gross margin rate earned on DLTtape drives resulting from price reductions aimed at expanding the overall market for DLTtape drives partially offset the increase from royalty revenue.

**Research and Development Expenses.** Research and development expenses in fiscal year 1999 were \$99 million, or 7.6% of revenue, compared to \$63 million, or 5.3% of revenue, in fiscal year 1998. The increase in research and development expenses reflected higher research and development expenses related to new tape drive products and to other new information storage products and technologies, including Super DLTtape technology and, to a significantly lesser extent, optical storage technology and combining ATL's expenses.

**Sales and Marketing Expenses.** Sales and marketing expenses in fiscal year 1999 were \$77 million, or 5.9% of revenue, compared to \$47 million, or 4.0% of revenue in fiscal year 1998. This reflected the combining of ATL's expenses and an increase in marketing and advertising costs associated with DLTtape products.

**General and Administrative Expenses.** General and administrative expenses in fiscal year 1999 were \$38 million, or 2.9% of revenue, compared to \$22 million, or 1.9% of revenue, in fiscal year 1998. The increase in general and administrative expenses reflected expansion of the DLT & Storage Systems group's infrastructure to support increased revenue and earnings growth and the combining of ATL's expenses.

**Purchased In-process Research and Development Expense.** The DLT & Storage Systems group expensed purchased in-process research and development costs of \$89 million as a

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result of the ATL acquisition in fiscal year 1999. For additional information regarding the ATL acquisition and the costs associated with in-process research and development, see Note 5 of the Notes to Combined Financial Statements.

**Interest and Other Income/Expense.** Net interest and other income and expense in fiscal year 1999 was \$12 million expense, compared to \$3 million expense in fiscal year 1998. The increase reflected a \$6.8 million write-down of an equity investment. In addition, the increase reflected a reduction in interest income as cash was used to purchase treasury stock prior to the ATL acquisition. A reduction in interest expense partially offset this increase.

**Income Taxes.** The DLT & Storage Systems group's effective tax rate in fiscal year 1999, excluding the write-off of the purchased in-process research and development, was 40%, compared to 39% in fiscal year 1998. The DLT & Storage Systems group recorded a provision for income taxes at an effective rate of 53.5% of pretax earnings in fiscal year 1999. This higher effective tax rate was primarily attributable to the impact of the purchased in-process research and development write-off, for which a tax benefit is not recognizable, and a lower research and development credit.

**Net Income.** The DLT & Storage Systems group reported net income in fiscal year 1999 of \$123 million, compared to \$224 million in fiscal year 1998. The decrease primarily resulted from the charge for purchased in-process research and development of \$89 million. Excluding the charge, net income was \$212 million, a decrease of \$12 million. This decrease reflected increased amortization of goodwill and other intangible assets resulting from the ATL acquisition, increased operating expenses and decreased interest income. This decrease was partially offset by an increase in gross profit.

#### Fiscal Year 1998 Compared With Fiscal Year 1997

**Revenue.** Total revenue in fiscal year 1998 was \$1.2 billion, compared to \$728 million in fiscal year 1997, an increase of 63%. The increase in total revenue resulted from an increase in DLTtape drive and DLTtape media cartridges product shipments. The increase in total revenue reflected growth in market acceptance of DLTtape technology and a shift in sales mix to higher storage capacity products which carry a higher per unit price. However, the average price at each storage capacity level of DLTtape drives and DLTtape media cartridge products declined when compared with fiscal year 1997.

The increase in DLTtape drive shipments reflected, in part, an increase in tape drive production volume, which was at a level high enough to meet product demand beginning in the third quarter of fiscal year 1998. However, the general availability of DLTtape drives resulted in sequentially lower DLTtape drive sales in the fourth quarter of fiscal year 1998 as certain computer equipment manufacturer customers reduced purchases in order to adjust their inventory

levels.

Sales to the DLT & Storage Systems group's top five customers were 63% of revenue in fiscal years 1998 and 1997. This amount reflects a retroactive combination of the sales to Compaq and Digital Equipment. Sales to Compaq were 36% of revenue in fiscal year 1998, compared to 35% of revenue in fiscal year 1997, including sales to Digital Equipment. Sales to Hewlett Packard were 11% of revenue in fiscal year 1998, compared to 14% of revenue in fiscal year 1997.

Sales to computer equipment manufacturers and distribution channel customers were 79% and 21% of revenue, respectively, in fiscal year 1998, compared to 77% and 23% of revenue, respectively, in fiscal year 1997.

Gross Margin Rate. The gross margin rate was 42.2% in fiscal year 1998, compared to 37.1% in fiscal year 1997. The 5.1 percentage point increase reflected an increase in the gross margin rate earned on DLTtape drives and DLTtape media cartridges as sales shifted to the higher margin DLT7000.

Research and Development Expenses. Research and development expenses in fiscal year 1998 were \$63 million, or 5.3% of revenue, compared with \$30 million, or 4.1% of revenue, in fiscal year 1997. The \$33 million increase in research and development expenses reflected higher expenses related to new information storage products and technologies, including Super DLTtape technology and, to a significantly lesser extent, optical storage technology.

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Sales and Marketing Expenses. Sales and marketing expenses in fiscal year 1998 were \$47 million, or 4.0% of revenue, compared with \$24 million, or 3.3% of revenue, in fiscal year 1997. This increase primarily reflected the increased costs associated with supporting the DLT & Storage Systems group's higher sales volume.

General and Administrative Expenses. General and administrative expenses in fiscal year 1998 were \$22 million, or 1.9% of revenue, compared with \$11 million, or 1.6% of revenue, in fiscal year 1997. The increase in general and administrative expenses reflected expansion of the DLT & Storage Systems group's infrastructure to support increased shipments and revenue growth.

Interest and Other Income/Expense. Net interest and other income and expense in fiscal year 1998 was \$3 million expense, compared with \$26 million expense in fiscal year 1997. A decrease in interest expense reflecting a year-over-year decrease in the average level of debt used to finance operations, and an increase in year-over-year average level of cash, combined to cause this change.

Income Taxes. The DLT & Storage Systems group's effective tax rate was 39% and 40% for fiscal years 1998 and 1997, respectively. The decrease in the tax rate for fiscal year 1998 was primarily attributable to a research and development credit.

Net Income. The DLT & Storage Systems group reported net income in fiscal year 1998 of \$224 million, compared to \$108 million in fiscal year 1997. The increase reflected increased total revenue and gross profit, partially offset by an increase in operating expenses and a reduction in interest income.

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#### Quarterly Operating Results

The following tables present unaudited quarterly operating results for fiscal years 1999 and 1998. We believe this information reflects all adjustments that we consider necessary for a fair presentation of such information in accordance with generally accepted accounting principles. The results for any quarter are not necessarily indicative of results for any future period.

<TABLE>  
<CAPTION>

	Fiscal Year 1999			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(In thousands)			
<S>	<C>	<C>	<C>	<C>
Revenue.....	\$255,702	\$290,458	\$366,495	\$390,081
Cost of revenue.....	142,028	158,783	205,194	216,812
Gross profit.....	113,674	131,675	161,301	173,269
Operating expenses:				
Research and development.....	21,951	21,979	28,155	27,245
Sales and marketing.....	12,767	14,866	21,715	27,389

General and administrative...	6,447	7,264	11,140	13,307
Purchased in-process research and development.....	--	--	89,000	--
	-----	-----	-----	-----
	41,165	44,109	150,010	67,941
	-----	-----	-----	-----
Income from operations.....	72,509	87,566	11,291	105,328
Interest and other income (expense), net.....	100	(663)	(2,930)	(8,883)
	-----	-----	-----	-----
Income before income taxes.....	72,609	86,903	8,361	96,445
Income tax provision.....	29,044	34,760	38,945	38,578
	-----	-----	-----	-----
Net income (loss).....	\$ 43,565	\$ 52,143	\$ (30,584)	\$ 57,867
	=====	=====	=====	=====

<CAPTION>

	Fiscal Year 1998			
	-----			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	-----			
	(In thousands)			
<S>	<C>	<C>	<C>	<C>
Revenue.....	\$265,005	\$338,523	\$330,279	\$255,993
Cost of revenue.....	158,944	200,515	182,742	145,385
	-----	-----	-----	-----
Gross profit.....	106,061	138,008	147,537	110,608
Operating expenses:				
Research and development.....	11,146	14,701	17,787	19,191
Sales and marketing.....	9,479	9,950	13,119	14,696
General and administrative...	4,725	5,537	6,473	5,628
	-----	-----	-----	-----
	25,350	30,188	37,379	39,515
	-----	-----	-----	-----
Income from operations.....	80,711	107,820	110,158	71,093
Interest and other income (expense), net.....	709	(1,713)	(1,855)	(269)
	-----	-----	-----	-----
Income before income taxes.....	81,420	106,107	108,303	70,824
Income tax provision.....	31,754	41,381	42,239	27,621
	-----	-----	-----	-----
Net income.....	\$ 49,666	\$ 64,726	\$ 66,064	\$ 43,203
	=====	=====	=====	=====

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Our quarterly and annual operating results have fluctuated in the past and are likely to fluctuate significantly in the future due to a variety of factors, many of which are outside of our control. Because of these and other factors, our quarterly revenue, expenses and results of operations could vary significantly in the future, and period-to-period comparisons should not be relied upon as indications of future performance. We may not be able to increase our revenue in future periods or be able to sustain our existing level of revenue or our rate of revenue growth on a quarterly or annual basis. In addition, our annual or quarterly operating results may not meet the expectations of securities analysts and investors. If this happens, the trading price of our common stock could significantly decline.

#### Recent Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income," which the DLT & Storage Systems group implemented in fiscal year 1999. SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components--revenue, expenses, gains, and losses--in a full set of general-purpose financial statements. The adoption of SFAS No. 130 changed financial statement presentation but did not have an impact on the DLT & Storage Systems group's financial position or results of operations.

In June 1997, the FASB issued SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," requires certain financial and descriptive information about a company's reportable operating segments. The DLT & Storage Systems group adopted SFAS No. 131 in fiscal year 1999. The adoption of SFAS No. 131 applies solely to disclosure and will not have an impact on the DLT & Storage Systems group's financial position or results of operations.

#### Liquidity and Capital Resources

Operating Activities. The DLT & Storage Systems group generated cash from



operations of \$217 million during fiscal year 1999. The DLT & Storage Systems group's cash provided by operations in fiscal year 1998 was \$203 million.

**Investing Activities.** Investments during fiscal year 1999 were \$35 million, which consisted primarily of investments in property and equipment. Investments in fiscal year 1998 totaled \$62 million.

**Financing Activities.** At March 31, 1999, and March 31, 1998, Quantum's debt allocated to the DLT & Storage Systems group was \$230 million and \$219 million, respectively. Debt allocated to the DLT & Storage Systems group bears interest at a rate equal to the weighted average interest rate of Quantum's total debt, calculated on a quarterly basis. At March 31, 1999, Quantum had total debt of \$345 million with an average interest rate of 7.3%. In the future, each group's debt will increase or decrease by the amount of any cash provided by or used for the group's operating activities, investing activities, share repurchases or issuances and other non-debt-related financing activities. See Note 1 to Combined Financial Statements for further discussion of financing activities.

In December 1998, ATL entered into a senior credit facility that provides a \$35 million revolving credit line to ATL. The revolving credit line is co-terminous with Quantum's \$500 million revolving credit line, expiring in June 2000. At the option of ATL, borrowings under the revolving credit line bear interest at either London interbank offered rate plus a margin determined by Quantum's total funded debt ratio, or at a base rate, with option periods of one to six months. At March 31, 1999, \$18 million was outstanding on this revolving credit line.

Quantum filed a registration statement which became effective on July 24, 1997, pursuant to which Quantum may issue debt or equity securities, in one or more series or issuances, limited to \$450 million aggregate public offering price. Under the registration statement, in July 1997, Quantum issued \$288 million of 7% convertible subordinated notes. The notes mature on August 1, 2004, and are convertible at the option of the holder at any time prior to maturity, unless previously redeemed, into shares of Quantum's common stock at a conversion price of \$46.325 per share. Quantum has the option to redeem the notes on or after August 1, 1999 and prior to August 1, 2001, under certain conditions related to the price of Quantum's common stock. Subsequent to August 1, 2001, Quantum may redeem the notes at any time. In the event of certain changes involving all or substantially all of

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Quantum's common stock, the holder would have the option to redeem the notes. Redemption prices range from 107% of the principal to 100% at maturity. The notes are unsecured obligations subordinated in right of payment to all of Quantum's existing and future senior indebtedness.

If the tracking stock proposal is implemented, each of the 7% convertible subordinated notes, which currently are convertible into shares of existing common stock, will become convertible into shares of the DLT & Storage Systems group stock and shares of Hard Disk Drive group stock. The number of shares of the DLT & Storage Systems group stock and Hard Disk Drive group stock into which each note will be convertible is equal to the numbers of shares which the holder of the note would receive under the tracking stock proposal had such note been converted immediately prior to the implementation of the tracking stock proposal. The notes will not be separately convertible into solely the DLT & Storage Systems group stock or solely Hard Disk Drive group stock. The exercise price and maturity date of each convertible note will not be affected by the implementation of the tracking stock proposal.

In June 1997, Quantum entered into an unsecured senior credit facility that provides a \$500 million revolving credit line and expires in June 2000. At Quantum's option, borrowings under the revolving credit line bear interest at either London interbank offered rate plus a margin determined by our total funded debt ratio, or at a base rate, with option periods of one to six months. At March 31, 1999, there was no outstanding balance drawn on this line.

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

The DLT & Storage Systems group expects to spend approximately \$70 million in fiscal year 2000 for capital equipment and leasehold improvements. These capital expenditures will support the expansion of the DLTtape product line, production of Super DLTtape products and DLT & Storage Systems group's general infrastructure.

The DLT & Storage Systems group expects its cash flow from operations, together with available financing sources, will be sufficient to meet all currently planned expenditures and sustain operations for the next 12 months. However, this belief assumes that operating results and cash flow from operations will meet our expectations.

In May 1999, Quantum announced a definitive agreement to acquire Meridian Data, Inc., pending approval of Meridian's stockholders and certain other closing conditions. Meridian is a developer and manufacturer of network attached storage solutions utilizing both conventional hard disk drive and optical disk technologies for the PC local area network environment.

Under the terms of the definitive agreement, Meridian's stockholders will receive either Quantum common stock or both DLT & Storage Systems group stock and Hard Disk Drive group stock, depending on the timing and outcome of the tracking stock proposal and the proposed Meridian acquisition, which is expected to be completed by September 1999. If the acquisition is completed prior to the implementation of the tracking stock proposal, each outstanding share of Meridian's common stock will be converted into 0.489 of a share of Quantum common stock, subject to adjustment based on the trading range of Quantum common stock prior to the completion of the acquisition. If the tracking stock proposal is implemented prior to the completion of the Meridian acquisition, each outstanding share of Meridian's common stock will be converted into 0.489 of a share of DLT & Storage Systems group stock and 0.2445 of a share of Hard Disk Drive group stock, subject to adjustment based on the trading range of DLT & Storage Systems group stock and Hard Disk Drive group stock prior to the completion of the acquisition. In addition, under the terms of the proposed transaction, all Meridian stock options will be assumed by Quantum. The acquisition will be accounted for as a purchase, and the DLT & Storage Systems group expects to recognize a charge for purchased in-process research and development upon closing of the acquisition.

Meridian had revenue of \$4 million and \$18 million in the quarter ended March 31, 1999, and the year ended December 31, 1998, respectively. At March 31, 1999, Meridian had total cash and

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marketable securities of \$15 million. At December 31, 1998, Meridian had a net operating loss carryforward for U.S. federal income tax purposes of approximately \$32 million.

#### BUSINESS OF THE HARD DISK DRIVE GROUP

The Hard Disk Drive group designs, develops and markets a diversified product portfolio of hard disk drives featuring leading-edge technology. A hard disk drive is a storage device found in most computers that stores data on multiple rotating magnetic disks that provide fast access to data that must be readily available to computer users. The Hard Disk Drive group's hard disk drives are designed for the desktop market and the high-end hard disk drive market which requires faster and higher capacity disk drives--as well as the emerging market for hard disk drives specially designed for consumer electronics applications such as new TV recording devices. The Hard Disk Drive group has been the leading volume supplier of hard disk drives for the desktop market for each of the past six years. According to Dataquest, The Hard Disk Drive group's market share in the desktop market has grown from 3% in 1990 to an industry leading 22% in 1998.

The Hard Disk Drive group designs desktop hard disk drives to meet the storage requirements of entry-level to high-performance desktop PCs in home and business environments. The Hard Disk Drive group 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.

The Hard Disk Drive group recently introduced two new hard disk drives designed for the developing consumer electronics market. These hard disk drives utilize Quantum QuickView(TM)--The Hard Disk Drive group's hard disk drive technology designed for consumer electronics. The use of hard disk drive technology makes it possible to simultaneously record and playback video content and to rapidly and inexpensively access large amounts of video content--capabilities that are not as well suited to competing technologies such as video tape and digital video disk.

#### Industry Background

Market for Hard Disk Drives. The demand for hard disk drives continues to grow due to:

- . increasing demand for desktop computers, driven in part by continued improvements in desktop computing price-to-performance ratios;

- . the substantial growth of the sub-\$1,000 PC market, particularly in the home;
- . the rapid accumulation of data resulting from the growth in digital content--audio, video and data;
- . the exchange of increasing volumes of data among users across the Internet and intranets with the proliferation of computing systems accessed by multiple users;
- . the growth of the server and workstation market due in large part to the migration of workstation and server applications to more cost-effective platforms; and
- . the trend of consumer electronic content moving from analog to digital form and the creation of a wide variety of new consumer electronic applications such as new TV recording devices.

In December 1998, Dataquest forecasted that annual demand for the worldwide desktop computer market would grow from approximately 78 million units in 1998 to 133 million units in 2002, reflecting a compound annual growth rate of approximately 14%. International Data Corporation forecasts the annual demand for both the desktop and high-end hard disk drive markets to grow at 15% over the same period with the desktop disk drive market growing from approximately 111 million units to 194 million units and the high-end hard disk drive market growing from approximately 15 million units to 27 million units.

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**Hard Disk Drive Market Challenges.** The growing demand for hard disk drives has led to intensified competition. The hard disk drive market is characterized by rapid technological change, increasing capacity and performance; rapid product obsolescence; changing customer requirements; dramatic shifts in market share; and significant erosion of average selling prices.

The Hard Disk Drive group, IBM, Seagate and Western Digital have traditionally had the highest market share with leading computer equipment manufacturers. Over the last two years, hard disk drive suppliers such as Fujitsu, Maxtor and Samsung have introduced new hard disk drive products and gained market share with leading computer equipment manufacturers. The competitive environment, together with the growth of the sub-\$1,000 PC market, has placed continuous downward pressure on hard disk drive prices. This pressure, in turn, has reduced average gross margins for hard disk drive suppliers.

In addition to increasing competition, the leading PC computer equipment manufacturers have been gaining market share which has increased their influence. In calendar year 1997 and 1998, the top ten PC computer equipment manufacturers accounted for more than 50% of all PC shipments and most of the growth in the PC market. In addition, the top four server and workstation computer equipment manufacturers accounted for almost 50% of server and workstation units shipped in calendar 1998. As a result, maintaining customer satisfaction with these leading computer equipment manufacturers has become even more critical.

Computer equipment manufacturers face substantial market pressures to lower costs and improve customer satisfaction. Historically, hard disk drive failure has been the leading cause for PC returns and end-user dissatisfaction. As a result, computer equipment manufacturers place a high value on consistently receiving reliable hard disk drives from their suppliers.

Hard disk drive suppliers have had to manage their businesses to meet these challenges. Computer equipment manufacturers typically seek to qualify up to three or four providers for each generation of hard disk drives. To achieve consistent success with computer equipment manufacturers qualifications, a hard disk drive supplier must be an early provider of next generation hard disk drives featuring leading technology and high capacity per disk which increases the storage capacities for hard disk drives. Suppliers must quickly achieve volume production of high quality and reliable hard disk drives. To quickly achieve high volume production, a disk drive supplier must have access to flexible, high-capacity, high-quality and dedicated manufacturing capabilities. Factors on which computer equipment manufacturers evaluate their hard disk drive suppliers include ease of doing business, overall quality, storage capacities, performance characteristics, price and the supplier's long-term financial stability.

#### The Hard Disk Drive Group Solution

The Hard Disk Drive group offers one of the industry's most diversified hard disk drive product portfolios featuring leading-edge technology and reliable hard disk drives. The Hard Disk Drive group focuses on providing consistent, high-quality products, quickly achieving high volume production and maintaining excellent customer satisfaction. The Hard Disk Drive group continues to develop new and improved hard disk drive technology for the desktop and high-end

markets and the emerging consumer electronics market.

The core strengths of the Hard Disk Drive group include:

- . Strong Relationships with Computer Equipment Manufacturers. The Hard Disk Drive group sells its hard disk drives to each of the top ten leading PC computer equipment manufacturers including Acer America Corporation, Apple Computer, Compaq, Dell, Fujitsu, Gateway, Inc., Hewlett-Packard, IBM, Packard Bell/NEC, Inc. and Siemens AG. According to International Data Corporation, the Hard Disk Drive group had the highest desktop hard disk drive market share with leading computer equipment manufacturers for each of the calendar years 1993-1998.
- . Manufacturing Partnership with Matsushita-Kotobuki. Matsushita-Kotobuki is the exclusive manufacturer of the Hard Disk Drive group's hard disk drives. The Hard Disk Drive group believes

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that it has been able to maintain a leadership position in the hard disk drive market by integrating its engineering and design expertise with Matsushita-Kotobuki's high-volume, highly automated manufacturing capabilities. This partnership gives the Hard Disk Drive group the ability to quickly achieve high volume production of high-quality and reliable hard disk drives without a significant ongoing investment in manufacturing assets. As a result, the Hard Disk Drive group has achieved higher inventory turnover and has the potential for higher returns on invested capital than the industry average.

- . Leading Customer Satisfaction. The Hard Disk Drive group ranked among the best hard disk drive suppliers in customer satisfaction according to quarterly business reviews summarizing the status of supplier performance. The Hard Disk Drive group believes the following four factors contribute to its high customer satisfaction ratings:

- 1) Quality and Reliability. The Hard Disk Drive group's focus on providing high quality, reliable hard disk drives begins at the design and development phase and continues through extensive pre-production reliability testing, strategic use of Matsushita-Kotobuki's automated manufacturing, long-term relationships with high-performing suppliers and solid, consistent execution. In addition, the Hard Disk Drive group has added two unique features to its hard disk drives: the Shock Protection System(TM), which reduces potential damage to the hard disk drive in the case of poor handling, and the Data Protection System(TM), which is a diagnostic software application that reduces the product return rate by allowing users to determine whether a computer failure has resulted from a hard disk drive malfunction. The Hard Disk Drive group's consistent execution and stringent quality standards, along with the introduction of Shock Protection System and Data Protection System, have resulted in the Hard Disk Drive group having the lowest rate of defects per million at three leading PC computer equipment manufacturers and two leading server and workstation computer equipment manufacturers.
- 2) Time-to-Market/Time-to-Volume. The Hard Disk Drive group achieves a leading position in time-to-market with each generation of hard disk drives through internal technology development, relationships with key component suppliers and an integrated design and development process with Matsushita-Kotobuki. Demonstrating the Hard Disk Drive group's time-to-market leadership, in March 1999, the Hard Disk Drive group announced the introduction of Fireball CX which features industry leading 6.8GB capacity per disk and is the first Hard Disk Drive group hard disk drive to incorporate giant magneto-resistive heads. In addition, the Hard Disk Drive group's technology advances in channels, interface and cache architecture have led to consistently high benchmark performances for its Fireball and Fireball Plus product lines. The Hard Disk Drive group quickly achieves high volume production by capitalizing on Matsushita-Kotobuki's highly automated manufacturing facilities and manufacturing expertise. For example, with Matsushita-Kotobuki, the Hard Disk Drive group completed one of the fastest conversions to the latest generation of magneto-resistive recording heads in the industry and quickly achieved volume production. The Hard Disk Drive group expects to complete a similar transition to giant magneto-resistive heads.
- 3) Competitive Cost. The Hard Disk Drive group focuses on providing the lowest total cost of ownership through high quality, time-to-volume products; high inventory turnover; and minimal infrastructure. Matsushita-Kotobuki provides low cost and superior quality manufacturing through a high- yielding automated process.

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- 4) Ease of doing business. The Hard Disk Drive group focuses development resources on features that provide tangible, practical benefits for its customers--technology that enables its customers to provide superior computer systems to their customers at the lowest total cost of ownership. The Hard Disk Drive group provides worldwide logistics capabilities, which include regional service delivery to support customized production strategies and e-commerce capability with major customers. In addition, the Hard Disk Drive group offers dedicated support teams for all its major computer equipment manufacturers customers. According to quarterly business reviews received from its customers, the Hard Disk Drive group has been consistently ranked among the best hard disk drive suppliers in delivery responsiveness.

#### The Hard Disk Drive Group Strategy

The Hard Disk Drive group's objective is to be the number one supplier of hard disk drives to each of the desktop, high-end and emerging markets in which it competes. Key elements of the Hard Disk Drive group's strategy include:

- . Maintaining Leadership Position in Desktop Market. The Hard Disk Drive group has been the leading volume supplier of hard disk drives to the desktop market over the past six years. The Hard Disk Drive group has maintained this leadership position while several different competitors have advanced and then declined in the desktop market. The foundation of the Hard Disk Drive group's future success will be maintaining its strong computer equipment manufacturers and distribution relationships to help position the Hard Disk Drive group for long-term growth. The Hard Disk Drive group is committed to maintaining its leadership position in the desktop hard disk drive market by executing its strategy of maintaining customer satisfaction by focusing on quality, reliability, time-to-market, time-to-volume, competitive cost and ease of doing business.
- . Establishing Leadership in the Computer Server and Workstation Market. In the fall of 1997, the Hard Disk Drive group began to focus its high-end business on the fast growing Computer server and workstation market. To execute on this strategy, the Hard Disk Drive group leverages its capabilities to produce high quality, reliable hard disk drives and quickly achieve high volume manufacturing in partnership with Matsushita-Kotobuki. In addition, during the past year the Hard Disk Drive group has simplified its high-end product development process by adopting a common architecture for all its high-end hard disk drives to improve time-to-market and time-to-volume. The Hard Disk Drive group has continued its small computer system interface or SCSI interface leadership with the introduction of its Ultra 160/m interface technology in its Atlas IV drive and was the first to market with this interface technology. During the past year, the Hard Disk Drive group has also expanded its customer base to include each of the top four server and workstation computer equipment manufacturers and has achieved high customer satisfaction ratings as measured by customer field returns. In calendar year 1999, the Hard Disk Drive group will, for the first time, have a complete high-end product offering, and 7200 RPM and 10,000 RPM hard disk drives with SCSI and fibre channel interfaces, both of which are high-speed interfaces used in the enterprise storage market.
- . Offering Products That Meet Developing Consumer Electronic Storage Needs. Consumer electronics applications such as new TV recording devices represents a developing market opportunity for the Hard Disk Drive group's hard disk drive technologies. The Hard Disk Drive group offers customized design capabilities and unique hard disk drive technologies for consumer applications. The Hard Disk Drive group is currently developing hard disk drive storage applications in consumer electronics with Sony, Panasonic Technologies, Inc. and TiVo, Inc., among others. In December 1998, the Hard Disk Drive group announced a

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strategic alliance with TiVo to incorporate Quantum QuickView hard disk drives into a TiVo receiver and began shipping Quantum QuickView in March 1999. This receiver will give customers an in-home personalized television service with traditional recording capabilities as well as the ability to simultaneously play and record the same TV program so that the viewer can begin watching the TV program before it is finished being recorded. The Hard Disk Drive group also intends to increase consumer awareness of the Quantum brand name in the consumer electronics market.

#### Products

Desktop products. The Hard Disk Drive group offers three families of desktop hard disk drives--the Quantum Bigfoot(TM), Quantum Fireball and Quantum Fireball Plus. The Quantum Bigfoot family offers 5.25-inch hard disk drives for PC users. 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. The Hard Disk Drive group began offering its Shock Protection System and Data Protection

System with its recently released desktop products. These features substantially reduce failure rates with customers and provide increased reliability and performance.

High-end products. The Hard Disk Drive group also offers a broad line of high-end 3.5-inch hard disk drives--the Quantum Viking(TM), Quantum Atlas(TM) and Quantum Atlas 10K families. The Quantum Viking II 3.5-inch hard disk drive is designed for low-profile applications such as workgroup servers and desktop workstations, while the Quantum Atlas family offers high-capacity hard disk drives for high performance storage-intensive applications such as enterprise servers and storage subsystems. The Hard Disk Drive group began offering the Shock Protection System with its recently released high-end products.

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The table below sets forth key performance characteristics for The Hard Disk Drive group's current products:

<TABLE>  
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Products	Capacity per Disk (GB)	Product Capacity (GB)	Rotational Speed (RPM)	Platform
Bigfoot TS	6.4	6.4 to 19.2	4,000	Desktop PCs--Value, with Ultra ATA interface, 5.25-inch media
Fireball EX	3.4	3.2 to 12.9	5,400	Desktop PCs--Performance, with Ultra ATA interface, Shock Protection System
Fireball CR	4.3	4.3 to 13.0	5,400	Desktop PCs--Value, with Ultra ATA/66 interface, Shock Protection System and Data Protection System
Fireball Plus KA	4.5	6.4 to 18.2	7,200	Desktop PCs--Performance, with Ultra ATA/66 interface, Shock Protection System and Data Protection System
Fireball CX	6.8	6.4 to 20.4	5,400	Desktop PCs--Value, with Ultra ATA/66 interface, Shock Protection System and Data Protection System
Viking II	1.8	4.5 to 9.1	7,200	PC Servers and Workstations, with Ultra2 SCSI Low Voltage Differential (LVD) or Ultra SCSI interface
Atlas III	1.8	4.5 to 18.2	7,200	Servers and Storage Subsystems, Ultra2 SCSI Low Voltage Differential/Ultra SCSI interface
Atlas IV	4.5	9.1 to 36.4	7,200	Servers, Workstations and Storage Subsystems, with Ultra 160/m SCSI interface, Shock Protection System
Atlas 10K	3.0	9.1 to 36.4	10,000	Enterprise Servers and Storage Subsystems, with Ultra 160/m SCSI interface or Fibre Channel optional interface, 3-inch media, Shock Protection System

</TABLE>

#### Customers

The Hard Disk Drive group markets its products to leading computer equipment manufacturers, including Acer, Apple, Compaq, Dell, Fujitsu, Gateway, Hewlett-Packard, IBM, Packard Bell/NEC and Siemens. Because the leading computer equipment manufacturers have a dominant market share for the computer systems into which the Hard Disk Drive group's products are incorporated, the Hard Disk Drive group's sales are concentrated with several key customers.

Sales to the Hard Disk Drive group's top five customers in fiscal year 1999 represented 43% of revenue, compared to 44% of revenue in fiscal year 1998. These amounts reflected a retroactive combination of the sales to Compaq and Digital Equipment as a result of their merger in June 1998. Sales to Hewlett-

Packard were 14% of revenue in both fiscal years 1999 and 1998. Sales to Compaq were 10% of revenue in fiscal year 1999, compared to 12% of revenue in fiscal year 1998, including sales to Digital Equipment.

#### Sales and Marketing

The Hard Disk Drive group markets its products directly to manufacturers of desktop PCs, servers and workstations. Key domestic and international OEM customers include Acer, Apple, Apricot Computers Limited, Compaq, Dell, Fujitsu, Gateway, Hewlett-Packard, IBM, LG Electronics Inc., Packard Bell/NEC, Samsung and Siemens.

In addition to its strong base of computer equipment manufacturer customers, the Hard Disk Drive group markets its products through a domestic and international network of commercial and industrial distributors located in more than 25 countries worldwide. This network includes Bell Microproducts, Inc., Computer 2000 AG, Ingram Micro Inc. and Wyle Electronics. Through this network, the Hard Disk Drive group's hard disk drive products reach smaller computer equipment manufacturers, systems integrators, value-added resellers, dealers and retailers.

The Hard Disk Drive group supports international sales and operations by maintaining regional European headquarters in Neuchatel, Switzerland; a Japanese headquarters in Tokyo; and

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additional sales offices in Singapore and throughout the world. The Hard Disk Drive group's international sales, including sales to foreign subsidiaries of U.S. companies, were 55% of the Hard Disk Drive group's revenue in fiscal year 1999, and 57% and 54% of revenue for fiscal years 1997 and 1998, respectively.

#### Manufacturing

Matsushita-Kotobuki manufactures all of The Hard Disk Drive group's hard disk drives at facilities located in Japan, Singapore and Ireland. Matsushita-Kotobuki's state-of-the-art manufacturing process is highly automated, employing integrated computer networks and advanced control systems. Matsushita-Kotobuki's manufacturing expertise helps The Hard Disk Drive group produce hard disk drives of exceptional quality and quickly achieve volume production.

The Hard Disk Drive group's relationship with Matsushita-Kotobuki, which has been continuous since 1984, is governed by a master agreement which continues through 2007, unless terminated sooner as a result of certain specified events including a change-in-control of either Quantum or Matsushita-Kotobuki. This agreement gives Matsushita-Kotobuki the exclusive worldwide right to manufacture and the Hard Disk Drive group the exclusive worldwide right to design and market hard disk drives. The Hard Disk Drive group provides Matsushita-Kotobuki with a forecast of its requirements and places purchase orders approximately three months prior to scheduled delivery. The Hard Disk Drive group works closely with Matsushita-Kotobuki to regularly adjust its purchase orders as market requirements change.

The Hard Disk Drive group and Matsushita-Kotobuki work together to develop strategic relationships with leading suppliers of many of the key hard disk drive components. These relationships enable the Hard Disk Drive group to gain early access to leading-edge hard disk drive technology and to actively manage its supply chain to improve flexibility in choosing state-of-the-art components and to reduce component, inventory and overall product costs.

In October 1998, the Hard Disk Drive group agreed with Matsushita-Kotobuki to dissolve their recording heads joint venture. As a result, the Hard Disk Drive group no longer develops or manufactures recording heads.

#### Research and Development

The Hard Disk Drive group's research and development expenses were \$261 million, \$259 million and \$254 million in fiscal years 1997, 1998 and 1999, respectively. The Hard Disk Drive group is currently concentrating its research and development efforts on broadening its existing hard disk drive product lines through the development and introduction of new hard disk drives. These development efforts focus on developing desktop and high-end hard disk drives, hard disk drives for consumer electronics and other hard disk drive applications.

#### Competition

In the desktop product market, the Hard Disk Drive group competes primarily with Fujitsu, IBM, Maxtor, Samsung, Seagate and Western Digital. In the high-end market, the Hard Disk Drive group competes primarily with Fujitsu, Hitachi, IBM, Seagate and Western Digital.

The Hard Disk Drive group believes that important competitive factors in the

hard disk drive market are:

- . quality;
- . reliability;
- . storage capacity;
- . performance;
- . price;
- . time-to-market introduction;
- . time-to-volume production;
- . computer equipment manufacturer product qualifications;
- . breadth of product lines; and
- . technical service and support.

The Hard Disk Drive group believes that it competes favorably with respect to these factors.

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#### Warranty and Service

The Hard Disk Drive group generally warrants its products against defects for a period of one to five years from the date of sale. The Hard Disk Drive group generally provides warranty service on a return to factory basis. The Hard Disk Drive group maintains in-house service facilities for refurbishment or repair of its products in Milpitas, California; Dundalk, Ireland; and Penang, Malaysia. The Hard Disk Drive group also utilizes third party providers for warranty repairs.

#### Employees

At March 31, 1999, the Hard Disk Drive group had approximately 3,800 regular employees. In addition, approximately 860 employees perform services for both the Hard Disk Drive group and the DLT & Storage Systems group. In the advanced electronics industry, competition for highly skilled employees is intense. The Hard Disk Drive group believes that a great part of its future success will depend on its ability to attract and retain highly skilled employees. None of the Hard Disk Drive group's employees are represented by a union, and the Hard Disk Drive group has experienced no work stoppages. The Hard Disk Drive group believes that its employee relations are favorable.

#### Management

The following table sets forth certain information with respect to the executive officers of the Hard Disk Drive group:

<TABLE>  
<CAPTION>

Name	Age	Position
----	---	-----
<C>	<C>	<S>
John B. Gannon.....	52	President
Shyam C. Parikh.....	54	Chief Technology Officer
Deborah C. Shoquist..	44	Executive Vice President, Hard Disk Drive Operations
Barbara J. Baill....	47	Vice President, Human Resources
John M. Cobb.....	42	Vice President, Finance
Anthony Francesca...	42	Vice President and General Manager, New Businesses
Barbara H. Nelson...	44	Vice President and General Manager, Desktop Storage Division
John S. Squire.....	45	Chief Quality Officer

</TABLE>

Mr. Gannon has been President of the Hard Disk Drive group since February 1999. From May 1998 to February 1999, Mr. Gannon was Executive Vice President of Worldwide Sales. Prior to joining Quantum, Mr. Gannon spent seventeen years with Hewlett-Packard from 1981 to 1998, last serving as General Manager of Commercial Desktop Personal Computer Business from 1996 to 1998 and as General Manager of Digital Audio Tape Business from 1993 to 1996.

Mr. Parikh has been Chief Technology Officer since August 1998. Mr. Parikh joined Quantum in 1994, and served as Vice President of Technology and Engineering from 1994 to August 1998. Prior to joining Quantum, Mr. Parikh was employed by Digital Equipment for 18 years where he held positions in Advanced Development, Product Development and Support Engineering.

Ms. Shoquist has been Executive Vice President of Hard Disk Drive Operations since December 1996. Ms. Shoquist has served in a variety of manufacturing



management positions, most recently as Vice President of Product and Test engineering for the High-End Storage Division. Prior to that, Ms. Shoquist was Vice President of Worldwide Operations for the High-End Storage Division. Prior to joining Quantum in 1991, Ms. Shoquist held a variety of operations management positions at Hewlett-Packard.

Ms. Baill has been Vice President of Human Resources since 1997. From 1994 to 1997, Ms. Baill was Director of Human Resources. Prior to joining Quantum, Ms. Baill spent 15 years with Hewlett-Packard where she held various positions including human resource management in a regional sales organization and as the Manager for Executive and Management Development.

Mr. Cobb has been the Vice President of Finance since 1998. Mr. Cobb joined Quantum in 1990 as a Controller. From 1993 to 1995 Mr. Cobb was Director of Finance for the High-End Storage Division. From 1995 to 1998 Mr. Cobb was Vice President of Finance for the High-End Storage Division. Prior to joining Quantum, Mr. Cobb was a Senior Manager at Ernst & Young LLP.

Mr. Francesca has been Vice President and General Manager, New Businesses since 1998. From

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1997 to 1998, Mr. Francesca was Vice President of Marketing of the Desktop Storage Division and joined Quantum in 1997 as Vice President of Mobile Business Unit. Prior to joining Quantum, Mr. Francesca was Vice President of the OEM business unit for desktop and mobile communications at US Robotics.

Ms. Nelson has been the Vice President and General Manager of the Desktop Storage Division since November 1997. Ms. Nelson joined Quantum in January 1997 as Vice President of Marketing of the Desktop Storage Division. Prior to joining Quantum, Ms. Nelson was at Lumina Office Products, Inc. where she was responsible for sales and worldwide marketing. Ms. Nelson also spent four years at Maxtor Corporation where she held a variety of positions, including Vice President of Marketing and Sales and Director of Sales Management.

Mr. Squire has been the Chief Quality Officer since 1998. Mr. Squire has held a variety of positions at Quantum since 1988, including most recently, General Manager of the Desktop Storage Division from 1997 to 1998 and Vice President of Development Engineering for Desktop Storage Division from 1995 to 1997.

Technology

Both the Hard Disk Drive group and the DLT & Storage Systems group will have access to all of Quantum's technology and know-how, excluding products and services of the other group, that may be useful in that group's business. The Hard Disk Drive group and the DLT & Storage Systems group will consult each other on a regular basis concerning technology issues that affect both groups.

Quantum has been granted and/or owns by assignment 477 United States patents. In general, these patents have 17-year terms from the date of issuance. Quantum also has certain foreign patents and applications relative to certain of the products and technologies. Although the Hard Disk Drive group believes that its patents and applications have significant value, the rapidly changing computer industry technology makes the Hard Disk Drive group's future success dependent primarily upon the technical competence and creative skills of our personnel rather than on patent protection.

Several companies and individuals have approached the Hard Disk Drive group concerning the need for a license under patented technology that the Hard Disk Drive group assertedly used, or is assertedly using, in the manufacture and sale of one or more of its products. The Hard Disk Drive group conducts ongoing investigations into these assertions and presently believes that any licenses ultimately determined to be required could be obtained on commercially reasonable terms. However, the Hard Disk Drive group cannot assure you that such licenses are presently obtainable, or if later determined to be required, could be obtained on commercially reasonable terms or at all.

Quantum has signed cross-licensing agreements with Hewlett-Packard, IBM, Seagate and others. These agreements enable the Hard Disk Drive group to use certain patents owned by these companies, and enables these companies to use certain patents owned by Quantum.

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THE HARD DISK DRIVE GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

You should read this discussion along with the Hard Disk Drive group's Combined Financial Statements contained in this proxy statement. Historical results and percentage relationships may not necessarily be indicative of

operating results for any future periods.

Overview

The following summarizes the Hard Disk Drive group's desktop and high-end revenue and operating profit (loss), excluding the effect of the discontinued recording heads operations:

<TABLE>  
<CAPTION>

	Year Ended March 31,		
	1997	1998	1999
Business unit:	(In thousands)		
<S>	<C>	<C>	<C>
Desktop Drives			
Revenue.....	\$4,004,828	\$3,981,614	\$3,079,437
Unit operating profit (loss).....	300,287	184,331	(49,132)
High-end Drives			
Revenue.....	\$ 586,616	\$ 633,821	\$ 519,883
Unit operating loss.....	(154,184)	(250,136)	(83,323)

</TABLE>

The Hard Disk Drive group experienced the following key trends in its desktop and high-end hard disk drive products during the fiscal years 1997 through 1999:

- . Desktop Hard Disk Drives. Because desktop hard disk drives are the key storage device within PCs, the PC market generates demand for desktop hard disk drives. The growth and pervasive use of PCs in both the business and home have generally resulted in increasing sales of the Hard Disk Drive group's desktop hard disk drives. However, a market demand slowdown, coupled with inventory curtailment by leading computer equipment manufacturers, negatively affected revenue during the five most recent quarters. In addition, intense competition in the market for both PCs and desktop hard disk drives has resulted in generally declining hard disk drive prices despite increases in the capacity and performance of hard disk drives.
- . High-end Hard Disk Drives. High-end hard disk drives are predominately used in servers, workstations and storage sub-systems. Although the market for high-end hard disk drives has continued to expand, IBM and Seagate have held the largest market share in these markets. The Hard Disk Drive group has experienced difficulty in gaining market share and has experienced continuing losses in this business. The Hard Disk Drive group, however, recognizes the long term potential of this market, and has continued its strategy of focusing on the fast growing network server and workstation market and has taken several important steps in an effort to improve its performance. The Hard Disk Drive group transitioned all of its high-end manufacturing to Matsushita-Kotobuki beginning in the fourth quarter of fiscal year 1996, which was substantially completed by the second quarter of fiscal year 1997. This transition has contributed to a recent improvement in the reliability of the Hard Disk Drive group's new high-end products. The Hard Disk Drive group has also recently improved its time-to-market performance and now has a complete high-end product offering with both 7200 RPM and 10,000 RPM products with SCSI and fibre channel interfaces, both of which are high speed interfaces used in the enterprise storage market.

Results of Operations

Fiscal Year 1999 Compared With Fiscal Year 1998

Revenue. Revenue in fiscal year 1999 was \$3.6 billion, compared to \$4.6 billion in fiscal year 1998, a decrease of 22%. The decrease in revenue reflected lower revenue from sales of both desktop and high-end hard disk drives.

- . Desktop hard disk drive revenue in fiscal year 1999 was \$3.1 billion, compared to \$4.0 billion in fiscal year 1998. The decline in desktop hard disk drive revenue reflected a decline in average unit prices and, to a lesser extent, a lower level of shipments to leading computer equipment manufacturers. The price decline reflected intense competition, especially in the first two quarters of fiscal year 1999, and the growth of the low cost PC market, which has become a higher proportion of the overall desktop PC market.
- . High-end hard disk drive revenue in fiscal year 1999 was \$520 million, compared to \$634 million in fiscal year 1998. Although high-end hard disk drive shipments increased in fiscal year 1999, increased competitive pricing pressures, especially in the second half of fiscal year 1999, resulted in reduced average unit prices and lower high-end hard disk

drive revenue.

Sales to the top five customers in fiscal year 1999 represented 43% of revenue, compared to 44% of revenue in fiscal year 1998. These amounts reflected a retroactive combination of the sales to Compaq and Digital Equipment as a result of their merger in June 1998. Sales to Compaq were 10% of revenue in fiscal year 1999, compared to 12% of revenue in fiscal year 1998, including sales to Digital Equipment. Sales to Hewlett-Packard were 14% of revenue in both fiscal years 1999 and 1998.

In fiscal year 1999, sales to computer equipment manufacturers and distribution channel customers were 60% and 40% of revenue, respectively, compared to 59% and 41% of revenue, respectively, in fiscal year 1998.

Gross Margin Rate. The gross margin rate in fiscal years 1999 and 1998 was 8.1%.

- . The desktop gross margin rate in fiscal year 1999 was 7.5%, compared to 11.4% in fiscal year 1998.
- . The high-end gross margin rate in fiscal year 1999 was 11.4%, compared to -12.7% in fiscal year 1998.

The gross margin rate in fiscal year 1998 reflected the impact of a \$103 million special charge related to the transition to a new generation of high-end disk drive products, and consisted primarily of inventory write-offs and adjustments, and losses related to firm inventory purchase commitments. Excluding the special charge, the gross margin rate was 10.3% in fiscal year 1998. This 2.2 percentage point decline between fiscal year 1998 and 1999 reflected the decline in gross margins earned on desktop hard disk drives as a result of intense competitive pricing pressures in fiscal year 1999.

Research and Development Expenses. Research and development expenses in fiscal year 1999, were \$254 million, or 7.1% of revenue, compared to \$259 million, or 5.6% of revenue, in fiscal year 1998. The decrease in research and development expenses reflected reduced spending as a result of cost control efforts.

Sales and Marketing Expenses. Sales and marketing expenses in fiscal year 1999, were \$114 million, or 3.2% of revenue, compared to \$122 million, or 2.6% of revenue in fiscal year 1998. The decrease in sales and marketing expenses reflected reduced spending including lower commissions as a result of the lower level of revenue.

General and Administrative Expenses. General and administrative expenses in fiscal year 1999, were \$56 million, or 1.5% of revenue, compared to \$67 million, or 1.5% of revenue, in fiscal year 1998. The decrease in general and administrative expenses reflected the impact of cost control efforts.

Interest and Other Income/Expense. Net interest and other income and expense in fiscal year 1999 was \$10 million income, compared to \$5 million income in fiscal year 1998. The increase reflected increased interest income on higher cash balances and reduced interest expense.

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Loss from Investee. The Hard Disk Drive group's investment and operating results related to its recording heads business have resulted in significant losses. The Hard Disk Drive group acquired a recording heads business from Digital Equipment in October 1994. In May 1997, The Hard Disk Drive group sold a 51% majority interest in its recording heads operations to Matsushita-Kotobuki, and formed a recording heads joint venture with Matsushita-Kotobuki. On October 28, 1998, the Hard Disk Drive group and Matsushita-Kotobuki agreed to dissolve the recording heads joint venture. In connection with the dissolution, the Hard Disk Drive group recorded a \$101 million loss in the third quarter of fiscal year 1999. This loss included a write-off of the Hard Disk Drive group's investment in the recording heads joint venture; a write-down of the Hard Disk Drive group's interest in facilities in Louisville, Colorado, and Shrewsbury, Massachusetts that were occupied by the recording heads joint venture; warranty costs resulting from magneto resistive recording heads manufactured by the recording heads joint venture; and the Hard Disk Drive group's 49% pro rata share in funding the recording heads joint venture's repayment of its obligations, primarily bank debt, accounts payable and other liabilities. See Note 5 of the Notes to Combined Financial Statements for additional discussion of the dissolution of the recording heads joint venture.

Income Taxes. The Hard Disk Drive group recorded benefits of \$112 million and \$83 million for effective benefit rates of 42% and 61% in fiscal years 1999 and 1998, respectively. The 1999 effective rate reflects decreased benefits from foreign earnings taxed at less than the U.S. rate, a lower research and development credit and decreased state tax benefits. Fiscal year 1998 includes a benefit as a result of the recognition of state deferred tax assets through tax planning.

Net Loss. The Hard Disk Drive group reported a net loss in fiscal year 1999 of \$153 million, compared to \$53 million in fiscal year 1998. The increased loss resulted from the \$101 million charge related to the recording heads joint venture dissolution and the decrease in revenue and gross profit, partially offset by a decrease in operating costs.

#### Fiscal Year 1998 Compared With Fiscal Year 1997

Revenue. Revenue in both fiscal years 1998 and 1997 was \$4.6 billion.

- . Desktop hard disk drive revenue in both fiscal years 1998 and 1997 was \$4.0 billion.
- . High-end hard disk drive revenue for fiscal year 1998 was \$634 million, compared to \$587 million in fiscal year 1997.

Declines in average unit prices for both desktop and high-end disk drives substantially offset an increase in disk drive unit shipments. Oversupply and intensely competitive pricing in these markets, particularly in the second half of fiscal year 1998 and more significantly for the high-end disk drive products, caused such declines.

Sales to the Hard Disk Drive group's top five customers were 44% of revenue in fiscal year 1998, compared to 40% of revenue in fiscal year 1997. These amounts reflect a retroactive combination of the sales to Compaq and Digital Equipment as a result of their merger in June 1998. Sales to Hewlett-Packard were 14% of revenue in fiscal year 1998, compared with less than 10% of revenue in fiscal year 1997. Sales to Compaq were 12% of revenue in both fiscal years 1998 and 1997, including sales to Digital Equipment.

Sales to computer equipment manufacturers and distribution channel customers were 59% and 41% of revenue, respectively, for fiscal year 1998 compared with 61% and 39% of revenue, respectively, in fiscal year 1997.

Gross Margin Rate. The gross margin rate decreased 2.8 percentage points to 8.1% in fiscal year 1998, from 10.9% in fiscal year 1997.

- . The desktop gross margin rate for fiscal year 1998 was 11.4%, compared to 14.1% for fiscal year 1997.
- . The high-end gross margin rate for fiscal year 1998 was -12.7%, compared to -1.8% for fiscal year 1997.

The overall gross margin decrease reflected the price declines earned on desktop and high-end hard disk drives, particularly in the second half of fiscal year 1998, and the \$103 million special charge in the

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third quarter of fiscal year 1998. The special charge related to the transition to a new generation of high-end disk drive products, and consisted primarily of inventory write-offs and adjustments, and losses related to firm inventory purchase commitments. Excluding the special charge, the gross margin rate was 10.3% in fiscal year 1998. The erosion of gross margins earned on hard disk drives and the special charge both reflected the oversupply and intensely competitive pricing in the desktop and high-end disk drive markets, particularly in the second half of fiscal year 1998.

Research and Development Expenses. In fiscal year 1998, research and development expenses were \$259 million, or 5.6% of revenue, compared with \$261 million, or 5.7% of revenue, in fiscal year 1997.

Sales and Marketing Expenses. Sales and marketing expenses in fiscal year 1998 were \$122 million, or 2.6% of revenue, compared with \$126 million, or 2.7% of revenue, in fiscal year 1997.

General and Administrative Expenses. General and administrative expenses in fiscal year 1998 were \$67 million, or 1.5% of revenue, compared with \$75 million, or 1.6% of revenue, in fiscal year 1997.

Interest and Other Income/Expense. Net interest and other income and expense in fiscal year 1998 was \$5 million income, compared with \$15 million expense in fiscal year 1997. A decrease in interest expense, reflecting a year-over-year decrease in the average level of debt used to finance operations, and an increase in the year-over-year average level of cash, combined to cause this change.

Loss from Investee. The loss from investee reflected the Hard Disk Drive group's equity share in the operating losses of the recording heads joint venture since May 16, 1997, when this joint venture was formed. Prior to May 16, 1997, the Hard Disk Drive group fully combined its recording heads operations. The Hard Disk Drive group's total losses from recording heads operations for fiscal year 1998 was \$75 million, compared with \$110 million for fiscal year 1997. The loss from investee for fiscal year 1998 included a charge of approximately \$5 million, which represented the Hard Disk Drive group's

share of a third quarter charge in the recording heads joint venture's operating results for severance, equipment write-offs, lease termination and other costs associated with the recording heads joint venture's strategic actions. A combination of reduced unit prices, operating costs, manufacturing yields, product transitions and soft demand for certain recording heads products, primarily those related to high-end disk drive products, resulted in losses by the recording heads joint venture.

Income Taxes. The Hard Disk Drive group recorded benefits of \$83 million and \$19 million for fiscal years 1998 and 1997, respectively. The 1997 benefit reflects foreign earnings taxed at less than the U.S. tax rate and valuation allowance reversal. Fiscal year 1998 includes a benefit as a result of the recognition of state deferred tax assets through tax planning and the benefit of foreign earnings taxed at less than the U.S. rate.

Net Income (Loss). The Hard Disk Drive group reported a net loss in fiscal year 1998 of \$53 million, compared to net income of \$41 million in fiscal year 1997. The change to a net loss resulted from the special charge related to high-end disk drives and the erosion of margins on desktop hard disk drives. A decrease in operating costs partially offset the decrease.

Quarterly Operating Results

The following tables present unaudited quarterly operating results for fiscal years 1999 and 1998. We believe this information reflects all adjustments that we consider necessary for a fair presentation of such information in accordance with generally accepted accounting principles. The results for any quarter are not necessarily indicative of results for any future period.

<TABLE>  
<CAPTION>

	Fiscal Year 1999			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(In thousands)			
<S>	<C>	<C>	<C>	<C>
Revenue.....	\$ 847,321	\$ 874,253	\$ 959,086	\$ 918,660
Cost of revenue.....	794,622	814,039	881,298	817,942
Gross profit.....	52,699	60,214	77,788	100,718
Operating expenses:				
Research and development.....	62,347	60,661	59,766	71,119
Sales and marketing.....	25,570	30,520	29,427	28,872
General and administrative.....	10,954	14,230	13,538	16,870
	98,871	105,411	102,731	116,861
Loss from operations.....	(46,172)	(45,197)	(24,943)	(16,143)
Interest and other income, net.....	2,101	70	3,445	4,386
Loss from investee.....	(24,237)	(17,113)	(100,700)	--
Loss before income taxes...	(68,308)	(62,240)	(122,198)	(11,757)
Income tax benefit.....	(27,754)	(27,362)	(46,230)	(10,631)
Net loss.....	\$ (40,554)	\$ (34,878)	\$ (75,968)	\$ (1,126)

<CAPTION>

	Fiscal Year 1998			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(In thousands)			
<S>	<C>	<C>	<C>	<C>
Revenue.....	\$1,181,139	\$1,214,968	\$1,189,602	\$1,029,726
Cost of revenue.....	1,011,267	1,054,892	1,201,466	974,503
Gross profit (loss).....	169,872	160,076	(11,864)	55,223
Operating expenses:				
Research and development.....	62,883	59,792	70,488	65,753
Sales and marketing.....	32,253	32,021	32,084	25,429
General and				

administrative.....	22,748	18,730	16,901	8,622
	-----	-----	-----	-----
	117,884	110,543	119,473	99,804
	-----	-----	-----	-----
Income (loss) from operations.....	51,988	49,533	(131,337)	(44,581)
Interest and other income, net.....	957	231	2,196	1,234
Loss from investee.....	(3,942)	(15,629)	(22,651)	(23,838)
	-----	-----	-----	-----
Income (loss) before income taxes.....	49,003	34,135	(151,792)	(67,185)
Income tax provision (benefit).....	2,156	(4,918)	(53,545)	(26,674)
	-----	-----	-----	-----
Net income (loss).....	\$ 46,847	\$ 39,053	\$ (98,247)	\$ (40,511)
	=====	=====	=====	=====

</TABLE>

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Our quarterly and annual operating results have fluctuated in the past and are likely to fluctuate significantly in the future due to a variety of factors, many of which are outside of our control. Because of these and other factors, our quarterly revenue, expenses and results of operations could vary significantly in the future, and period-to-period comparisons should not be relied upon as indications of future performance. We may not be able to increase our revenue in future periods or be able to sustain our existing level of revenue or our rate of revenue growth on a quarterly or annual basis. In addition, our annual or quarterly operating results may not meet the expectations of securities analysts and investors. If this happens, the trading price of our common stock could significantly decline.

#### Recent Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income," which the Hard Disk Drive group implemented in fiscal year 1999. SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components--revenue, expenses, gains, and losses--in a full set of general-purpose financial statements. The adoption of SFAS No. 130, changed financial statement presentation but did not have an impact on the Hard Disk Drive group's financial position or results of operations.

In June 1997, the FASB issued SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," requires certain financial and descriptive information about a company's reportable operating segments. The Hard Disk Drive group adopted SFAS No. 131 in fiscal year 1999. The adoption of SFAS No. 131 applies solely to disclosure and will not have an impact on the Hard Disk Drive group's financial position or results of operations.

#### Liquidity and Capital Resources

**Operatings Activities.** The Hard Disk Drive group generated cash from operations of \$247 million during fiscal year 1999. The Hard Disk Drive group's cash provided by operations in fiscal year 1998 was \$82 million. The increase primarily reflects an increase in the collection of accounts receivable and a reduction in inventories.

**Investing Activities.** Investments during fiscal year 1999 were \$35 million, which consisted primarily of investments in property and equipment, partially offset by maturities of marketable securities. Investments in fiscal year 1998 totaled \$83 million.

**Financing Activities.** At March 31, 1999, and March 31, 1998, Quantum's debt allocated to the Hard Disk Drive group was \$115 million and \$109 million, respectively. Debt allocated to the Hard Disk Drive group bears interest at a rate equal to the weighted average interest rate of Quantum's total debt, calculated on a quarterly basis. At March 31, 1999, Quantum had a total debt of \$345 million with an average interest rate of 7.3%. In the future, each group's debt will increase or decrease by the amount of any cash provided by or used for the group's operating activities, investing activities, share repurchases or issuances and other non-debt-related financing activities. See Note 1 to Combined Financial Statements for further discussion of financing activities.

In December 1998, ATL entered into a senior credit facility that provides a \$35 million revolving credit line to ATL. The revolving credit line is co-terminous with Quantum's \$500 million revolving credit line, expiring in June 2000. At the option of ATL, borrowings under the revolving credit line bear interest at either London interbank offered rate plus a margin determined by Quantum's total funded debt ratio, or at a base rate, with option periods of one to six months. At March 31, 1999, \$18 million was outstanding on this revolving credit line.

Quantum filed a registration statement which became effective on July 24, 1997, pursuant to which Quantum may issue debt or equity securities, in one or more series or issuances, limited to \$450 million aggregate public offering price. Under the registration statement, in July 1997, Quantum issued \$288 million of 7% convertible subordinated notes. The notes mature on August 1, 2004, and are convertible at the option of the holder at any time prior to maturity, unless previously redeemed, into shares of the Quantum's common stock at a conversion price of \$46.325 per share. Quantum has the option to redeem the notes on or after August 1, 1999 and prior to August 1, 2001, under certain conditions related to the price of Quantum's

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common stock. Subsequent to August 1, 2001, Quantum may redeem the notes at any time. In the event of certain changes involving all or substantially all of Quantum's common stock, the holder would have the option to redeem the notes. Redemption prices range from 107% of the principal to 100% at maturity. The notes are unsecured obligations subordinated in right of payment to all of Quantum's existing and future senior indebtedness.

If the tracking stock proposal is implemented, each of the 7% convertible subordinated notes, which currently are convertible into shares of existing common stock, will become convertible into shares of DLT & Storage Systems group stock and shares of Hard Disk Drive group stock. The number of shares of Hard Disk Drive group stock and DLT & Storage Systems group stock into which each note will be convertible is equal to the number of the shares which the holder of the note would receive under the tracking stock proposal had such note been converted immediately prior to the implementation of the tracking stock proposal. The notes will not be separately convertible into solely DLT & Storage Systems group stock or solely Hard Disk Drive group stock. The exercise price and maturity date of each convertible note will not be affected by the implementation of the tracking stock proposal.

In June 1997, Quantum entered into an unsecured senior credit facility that provides a \$500 million revolving credit line and expires in June 2000. At Quantum's option, borrowings under the revolving credit line bear interest at either London interbank offered rate plus a margin determined by our total funded debt ratio, or at a base rate, with option periods of one to six months. At March 31, 1999, there was no outstanding balance drawn on this line.

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

The Hard Disk Drive group expects to spend approximately \$85 million in fiscal year 2000 for capital equipment and leasehold improvements. These capital expenditures will support the expansion of the desktop and high-end hard disk drive product lines and the introduction of hard drives for consumer electronic applications.

The Hard Disk Drive group expects its cash flow from operations, together with available financing sources, will be sufficient to meet all currently planned expenditures and sustain operations for the next 12 months. However, this belief assumes that operating results and cash flow from operations will meet the Hard Disk Drive group's expectations.

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#### PROPOSAL 2--ADOPTION OF AMENDMENTS TO THE QUANTUM CORPORATION EMPLOYEE STOCK PURCHASE PLAN

##### Background of the Proposal

Proposal 2 relates to amendments to the Quantum corporation employee stock purchase plan which would:

- . increase the number of shares available for issuance under the purchase plan from 1,366,401 to 3,366,401; and
- . add an automatic share replenishment provision to the purchase plan which will increase the number of shares reserved under the purchase plan each year beginning on April 1, 2000 and ending on and including April 1, 2005 by the lesser of
  - (1) 5,000,000 shares;
  - (2) 2% of the outstanding common stock; or
  - (3) an amount determined by our board of directors.

The purpose of the proposed amendments to the purchase plan is to increase the number of shares available for issuance under the purchase plan. Our board

of directors believes that the proposed amendments are in the best interests of Quantum and our stockholders for the following reasons:

- . our board of directors believes the purchase plan serves to incentivize current employees and to align their interests with those of our stockholders;
- . our board of directors believes that the purchase plan is an important element of our strategy to attract and retain qualified employees in a competitive market;
- . the automatic replenishment provision will provide the purchase plan with additional shares and avoid any adverse accounting consequences from running out of shares during an offering period; and
- . without the proposed share increase, we will exhaust the shares available for issuance under the purchase plan this year.

This summary highlights certain provisions of the purchase plan. To understand the purchase plan more fully, you should read carefully the amended purchase plan which is Annex II.

If the tracking stock proposal is approved by our stockholders, additional features will be added to the purchase plan to reflect the special features of the tracking stock, including:

- . two pools of tracking stock reserved under the purchase plan, each with automatic replenishment features;
- . a special mechanism for the purchase of shares from each pool so that each participant purchases a proportionate number of shares of the Hard Disk Drive group stock and the DLT & Storage Systems group stock; and
- . a modified change of control provision to reflect the tracking stock capital structure.

Under the purchase plan, our board of directors has the authority to adopt these amendments related to the tracking stock proposal without stockholder approval.

#### Summary of the purchase plan

##### General

The purchase plan, and the right of participants to make purchases thereunder, is intended to qualify under the provisions of Section 423 of the Code.

##### Purpose

The purchase plan provides the employees of Quantum and our majority-owned subsidiaries designated by our board of directors with an opportunity to purchase our common stock through accumulated payroll deductions.

##### Administration

Either our board of directors or a committee of our board administers the purchase plan. Currently, our board of directors is administering the purchase plan. The administration, interpretation or application of the purchase plan by our board of directors or the committee is final, conclusive and binding upon all participants. Members of our board of directors who are eligible employees may participate in the purchase plan so long as they do

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no vote on any matter affecting the administration of the purchase plan or grant any option pursuant to the purchase plan. In addition, if our board of directors establishes a committee to administer the purchase plan, no member of the board who is eligible to participate in the purchase plan may be a member of the committee.

##### Eligibility and Participation

Any person whom Quantum or any of its designated subsidiaries employs regularly at least 20 hours per week on the first day of each offering period known as the "enrollment date", is eligible to participate in the purchase plan. Eligible employees become participants in the purchase plan by completing a subscription agreement authorizing a payroll deduction on the form which we provide and by filing the form with our payroll office prior to the applicable enrollment date or such later time as our board of directors decides. As of March 31, 1999, approximately 6,610 employees were eligible to participate in the purchase plan.

##### Offering Dates



Generally, we implement the purchase plan by means of overlapping two-year offering periods, starting every six months. There are four six-month exercise periods within each offering period. Our board of directors has the power to change the duration of the offering periods and exercise periods within each offering period without stockholder approval if it announces the change at least 15 days prior to the scheduled beginning of the first affected offering period.

#### Purchase Price

The purchase price per share of the shares of common stock in a given offering period is the lower of:

- . 85% of the fair market value of a share of our common stock at the commencement of the offering period; or
- . 85% of the fair market value of a share of our common stock on the last day of the applicable six-month exercise period within the offering period.

#### Payment of Purchase Price; Payroll Deductions

The purchase price of shares is accumulated by payroll deductions over the offering period. The deductions may not exceed 10% of a participant's compensation. A participant may discontinue participation in the purchase plan, or may change the rate of payroll deductions, by giving notice to us. The change becomes effective:

- . in the case of a decrease in rate, with the first payroll following such notice; and
- . in the case of an increase in rate, at the beginning of the next six-month exercise period within the two-year offering period following such notice.

Payroll deductions commence on the first payroll date following the offering date and end on the last payroll date to which authorization is applicable, unless sooner terminated as provided in the purchase plan.

We credit all payroll deductions made for a participant to his or her account under the purchase plan. A participant may not make any additional payments into such account.

#### Purchase of Stock; Exercise of Option

By executing a subscription agreement to participate in the purchase plan, the employee can have shares placed under option to him or her. The maximum number of shares placed under the option to a participant in any exercise period is the number determined by dividing the total amount of his or her compensation which is to be withheld for the exercise period by 85% of the fair market value of the common stock at the beginning of the offering period or end of the exercise period, whichever is less. Unless the employee's participation is discontinued, his or her option for the purchase of shares is exercised automatically at the end of each exercise period at the applicable price.

Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Internal Revenue Code of 1986, as amended, we will not grant an option to any employee under the purchase plan if, immediately after the grant of the option, the employee would own shares and/or hold outstanding options to purchase stock, possessing 5% or more of the total combined voting power or

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value of all classes of our shares or of shares of any of our designated subsidiaries. In addition, we will not grant an option to any employee that would permit him or her to buy more than \$25,000 worth of stock under the purchase plan in any calendar year. This limit is determined at the fair market value of the shares at the time the option is granted.

#### Withdrawal

A participant may terminate his or her interest in a given offering in whole, but not in part, by signing and delivering to us a notice of withdrawal. The participant may elect to withdraw at any time prior to the end of the applicable offering period. A participant's withdrawal from an offering does not have any effect upon such participant's eligibility to participate in subsequent offerings under the purchase plan.

#### Amendment and Termination of the Purchase Plan

Our board of directors may at any time amend or terminate the purchase plan. Unless the termination or an amendment is necessary to avoid adverse financial accounting consequences to Quantum, no such termination can affect options

previously granted and no amendment may make any changes in an option previously granted which adversely affects the rights of any participant. We may not amend the purchase plan without the approval of our stockholders if that amendment would:

- . increase the number of shares that may be issued under the purchase plan;
- . permit payroll deductions at a rate in excess of 10% of a participant's compensation;
- . materially modify the requirements as to eligibility for participation in the purchase plan; or
- . materially increase the benefits which may accrue to participants under the purchase plan.

#### Automatic Transfer to Lower Price Offering Period

If the fair market value of our common stock on the first day of an offering period exceeds the fair market value of our common stock on the first day of any subsequent offering period commencing immediately following an exercise date within the offering period in progress, then each participant in the offering period in progress is deemed to have withdrawn from such offering period immediately following the exercise of his or her option on such exercise date and to have enrolled in such subsequent offering period as of the first day thereof.

#### Certain Federal Income Tax Consequences

The following brief summary of the effect of federal income taxation upon the participant and Quantum with respect to the shares purchased under the purchase plan does not purport to be complete, and does not discuss the tax consequences of a participant's death or the income tax laws of any state or foreign country in which the participant may reside.

The purchase plan, and the right of participants to make purchases thereunder, is intended to qualify under the provisions of Sections 421 and 423 of the Code. Under these provisions, no income will be taxable to a participant until the shares purchased under the purchase plan are sold or otherwise disposed of. Upon sale or other disposition of the shares, the participant will generally be subject to tax in an amount that depends upon the holding period.

If the shares are sold or otherwise disposed of more than two years from the first day of the applicable offering period and one year from the applicable date of purchase, the participant will recognize ordinary income measured as the lesser of:

- . the excess of the fair market value of the shares at the time of such sale or disposition over the purchase price; or
- . an amount equal to 15% of the fair market value of the shares as of the first day of the applicable offering period.

Any additional gain will be treated as long-term capital gain.

If the shares are sold or otherwise disposed of before the expiration of these holding periods, the participant will recognize ordinary income generally measured as the excess of the fair market value of the shares on the date the shares are purchased over the purchase price. Any additional gain or loss on such sale or disposition will be long-term or short-term capital gain or loss, depending on the holding

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period. We are generally not entitled to a deduction for amounts taxed as ordinary income or capital gain to a participant except to the extent of ordinary income recognized by participants upon a sale or disposition of shares prior to the expiration of the holding periods described above.

#### Participation in the Purchase Plan

Participation in the purchase plan is voluntary and is dependent on each eligible employee's election to participate and his or her determination as to the level of payroll deductions. Accordingly, future purchases under the purchase plan are not determinable. Non-employee directors are not eligible to participate in the purchase plan. No employee has made any purchases under the purchase plan since the board of directors amended it. However, purchases were made prior to such amendment. The following table sets forth certain information regarding shares purchased under the purchase plan during the last fiscal year for each of the named executive officers, for all current executive officers as a group and for all other employees who participated in the purchase plan as a group:

<TABLE>  
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Name of Individual or Identity of Group and Position	Date	Number of Shares Purchased (#)	Dollar Value (\$)(1)
<S>	<C>	<C>	<C>
Michael A. Brown.....	July 24, 1998	--	\$ --
	January 25, 1999	1,369	13,502
Richard L. Clemmer.....	July 24, 1998	--	--
	January 25, 1999	1,562	18,393
Young K. Sohn.....	July 24, 1998	698	9,431
	January 25, 1999	1,369	13,502
Kenneth Lee.....	July 24, 1998	93	1,257
	January 25, 1999	--	--
Peter van Cuylenburg.....	July 24, 1998	--	--
	January 25, 1999	--	--
All current executive officers as a group.....	July 24, 1998	1,315	17,767
	January 25, 1999	5,735	59,549
All other employees as a group.....	July 24, 1998	1,789,535	21,823,350
	January 25, 1999	758,977	7,599,001

</TABLE>

- - - - -

(1) Market value of shares on date of purchase, minus the purchase price under the Plan.

Vote Required

Approval of the amendments to the purchase plan requires the favorable vote of a majority of our existing common stock represented in person or by proxy at the special meeting.

Recommendation of the Board of Directors

Our board of directors has carefully considered the proposal to amend the purchase plan and believes that the approval of the proposal by the stockholders is in the best interests of our company and our stockholders. Our board of directors unanimously recommends that you approve the proposal.

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PRICE RANGE AND DIVIDENDS ON  
EXISTING COMMON STOCK

The following table shows the high and low sales prices of our existing common stock on Nasdaq, adjusted to reflect a two-for-one stock split in May 1997, during the periods indicated:

<TABLE>

<CAPTION>

Fiscal Year	High	Low
1997		
<S>	<C>	<C>
First Quarter.....	\$13	\$ 7 1/32
Second Quarter.....	9 3/16	5 1/2
Third Quarter.....	14 7/8	8 21/32
Fourth Quarter.....	22 17/32	13 3/4

<CAPTION>

1998

<S>	<C>	<C>
First Quarter.....	\$24 9/16	\$17 7/8
Second Quarter.....	42 7/16	20 5/16
Third Quarter.....	42 7/16	18 15/16
Fourth Quarter.....	26 1/2	18 7/16

<CAPTION>

1999

<S>	<C>	<C>
First Quarter.....	\$25 3/4	\$18
Second Quarter.....	22 1/8	11 7/16
Third Quarter.....	23 7/8	12 3/4
Fourth Quarter.....	28 5/16	16 7/16

</TABLE>

Historically, we have not paid dividends on our existing common stock.

The closing sale price of our existing common stock on Nasdaq was \$16 7/16 per share on February 26, 1999, the trading day prior to our announcement of the tracking stock proposal, and \$21 5/8 per share on June 9, 1999, the trading day prior to the date of this proxy statement. As of June 4, 1999, there were 167,739,218 shares of our existing common stock outstanding and 7,541 holders of record.

#### INFORMATION ABOUT STOCKHOLDER PROPOSALS

If you wish to submit proposals to be included in the proxy statement for our 2000 annual meeting, we must receive them on or before February 18, 2000. Please address your proposals to: Quantum Corporation, 500 McCarthy Boulevard, Milpitas, California 95035, Attention: Assistant Secretary. Your proposal, if you choose to submit one, has to include specified information about the proposed business and yourself.

Our by-laws provide that any stockholder who intends to present a nomination for a directorship or a proposal for action at any annual meeting of stockholders must give advance notice of such proposal together with certain specified information. These requirements are separate and apart from and in addition to the SEC requirement noted above that a stockholder must meet in order to have a proposal included in our proxy materials. In general, advance notice of director nominations must be given to Quantum not less than 20 days or more than 60 days prior to the meeting, and advance notice of other proposals must be given to Quantum not less than 60 days or more than 90 days prior to the meeting. In the case of our 1999 annual meeting, advance notice of director nominations must be received no earlier than May 24, 1999 or later than July 3, 1999 and advance notice of other proposals must be received no later than June 28, 1999. If the tracking stock proposal is implemented, we will have discretionary authority to vote on any stockholder proposal presented at the 2000 annual meeting which does not comply with these notice requirements. Further information regarding the submission of stockholder proposals may be obtained by writing to the secretary of Quantum.

#### EXPENSES OF SOLICITATION

We will pay the cost of soliciting proxies for the special meeting. In addition to soliciting by mail, our directors, officers and other employees may solicit proxies in person, or by telephone, facsimile transmission or other means of electronic communication. We will also pay brokers, nominees, fiduciaries, custodians and other persons representing beneficial owners of the existing common stock for their reasonable expenses for sending proxy materials to such beneficial owners and obtaining their instructions. We have retained Corporate Investor Communications, Inc. to perform various solicitation services and Lehman Brothers Inc. and Salomon Smith Barney Inc. to perform various advisory and solicitation services. We have agreed to pay Corporate Investor Communications, Inc. a customary fee for their services. For information about compensation that we will pay Lehman Brothers Inc. and Salomon Smith Barney Inc. for their services, you should read "Proposal --The Tracking Stock Proposal 1-- Financial Advisors."

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#### LEGAL AND TAX OPINIONS

Wilson Sonsini Goodrich & Rosati, P.C., Palo Alto, California, has rendered an opinion concerning the validity of the tracking stock. Ernst & Young LLP has rendered an opinion concerning certain tax matters described under "Proposal 1--The Tracking Stock Proposal--United States Federal Income Tax Considerations."

#### EXPERTS

Ernst & Young LLP, independent auditors, have audited the consolidated financial statements of Quantum Corporation, the combined financial statements of the DLT & Storage System group and the combined financial statements of the Hard Disk Drive group at March 31, 1998 and 1999, and for each of the three years in the period ended March 31, 1999, as set forth in their reports. Ernst & Young LLP's reports related to the financial statements of Quantum Corporation and the Hard Disk Drive Group, as to the year ended March 31, 1998, are based in part on the report of KPMG Peat Marwick LLP, independent auditors. We have included these financial statements in this proxy statement and prospectus in reliance on these reports, given on the authority of such firms as experts in accounting and auditing.

Representatives of Ernst & Young LLP will attend the special meeting and will have an opportunity to make a statement and to respond to appropriate questions that you pose.

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REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of  
Quantum Corporation

We have audited the accompanying consolidated balance sheets of Quantum Corporation (the "Company") as of March 31, 1998 and 1999, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended March 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the consolidated financial statements of MKE-Quantum Components LLC ("MKQC"), a forty-nine percent equity investee of the Company, which statements reflect a net loss of \$134.8 million for the period from May 16, 1997 (inception) through March 31, 1998. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to data included for MKQC, is based solely on the report of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit

also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Quantum Corporation at March 31, 1998 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 1999, in conformity with generally accepted accounting principles.

/s/ Ernst & Young LLP

Palo Alto, California

April 26, 1999

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Members  
MKE-Quantum Components LLC:

We have audited the consolidated balance sheet of MKE-Quantum Components LLC and subsidiaries as of March 31, 1998 and the related consolidated statements of operations, members' equity, and cash flows for the period from May 16, 1997 (Inception) through March 31, 1998 not included herein. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MKE-Quantum Components LLC and subsidiaries as of March 31, 1998, and the results of their operations and their cash flows for the period from May 16, 1997 (Inception) through March 31, 1998 in conformity with generally accepted accounting principles.

/s/ KPMG LLP

Boston, Massachusetts  
April 14, 1998, except for notes 6(b) and 12  
which are as of June 5, 1998

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QUANTUM CORPORATION

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

<TABLE>  
<CAPTION>

	Year Ended March 31,		
	1997	1998	1999
<S>	<C>	<C>	<C>
Revenue.....	\$5,319,457	\$5,805,235	\$4,902,056
Cost of revenue.....	4,550,716	4,929,714	4,030,718
Gross profit.....	768,741	875,521	871,338
Operating expenses:			
Research and development.....	291,332	321,741	353,223
Sales and marketing.....	149,371	169,031	191,126
General and administrative.....	86,507	89,364	93,750
Purchased in-process research and development.....	--	--	89,000
	527,210	580,136	727,099
Income from operations.....	241,531	295,385	144,239
Interest income and other, net.....	7,047	34,243	25,107

Interest expense.....	(47,882)	(32,753)	(27,481)
Loss from investee.....	--	(66,060)	(142,050)
	-----	-----	-----
Income (loss) before income taxes.....	200,696	230,815	(185)
Income tax provision .....	52,181	60,014	29,350
	-----	-----	-----
Net income (loss).....	\$ 148,515	\$ 170,801	\$ (29,535)
	=====	=====	=====
Net income (loss) per share:			
Basic.....	\$ 1.27	\$ 1.25	\$ (0.18)
	=====	=====	=====
Diluted.....	\$ 1.04	\$ 1.07	\$ (0.18)
	=====	=====	=====
Weighted-average common shares:			
Basic.....	117,218	136,407	160,670
	=====	=====	=====
Diluted.....	153,287	166,016	160,670
	=====	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

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QUANTUM CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

<TABLE>

<CAPTION>

	March 31,	
	1998	1999
	-----	-----
<S>	<C>	<C>
Assets		
Current assets:		
Cash and cash equivalents.....	\$ 642,150	\$ 772,368
Marketable securities.....	71,573	24,426
Accounts receivable, net of allowance for doubtful accounts of \$12,928 and \$12,130 respectively.....	737,928	646,557
Inventories.....	315,035	271,986
Deferred taxes.....	133,981	107,701
Other current assets.....	124,670	104,835
	-----	-----
Total current assets.....	2,025,337	1,927,873
Property, plant and equipment, less accumulated depreciation.....	285,159	271,928
Intangible assets, less accumulated amortization.....	24,490	225,567
Other assets.....	103,425	58,228
	-----	-----
	\$2,438,411	\$2,483,596
	=====	=====
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable.....	\$ 446,243	\$ 406,369
Accrued warranty.....	74,017	76,905
Accrued compensation.....	60,344	73,605
Income taxes payable.....	39,777	33,411
Current portion of long-term debt.....	935	1,024
Other accrued liabilities.....	78,920	90,691
	-----	-----
Total current liabilities.....	700,236	682,005
Deferred taxes.....	38,668	67,340
Long-term debt.....	39,985	56,961
Convertible subordinated debt.....	287,500	287,500
Commitments and contingencies.....		
Stockholders' equity:		
Common stock, \$.01 par value; authorized: 500,000,000 shares; issued and outstanding: 160,879,171 at March 31, 1998, and 167,406,738 at March 31, 1999.....	1,609	1,675
Capital in excess of par value.....	774,682	884,759
Retained earnings.....	597,193	504,206
Accumulated other comprehensive loss.....	(1,462)	(850)
	-----	-----
Total stockholders' equity.....	1,372,022	1,389,790
	-----	-----
	\$2,438,411	\$2,483,596
	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

## QUANTUM CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)<TABLE>  
<CAPTION>

	Year Ended March 31,		
	1997	1998	1999
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income (loss).....	\$ 148,515	\$ 170,801	\$ (29,535)
Adjustments to reconcile net income (loss) to net cash provided by operations:			
Loss from investee.....	--	66,060	124,809
Purchased in-process research and development.....	--	--	89,000
Depreciation.....	96,477	78,067	92,522
Amortization.....	27,959	13,532	20,413
Deferred taxes.....	9,081	(6,001)	22,904
Compensation related to stock incentive plans.....	2,391	4,236	5,636
Changes in assets and liabilities:			
Accounts receivable.....	(176,370)	149,549	114,792
Inventories.....	206,736	(62,233)	67,149
Accounts payable.....	3,240	(55,826)	(56,211)
Income taxes payable.....	(9,841)	8,624	(6,367)
Accrued warranty.....	32,700	(20,972)	2,037
Other assets and liabilities.....	(28,189)	(61,485)	16,740
Net cash provided by operating activities.....	312,699	284,352	463,889
Cash flows from investing activities:			
Purchases of marketable securities.....	--	(71,573)	(78,145)
Maturities of marketable securities.....	--	--	125,292
Purchases of equity securities/minority interest.....	(6,132)	(15,000)	(1,750)
Acquisition of intangible assets.....	--	(25,850)	--
Proceeds from sale of interest in recording heads operations.....	--	94,000	--
Investment in property and equipment.....	(174,977)	(149,749)	(115,662)
Proceeds from disposition of property and equipment.....	9,665	5,962	143
Proceeds from repayment of note receivable...	--	18,000	--
Net cash used in investing activities.....	(171,444)	(144,210)	(70,122)
Cash flows from financing activities:			
Proceeds from long-term credit facilities....	330,091	--	33,545
Proceeds from mortgage loan.....	42,105	--	--
Purchase of treasury stock.....	--	--	(305,287)
Principal payments on long-term credit facilities.....	(378,339)	(180,977)	(34,090)
Proceeds from issuance of common stock.....	45,261	50,360	42,283
Proceeds from issuance of convertible subordinated notes.....	--	287,500	--
Net cash provided by (used in) financing activities.....	39,118	156,883	(263,549)
Increase in cash and cash equivalents.....	180,373	297,025	130,218
Cash and cash equivalents at beginning of period.....	164,752	345,125	642,150
Cash and cash equivalents at end of period....	\$ 345,125	\$ 642,150	\$ 772,368
Supplemental disclosure of cash flow information:			
Conversion of debentures to common stock....	\$ 132,893	\$ 241,350	--
Note received on disposition of property and equipment.....	\$ 18,000	--	--
Issuance of redeemable preferred stock as part of minority interest acquisition.....	\$ 3,888	--	--
Conversion of redeemable preferred stock to common stock.....	--	\$ 3,888	--
Cash paid during the year for:			



Interest.....	\$ 48,500	\$ 29,030	\$ 26,721
	=====	=====	=====
Income taxes.....	\$ 9,171	\$ 62,615	\$ 2,718
	=====	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

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QUANTUM CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(In thousands)

<TABLE>  
<CAPTION>

	Common Stock		Capital in	Retained	Accumulated	Treasury	Total
	Shares	Amount	Excess of Par Value	Earnings	Other Comprehensive Income (Loss)	Stock	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balances at March 31, 1996.....	108,392	\$1,082	\$265,864	\$277,877	\$ --	\$ --	\$ 544,823
Net income.....	--	--	--	148,515	--	--	148,515
Conversion of subordinated debentures.....	14,644	146	131,118	--	--	--	131,264
Shares issued under employee stock purchase plan.....	3,216	32	17,370	--	--	--	17,402
Shares issued under employee stock option plans, net.....	4,612	48	27,811	--	--	--	27,859
Compensation expense and other.....	--	--	5,299	--	--	--	5,299
Tax benefits related to stock option plans.....	--	--	11,030	--	--	--	11,030
Balances at March 31, 1997.....	130,864	1,308	458,492	426,392	--	--	886,192
Comprehensive income:							
Net income.....	--	--	--	170,801	--	--	170,801
Other comprehensive loss--foreign currency translation adjustments.....	--	--	--	--	(1,462)	--	(1,462)
Comprehensive income....	--	--	--	--	--	--	169,339
Conversion of subordinated debentures.....	21,626	216	236,506	--	--	--	236,722
Conversion of Series B preferred shares.....	180	2	3,886	--	--	--	3,888
Shares issued under employee stock purchase plan.....	3,454	35	21,442	--	--	--	21,477
Shares issued under employee stock option plans, net.....	4,755	48	28,835	--	--	--	28,883
Compensation expense and other.....	--	--	4,236	--	--	--	4,236
Tax benefits related to stock option plans.....	--	--	21,285	--	--	--	21,285
Balances at March 31, 1998.....	160,879	1,609	774,682	597,193	(1,462)	--	1,372,022
Comprehensive loss:							
Net loss.....	--	--	--	(29,535)	--	--	(29,535)
Other comprehensive income--foreign currency translation adjustments.....	--	--	--	--	612	--	612
Comprehensive loss.....	--	--	--	--	--	--	(28,923)
Shares issued under employee stock purchase plan.....	2,555	26	24,014	--	--	--	24,040
Shares issued under employee stock option plans, net.....	2,502	25	18,218	--	--	--	18,243
Treasury shares repurchased.....	(15,477)	--	--	--	--	(305,287)	(305,287)
Treasury shares reissued							

for ATL acquisition....	15,477	--	--	(63,452)	--	305,287	241,835
New shares issued for ATL acquisition.....	1,471	15	22,973	--	--	--	22,988
Conversion of ATL stock options.....	--	--	22,367	--	--	--	22,367
Compensation expense and other.....	--	--	5,636	--	--	--	5,636
Tax benefits related to stock option plans.....	--	--	16,869	--	--	--	16,869
	-----	-----	-----	-----	-----	-----	-----
Balances at March 31, 1999.....	167,407	\$1,675	\$884,759	\$504,206	\$ (850)	\$ --	\$1,389,790
	=====	=====	=====	=====	=====	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

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QUANTUM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies

Nature of Business. Quantum operates its business through two separate groups: the DLT & Storage Systems group and the Hard Disk Drive group as described below.

The DLT & Storage Systems group designs, develops, manufactures, licenses and markets DLTtape drives and media, tape libraries and solid state storage systems. DLTtape is the DLT & Storage Systems group's half-inch tape technology that is the de facto industry standard for data backup in the mid-range server market.

The Hard Disk Drive Group designs desktop hard disk drives to meet the storage requirements of entry-level to high-end desktop PCs in home and business environments. The Hard Disk Drive Group also designs high-end hard disk drives for the storage needs of network servers, workstations and storage sub-systems.

Financial Statement Presentation. The accompanying consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All material intercompany accounts and transactions have been eliminated. Certain amounts in prior periods have been reclassified to conform to current presentation.

Use of Estimates. The preparation of the consolidated financial statements of the Company in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from the estimates and assumptions used in preparing the consolidated financial statements.

Revenue Recognition. Revenue from sales of products is recognized on shipment to customers, with provision made for estimated returns. The Company accrues royalty revenue based on licensees' sales that incorporate certain licensed technology.

Foreign Currency Translation and Transactions. Assets, liabilities, and operations of foreign offices and subsidiaries are recorded based on the functional currency of the entity. For a majority of the Company's material foreign operations, the functional currency is the U.S. Dollar. The assets and liabilities of foreign offices with a local functional currency are translated, for consolidation purposes, at current exchange rates from the local currency to the reporting currency, the U.S. Dollar. The resulting gains or losses are reported as a component of other comprehensive income (loss) within stockholders' equity. Although close to half of the Company's sales are made to customers in non-U.S. locations and all of the Company's hard disk drive products are manufactured in Japan, Singapore and Ireland by Matsushita-Kotobuki Electronics Industries, Ltd. ("MKE"), a majority of the Company's material transactions are denominated in U.S. dollars. Accordingly, transaction gains or losses have been immaterial to the Company's consolidated financial statements for all years presented. The effect of foreign currency exchange rate fluctuations on cash was also immaterial for the years presented. Assets and liabilities denominated in other than the functional currency are remeasured each month with the remeasurement gain or loss recorded in other income.

Foreign Exchange Contracts. The effect of foreign currency rate changes on the remeasurement of certain assets and liabilities denominated in a foreign currency are managed using foreign currency forward exchange contracts. Foreign currency forward exchange contracts represent agreements to exchange the

currency of one country for the currency of another country at an agreed-upon price, on an agreed-upon settlement date. Foreign currency forward exchange contracts are accounted for by the fair value method. Foreign currency forward exchange contracts are carried on the balance sheet at fair value, with changes in that value recognized in other income.

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QUANTUM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Net Income (Loss) Per Share. The Company has adopted Statement of Financial Accounting Standards No. 128 ("SFAS No. 128"), "Earnings per Share." SFAS No. 128 established new requirements for computing and presenting earnings per share. Under the new requirements, the method previously used to compute earnings per share is changed and all prior periods presented have been restated to conform to the new requirements. The new requirements eliminate primary and fully diluted earnings per share. As a result, under the new requirements, basic net income (loss) per share excludes any dilutive effect of stock options. Also, the dilutive effect of stock options used to compute diluted net income (loss) per share is based on the average market price of the Company's common stock for the period.

Cash Equivalents and Marketable Securities. The Company considers all highly liquid debt instruments with a maturity of 90 days or less at the time of purchase to be cash equivalents. Cash equivalents are carried at fair value, which approximates cost. The Company's marketable securities have maturities of more than 90 days at the time of purchase.

The Company has classified all cash equivalents and marketable securities as available-for-sale. Securities classified as available-for-sale are carried at fair value with material unrealized gains and losses reported in stockholders' equity. The cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest income. Realized gains and losses and declines in value judged to be other-than-temporary are recorded in other income or expense. The cost of securities sold is based on the specific identification method.

Concentration of Credit Risk. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from its customers. The Company maintains reserves for potential credit losses and such losses have historically been within management's expectations.

The Company invests its excess cash in deposits with major banks and in money market funds and short-term debt securities of companies with strong credit ratings from a variety of industries. These securities generally mature within 365 days and, therefore, bear minimal risk. The Company has not experienced any material losses on its investments. The Company limits the amount of credit exposure to any one issuer and to any one type of investment.

Investments in Joint Ventures and Other Entities. Investments in joint ventures and other entities are recorded in other assets. Investments in joint ventures are accounted for by the equity method. Dividends are recorded as a reduction of the carrying value of the investment when received.

Investments in other entities (less-than-20-percent-owned companies) that are not represented by marketable securities are carried at cost less write-downs for declines in value that are judged to be other-than-temporary. These valuation losses are recorded in other income when identified. Dividends are recorded in other income when received.

Inventories. Inventories are carried at the lower of cost or market. Cost is determined on a first-in, first-out basis.

Property, Plant and Equipment. Property, plant and equipment are carried at cost, less accumulated depreciation and amortization computed on a straight-line basis over the lesser of the estimated useful lives of the assets (generally three to ten years for machinery, equipment, furniture, and leasehold improvements; and twenty-five years for buildings) or the lease term.

Acquired Intangibles. Goodwill and other acquired intangible assets are being amortized over their estimated useful lives, which range from two to fifteen years. The accumulated amortization at March 31, 1998

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QUANTUM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

and 1999 was \$23 million and \$18 million, respectively. Intangible assets are reviewed for impairment whenever events or circumstances indicate impairment

might exist, or at least annually.

**Warranty Expense.** The Company generally warrants its products against defects for a period of one to five years. A provision for estimated future costs relating to warranty expense is recorded when products are shipped and revenue recognized.

**Advertising Expense.** The Company accrues for co-operative advertising as the related revenue is earned, and other advertising expense is recorded as incurred. Advertising expense for the years ended March 31, 1997, 1998 and 1999, was \$35 million, \$41 million, and \$46 million, respectively.

**Stock-Based Compensation.** The Company accounts for its stock-based employee compensation plans in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations ("APB Opinion No. 25").

**Risks and Uncertainties.** As is typical in the information storage industry, a significant portion of the Company's customer base is concentrated with a small number of OEMs, and the Company is not able to predict whether there will be any significant change in the demand for its customers' products. The loss of any one of the Company's more significant customers could have a material adverse effect on the Company's results of operations. A limited number of disk and tape drive storage products make up a significant majority of the Company's sales, and due to increasingly rapid technological change in the industry, the Company's future depends on its ability to develop and successfully introduce new products. Quantum utilizes a third party, MKE, to manufacture all of the products it sells. The Company relies on MKE's ability to bring new products rapidly to volume production and to meet stringent quality standards. MKE manufactures Quantum's drives in Japan, Singapore, and Ireland. If MKE were unable to satisfy Quantum's production requirements, the Company would not have an alternative source to meet the demand for its products without substantial delay and disruption to its operations. The actual results with regard to warranty expenditures could have a material unfavorable impact on the Company if the actual rate of unit failure or the cost to repair a unit is greater than what the Company has used in estimating the warranty expense accrual.

**Comprehensive Income.** In June 1997, the FASB released Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." SFAS 130 establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements and has been implemented by the Company.

**Segment Information.** In June 1997, The FASB released Statement of Financial Accounting Standards No. 131, "Disclosure about Segments of an Enterprise and Related Information." SFAS 131 changes the way companies report selected segment information in annual financial statements and also requires companies to report selected segment information in interim financial reports to stockholders. SFAS 131 has been implemented by the Company.

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QUANTUM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Note 2 Financial Instruments

Available-For-Sale Securities

The following is a summary of available-for-sale securities, all of which are classified as cash equivalents and marketable securities:

<TABLE>  
<CAPTION>

	March 31, 1998		March 31, 1999	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
<S>	<C>	<C>	<C>	<C>
Certificates of deposit.....	\$411,700	\$411,700	\$499,400	\$499,400
Money market funds.....	--	--	125,200	125,200
Corporate commercial paper and bank notes.....	103,346	103,339	58,484	58,486
U.S. Treasury securities and obligations of U.S. government agencies.....	165,364	165,360	100,589	100,589
Other.....	4,613	4,613	5,121	5,121
	=====	=====	=====	=====
	\$685,023	\$685,012	\$788,794	\$788,796

Included in cash and cash

equivalents.....	\$613,450	\$613,450	\$764,368	\$764,368
Included in marketable securities..	71,573	71,562	24,426	24,428
	-----	-----	-----	-----
	\$685,023	\$685,012	\$788,794	\$788,796
	=====	=====	=====	=====

</TABLE>

The difference between the amortized cost of available-for-sale securities and fair value was immaterial at March 31, 1998 and 1999, and therefore no gross unrealized gains or losses were recorded in stockholders' equity. The estimated fair value of available-for-sale securities is based on market quotations. There were no sales of available-for-sale securities in fiscal years 1998 or 1999. At March 31, 1999, the average available-for-sale portfolio duration was approximately 20 days, and no security had a maturity longer than one year.

#### Derivative Financial Instruments

Foreign Exchange--Asset and Liability Management. During the periods covered by the financial statements, the Company utilized foreign currency forward exchange contracts to manage the effects of foreign currency remeasurement arising from certain assets and liabilities denominated in a foreign currency. The gains and losses from market rate changes on these contracts, which are intended to offset the losses and gains on certain foreign currency denominated assets and liabilities, are recorded monthly in other income.

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#### QUANTUM CORPORATION

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The following is a summary of foreign currency forward contracts held for asset and liability management purposes:

<TABLE>

<CAPTION>

	March 31,	
	1998	1999
	-----	-----
	(In millions, except for forward rates)	
<S>	<C>	<C>
Currency to be sold.....	Yen	Yen
Maturity dates.....	April-May 1998	April-May 1999
Foreign currency notional amount.....	1,600 yen	2,900 yen
Weighted average forward rate.....	132.23	119.06
U.S. dollar notional amount.....	\$12.1	\$24.4
U.S. dollar equivalent.....	\$12.3	\$24.5
Fair value.....	\$(0.2)	\$(0.1)

<CAPTION>

	March 31,	
	1998	1999
	-----	-----
	(In millions, except for forward rates)	
<S>	<C>	<C>
Currency to be purchased.....	Swiss Franc	Swiss Franc
Maturity dates.....	April 1998	April 1999
Foreign currency notional amount.....	26.5 Swiss Francs	22.0 Swiss Francs
Weighted average forward rate.....	1.51	1.49
U.S. dollar notional amount.....	\$17.5	\$14.8
U.S. dollar equivalent.....	\$17.4	\$14.8
Fair value.....	\$(0.1)	\$ --

</TABLE>

The fair values for foreign currency forward contracts represent the difference between the contracted forward rate and the quoted fair value of the underlying Yen or Swiss Francs at the balance sheet dates. The Company generally does not require collateral from the counterparties to foreign currency forward contracts.

#### Carrying Amount and Fair Values of Financial Instruments

The estimated fair value of the Company's borrowings are summarized as follows:

<TABLE>

<CAPTION>

	March 31,	
	1998	1999
	-----	-----

	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In millions)			
<S>	<C>	<C>	<C>	<C>
Convertible subordinated debt.....	\$287.5	\$281.8	\$287.5	\$254.6
Revolving credit line...	--	--	18.0	18.0
Mortgage loan.....	40.9	41.8	40.0	40.8

The fair values for the convertible subordinated debt were based on the quoted market price at the balance sheet dates. Fair value for the revolving credit agreement approximated its carrying amount, since interest rates on these borrowings are adjusted periodically to reflect market interest rates. The fair values of the mortgage loan were based on the estimated present value of the remaining payments, utilizing risk-adjusted market interest rates of similar instruments at the balance sheet dates.

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QUANTUM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Note 3 Inventories

Inventories consisted of:

<TABLE>  
<CAPTION>

	March 31,	
	1998	1999
	(In thousands)	
<S>	<C>	<C>
Materials and purchased parts.....	\$ 53,894	\$ 62,342
Work in process.....	44,303	27,531
Finished goods.....	216,838	182,113
	\$315,035	\$271,986

</TABLE>

In fiscal year 1998, the Company recorded a \$103 million charge to cost of revenue related to the transition to a new generation of its high-end disk drive products, primarily for inventory write-offs and adjustments and losses related to firm inventory purchase commitments.

Note 4 Property, Plant and Equipment

Property, plant and equipment consisted of:

<TABLE>  
<CAPTION>

	March 31,	
	1998	1999
	(In thousands)	
<S>	<C>	<C>
Machinery and equipment.....	\$328,402	\$365,795
Furniture and fixtures.....	31,307	33,330
Buildings and leasehold improvements.....	140,629	159,470
Land.....	5,302	4,950
	505,640	563,545
Less accumulated depreciation and amortization.....	(220,481)	(291,617)
	\$285,159	\$271,928

</TABLE>

Note 5 Business Combination

On September 28, 1998, the Company completed the acquisition of ATL. ATL designs, manufactures, markets and services automated tape libraries for the networked computer market. ATL's products incorporate DLTtape drives as well as ATL's proprietary IntelliGrip(TM) automation technology. The acquisition has been accounted for as a purchase with a total cost of \$335 million. The acquisition was completed with the issuance of 16.9 million shares of Quantum common stock valued at \$265 million on the date of acquisition in exchange for all outstanding shares of ATL, the conversion of outstanding ATL stock options into options valued at \$22 million to purchase 1.8 million shares of Quantum

common stock and the assumption of \$45 million of ATL liabilities. The Company also recognized deferred tax liabilities of \$33 million. ATL's results of operations are included in the financial statements from the date of acquisition, and the assets and liabilities acquired were recorded based on their fair values as of the date of acquisition.

The excess of the purchase price over the fair value of the net tangible assets acquired has been allocated to the following identifiable intangible assets: goodwill, trademarks and trade names, original equipment manufacturer and value added reseller customer relationships, non-compete agreements, workforce in place, developed technology and in-process research and development. As of the acquisition date, technological feasibility of the in-process technology has not been established and the technology has no alternative future

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QUANTUM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

use. Therefore, the Company has expensed \$89 million of the purchase price as in-process research and development. The remaining identifiable intangible assets will be amortized on a straight-line basis over periods ranging from two to fifteen years.

The amount of the purchase price allocated to in-process research and development was determined by estimating the stage of development of each in-process research and development project at the date of acquisition, estimating cash flows resulting from the expected revenue generated from such projects, and discounting the net cash flows back to their present value using a discount rate of 20%, which represents a premium to the Company's cost of capital. The expected revenue assumes an average compound annual revenue growth rate of 37% during fiscal years 1999 to 2007. Expected total revenue from the purchased in-process projects peak in fiscal year 2002 and then begin to decline as other new products are expected to be introduced. These projections were based on management's estimates of market size and growth, expected trends in technology and the expected timing of new product introductions. If products are not successfully developed, the Company may not realize the value assigned to the in-process research and development projects. In addition, the value of the other acquired intangible assets may also become impaired.

The following unaudited pro forma information has been prepared assuming that the acquisition had taken place at the beginning of fiscal year 1998. The pro forma financial information is not necessarily indicative of the combined results that would have occurred had the acquisition taken place at the beginning of the periods, nor is it necessarily indicative of results that may occur in the future.

<TABLE>  
<CAPTION>

	Year Ended Year Ended	
	March 31,	March 31,
	1998	1999
	-----	
	(In thousands)	
<S>	<C>	<C>
Revenue.....	\$5,866,237	\$4,942,367
Net income .....	\$ 152,345	\$ 48,755
Net income per share:		
Basic.....	\$ 1.10	\$ 0.30
Diluted.....	\$ 0.95	\$ 0.28

</TABLE>

Note 6 Loss from Investee

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

Quantum contributed recording heads assets and operations, and leased certain premises to MKQC. The recording heads assets that Quantum contributed to MKQC consisted of inventory, equipment, accounts receivable, and intangibles, which aggregated \$211 million. MKQC assumed \$51 million of debt payable to Quantum and assumed \$24 million of third-party liabilities. MKE paid Quantum \$94 million and contributed \$110 million to MKQC in exchange for a 51% majority ownership interest in MKQC. Quantum retained a 49% minority ownership interest in MKQC. Quantum employees who were involved in the recording heads operations became employees of MKQC.

MKE and the Company shared pro rata in MKQC's results of operations and agreed to share pro rata in any capital funding requirements.

## QUANTUM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

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

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

## Summarized Financial Information

The following is summarized financial information for MKQC:

	Period from May 16, 1997, to March 31, 1998	
	-----	
	(In thousands)	
<S>	<C>	
Revenue.....	\$	165,775
Gross profit (loss).....		(43,677)
Loss from operations.....		(131,693)
Net loss.....		(134,816)
<CAPTION>		
	March 31, 1998	
	-----	
<S>	<C>	
Current assets.....	\$	49,520
Noncurrent assets.....		213,230
Current liabilities.....		94,707
Note payable to Quantum.....		50,823
Other noncurrent liabilities.....		14,964

</TABLE>

On October 28, 1998, the Company and MKE agreed to dissolve MKQC because MKQC had not been able to produce MR recording heads on a cost-effective basis. In connection with the dissolution, MKE has taken control and ownership of MKQC's manufacturing operations in Batam, Indonesia; MKQC's domestic operations have ceased; and its domestic assets are in liquidation. In the third quarter of fiscal year 1999, the Company recorded a \$101 million loss from investee which includes a write-off of Quantum's investment in MKQC; a write-down of Quantum's interest in facilities in Louisville, Colorado, and Shrewsbury, Massachusetts that were occupied by MKQC; warranty costs resulting from MR recording heads manufactured by MKQC; and Quantum's 49% pro rata share in funding MKQC's repayment of its obligations, bank debt, accounts payable, and other liabilities through June 1999 when the liquidation of MKQC is expected to be completed.

MKQC's unaudited net loss for the six months ended September 27, 1998 was \$84 million on revenue of \$62 million. The Company's 49% interest in this net loss was \$41 million.

## QUANTUM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

## Note 7 Credit Agreements, Long-Term Debt and Convertible Subordinated Debt

Quantum's debt includes the following:

	March 31,	
	1998	1999
	-----	
	(In thousands)	
<S>	<C>	
7% convertible subordinated notes.....	\$287,500	\$287,500
Revolving credit line, 6.0% average rate, payable through June 2000.....	--	18,000
Mortgage.....	40,920	39,985
	-----	-----
	328,420	345,485



Less short-term portion of debt.....	935	1,024
	-----	-----
Total long-term debt and convertible subordinated debt...	\$327,485	\$344,461
	=====	=====

</TABLE>

In June 1997, the Company entered into an unsecured senior credit facility that provides a \$500 million revolving credit line and expires in June 2000. At the option of the Company, borrowings under the revolving credit line bear interest at either LIBOR plus a margin determined by a total funded debt ratio, or a base rate, with option periods of one to six months. As of March 31, 1998 and March 31, 1999, there was no outstanding balance drawn on this line.

In July 1997, the Company issued \$288 million of 7% convertible subordinated notes. The notes mature on August 1, 2004, and are convertible at the option of the holder at any time prior to maturity, unless previously redeemed, into shares of the Company's common stock at a conversion price of \$46.325 per share. The notes are redeemable at the Company's option on or after August 1, 1999, and prior to August 1, 2001, under certain conditions related to the price of the Company's common stock. Subsequent to August 1, 2001, the notes are redeemable at the Company's option at any time. In the event of certain changes involving all or substantially all of the Company's common stock, the notes would become redeemable at the option of the holder. Redemption prices range from 107% of the principal to 100% at maturity. The notes are unsecured obligations subordinated in right of payment to all existing and future senior indebtedness of the Company.

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

Payments required on long-term debt outstanding at March 31, 1999, are \$1.0 million in fiscal year 2000, \$1.1 million in fiscal year 2001, \$1.2 million in fiscal year 2002, \$1.3 million in fiscal year 2003 and \$1.5 million in fiscal year 2004.

In December 1998, ATL entered into a senior credit facility that provides a \$35 million revolving credit line. The revolving credit line is co-terminous with the Company's \$500 million revolving credit line, expiring in June 2000. At the option of ATL, borrowings under the revolving credit line bear interest at either LIBOR plus a margin determined by a total funded debt ratio of the Company, or a base rate, with option periods of one to six months. At March 31, 1999, \$18 million was outstanding on ATL's revolving credit line.

Note 8 Redeemable Preferred Stock

In fiscal year 1998, the holder of the 90,000 shares of Redeemable Convertible Participating Series B Preferred Stock exercised its right to convert the shares to Quantum common stock. The Company issued 180,000 shares of its common stock pursuant to the conversion.

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QUANTUM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Note 9 Stock Incentive Plans

Long-Term Incentive Plan. The Company has a Long-Term Incentive Plan (the "Plan") that provides for the issuance of stock options, stock appreciation rights, stock purchase rights, and long-term performance awards (collectively referred to as "options") to employees, consultants, officers and affiliates of the Company. The Plan has available and reserved for future issuance 19.2 million shares and allows for an annual increase in the number of shares available for issuance, subject to a limitation. Available for grant as of March 31, 1999, were 529,000 shares. Options under the Plan expire no later than ten years from the grant date and generally vest over four years. Restricted stock granted under the Plan generally vests over two to three years. In fiscal years 1997, 1998 and 1999, the Company recorded compensation expense of \$1,916,000, \$3,179,000 and \$3,211,000, respectively, related to restricted stock granted pursuant to stock purchase rights under the Plan. The number of shares of restricted stock granted under the Plan were 354,290 shares, 65,500 shares and 157,200 shares in fiscal years 1997, 1998 and 1999, respectively, at an exercise price of \$.01.

Stock Option Plans. The Company has Stock Option Plans (the "Plans") under which 5.1 million shares of common stock was reserved for future issuance at March 31, 1999 to employees, officers and directors of the Company. Options under the Plans are granted at prices determined by the Board of Directors, but at not less than the fair market value, and accordingly no compensation

accounting has been required at the original date of grant. Options currently expire no later than ten years from the grant date and generally vest ratably over one to four years. At March 31, 1999, options with respect to 470,000 shares were available for grant.

Stock Option Summary Information. A summary of activity relating to the Long-Term Incentive Plan and the Stock Option Plans follows:

<TABLE>  
<CAPTION>

	Year Ended March 31,					
	1997		1998		1999	
	Options (000s)	Weighted-Avg. Exercise Price	Shares (000s)	Weighted-Avg. Exercise Price	Shares (000s)	Weighted-Avg. Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Outstanding at beginning of period.....	16,746	\$6.75	16,354	\$ 7.52	17,005	\$12.09
Granted.....	5,850	\$8.59	6,163	\$19.80	10,781	\$21.51
Canceled.....	(1,564)	\$7.94	(718)	\$14.11	(1,880)	\$22.63
Exercised.....	(4,678)	\$5.97	(4,794)	\$ 6.10	(2,530)	\$ 7.23
	-----		-----		-----	
Outstanding at end of period.....	16,354	\$7.52	17,005	\$12.09	23,376	\$14.68
	=====		=====		=====	
Exercisable at end of period.....	8,514	\$6.53	8,332	\$ 8.84	11,786	\$10.65
	=====		=====		=====	

</TABLE>

The range of exercise prices for options outstanding at March 31, 1999 was \$2.17 to \$30.81. Compensation expense of \$475,000, \$1,057,000 and \$2,188,000 was recorded in fiscal years 1997, 1998 and 1999, respectively, on accelerated stock options under the Plans.

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QUANTUM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The following tables summarize information about options outstanding at March 31, 1999:

<TABLE>  
<CAPTION>

Outstanding Options			
Range of Exercise Prices	Shares Outstanding at March 31, 1999 (000s)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
<C>	<C>	<S>	<C>
\$ 2.17 -- \$ 8.75	7,842	6.09	\$ 6.23
\$ 8.78 -- \$19.81	7,816	7.88	\$15.37
\$20.19 -- \$30.81	7,718	9.28	\$22.56
	-----		
	23,376	7.74	\$14.68
	=====		

</TABLE>

<TABLE>  
<CAPTION>

Options Exercisable		
Range of Exercise Prices	Shares Exercisable at March 31, 1999 (000s)	Weighted-Average Exercise Price
<C>	<C>	<S>
\$ 2.17 -- \$ 8.75	6,576	\$ 6.24
\$ 8.78 -- \$19.81	4,095	\$14.28
\$20.19 -- \$30.81	1,115	\$23.30
	-----	
	11,786	\$10.65
	=====	

</TABLE>

Expiration dates ranged from May 8, 1999 to May 1, 2009 for options outstanding at March 31, 1999. Prices for options exercised during the three-year period ended March 31, 1999, ranged from \$0.01 to \$23.94. Proceeds

received by the Company from exercises are credited to common stock and capital in excess of par value.

Completing the acquisition of ATL included the conversion of outstanding ATL stock options into options to purchase 1.8 million shares of Quantum common stock. These options relate to the Company's assumption of ATL's 1996 Stock Incentive Plan and 1997 Stock Incentive Plan, collectively referred to as the "ATL Plans." Under the terms of the ATL Plans, eligible key employees, directors and consultants received options to purchase shares of ATL's previously outstanding common stock at prices not less than 100% for incentive stock options and not less than 85% for nonqualified stock options of the fair value on the date of grant as determined by ATL's Board of Directors. Options under ATL Plans vest over a three year period and expire ten years after date of grant or 90 days after termination of employment. Subsequent to completing the acquisition of ATL, no additional grants may be made from the ATL Plans. See Note 5 for more information on the acquisition of ATL.

Stock Purchase Plan. The Company has an employee stock purchase plan (the "Purchase Plan") that allows for the purchase of stock at 85% of fair market value at the date of grant or the exercise date, whichever value is less. The Purchase Plan is qualified under Section 423 of the Internal Revenue Code. Of the 22.8 million shares authorized to be issued under the plan, 1,366,000 shares were available for issuance at March 31, 1999. Employees purchased 3,216,000 shares, 3,454,000 shares, and 2,555,000 shares under the Purchase Plan in fiscal years 1997, 1998, and 1999, respectively. The weighted average exercise price of stock purchased under the Purchase Plan was \$5.41, \$6.22 and \$9.41 in fiscal years 1997, 1998, and 1999, respectively.

Pro forma information. Pro forma information regarding net income and earnings per share is required by SFAS No. 123. This information is required to be determined as if the Company had accounted for its employee stock options (including shares issued under the Long-Term Incentive Plan, Stock Option Plans, and the Stock Purchase Plan, collectively called "options") granted subsequent to March 31, 1995, under the fair value method of that statement.

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QUANTUM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The fair value of options granted in fiscal years 1997, 1998 and 1999 reported below have been estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

<TABLE>  
<CAPTION>

	Long-Term Incentive Plan and Stock Option Plans			Stock Purchase Plan		
	Fiscal 1997	Fiscal 1998	Fiscal 1999	Fiscal 1997	Fiscal 1998	Fiscal 1999
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Option life (in years)..	2.9	2.9	3.1	0.8	1.6	1.4
Risk-free interest rate.....	6.0%	6.25%	5.52%	6.0%	6.13%	5.85%
Stock price volatility..	.50	.56	.61	.50	.53	.56
Dividend yield.....	--	--	--	--	--	--

</TABLE>

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of the options.

The following is a summary of weighted-average grant date fair values:

<TABLE>  
<CAPTION>

	Weighted-Average Grant Date Fair Value		
	Fiscal 1997	Fiscal 1998	Fiscal 1999
<S>	<C>	<C>	<C>
Options granted under the Long-Term Incentive Plan and Stock Option Plans.....	\$ 3.67	\$ 8.39	\$ 9.86
Restricted stock granted under the Long-Term			

Incentive Plan.....	\$14.28	\$23.68	\$22.40
Shares granted under the Stock Purchase Plan.....	\$ 2.46	\$ 3.56	\$ 4.86

</TABLE>

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the option's vesting period. The Company's pro forma net income (loss) and net income (loss) per share follows:

<TABLE>  
<CAPTION>

	Year Ended March 31,		
	1997	1998	1999
<S>	<C>	<C>	<C>
Net income (loss) (in thousands).....	\$132,678	\$139,907	\$(83,964)
Net income (loss) per share:			
Basic.....	\$ 1.13	\$ 1.03	\$ (0.52)
Diluted.....	\$ 0.93	\$ 0.88	\$ (0.52)

</TABLE>

As SFAS No. 123 is applicable only to options granted subsequent to March 31, 1995, its pro forma effect will not be fully reflected until fiscal year 2001.

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QUANTUM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Note 10 Common Stock and Stockholder Rights Plan

Effective April 28, 1997, the number of authorized shares of common stock increased to 500,000,000 from 150,000,000. The number of authorized shares of Preferred Stock is 4,000,000.

The Company has a stockholder rights plan (the "Rights Plan") that provides existing stockholders with the right to purchase 1/1000 preferred share for each common share held in the event of certain changes in Quantum's ownership. Subject to certain exceptions, if any person or group becomes the beneficial owner of 20% or more of the outstanding common stock each right will entitle its holder to purchase 1/1000 preferred share or, under certain circumstances, shares of common stock with a market value twice the exercise price of the right. The Rights Plan may serve as a deterrent to takeover tactics that are not in the best interests of stockholders. There are 1,000,000 preferred shares reserved for issuance under the Rights Plan.

Note 11 Earnings Per Share

SFAS No. 128 replaced the previously reported primary and fully diluted net income (loss) per share with basic and diluted net income (loss) per share. Unlike primary net income (loss) per share, basic net income (loss) per share excludes any dilutive effects of options and convertible securities. Diluted net income (loss) per share is very similar to the previously reported fully diluted net income (loss) per share.

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

<TABLE>  
<CAPTION>

	Year Ended March 31,		
	1997	1998	1999
	(In thousands, except per share data)		
<S>	<C>	<C>	<C>
Numerator:			
Numerator for basic net income (loss) per share--income (loss) available to common stockholders.....	\$148,515	\$170,801	\$(29,535)
Effect of dilutive securities:			
6 3/8% convertible subordinated debentures.....	3,135	--	--
5% convertible subordinated debentures....	7,240	6,668	--
Numerator for diluted net income (loss) per share--income (loss) available to			

common stockholders.....	\$158,890	\$177,469	\$(29,535)
	=====	=====	=====
Denominator:			
Denominator for basic net income (loss)			
per share--weighted average shares.....	117,218	136,407	160,670
Effect of dilutive securities:			
Outstanding options.....	5,388	9,600	--
Series B preferred stock.....	23	90	--
6 3/8% convertible subordinated debentures.....	9,032	--	--
5% convertible subordinated debentures....	21,626	19,919	--
	-----	-----	-----
Denominator for diluted net income (loss)			
per share--adjusted weighted average shares and assumed conversions.....	153,287	166,016	160,670
	=====	=====	=====
Basic net income (loss) per share.....	\$ 1.27	\$ 1.25	\$(0.18)
	=====	=====	=====
Diluted net income (loss) per share.....	\$ 1.04	\$ 1.07	\$(0.18)
	=====	=====	=====

</TABLE>

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QUANTUM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The computation of diluted net income (loss) per share in fiscal years 1998 and 1999 excluded the effect of the 7% convertible subordinated notes issued in July 1997, which are convertible into 6,206,152 shares at a conversion price of \$46.325 per share, because the effect would have been anti-dilutive.

Options to purchase 23,376,499 shares of common stock were outstanding at March 31,1999. However, the corresponding weighted average outstanding options were not included in the computation of diluted net loss per share for the fiscal year ended March 31, 1999, because the effect would have been anti-dilutive.

Note 12 Savings and Investment Plan

Substantially all of the regular domestic employees are eligible to make contributions to the Company's 401(k) savings and investment plan. The Company matches a percentage of the employees' contributions and may also make additional discretionary contributions to the plan. Company contributions were \$5 million, \$6 million and \$7 million, in fiscal years 1997, 1998 and 1999, respectively.

Note 13 Income Taxes

The income tax provision consists of the following:

<TABLE>

<CAPTION>

		Year Ended March 31,		
		1997	1998	1999
		-----	-----	-----
		(In thousands)		
<C>	<S>	<C>	<C>	<C>
Federal:	Current.....	\$ 13,344	\$ 19,343	\$(15,431)
	Deferred.....	(10,289)	12,396	26,392
		-----	-----	-----
		3,055	31,739	10,961
		-----	-----	-----
State:	Current.....	9,669	19,814	3,856
	Deferred.....	1,441	(17,803)	22
		-----	-----	-----
		11,110	2,011	3,878
		-----	-----	-----
Foreign:	Current.....	20,088	26,857	18,021
	Deferred.....	17,928	(593)	(3,510)
		-----	-----	-----

	38,016	26,264	14,511
	-----	-----	-----
Income tax provision.....	\$ 52,181	\$ 60,014	\$ 29,350
	=====	=====	=====

</TABLE>

The tax benefits associated with nonqualified stock options, disqualifying dispositions of incentive stock options, and employee stock purchase plan shares reduce taxes currently payable as shown above by \$11 million, \$21 million, and \$17 million in fiscal years 1997, 1998, and 1999, respectively. Such benefits are credited to capital in excess of par value when realized.

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QUANTUM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The Company's income tax provision differs from the amount computed by applying the federal statutory rate of 35% to income before income taxes as follows:

<TABLE>  
<CAPTION>

	Year Ended March 31,		
	-----	-----	-----
	1997	1998	1999
	-----	-----	-----
	(In thousands)		
<S>	<C>	<C>	<C>
Tax at federal statutory rate.....	\$70,243	\$80,788	\$ (65)
State income tax, net of federal benefit.....	7,222	1,307	2,521
Research and development credit.....	--	(7,680)	(2,265)
Foreign earnings taxed at less than U.S. rates.....	(17,169)	(15,813)	(5,004)
Valuation allowance.....	(8,431)	--	--
Acquired ATL in-process research and development.....	--	--	31,150
Other items.....	316	1,412	3,013
	-----	-----	-----
	\$52,181	\$60,014	\$29,350
	=====	=====	=====

</TABLE>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of deferred tax assets and liabilities are as follows:

<TABLE>  
<CAPTION>

	Year Ended March 31,	
	-----	-----
	1998	1999
	-----	-----
	(In thousands)	
<S>	<C>	<C>
Deferred tax assets:		
Inventory valuation methods.....	\$ 57,630	\$ 39,770
Accrued warranty expense.....	33,824	24,041
Allowance for doubtful accounts.....	4,563	3,379
Distribution reserves.....	7,002	10,363
Restructuring charges.....	20,422	4,331
Other accruals and reserves not currently deductible for tax purposes.....	27,927	39,627
Depreciation methods.....	24,634	47,429
Amortization methods.....	30,711	31,448
	-----	-----
	206,713	200,388
	-----	-----
Deferred tax liabilities:		
Foreign inventory valuation methods.....	(17,322)	(13,810)
Tax on unremitted foreign earnings net of foreign tax credits and foreign deferred taxes.....	(77,180)	(97,817)
Acquired ATL intangibles.....	--	(33,602)
Other.....	(16,899)	(14,798)
	-----	-----
	(111,401)	(160,027)
	-----	-----
Net deferred tax asset.....	\$ 95,312	\$ 40,361

Pretax income from foreign operations was \$241 million, \$139 million, and \$120 million for the fiscal years ended March 31, 1997, 1998, and 1999, respectively. U.S. taxes have not been provided for unremitted foreign earnings of \$354 million. The residual U.S. tax liability if such amounts were remitted would be approximately \$87 million.

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## QUANTUM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The Company's federal income tax returns have been examined by the Internal Revenue Service (IRS) for all years through 1993. All issues have been resolved with no material effect, and the IRS has closed those years. The Company's federal tax returns for the years 1994-1996 are presently under examination by the IRS. Management believes sufficient accruals have been provided in prior years for any adjustments that may result for the years under examination.

## Note 14 Litigation

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

On February 25, 1997, in the Santa Clara County action, the Court sustained defendants' demurrer to most of the causes of action in the complaint, with leave to amend. At a June 12, 1997 demurrer hearing in state court, the judge dismissed the action as to four of the individual defendants with prejudice and as to three of the individual defendants without prejudice. The demurrer as to the Company was overruled. The Court heard oral argument on plaintiffs' motion for class certification on November 4, 1997. On March 4, 1998, the Court entered an order denying plaintiffs' motion without prejudice. Limited discovery is proceeding.

With respect to the federal action, defendants filed their motion to dismiss on April 16, 1997. On August 14, 1997, the Court granted defendants' motion to dismiss without prejudice. On September 11, 1997, plaintiff filed an amended complaint. Defendants filed a motion to dismiss the amended complaint on October 24, 1997. The hearing on defendants' motion took place on February 3, 1998. On April 16, 1998, the Court granted defendants' motion to dismiss with prejudice. On May 19, 1998, plaintiff filed a notice of appeal of the District Court's dismissal in the United States Court of Appeals for the Ninth Circuit. On September 25, 1998, plaintiff filed his opening appellate brief. Defendants filed their answering brief on November 30, 1998. Plaintiff's reply brief was filed on January 14, 1999.

Certain of the Company's current and former officers and directors were also named as defendants in a derivative lawsuit, which was filed on November 8, 1996, in the Superior Court of Santa Clara County. The derivative complaint was based on factual allegations substantially similar to those alleged in the class-action lawsuits. Defendants' demurrer to the derivative complaint was sustained without prejudice on April 14, 1997. Plaintiffs did not file an amended complaint. On August 7, 1997, the Court issued an order of dismissal and entered final judgment dismissing the complaint.

On August 7, 1998, the Company was named as one of several defendants in a patent infringement lawsuit filed in the U.S. District Court for the Northern District of Illinois, Eastern Division. On Quantum's motion, the suit has been moved to the Northern District of California. The plaintiff, Papst Licensing GmbH, owns at least 24 U.S. patents which it asserts that the Company has infringed. The Company has studied many of these patents before and, of the patents it has studied, believes that defenses of patent invalidity and non-infringement can be asserted. However, Quantum has not yet had time to make a complete study of all the patents asserted by Papst and there can be no assurance that the Company has not infringed on these or other patents owned by Papst. The final results of this litigation, as with any litigation, are uncertain. If required, there can be no assurance that licenses to any technology owned by Papst or any other third party alleging infringement could

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## QUANTUM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

be obtained on commercially reasonable terms if at all. Adverse resolution of the Papst litigation or any other intellectual property litigation could subject the Company to substantial liabilities and require it to refrain from manufacturing certain products which could have a material adverse effect on the Company's business, financial condition or results of operations. In addition, the costs of engaging in the Papst litigation or other intellectual property litigation could be substantial, regardless of the outcome.

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

Note 15 Commitments

The Company leases its present facilities under non-cancelable operating lease agreements for periods of up to 15 years. Some of the leases have renewal options ranging from one to ten years and contain provisions for maintenance, taxes, or insurance.

Rent expense was \$26 million, \$27 million, and \$32 million for the fiscal years ended March 31, 1997, 1998, and 1999, respectively.

Future minimum lease payments under operating leases are as follows:

<TABLE>  
<CAPTION>

Year ended March 31, <S>	(In thousands) <C>
2000.....	\$ 27,697
2001.....	26,265
2002.....	25,667
2003.....	24,726
2004.....	21,550
Thereafter.....	81,369
	-----
Total future minimum lease payments.....	\$207,274
	=====

</TABLE>

Note 16 Business Segment and Geographic Information

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

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QUANTUM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. 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.

<TABLE>  
<CAPTION>

	Year Ended March 31,								
	1997			1998			1999		
	The Hard Disk Drive Group	The DLT & Storage Systems Group	Total	The Hard Disk Drive Group	The DLT & Storage Systems Group	Total	The Hard Disk Drive Group	The DLT & Storage Systems Group	Total
	(In millions)								
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Revenue.....	\$4,591	\$728	\$5,319	\$4,615	\$1,190	\$5,805	\$3,599	\$1,303	\$4,902
Interest and other income/ (expense).....	(15)	(26)	(41)	4	(3)	1	10	(12)	(2)



Depreciation and amortization.....	109	15	124	68	24	92	71	42	113
Loss from investee.....	--	--	--	(66)	--	(66)	(142)	--	(142)
Income tax expense (benefit).....	(19)	72	52	(83)	143	60	(112)	141	29
Segment profit (loss)...	41	107	149	(53)	224	171	(153)	123	(30)
Segment assets.....	1,721	438	2,159	1,646	792	2,438	1,470	1,014	2,484
Expenditures for long-lived assets.....	164	11	175	129	47	176	83	33	116

Product Information

Revenue for reportable segments is composed of the following:

<TABLE>  
<CAPTION>

	Year Ended March 31,				
	1997	1998	1999		
	(In millions)				
<S>	<C>	<C>	<C>	<C>	<C>
Hard Disk Drive group:					
Desktop hard disk drives.....	\$4,004	\$3,981	\$3,079		
High-end hard disk drives.....	587	634	520		
Total.....	\$4,591	\$4,615	\$3,599		
DLTtape & Storage Systems group:					
DLTtape drives.....	\$ 392	\$ 784	\$ 872		
DLTtape media cartridge product.....	221	284	195		
DLTtape media cartridge royalties.....	8	27	122		
Tape libraries and service.....	96	87	148		
Solid state storage systems.....	11	8	6		
Intra-group elimination.....	--	--	(40)		
Total.....	\$ 728	\$1,190	\$1,303		

</TABLE>

Intra-group elimination represents intra-group sales of DLTtape drives incorporated into the DLT & Storage Systems group's tape libraries.

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QUANTUM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Geographic Information

Revenue and long-lived assets by region are as follows (revenue is attributed to regions based on the location of customers):

<TABLE>  
<CAPTION>

	Year Ended March 31,					
	1997		1998		1999	
	Revenue	Long-Lived Assets	Revenue	Long-Lived Assets	Revenue	Long-Lived Assets
<S>	<C>	<C>	<C>	<C>	<C>	<C>
United States....	\$2,513	\$374	\$3,048	\$271	\$2,552	\$457
Europe.....	1,620	13	1,689	13	1,315	12
Asia-Pacific....	1,082	62	993	25	930	28
Latin America....	104	--	75	--	105	--
Total.....	\$5,319	\$449	\$5,805	\$309	\$4,902	\$497

</TABLE>

One customer of both of the Company's reportable segments accounted for 10% or more of the Company's consolidated revenue in fiscal years 1997, 1998 and 1999. Revenue from this customer represented \$856 million, \$1,036 million and \$704 million of the Company's consolidated revenue in the respective periods. Another customer of both of the Company's reportable segments accounted for 10% or more of the Company's consolidated revenue in fiscal years 1997, 1998 and 1999. Revenue from this customer represented \$562 million, \$759 million and \$678 million of the Company's consolidated revenue in the respective periods.

## QUANTUM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

## Note 17 Unaudited Quarterly Consolidated Financial Data

<TABLE>  
<CAPTION>

## Year Ended March 31, 1999

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
(In thousands, except per share data)				
<S>	<C>	<C>	<C>	<C>
Revenue.....	\$1,103,023	\$1,164,711	\$1,325,581	\$1,308,741
Gross profit.....	166,373	191,889	239,089	273,987
Net income (loss).....	3,010	17,264	(106,551)	56,742
Net income (loss) per share:				
Basic.....	0.02	0.11	(0.64)	.34
Diluted.....	0.02	0.11	(0.64)	.33

<CAPTION>

## Year Ended March 31, 1998

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
(In thousands, except per share data)				
<S>	<C>	<C>	<C>	<C>
Revenue.....	\$1,446,144	\$1,553,491	\$1,519,881	\$1,285,719
Gross profit.....	275,934	298,084	135,673	165,831
Net income (loss).....	96,514	103,778	(32,183)	2,692
Net income (loss) per share:				
Basic.....	0.74	0.77	(0.24)	0.02
Diluted.....	0.61	0.63	(0.24)	0.02

</TABLE>

The results of operations for the third quarter of fiscal year 1999 included the effect of a \$101 million charge related to the dissolution of MKQC, and an \$89 million charge related to purchased in-process research and development related to the acquisition of ATL.

The results of operations for the third quarter of fiscal year 1998 included the effect of a \$103 million special charge related to the Company's high-end hard disk drive products.

The results of operations for the fourth quarter of fiscal year 1998 were impacted by the reduction in estimated bonus accrued earlier in the fiscal year.

## REPORT OF ERNST &amp; YOUNG LLP, INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of  
Quantum Corporation

We have audited the accompanying combined balance sheets of the DLT & Storage Systems group (as described in Note 1) of Quantum Corporation as of March 31, 1998 and 1999 and the related combined statements of operations, group equity, and cash flows for each of the three years in the period ended March 31, 1999. These financial statements are the responsibility of Quantum Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the DLT & Storage Systems group at March 31, 1998 and 1999 and the results of its operations and its cash flows for each of the three years in the period ended March 31, 1999, in conformity with generally accepted accounting principles.

As more fully described in Note 1 to these financial statements, the DLT & Storage Systems group is a business group of Quantum Corporation; accordingly, the combined financial statements of the DLT & Storage Systems group should be

read in conjunction with the audited consolidated financial statements of Quantum Corporation.

/s/ Ernst & Young LLP

Palo Alto, California

April 26, 1999

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DLT & STORAGE SYSTEMS GROUP

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

<TABLE>  
<CAPTION>

	Year Ended March 31,		
	1997	1998	1999
<S>	<C>	<C>	<C>
Product revenue.....	\$719,925	\$1,162,725	\$1,181,273
Royalty revenue.....	8,088	27,075	121,463
Total revenue.....	728,013	1,189,800	1,302,736
Cost of revenue.....	457,674	687,586	722,817
Gross profit.....	270,339	502,214	579,919
Operating expenses:			
Research and development.....	30,039	62,825	99,330
Sales and marketing.....	23,770	47,244	76,737
General and administrative.....	11,470	22,363	38,158
Purchased in-process research and development.....	--	--	89,000
	65,279	132,432	303,225
Income from operations.....	205,060	369,782	276,694
Interest income and other, net.....	2,387	18,707	5,946
Interest expense.....	(28,347)	(21,835)	(18,322)
Income before income taxes.....	179,100	366,654	264,318
Income tax provision.....	71,640	142,995	141,327
Net income.....	\$107,460	\$ 223,659	\$ 122,991
Pro forma net income per share:			
Basic.....			\$ 0.77
Diluted.....			\$ 0.73
Pro forma weighted-average common shares:			
Basic.....			160,670
Diluted.....			167,407

</TABLE>

See accompanying notes to combined financial statements.

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DLT & STORAGE SYSTEMS GROUP

COMBINED BALANCE SHEETS  
(In thousands)

<TABLE>  
<CAPTION>

	March 31,	
	1998	1999
<S>	<C>	<C>
Assets		
Current assets:		
Cash and cash equivalents.....	\$388,910	\$ 272,643
Accounts receivable, net of allowance for doubtful accounts of \$2,586 and \$2,507 respectively.....	152,080	254,228
Inventories.....	103,028	124,462
Deferred taxes.....	43,819	35,594
Other current assets.....	6,582	8,434

Total current assets.....	694,419	695,361
Property, plant and equipment, less accumulated depreciation.....	57,399	73,122
Intangible assets, less accumulated amortization.....	15,366	220,368
Other assets.....	24,886	24,792
	<u>\$792,070</u>	<u>\$1,013,643</u>
	=====	=====
Liabilities and Group Equity		
Current liabilities:		
Accounts payable.....	\$ 44,919	\$ 64,025
Accrued warranty.....	33,778	37,988
Accrued compensation.....	15,985	22,557
Current portion of long-term debt.....	623	683
Other accrued liabilities.....	12,720	32,850
	<u>108,025</u>	<u>158,103</u>
Total current liabilities.....	108,025	158,103
Deferred taxes.....	145	27,355
Long-term debt.....	26,657	37,974
Convertible subordinated debt.....	191,667	191,667
Commitments and contingencies.....		
Group equity.....	465,576	598,544
	<u>\$792,070</u>	<u>\$1,013,643</u>
	=====	=====

</TABLE>

See accompanying notes to combined financial statements.

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DLT & STORAGE SYSTEMS GROUP

COMBINED STATEMENTS OF CASH FLOWS  
(In thousands)

<TABLE>  
<CAPTION>

	Year Ended March 31,		
	1997	1998	1999
	<C>	<C>	<C>
<S>			
Cash flows from operating activities:			
Net income.....	\$ 107,460	\$ 223,659	\$ 122,991
Adjustments to reconcile net income to net cash provided by operations:			
Purchased in-process research and development.....	--	--	89,000
Depreciation.....	7,780	15,484	25,952
Amortization.....	7,649	8,160	15,955
Deferred taxes.....	(17,821)	(11,340)	3,388
Compensation related to stock incentive plans.....	1,594	2,824	3,757
Changes in assets and liabilities:			
Accounts receivable.....	(75,341)	2,588	(78,727)
Inventories.....	2,905	(55,831)	2,666
Accounts payable.....	23,602	(2,863)	2,769
Accrued warranty.....	15,141	4,676	3,359
Other assets and liabilities.....	19,532	15,300	25,995
	<u>92,501</u>	<u>202,657</u>	<u>217,105</u>
Net cash provided by operating activities.....	92,501	202,657	217,105
Cash flows from investing activities:			
Purchases of equity securities.....	(2,732)	(15,000)	(1,750)
Acquisition of intangible assets.....	--	(16,000)	--
Investment in property and equipment.....	(11,442)	(30,682)	(33,176)
Proceeds from disposition of property or equipment.....	--	--	3
	<u>(14,174)</u>	<u>(61,682)</u>	<u>(34,923)</u>
Net cash used in investing activities.....	(14,174)	(61,682)	(34,923)
Cash flows from financing activities:			
Proceeds from long-term credit facilities....	220,061	--	25,212
Inter-group payment for common stock issued..	--	--	(15,118)
Proceeds from mortgage loan.....	28,070	--	--
Purchase of treasury stock.....	--	--	(305,287)
Principal payments on long-term credit facilities.....	(252,226)	(120,651)	(31,445)
Proceeds from issuance of common stock.....	30,174	33,573	28,189
Proceeds from issuance of convertible subordinated notes.....	--	191,667	--

Net cash provided by (used in) financing activities.....	26,079	104,589	(298,449)
Increase (decrease) in cash and cash equivalents.....	104,406	245,564	(116,267)
Cash and cash equivalents at beginning of period.....	38,940	143,346	388,910
Cash and cash equivalents at end of period....	\$ 143,346	\$ 388,910	\$ 272,643
Supplemental disclosure of cash flow information:			
Conversion of debentures to common stock.....	--	\$ 160,900	--
Issuance of redeemable preferred stock as part of minority interest acquisition.....	\$ 2,592	--	--
Conversion of redeemable preferred stock to common stock.....	--	\$ 2,592	--
Cash paid during the year for:			
Interest.....	\$ 27,182	\$ 19,353	\$ 17,813
Income taxes, net of (refunds).....	\$ 1,550	\$ 44,747	\$ (19,146)

</TABLE>

See accompanying notes to combined financial statements.

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DLT & STORAGE SYSTEMS GROUP

COMBINED STATEMENTS OF GROUP EQUITY  
(In thousands)

<TABLE>  
<CAPTION>

	Other	Retained Earnings	Group Equity
<S>	<C>	<C>	<C>
Balances at March 31, 1996.....	\$ (152,477)	\$ 34,880	\$ (117,597)
Net income.....	--	107,460	107,460
Shares issued under employee stock purchase plan.....	11,601	--	11,601
Shares issued under employee stock option plans, net.....	18,573	--	18,573
Compensation expense and other.....	3,533	--	3,533
Tax benefits related to stock option plans...	7,353	--	7,353
Balances at March 31, 1997.....	(111,417)	142,340	30,923
Net income.....	--	223,659	223,659
Conversion of subordinated debentures.....	157,815	--	157,815
Conversion of Series B preferred shares.....	2,592	--	2,592
Shares issued under employee stock purchase plan.....	14,318	--	14,318
Shares issued under employee stock option plans, net.....	19,255	--	19,255
Compensation expense and other.....	2,824	--	2,824
Tax benefits related to stock option plans...	14,190	--	14,190
Balances at March 31, 1998.....	99,577	365,999	465,576
Net income.....	--	122,991	122,991
Shares issued under employee stock purchase plan.....	16,027	--	16,027
Shares issued under employee stock option plans, net.....	12,162	--	12,162
Treasury shares repurchased.....	(305,287)	--	(305,287)
Treasury shares reissued for ATL acquisition.....	305,287	(63,452)	241,835
New shares issued for ATL acquisition.....	15,326	--	15,326
Conversion of ATL stock options.....	14,911	--	14,911
Compensation expense and other.....	3,757	--	3,757
Tax benefits related to stock option plans...	11,246	--	11,246
Balances at March 31, 1999.....	\$ 173,006	\$ 425,538	\$ 598,544

</TABLE>

See accompanying notes to combined financial statements.

## DLT &amp; STORAGE SYSTEMS GROUP

## NOTES TO COMBINED FINANCIAL STATEMENTS

## Note 1 Summary of Significant Accounting Policies

The accompanying combined financial statements should be read in conjunction with the consolidated financial statements of Quantum Corporation ("Quantum").

Nature of Business. Quantum operates its business through two separate groups: the DLT & Storage Systems group and the Hard Disk Drive group. The DLT & Storage Systems group and the Hard Disk Drive group are referred to as the "groups."

The DLT & Storage Systems group designs, develops, manufactures, licenses and markets DLTtape drives and media, tape libraries and solid state storage systems. DLTtape is the DLT & Storage Systems group's half-inch tape technology that is the de facto industry standard for data back-up in the mid-range server market.

The Hard Disk Drive group designs desktop hard disk drives to meet the storage requirements of entry-level to high-end desktop PCs in home and business environments. The Hard Disk Drive group also designs high-end hard disk drives for the demanding storage needs of network servers, workstations and storage sub-systems.

The Board of Directors (the "Board") of Quantum has recommended stockholder approval of a proposal (the "tracking stock proposal") that would create two classes of tracking stock intended to reflect separately the performance of the DLT & Storage Systems group and the Hard Disk Drive group. Under the tracking stock proposal, Quantum's Certificate of Incorporation would be amended and restated (the "Restated Certificate of Incorporation") to (i) designate a new class of Quantum Corporation--the DLT & Storage Systems group Common Stock, \$.01 par value per share, (ii) designate a new class of Quantum Corporation--the Hard Disk Drive group common stock, \$.01 par value per share, and (iii) reclassify each authorized share of existing common stock, \$.01 par value per share as one share of DLT & Storage Systems group stock and one-half share of the Hard Disk Drive group stock.

The combined financial statements of the groups comprise all of the accounts included in the corresponding consolidated financial statements of Quantum. The separate group combined financial statements give effect to the accounting policies that will be applicable upon implementation of the tracking stock proposal. The separate the DLT & Storage Systems group and the Hard Disk Drive group 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 the DLT & Storage Systems group's financial statements, corporate assets and liabilities of Quantum and related transactions identified with the DLT & Storage Systems group, including allocated portions of Quantum's debt and selling, general and administrative costs, and (iii) in the case of the Hard Disk Drive group's financial statements, corporate assets and liabilities of Quantum and related transactions identified with the Hard Disk Drive group, including allocated portions of Quantum's debt and selling, general and administrative costs.

Holders of DLT & Storage Systems group stock and Hard Disk Drive group stock will be stockholders of a single company. The DLT & Storage Systems group and the Hard Disk Drive group 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 Quantum's business, assets and liabilities. The issuance of DLT & Storage Systems group stock and Hard Disk Drive group stock and the allocation of assets or liabilities and stockholders' equity between the DLT & Storage Systems group and the Hard Disk Drive group will not result in a distribution or spin-off to stockholders of any of Quantum's assets or liabilities and will not affect ownership of any of Quantum's assets or responsibility for Quantum's liabilities or those of Quantum's subsidiaries. The assets Quantum attributes to

## DLT &amp; STORAGE SYSTEMS GROUP

## NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

one group could be subject to the liabilities of the other group. If Quantum is unable to satisfy one group's liabilities out of the assets attributed to it, Quantum may be required to satisfy those liabilities with assets Quantum has attributed to the other group. Holders of DLT & Storage Systems group stock and Hard Disk Drive group stock generally will not have stockholder rights specific to their corresponding group. Instead, holders will have customary stockholder rights relating to Quantum as a whole.

Holders of tracking stock will not have any rights related to their corresponding group except as set forth in provisions relating to dividend rights and requirements for a mandatory dividend, redemption or conversion upon the disposition of all or substantially all of the assets of their corresponding group, or have any right to vote on matters as a separate voting group other than in limited circumstances as provided under Delaware law or by Nasdaq rules. The relative voting power of DLT & Storage Systems group stock and Hard Disk Drive group stock will fluctuate from time to time, with each share of DLT & Storage Systems group stock having one vote and each share of Hard Disk Drive group stock having a number of votes, based upon the ratio, over a specified period, of the average market values of one share of DLT & Storage Systems group stock and of one share of Hard Disk Drive group stock. This formula is intended to give each class of tracking stock a number of votes proportionate to its aggregate market capitalization at the time of any vote. Accordingly, changes in the market value of DLT & Storage Systems group stock and Hard Disk Drive group stock will affect the relative voting rights of a class of tracking stock. It is expected that initially the holders of DLT & Storage Systems group stock will have a substantial majority of the voting power of Quantum.

Financial effects arising from one group that affect the 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 class of tracking stock relating to the other group. Any net losses of the DLT & Storage Systems group or the Hard Disk Drive group, and dividends or distributions on, or repurchases of, DLT & Storage Systems group stock or Hard Disk Drive group stock, or repurchases of preferred stock at a price per share greater than par value, will reduce the funds of Quantum legally available for payment of dividends on the DLT & Storage Systems group stock.

The Board may at any time, in its sole discretion and without stockholder approval, determine to convert the tracking stock related to one group into the tracking stock related to the other group at a 10% premium during the first five years following the implementation of the tracking stock proposal and without any premium thereafter. The Board may also effect such a conversion at no premium if, based on the legal opinion of Quantum's tax counsel, it is more likely than not that for United States federal income tax purposes (i) Quantum or its stockholders are, or at any time in the future will be, subject to tax upon the issuance of shares of either DLT & Storage Systems group stock or Hard Disk Drive group stock, or (ii) either DLT & Storage Systems group stock or Hard Disk Drive group stock is not, or at any time in the future will not be, treated as stock of Quantum. In the case of certain dispositions of all or substantially all of the assets of one group, the Board may determine to convert the tracking stock of such group into the tracking stock of the other group at a 10% premium during the first five years following the implementation of the tracking stock proposal and without any premium thereafter. Any conversion at a premium would dilute the interests in Quantum of the holders of the class of tracking stock being issued in the conversion. In addition, any conversion of a class of tracking stock into another class of tracking stock would preclude holders of both classes of tracking stock from retaining their investment in a security that is intended to reflect separately the performance of the relevant group.

The Board may modify or rescind our policies with respect to the allocation of corporate overhead, taxes, debt, interest and other matters, or may adopt additional policies in its sole discretion without stockholder approval.

The DLT & Storage Systems group's combined financial statements reflect the application of the management and allocation policies adopted by the Board to various corporate activities, as described below.

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DLT & STORAGE SYSTEMS GROUP

NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

Financing Activities. Quantum manages most financial activities of the DLT & Storage Systems group and the Hard Disk Drive group on a centralized basis. Such financial activities include the investment of surplus cash, the issuance and repayment of short-term and long-term debt, the issuance and repurchase of common stock, and the issuance and repurchase of any preferred stock.

At March 31, 1999, \$230 million of Quantum's debt was allocated to the DLT & Storage Systems group and \$115 million was allocated to the Hard Disk Drive group. The Board has adopted the following financing policy that will affect the combined statements of the DLT & Storage Systems group and the Hard Disk Drive group: Quantum will allocate its debt between the groups ("pooled debt") or, if Quantum so determines, in its entirety to a particular group. Quantum will allocate preferred stock, if issued, in a similar manner.

Cash allocated to one group that is used to repay pooled debt or redeem pooled preferred stock decreases such group's allocated portion of the pooled

debt or preferred stock. Cash or other property allocated to one group that is transferred to the other group, if so determined by the Board, decreases the transferring group's allocated portion of the pooled debt or preferred stock and, correspondingly, increases the recipient group's allocated portion of the pooled debt or preferred stock.

Pooled debt bears interest for group financial statement purposes at a rate equal to the weighted average interest rate of the debt calculated on a quarterly basis and applied to the average pooled debt balance during the period. Preferred stock, if issued and if pooled in a manner similar to the pooled debt, may bear dividends for group financial statement purposes at a rate based on the weighted average dividend rate of the preferred stock similarly calculated and applied. Any expense related to increases in pooled debt or preferred stock is reflected in the weighted average interest or dividend rate of such pooled debt or preferred stock as a whole.

Debt for a particular financing allocated in its entirety to one group, bears interest for group financial statement purposes at the rate determined by the Board. For preferred stock allocated in its entirety to one group, the dividend cost to that group is determined in a similar manner. If the interest or dividend cost is higher than Quantum's actual cost, the other group receives a credit for an amount equal to the difference as compensation for the use of Quantum's credit capacity. Any expense related to debt or preferred stock that is allocated in its entirety to a group is allocated in whole to that group.

Cash or other property that Quantum allocated to one group that is transferred to the other group is, if so determined by the Board, accounted for either as a short-term loan or as a long-term loan. Short-term loans and, unless Quantum's board determines otherwise, long-term loans bear interest at a rate equal to the weighted average interest rate of Quantum's pooled debt. If Quantum does not have any pooled debt, the Board determines the rate of interest for such loan. The Board establishes the terms on which long-term loans between the groups is made, including interest rate if not based on Quantum's weighted average interest rate, amortization schedule, maturity and redemption terms.

Although Quantum may allocate its debt and preferred stock between groups, the debt and preferred stock remain obligations of Quantum and all stockholders of Quantum are subject to the risks associated with those obligations.

Allocation of Support Activities. The DLT & Storage Systems group is charged for specifically identified costs of certain support activities based upon the DLT & Storage Systems group's use of such activities. Where determinations based on use alone were not practical, other methods and criteria were used to provide a reasonable allocation of the cost of support activities attributable to the DLT & Storage Systems group. Such allocated support activities included certain selling and marketing, executive management, human resources, corporate finance, legal and corporate planning costs. The total of these allocations were \$14 million, \$28 million, and \$30 million in fiscal years 1997, 1998 and 1999, respectively. It is not practicable to provide a detailed estimate of the expenses which would be recognized if the DLT & Storage Systems group were a separate entity.

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#### DLT & STORAGE SYSTEMS GROUP

#### NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

Allocation of Federal and State Income Taxes. The federal income taxes of Quantum and the subsidiaries which own assets allocated between the groups are determined on a consolidated basis. Consolidated federal income tax provisions and related tax payments or refunds are allocated between the groups based principally on the taxable income and tax credits directly attributable to each group, as if each group were a stand-alone entity. Such allocations reflect each group's contribution (whether positive or negative) to Quantum's consolidated federal taxable income and the consolidated federal tax liability and tax credit position. Tax benefits that cannot be used by the group generating those benefits but can be used on a consolidated basis are credited to the group that generated such benefits. Accordingly, the amounts of taxes payable or refundable allocated to each group may not necessarily be the same as that which would have been payable or refundable had each group filed a separate income tax return.

Depending on the tax laws of the respective jurisdictions, state and local income taxes are calculated on either a consolidated or combined basis or on a separate corporation basis. State income tax provisions and related tax payments or refunds determined on a consolidated or combined basis are allocated between the groups based on their respective contributions to such consolidated or combined state taxable incomes. State and local income tax provisions and related tax payments which are determined on a separate corporation basis are allocated between the groups in a manner designed to reflect the respective contributions of the groups to the corporation's separate state or local taxable income.



The discussion of the DLT & Storage Systems group's income tax provision (Note 11) should be read in conjunction with Quantum's consolidated financial statements and notes thereto.

Use of Estimates. The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from the estimates and assumptions used in preparing the combined financial statements.

Revenue Recognition. Revenue from sales of products is recognized on shipment to customers, with provision made for estimated returns. The DLT & Storage Systems group accrues royalty revenue based on licensees' sales that incorporate certain licensed technology.

Foreign Currency Transactions. Assets, liabilities, and operations of foreign offices and subsidiaries are recorded based on the functional currency of the entity. For a majority of the DLT & Storage Systems group's material foreign operations, the functional currency is the U.S. Dollar. In addition, a majority of the DLT & Storage Systems group's material transactions are denominated in U.S. dollars. Accordingly, transaction gains or losses have been immaterial to the financial statements for all years presented. The effect of foreign currency exchange rate fluctuations on cash was also immaterial for the years presented. Assets and liabilities denominated in other than the functional currency are remeasured each month with the remeasurement gain or loss recorded in other income.

Foreign Exchange Contracts. The effect of foreign currency rate changes on the remeasurement of certain assets and liabilities denominated in a foreign currency are managed using foreign currency forward exchange contracts. Foreign currency forward exchange contracts represent agreements to exchange the currency of one country for the currency of another country at an agreed-upon price, on an agreed-upon settlement date. Foreign currency forward exchange contracts are accounted for by the fair value method. Foreign currency forward exchange contracts are carried on the balance sheet at fair value, with changes in that value recognized in other income.

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DLT & STORAGE SYSTEMS GROUP

NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

Net Income Per Share. Historical income per share is omitted from the statements of operations because DLT & Storage Systems group stock was not part of the capital structure of Quantum for the periods presented. Following the implementation of the tracking stock proposal, the method of calculating income per share for the DLT & Storage Systems group stock will reflect the terms of the Restated Certificate of Incorporation and will be computed by dividing the net income of the DLT & Storage Systems group by the weighted average number of shares of DLT & Storage Systems group stock outstanding during the applicable period. The effects of assuming issuance of DLT & Storage Systems group stock on a pro forma basis under existing long-term incentive, stock option, and stock purchase plans will be dilutive. Pro forma income per share, reflecting the DLT & Storage Systems group stock to be issued under the tracking stock proposal, is presented in the DLT & Storage Systems group's statements of operations.

Cash Equivalents. Highly liquid debt instruments with a maturity of 90 days or less at the time of purchase are considered to be cash equivalents. Cash equivalents are carried at fair value, which approximates cost. Marketable securities have maturities of more than 90 days at the time of purchase. Cash equivalents and marketable securities have been classified as available-for-sale. Securities classified as available-for-sale are carried at fair value with material unrealized gains and losses reported in group equity. The cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest income. Realized gains and losses and declines in value judged to be other-than-temporary are recorded in other income or expense. The cost of securities sold is based on the specific identification method.

Concentration of Credit Risk. Quantum performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from its customers. Reserves are maintained for potential credit losses and such losses have historically been within management's expectations.

Quantum invests its excess cash in deposits with major banks and in money market funds and short-term debt securities of companies with strong credit ratings from a variety of industries. These securities generally mature within 365 days and, therefore, bear minimal risk. Quantum has not experienced any material losses on its investments. Quantum, by corporate policy, limits the amount of credit exposure to any one issuer and to any one type of investment.

Investments. Investments in entities (less-than-20-percent-owned companies) that are not represented by marketable securities are carried at cost less write-downs for declines in value that are judged to be other-than-temporary. These valuation losses are recorded in other income when identified. Dividends are recorded in other income when received.

Inventories. Inventories are carried at the lower of cost or market. Cost is determined on a first-in, first-out basis.

Property, Plant and Equipment. Property, plant and equipment are carried at cost, less accumulated depreciation and amortization computed on a straight-line basis over the lesser of the estimated useful lives of the assets (generally three to ten years for machinery, equipment, furniture, and leasehold improvements; and twenty-five years for buildings) or the lease term.

Acquired Intangibles. Goodwill and other acquired intangible assets are being amortized over their estimated useful lives, which range from two to fifteen years. The accumulated amortization at March 31, 1998 and 1999 was \$17 million and \$13 million, respectively. Intangible assets are reviewed for impairment whenever events or circumstances indicate impairment might exist, or at least annually.

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DLT & STORAGE SYSTEMS GROUP

NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

Warranty Expense. The DLT & Storage Systems group generally warrants its products against defects for a period of one to three years. A provision for estimated future costs relating to warranty expense is recorded when products are shipped and revenue recognized.

Advertising Expense. The DLT & Storage Systems group accrues for co-operative advertising as the related revenue is earned, and other advertising expense is recorded as incurred. Advertising expense for the years ended March 31, 1997, 1998 and 1999, was \$11 million, \$15 million, and \$26 million, respectively.

Stock-Based Compensation. The DLT & Storage Systems group accounts for its stock-based employee compensation plans in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations ("APB Opinion No. 25").

Risks and Uncertainties. As is typical in the information storage industry, a significant portion of the DLT & Storage Systems group's customer base is concentrated with a small number of OEMs, and the DLT & Storage Systems group is not able to predict whether there will be any significant change in the demand for its customers' products. The loss of any one of the DLT & Storage Systems group's more significant customers could have a material adverse effect on the DLT & Storage Systems group's results of operations. A limited number of tape drive storage products make up a significant majority of the DLT & Storage Systems group's sales, and due to increasingly rapid technological change in the industry, the DLT & Storage Systems group's future depends on its ability to develop and successfully introduce new products.

Comprehensive Income. In June 1997, the FASB released Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." SFAS 130 establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements and has been implemented by the DLT & Storage Systems group. For all periods presented comprehensive income equaled net income.

Segment Information. In June 1997, The FASB released Statement of Financial Accounting Standards No. 131, "Disclosure about Segments of an Enterprise and Related Information." SFAS 131 changes the way companies report selected segment information in annual financial statements and also requires companies to report selected segment information in interim financial reports to stockholders. SFAS 131 has been implemented by the DLT & Storage Systems group.

Note 2 Financial Instruments

Available-For-Sale Securities

Quantum's cash and cash equivalents, including certain available-for-sale securities, are allocated between the DLT & Storage Systems group and the Hard Disk Drive group. However, marketable securities have been allocated to the Hard Disk Drive group.

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DLT & STORAGE SYSTEMS GROUP

NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

The following is a summary of Quantum's consolidated available-for-sale securities, all of which are classified as cash equivalents and marketable securities:

<TABLE>  
<CAPTION>

	March 31, 1998		March 31, 1999	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
<S>	<C>	<C>	<C>	<C>
Certificates of deposit.....	\$411,700	\$411,700	\$499,400	\$499,400
Money market funds.....	--	--	125,200	125,200
Corporate commercial paper and bank notes.....	103,346	103,339	58,484	58,486
U.S. Treasury securities and obligations of U.S. government agencies.....	165,364	165,360	100,589	100,589
Other.....	4,613	4,613	5,121	5,121
	-----	-----	-----	-----
	\$685,023	\$685,012	\$788,794	\$788,796
	=====	=====	=====	=====
Included in cash and cash equivalents.....	\$613,450	\$613,450	\$764,368	\$764,368
Included in marketable securities..	71,573	71,562	24,426	24,428
	-----	-----	-----	-----
	\$685,023	\$685,012	\$788,794	\$788,796
	=====	=====	=====	=====

</TABLE>

The difference between the amortized cost of available-for-sale securities and fair value was immaterial at March 31, 1998 and 1999, and therefore no gross unrealized gains or losses were recorded in Quantum's stockholders' equity. The estimated fair value of available-for-sale securities is based on market quotations. There were no sales of available-for-sale securities in fiscal years 1998 or 1999. At March 31, 1999, the average available-for-sale portfolio duration was approximately 20 days, and no security had a maturity longer than one year.

#### Derivative Financial Instruments

Foreign Exchange--Asset and Liability Management. During the periods covered by the financial statements, Quantum utilized foreign currency forward exchange contracts to manage the effects of foreign currency remeasurement arising from certain assets and liabilities denominated in a foreign currency. The gains and losses from market rate changes on these contracts, which are intended to offset the losses and gains on certain foreign currency denominated assets and liabilities, are recorded monthly in other income. Such gains and losses have been immaterial to the DLT & Storage Systems group.

#### Carrying Amount and Fair Values of Financial Instruments

The estimated fair value of Quantum's borrowings (pooled debt) are summarized as follows:

<TABLE>  
<CAPTION>

	March 31,			
	1998		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In millions)			
<S>	<C>	<C>	<C>	<C>
Convertible subordinated debt.....	\$287.5	\$281.8	\$287.5	\$254.6
Revolving credit line.....	--	--	18.0	18.0
Mortgage loan.....	40.9	41.8	40.0	40.8

</TABLE>

The fair values for the convertible subordinated debt were based on the quoted market price at the balance sheet dates. Fair value for the revolving credit agreement approximated its carrying amount, since interest rates

on these borrowings are adjusted periodically to reflect market interest rates. The fair values of the mortgage loan were based on the estimated present value of the remaining payments, utilizing risk-adjusted market interest rates of similar instruments at the balance sheet dates.

Note 3 Inventories

Inventories consisted of:

<TABLE>  
<CAPTION>

	March 31,					
	1998	1999				
	(In thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Materials and purchased parts.....	\$ 51,578	\$ 60,138				
Work in process.....	29,687	22,154				
Finished goods.....	21,763	42,170				
	-----	-----				
	\$103,028	\$124,462				
	=====	=====				

</TABLE>

Note 4 Property, Plant, and Equipment

Property, plant, and equipment consisted of:

<TABLE>  
<CAPTION>

	March 31,		
	1998	1999	
	(In thousands)		
<S>	<C>	<C>	
Machinery and equipment.....	\$ 57,084	\$82,923	
Furniture and fixtures.....	4,088	7,556	
Buildings and leasehold improvements.....	24,302	36,151	
Land.....	674	1,122	
	-----	-----	
	86,148	127,752	
Less accumulated depreciation and amortization.....	(28,749)	(54,630)	
	-----	-----	
	\$ 57,399	\$73,122	
	=====	=====	

</TABLE>

Note 5 Business Combination

On September 28, 1998, Quantum completed the acquisition of ATL. ATL designs, manufactures, markets and services automated tape libraries for the networked computer market. ATL's products incorporate DLTtape drives as well as ATL's proprietary IntelliGrip automation technology. The acquisition has been accounted for as a purchase with a total cost of \$335 million. The acquisition was completed with the issuance of 16.9 million shares of Quantum common stock valued at \$265 million on the date of acquisition in exchange for all outstanding shares of ATL, the conversion of outstanding ATL stock options into options valued at \$22 million to purchase 1.8 million shares of Quantum common stock and the assumption of \$45 million of ATL liabilities. The DLT & Storage Systems group also recognized deferred tax liabilities of \$33 million. ATL's results of operations are included in the financial statements from the date of acquisition, and the assets and liabilities acquired were recorded based on their fair values as of the date of acquisition.

The excess of the purchase price over the fair value of the net tangible assets acquired has been allocated to the following identifiable intangible assets: goodwill, trademarks and trade names, original equipment manufacturer and value added reseller customer relationships, non-compete agreements, workforce in place, developed technology and in-process research and development. As of the acquisition date, technological feasibility of the in-process technology has not been established, and the technology has no alternative future

use. Therefore, the DLT & Storage Systems group has expensed \$89 million of the purchase price as in-process research and development. The remaining

identifiable intangible assets will be amortized on a straight-line basis over periods ranging from two to fifteen years.

The amount of the purchase price allocated to in-process research and development was determined by estimating the stage of development of each in-process research and development project at the date of acquisition, estimating cash flows resulting from the expected revenue generated from such projects, and discounting the net cash flows back to their present value using a discount rate of 20%, which represents a premium to Quantum's cost of capital. The expected revenue assumes an average compound annual revenue growth rate of 37% during fiscal years 1999 to 2007. Expected total revenues from the purchased in-process projects peak in fiscal year 2002 and then begin to decline as other new products are expected to be introduced. These projections were based on management's estimates of market size and growth, expected trends in technology and the expected timing of new product introductions. If products are not successfully developed, the DLT & Storage Systems group may not realize the value assigned to the in-process research and development projects. In addition, the value of the other acquired intangible assets may also become impaired.

The following unaudited pro forma information has been prepared assuming that the acquisition had taken place at the beginning of fiscal year 1998. The pro forma financial information is not necessarily indicative of the combined results that would have occurred had the acquisition taken place at the beginning of the periods, nor is it necessarily indicative of results that may occur in the future.

<TABLE>  
<CAPTION>

	Year Ended March 31, 1998	Year Ended March 31, 1999	
	-----		
	(In thousands)		
<S>	<C>	<C>	<C>
Total revenue.....	\$1,250,802	\$1,343,037	
Net income .....	\$ 208,443	\$ 202,363	

</TABLE>

Note 6 Credit Agreements, Long-Term Debt and Convertible Subordinated Debt

Quantum's debt includes the following:

<TABLE>  
<CAPTION>

	March 31,	
	-----	-----
	1998	1999
	-----	
	(In thousands)	
<S>	<C>	<C>
7% convertible subordinated notes.....	\$287,500	\$287,500
Revolving credit line, 6.0% average rate, payable through June 2000.....	--	18,000
Mortgage.....	40,920	39,985
	-----	-----
Less short-term portion of debt.....	328,420	345,485
	935	1,024
	-----	-----
Total long-term debt and convertible subordinated debt.....	\$327,485	\$344,461
	=====	=====
The DLT & Storage Systems group's portion of Quantum debt:		
Short-term debt.....	\$ 623	\$ 683
Long-term debt and convertible subordinated debt, excluding current portion.....	218,324	229,641
	-----	-----
The DLT & Storage Systems group total debt.....	\$218,947	\$230,324
	=====	=====
The Hard Disk Drive group's portion of Quantum debt:		
Short-term debt.....	\$ 312	\$ 341
Long-term debt and convertible subordinated debt, excluding current portion.....	109,161	114,820
	-----	-----
The Hard Disk Drive group total debt.....	\$109,473	\$115,161
	=====	=====
Weighted average interest rate on Quantum's debt at period-end.....	7.39%	7.31%

</TABLE>

In June 1997, Quantum entered into an unsecured senior credit facility that provides a \$500 million revolving credit line and expires in June 2000. At the option of Quantum, borrowings under the revolving credit line bear interest at either LIBOR plus a margin determined by a total funded debt ratio, or a base rate, with option periods of one to six months. As of March 31, 1998 and March 31, 1999, there was no outstanding balance drawn on this line.

In July 1997, Quantum issued \$288 million of 7% convertible subordinated notes. The notes mature on August 1, 2004, and are convertible at the option of the holder at any time prior to maturity, unless previously redeemed, into shares of Quantum common stock at a conversion price of \$46.325 per share. The notes are redeemable at Quantum's option on or after August 1, 1999, and prior to August 1, 2001, under certain conditions related to the price of Quantum common stock. Subsequent to August 1, 2001, the notes are redeemable at Quantum's option at any time. In the event of certain changes involving all or substantially all of Quantum common stock, the notes would become redeemable at the option of the holder. Redemption prices range from 107% of the principal to 100% at maturity. The notes are unsecured obligations subordinated in right of payment to all existing and future senior indebtedness of Quantum.

If the tracking stock proposal is implemented, each of the 7% subordinated notes, which currently are convertible into shares of Quantum common stock, will become convertible into a number of shares of DLT & Storage Systems group stock and a number of shares of Hard Disk Drive group stock equal to the numbers of such shares which the holder of such note would receive under the tracking stock proposal had such note been converted immediately prior to the implementation of the tracking stock proposal. The notes will not be separately convertible into solely DLT & Storage Systems group stock or solely Hard Disk Drive group stock. The exercise price and maturity date of each convertible note will not be affected by the implementation of the tracking stock proposal.

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

Payments required on Quantum's long-term debt outstanding at March 31, 1999, are \$1.0 million in fiscal year 2000, \$1.1 million in fiscal year 2001, \$1.2 million in fiscal year 2002, \$1.3 million in fiscal year 2003 and \$1.5 million in fiscal year 2004.

In December 1998, ATL entered into a senior credit facility that provides a \$35 million revolving credit line to ATL. The revolving credit line is co-terminous with Quantum's \$500 million revolving credit line, expiring in June 2000. At the option of ATL, borrowings under the revolving credit line bear interest at either LIBOR plus a margin determined by a total funded debt ratio of Quantum, or a base rate, with option periods of one to six months. At March 31, 1999, \$18 million was outstanding on ATL's revolving credit line.

#### Note 7 Redeemable Preferred Stock

In fiscal year 1998, the holder of the 90,000 shares of Redeemable Convertible Participating Series B Preferred Stock exercised its right to convert the shares to Quantum common stock. Quantum issued 180,000 shares of Quantum common stock pursuant to the conversion.

#### Note 8 Stock Incentive Plans

Long-Term Incentive Plan. Quantum has a Long-Term Incentive Plan (the "Plan") that provides for the issuance of stock options, stock appreciation rights, stock purchase rights, and long-term performance

awards (collectively referred to as "options") to employees, consultants, officers and affiliates of Quantum. The Plan has available and reserved for future issuance 19.2 million shares and allows for an annual increase in the number of shares available for issuance, subject to a limitation. Available for grant as of March 31, 1999, were 529,000 shares. Options under the Plan expire no later than ten years from the grant date and generally vest over four years. Restricted stock granted under the Plan generally vests over two to three years. In fiscal years 1997, 1998 and 1999, Quantum recorded compensation expense of \$1,916,000, \$3,179,000 and \$3,211,000, respectively, related to restricted stock granted pursuant to stock purchase rights under the Plan, a portion of which was allocated to the DLT & Storage Systems group. The number of shares of restricted stock granted under the Plan were 354,290 shares, 65,500 shares, and 157,200 shares, in fiscal years 1997, 1998 and 1999,

respectively, at an exercise price of \$.01.

If the tracking stock proposal is approved by the stockholders and implemented by the Board, each share of restricted stock currently held will be changed into one share of DLT & Storage Systems group stock and 0.5 of a share of Hard Disk Drive group stock.

Stock Option Plans. Quantum has Stock Option Plans (the "Plans") under which 5.1 million shares of Quantum common stock was reserved for future issuance at March 31, 1999 to employees, officers and directors of Quantum. Options under the Plans are granted at prices determined by the Board, but at not less than the fair market value, and accordingly no compensation accounting has been required at the original date of grant. Options currently expire no later than ten years from the grant date and generally vest ratably over one to four years. At March 31, 1999, options with respect to 470,000 shares of Quantum common stock were available for grant.

Stock Option Summary Information. A summary of activity relating to Quantum's Long-Term Incentive Plan and the Stock Option Plans follows:

<TABLE>  
<CAPTION>

	Year Ended March 31,					
	1997		1998		1999	
	Shares (000s)	Weighted-Avg. Exercise Price	Shares (000s)	Weighted-Avg. Exercise Price	Shares (000s)	Weighted-Avg. Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Outstanding at beginning of period.....	16,746	\$6.75	16,354	\$ 7.52	17,005	\$12.09
Granted.....	5,850	\$8.59	6,163	\$19.80	10,781	\$21.51
Canceled.....	(1,564)	\$7.94	(718)	\$14.11	(1,880)	\$22.63
Exercised.....	(4,678)	\$5.97	(4,794)	\$ 6.10	(2,530)	\$ 7.23
	-----		-----		-----	
Outstanding at end of period.....	16,354	\$7.52	17,005	\$12.09	23,376	\$14.68
	=====		=====		=====	
Exercisable at end of period.....	8,514	\$6.53	8,332	\$ 8.84	11,786	\$10.65
	=====		=====		=====	

</TABLE>

The range of exercise prices for options outstanding at March 31, 1999 was \$2.17 to \$30.81. Quantum recorded compensation expense of \$475,000, \$1,057,000 and \$2,188,000 was recorded in fiscal years 1997, 1998 and 1999, respectively, on accelerated stock options under the Plans, a portion of such expense was allocated to the DLT & Storage Systems group.

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DLT & STORAGE SYSTEMS GROUP

NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

The following tables summarize information about Quantum's options outstanding at March 31, 1999:

<TABLE>  
<CAPTION>

Range of Exercise Prices	Outstanding Options		
	Shares Outstanding at March 31, 1999 (000s)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
<C>	<C>	<S>	<C>
\$ 2.17 -- \$ 8.75	7,842	6.09	\$ 6.23
\$ 8.78 -- \$19.81	7,816	7.88	\$15.37
\$20.19 -- \$30.81	7,718	9.28	\$22.56
	-----		
	23,376	7.74	\$14.68
	=====		

</TABLE>

<TABLE>  
<CAPTION>

Range of Exercise Prices	Options Exercisable	
	Shares Exercisable at March 31, 1999 (000s)	Weighted-Average Exercise Price
-----	-----	-----

<C>	<S>	<C>
\$ 2.17 -- \$ 8.75	6,576	\$ 6.24
\$ 8.78 -- \$19.81	4,095	\$14.28
\$20.19 -- \$30.81	1,115	\$23.30
	-----	
	11,786	\$10.65
	=====	

</TABLE>

Expiration dates ranged from May 8, 1999 to May 1, 2009 for options outstanding at March 31, 1999. Prices for options exercised during the three-year period ended March 31, 1999, ranged from \$0.01 to \$23.94. Proceeds received from exercises are credited to group equity.

Completing the acquisition of ATL included the conversion of outstanding ATL stock options into options to purchase 1.8 million shares of Quantum common stock. These options relate to Quantum's assumption of ATL's 1996 Stock Incentive Plan and 1997 Stock Incentive Plan, collectively referred to as the "ATL Plans." Under the terms of the ATL Plans, eligible key employees, directors and consultants received options to purchase shares of ATL's previously outstanding common stock at prices not less than 100% for incentive stock options and not less than 85% for nonqualified stock options of the fair value on the date of grant as determined by ATL's Board of Directors. Options under ATL Plans vest over a three year period and expire ten years after date of grant or 90 days after termination of employment. Subsequent to completing the acquisition of ATL, no additional grants may be made from the ATL Plans. See Note 5 for more information on the acquisition of ATL.

If the tracking stock proposal is approved by the stockholders and implemented by the Board, each outstanding stock option under Quantum's stock option plans will be converted into separately exercisable options to acquire one share of DLT & Storage Systems group stock and 0.5 of a share of Hard Disk Drive group stock. The exercise price for the resulting DLT & Storage Systems group stock options and Hard Disk Drive group stock options will be calculated by multiplying the exercise price under the original option from which they were converted by a fraction, the numerator of which is the opening price of DLT & Storage Systems group stock or Hard Disk Drive group stock, as the case may be, on the first date such stock are traded on Nasdaq and the denominator of which is the sum of such DLT & Storage Systems group stock and Hard Disk Drive group stock prices. This is intended to ensure that the aggregate intrinsic value of the options will be preserved, and the ratio of the exercise price per option to the market value per share will not be reduced. In addition, the vesting provision and option periods of the original grants will remain the same when converted.

Stock Purchase Plan. Quantum has an employee stock purchase plan (the "Purchase Plan") that allows for the purchase of stock at 85% of fair market value at the date of grant or the exercise date, whichever value is less. The Purchase Plan is qualified under Section 423 of the Internal Revenue Code. Of the 22.8 million

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DLT & STORAGE SYSTEMS GROUP

NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

shares authorized to be issued under the plan, 1,366,000 shares were available for issuance at March 31, 1999. Quantum's employees purchased 3,216,000 shares, 3,454,000 shares, and 2,555,000 shares under the Purchase Plan in fiscal years 1997, 1998, and 1999, respectively. The weighted average exercise price of stock purchased under the Purchase Plan was \$5.41, \$6.22 and \$9.41 in fiscal years 1997, 1998, and 1999, respectively.

If the tracking stock proposal is approved by the stockholders and implemented by the Board, the terms of the Purchase Plan will be adjusted to allow Quantum's employees to purchase one share of DLT & Storage Systems group stock and 0.5 of a share of Hard Disk Drive group stock for each share of Quantum common stock.

Other. The DLT & Storage Systems group adopted SFAS No. 123, "Accounting for Stock-Based Compensation" in fiscal year 1997. The DLT & Storage Systems group has elected to continue to account for its stock-based compensation plans under Accounting Principles Board ("APB") Opinion No. 25 and disclose the pro forma effects of the plans on net income and earnings per share as provided by SFAS No. 123. Accordingly, no compensation expense has been recognized for the stock option plans and the employee stock purchase plans as all options have been issued at fair market value. Since DLT & Storage Systems group stock was not part of the capital structure of Quantum for the periods presented, there were no stock options outstanding. Therefore, the pro forma effect of DLT & Storage Systems group stock options on the accompanying combined financial statements is not presented.



The DLT & Storage Systems group stock will represent a separate class of Quantum's stock if the tracking stock proposal is approved. Additional shares of DLT & Storage Systems group stock may be issued from time to time upon exercise of stock options or at the discretion of Quantum's Board.

Quantum has a stockholder rights plan (the "Rights Plan") that provides existing stockholders with the right to purchase 1/1000 preferred share for each common share held in the event of certain changes in Quantum's ownership. Subject to certain exceptions, if any person or group becomes the beneficial owner of 20% or more of the outstanding common stock each right will entitle its holder to purchase 1/1,000 preferred share or, under certain circumstances, shares of common stock with a market value twice the exercise price of the right. The Rights Plan may serve as a deterrent to takeover tactics that are not in the best interests of stockholders. There are 1,000,000 preferred shares reserved for issuance under the Rights Plan.

If the tracking stock proposal is approved by the stockholders and implemented by the Board, the Rights Agreement will be amended and restated (the "Restated Rights Agreement") to, among other things, (i) reflect the new equity structure of Quantum and (ii) reset the prices at which rights issued pursuant thereto may be exercised into units of Junior Preferred Stock.

If the tracking stock proposal is approved by the stockholders and implemented by the Board, as of the date on which the DLT & Storage Systems group stock and the Hard Disk Drive group stock is issued under the tracking stock proposal, the Board will by resolution (i) reduce the authorized number of shares of Series A Junior Preferred Stock to zero, (ii) designate a new series of Junior Preferred Stock as the Series B Junior Preferred Stock, (iii) designate another new series of Junior Preferred Stock as the Series C Junior Preferred Stock, (iv) exchange for each existing Right (A) one right with respect to each share of DLT & Storage Systems group stock (a "DLT & Storage Systems group right") which will entitle the holders thereof to purchase shares of Series B Junior Preferred Stock under the conditions specified in the Restated Rights Agreement, and (B) one right with respect to each share of Hard Disk Drive group stock (a "Hard Disk

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DLT & STORAGE SYSTEMS GROUP

NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

Drive group right"), which will entitle the holders thereof to purchase shares of Series C Junior Preferred Stock under the conditions specified in the Restated Rights Agreement. The DLT & Storage Systems group rights and the Hard Disk Drive group rights are herein collectively referred to as the "rights."

The rights will expire on August 4, 2008, unless earlier redeemed by Quantum or extended. The rights would be exercisable only if a person or group acquires (i) 20% or more of the then outstanding shares of DLT & Storage Systems group stock or (ii) 20% of the then outstanding shares of Hard Disk Drive group stock, or commences a tender offer that would result in such person or group beneficially owning such number of shares. In such event and subject to certain exceptions, each right would entitle the holder to purchase from Quantum (i) in the case of a DLT & Storage Systems group right, 1/1000 of a share of Series B Junior Preferred Stock (a "Series B Unit") at a purchase price to be determined by the Board, subject to adjustment or, under certain circumstances, shares of DLT & Storage Systems group stock with a market value twice the exercise price of the DLT & Storage Systems group right and (ii) in the case of a Hard Disk Drive group right, 1/1000 of a share of Series C Junior Preferred Stock (a "Series C Unit") at a purchase price to be determined by the Board, subject to adjustment or, under certain circumstances, shares of Hard Disk Drive group stock with a market value twice the exercise price of the Hard Disk Drive group right.

Note 10 Savings and Investment Plan

Substantially all of the regular domestic employees are eligible to make contributions to Quantum's 401(k) savings and investment plan. Quantum matches a percentage of the employees' contributions and may also make additional discretionary contributions to the plan. Quantum contributions were \$5 million, \$6 million and \$7 million in fiscal years 1997, 1998 and 1999, respectively.

Note 11 Income Taxes

The income tax provision consists of the following:

<TABLE>  
<CAPTION>

		Year Ended March 31,		
		1997	1998	1999
		(In thousands)		
<C>	<S>	<C>	<C>	<C>

Federal: Current.....	\$74,323	\$125,930	\$110,509
Deferred.....	(15,235)	(8,634)	5,710
	-----	-----	-----
	59,088	117,296	116,219
	-----	-----	-----
State: Current.....	15,138	28,404	27,430
Deferred.....	(2,586)	(2,705)	(2,322)
	-----	-----	-----
	12,552	25,699	25,108
	-----	-----	-----
Income tax provision.....	\$71,640	\$142,995	\$141,327
	=====	=====	=====

</TABLE>

The tax benefits associated with nonqualified stock options, disqualifying dispositions of incentive stock options, and employee stock purchase plan shares reduced taxes currently payable as shown above by \$7 million, \$14 million, and \$11 million in fiscal years 1997, 1998 and 1999, respectively. Such benefits are credited to group equity when realized.

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DLT & STORAGE SYSTEMS GROUP

NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

The DLT & Storage Systems group's income tax provision differs from the amount computed by applying the federal statutory rate or 35% to income before income taxes as follows:

<TABLE>  
<CAPTION>

	Year Ended March 31,		
	1997	1998	1999
	-----	-----	-----
	(In thousands)		
	<C>	<C>	<C>
Tax at federal statutory rate.....	\$62,685	\$128,329	\$ 92,511
State income tax, net of federal benefit.....	8,159	16,705	16,320
Research and development credit.....	--	(1,690)	(634)
Acquired ATL in-process research and development.....	--	--	31,150
Other items.....	796	(349)	1,980
	-----	-----	-----
	\$71,640	\$142,995	\$141,327
	=====	=====	=====

</TABLE>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of deferred tax assets and liabilities are as follows:

<TABLE>  
<CAPTION>

	Year Ended March 31,	
	1998	1999
	-----	-----
	(In thousands)	
	<C>	<C>
Deferred tax assets:		
Inventory valuation methods.....	\$ 17,796	\$ 16,093
Accrued warranty expense.....	15,008	5,289
Allowance for doubtful accounts.....	1,165	946
Distribution reserves.....	615	3,578
Other accruals and reserves not currently deductible for tax purposes.....	9,890	10,527
Depreciation methods.....	193	5,730
Amortization methods.....	1,891	1,241
	-----	-----
	46,588	43,404
	-----	-----
Acquired ATL intangibles.....	--	(33,602)
Other.....	(2,884)	(1,563)
	-----	-----
Deferred tax liabilities.....	(2,884)	(35,165)
	-----	-----
Net deferred tax asset.....	\$ 43,674	\$ 8,239
	=====	=====

</TABLE>

Quantum's federal income tax returns have been examined by the Internal Revenue Service (IRS) for all years through 1993. All issues have been resolved with no material effect, and the IRS has closed those years. Quantum's federal income tax returns for the years 1995-1996 are presently under examination by the IRS. Management believes sufficient accruals have been provided in prior years for any adjustments that may result for the years under examination.

Note 12 Commitments

Quantum leases certain facilities for the DLT & Storage Systems group's use under non-cancelable operating lease agreements for periods of up to 15 years. Some of the leases have renewal options ranging from one to ten years and contain provisions for maintenance, taxes, or insurance.

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DLT & STORAGE SYSTEMS GROUP

NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

The DLT & Storage Systems group's rent expense was \$5 million, \$6 million, and \$10 million for the fiscal years ended March 31, 1997, 1998, and 1999, respectively.

Future minimum lease payments under operating leases are as follows:

<TABLE>  
<CAPTION>

Year ended March 31, <S>	(In thousands) <C>
2000.....	\$ 5,360
2001.....	4,936
2002.....	5,470
2003.....	4,708
2004.....	4,003
Thereafter.....	16,081
	-----
Total future minimum lease payments.....	\$40,558
	=====

</TABLE>

Note 13 Business and Geographic Information

One customer accounted for 10% or more of combined revenue in fiscal years 1997, 1998 and 1999. Revenue from this customer represented \$253 million, \$433 million and \$329 million of the DLT & Storage Systems group's combined revenue in the respective periods. Another customer accounted for 10% or more of combined revenue in fiscal years 1997, 1998 and 1999. Revenue from this customer represented \$100 million, \$133 million and \$171 million of the DLT & Storage Systems group's combined revenue in the respective periods.

Product Information

Revenue is composed of the following:

<TABLE>  
<CAPTION>

	Year Ended March 31,		
	1997	1998	1999
	-----		
	(In millions)		
<S>	<C>	<C>	<C>
DLTtape drives.....	\$392	\$ 784	\$ 872
DLTtape media cartridge products.....	221	284	195
DLTtape media cartridge royalties.....	8	27	122
Tape libraries and service.....	96	87	148
Solid state storage systems.....	11	8	6
Intra-group elimination.....	--	--	(40)
	-----	-----	-----
Total.....	\$728	\$1,190	\$1,303
	====	=====	=====

</TABLE>

Geographic Information

Revenue and long-lived assets by region are as follows (revenue is attributed to regions based on the location of customers):

<TABLE>  
<CAPTION>

	Year Ended March 31,		
	1997	1998	1999
	-----		

	Long-Lived		Long-Lived		Long-lived	
	Revenue	Assets	Revenue	Assets	Revenue	assets
(In millions)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
United States.....	\$554	\$45	\$ 934	\$71	\$ 922	\$291
United Kingdom.....	74	--	149	--	188	--
Rest of Europe.....	87	--	83	--	134	1
Asia Pacific.....	13	1	24	1	59	1
	----	----	-----	----	-----	----
Total.....	\$728	\$46	\$1,190	\$72	\$1,303	\$293
	=====	=====	=====	=====	=====	=====

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DLT & STORAGE SYSTEMS GROUP

NOTES TO COMBINED FINANCIAL STATEMENTS-- (Continued)

Note 14 Unaudited Quarterly Combined Financial Data

<TABLE>  
<CAPTION>

	Fiscal Year 1999			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
(In thousands)				
<S>	<C>	<C>	<C>	<C>
Total revenue.....	\$255,702	\$290,458	\$366,495	\$390,081
Gross profit.....	113,674	131,675	161,301	173,269
Net income (loss).....	43,565	52,143	(30,584)	57,867

<CAPTION>

	Fiscal Year 1998			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
(In thousands)				
<S>	<C>	<C>	<C>	<C>
Total revenue.....	\$265,005	\$338,523	\$330,279	\$255,993
Gross profit.....	106,061	138,008	147,537	110,608
Net income.....	49,666	64,726	66,064	43,203

</TABLE>

The results of operations for the third quarter of fiscal year 1999 included the effect of an \$89 million charge related to purchased in-process research and development related to the acquisition of ATL.

The results of operations for the fourth quarter of fiscal year 1998 were impacted by the reduction in estimated bonus accrued earlier in the fiscal year.

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REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of Quantum Corporation

We have audited the accompanying combined balance sheets of the Hard Disk Drive group (as described in Note 1) of Quantum Corporation as of March 31, 1998 and 1999 and the related combined statements of operations, group equity, and cash flows for each of the three years in the period ended March 31, 1999. These financial statements are the responsibility of Quantum Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the consolidated financial statements of MKE-Quantum Components LLC ("MKQC"), a forty-nine percent equity investee of the Hard Disk Drive group, which statements reflect a net loss of \$134.8 million for the period from May 16, 1997 (inception) through March 31, 1998. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to data included for MKQC, is based solely on the report of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Hard Disk Drive group at March 31, 1998 and 1999 and the results of its operations and its cash flows for each of the three years in the period ended March 31, 1999, in conformity with generally accepted accounting principles.

As more fully described in Note 1 to these financial statements, the Hard Disk Drive group is a business group of Quantum Corporation; accordingly, the combined financial statements of the Hard Disk Drive group should be read in conjunction with the audited consolidated financial statements of Quantum Corporation.

Ernst & Young LLP

Palo Alto, California

April 26, 1999

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HARD DISK DRIVE GROUP

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

<TABLE>  
<CAPTION>

	Year Ended March 31,			<C>	<C>	<C>
	1997	1998	1999			
<S>	<C>	<C>	<C>			
Revenue.....	\$4,591,444	\$4,615,435	\$3,599,320			
Cost of revenue.....	4,093,042	4,242,128	3,307,901			
Gross profit.....	498,402	373,307	291,419			
Operating expenses:						
Research and development....	261,293	258,916	253,893			
Sales and marketing.....	125,601	121,787	114,389			
General and administrative..	75,037	67,001	55,592			
	461,931	447,704	423,874			
Income (loss) from operations.....	36,471	(74,397)	(132,455)			
Interest income and other, net.....	4,660	15,536	19,161			
Interest expense.....	(19,535)	(10,918)	(9,159)			
Loss from investee.....	--	(66,060)	(142,050)			
Income (loss) before income taxes.....	21,596	(135,839)	(264,503)			
Income tax benefit.....	(19,459)	(82,981)	(111,977)			
Net income (loss).....	\$ 41,055	\$ (52,858)	\$ (152,526)			
Pro forma net loss per share:						
Basic.....			\$ (1.90)			
Diluted.....			\$ (1.90)			
Pro forma weighted-average common shares:						
Basic.....			80,335			
Diluted.....			80,335			

</TABLE>

See accompanying notes to combined financial statements.

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HARD DISK DRIVE GROUP

COMBINED BALANCE SHEETS

(In thousands)

<TABLE>  
<CAPTION>

	March 31,			
	1998	1999		
	-----	-----		
<S>	<C>	<C>	<C>	<C>
Assets				
Current assets:				
Cash and cash equivalents.....	\$ 253,240	\$ 499,725		
Marketable securities.....	71,573	24,426		
Accounts receivable, net of allowance for doubtful accounts of \$10,342 and \$9,623 respectively.....	585,848	392,329		
Inventories.....	212,007	147,524		
Deferred taxes.....	90,162	72,107		
Other current assets.....	118,087	96,401		
	-----	-----		
Total current assets.....	1,330,917	1,232,512		
Property, plant, and equipment, less accumulated depreciation.....	227,760	198,806		
Intangible assets, less accumulated amortization.....	9,124	5,199		
Other assets.....	78,539	33,436		
	-----	-----		
	\$1,646,340	\$1,469,953		
	=====	=====		
Liabilities and Group Equity				
Current liabilities:				
Accounts payable.....	\$ 401,324	\$ 342,344		
Accrued warranty.....	40,239	38,917		
Accrued compensation.....	44,359	51,048		
Income taxes payable.....	39,777	33,411		
Current portion of long-term debt.....	312	341		
Other accrued liabilities.....	66,199	57,841		
	-----	-----		
Total current liabilities.....	592,210	523,902		
Deferred taxes.....	38,523	39,985		
Long-term debt.....	13,328	18,987		
Convertible subordinated debt.....	95,833	95,833		
Commitments and contingencies.....				
Group equity.....	906,446	791,246		
	-----	-----		
	\$1,646,340	\$1,469,953		
	=====	=====		

</TABLE>

See accompanying notes to combined financial statements.

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HARD DISK DRIVE GROUP

COMBINED STATEMENTS OF CASH FLOWS  
(In thousands)

<TABLE>  
<CAPTION>

	Year Ended March 31,				
	1997	1998	1999		
	-----	-----	-----		
<S>	<C>	<C>	<C>	<C>	<C>
Cash flows from operating activities:					
Net income (loss).....	\$ 41,055	\$ (52,858)	\$ (152,526)		
Adjustments to reconcile net income (loss) to net cash provided by operations:					
Loss from investee.....	--	66,060	124,809		
Depreciation.....	88,697	62,583	66,570		
Amortization.....	20,310	5,372	4,458		
Deferred taxes.....	26,902	5,338	19,516		
Compensation related to stock incentive plans.....	797	1,412	1,879		
Changes in assets and liabilities:					
Accounts receivable.....	(101,029)	146,961	193,519		
Inventories.....	203,831	(6,402)	64,483		
Accounts payable.....	(20,361)	(52,963)	(58,980)		
Income taxes payable.....	(9,841)	8,624	(6,367)		
Accrued warranty.....	17,560	(25,648)	(1,322)		
Other assets and liabilities.....	(47,724)	(76,785)	(9,255)		

Net cash provided by operating activities.....	220,197	81,694	246,784
Cash flows from investing activities:			
Purchases of marketable securities.....	--	(71,573)	(78,145)
Maturities of marketable securities.....	--	--	125,292
Purchases of equity securities/minority interest.....	(3,400)	--	--
Acquisition of intangible assets.....	--	(9,850)	--
Proceeds from sale of interest in recording heads operations.....	--	94,000	--
Investment in property and equipment.....	(163,534)	(119,066)	(82,486)
Proceeds from disposition of property and equipment.....	9,665	5,962	140
Proceeds from repayment of note receivable...	--	18,000	--
Net cash used in investing activities.....	(157,269)	(82,527)	(35,199)
Cash flows from financing activities:			
Proceeds from long-term credit facilities....	110,030	--	8,333
Inter-group proceeds for common stock issued.....	--	--	15,118
Proceeds from mortgage loan.....	14,035	--	--
Principal payments on long-term credit facilities.....	(126,113)	(60,326)	(2,645)
Proceeds from issuance of common stock.....	15,087	16,787	14,094
Proceeds from issuance of convertible subordinated notes.....	--	95,833	--
Net cash provided by financing activities.....	13,039	52,294	34,900
Increase in cash and cash equivalents.....	75,967	51,461	246,485
Cash and cash equivalents at beginning of period.....	125,812	201,779	253,240
Cash and cash equivalents at end of period....	\$ 201,779	\$ 253,240	\$ 499,725
Supplemental disclosure of cash flow information:			
Conversion of debentures to common stock.....	\$ 132,893	\$ 80,450	--
Note received on disposition of property and equipment.....	\$ 18,000	--	--
Issuance of redeemable preferred stock as part of minority interest acquisition.....	\$ 1,296	--	--
Conversion of redeemable preferred stock to common stock.....	--	\$ 1,296	--
Cash paid during the year for:			
Interest.....	\$ 21,318	\$ 9,677	\$ 8,908
Income taxes.....	\$ 7,621	\$ 17,868	\$ 21,864

</TABLE>

See accompanying notes to combined financial statements.

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HARD DISK DRIVE GROUP

COMBINED STATEMENTS OF GROUP EQUITY  
(In thousands)

<TABLE>  
<CAPTION>

	Other	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Group Equity
<S>	<C>	<C>	<C>	<C>
Balances at March 31, 1996.....	\$ 419,423	\$ 242,997	\$ --	\$ 662,420
Net income.....	--	41,055	--	41,055
Conversion of subordinated debentures.....	131,264	--	--	131,264
Shares issued under employee stock purchase plan.....	5,801	--	--	5,801
Shares issued under employee stock				

option plans, net.....	9,286	--	--	9,286
Compensation expense and other....	1,766	--	--	1,766
Tax benefits related to stock option plans.....	3,677	--	--	3,677
	-----		-----	-----
Balances at March 31, 1997.....	571,217	284,052	--	855,269
Comprehensive loss:				
Net loss.....	--	(52,858)	--	(52,858)
Other comprehensive loss--foreign currency translation adjustments.....	--	--	(1,462)	(1,462)
				-----
Comprehensive loss.....	--	--	--	(54,320)
Conversion of subordinated debentures.....	78,907	--	--	78,907
Conversion of Series B preferred shares.....	1,296	--	--	1,296
Shares issued under employee stock purchase plan.....	7,159	--	--	7,159
Shares issued under employee stock option plans, net.....	9,628	--	--	9,628
Compensation expense and other....	1,412	--	--	1,412
Tax benefits related to stock option plans.....	7,095	--	--	7,095
	-----		-----	-----
Balances at March 31, 1998.....	676,714	231,194	(1,462)	906,446
Comprehensive loss:				
Net loss.....	--	(152,526)	--	(152,526)
Other comprehensive income-- foreign currency translation adjustments.....	--	--	612	612
				-----
Comprehensive loss.....	--	--	--	(151,914)
Shares issued under employee stock purchase plan.....	8,013	--	--	8,013
Shares issued under employee stock option plans, net.....	6,081	--	--	6,081
New shares issued for ATL acquisition.....	7,662	--	--	7,662
Conversion of ATL stock options...	7,456	--	--	7,456
Compensation expense and other....	1,879	--	--	1,879
Tax benefits related to stock option plans.....	5,623	--	--	5,623
	-----		-----	-----
Balances at March 31, 1999.....	\$713,428	\$ 78,668	\$ (850)	\$ 791,246
	=====	=====	=====	=====

</TABLE>

See accompanying notes to combined financial statements.

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#### HARD DISK DRIVE GROUP

#### NOTES TO COMBINED FINANCIAL STATEMENTS

The accompanying combined financial statements should be read in conjunction with the consolidated financial statements of Quantum Corporation ("Quantum").

#### Note 1 Summary of Significant Accounting Policies

Nature of Business. Quantum operates its business through two separate groups: the Hard Disk Drive group and the DLT & Storage Systems group as described below. The Hard Disk Drive group and the DLT & Storage Systems group are referred to as the "groups."

The Hard Disk Drive group designs desktop hard disk drives to meet the storage requirements of entry-level to high-end desktop PCs in home and business environments. The Hard Disk Drive group also designs high-end hard disk drives for the demanding storage needs of network servers, workstations and storage sub-systems.

The DLT & Storage Systems group designs, develops, manufactures, licenses and markets DLTtape drives and media, tape libraries and solid state storage systems. DLTtape is the DLT & Storage Systems group's half-inch tape technology that is the de facto industry standard for data backup in the mid-range server market.

The Board of Directors (the "Board") of Quantum has recommended stockholder approval of a proposal that would create two classes of tracking stock intended to reflect separately the performance of the Hard Disk Drive group and the DLT & Storage Systems group. Under the tracking stock proposal, Quantum's Certificate of Incorporation would be amended and restated (the "Restated Certificate of Incorporation") to (i) designate a new class of Quantum Corporation--the Hard Disk Drive group Common Stock, \$.01 par value per share,



(ii) designate a new class of Quantum Corporation--DSSG Common Stock, \$.01 par value per share, and (iii) reclassify each authorized share of existing common stock, \$.01 par value per share as one-half share of Hard Disk Drive group stock and one share of DLT & Storage Systems group stock.

The combined financial statements of the groups comprise all of the accounts included in the corresponding consolidated financial statements of Quantum. The separate group combined financial statements give effect to the accounting policies that will be applicable upon implementation of the tracking stock proposal. The separate the Hard Disk Drive group and the DLT & Storage Systems group 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 the Hard Disk Drive group's financial statements, corporate assets and liabilities of Quantum and related transactions identified with the Hard Disk Drive group, including allocated portions of Quantum's debt and selling, general and administrative costs, and (iii) in the case of the DLT & Storage Systems group's financial statements, corporate assets and liabilities of Quantum and related transactions identified with the DLT & Storage Systems group, including allocated portions of Quantum's debt and selling, general and administrative costs.

Holders of the Hard Disk Drive group stock and DLT & Storage Systems group stock will be stockholders of a single company. The Hard Disk Drive group and the DLT & Storage Systems group 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 Quantum's business, assets and liabilities. The issuance of Hard Disk Drive group stock and DLT & Storage Systems group stock and the allocation of assets or liabilities and stockholders' equity between the Hard Disk Drive group and the DLT & Storage Systems group will not result in a distribution or spin-off to stockholders of any of Quantum's assets or liabilities and will not affect ownership of any of Quantum's assets or responsibility for Quantum's liabilities or those of Quantum's subsidiaries. The assets Quantum attributes to one group could be subject to the liabilities of the other group. If Quantum is unable to satisfy one group's liabilities out of the assets attributed to it, Quantum may be required to satisfy those liabilities with assets Quantum has

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QUANTUM CORPORATION--HARD DISK DRIVE GROUP

NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

attributed to the other group. Holders of Hard Disk Drive group stock and DLT & Storage Systems group stock generally will not have stockholder rights specific to their corresponding group. Instead, holders have customary rights relating to Quantum as a whole. Holders of tracking stock will not have any rights related to their corresponding group except as set forth in provisions relating to dividend rights and requirements for a mandatory dividend, redemption or conversion upon the disposition of all or substantially all of the assets of their corresponding group, or have any right to vote on matters as a separate voting group other than in limited circumstances as provided under Delaware law or by Nasdaq rules. The relative voting power of Hard Disk Drive group stock and DLT & Storage Systems group stock will fluctuate from time to time, with each share of DLT & Storage Systems group stock having one vote and each share of Hard Disk Drive group stock having a number of votes, based upon the ratio, over a specified period, of the average market values of one share of Hard Disk Drive group stock and of one share of DLT & Storage Systems group stock. This formula is intended to give each class of tracking stock a number of votes proportionate to its aggregate market capitalization at the time of any vote. Accordingly, changes in the market value of Hard Disk Drive group stock and DLT & Storage Systems group stock will affect the relative voting rights of a class of tracking stock. It is expected that initially the holders of DLT & Storage Systems group stock will have a substantial majority of the voting power of Quantum.

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 class of tracking stock relating to the other group. Any net losses of the Hard Disk Drive group or the DLT & Storage Systems group and dividends or distributions on, or repurchases of, Hard Disk Drive group stock or DLT & Storage Systems group stock, or repurchases of preferred stock at a price per share greater than par value, will reduce the funds of Quantum legally available for payment of dividends on the Hard Disk Drive group stock.

The Board may at any time, in its sole discretion and without stockholder approval, determine to convert the tracking stock related to one group into the tracking stock related to the other group at a 10% premium during the first five years following the implementation of the tracking stock proposal and without any premium thereafter. The Board may also effect such a conversion at no premium if, based on the legal opinion of Quantum's tax counsel, it is more likely than not that for United States federal income tax purposes (i) Quantum

or its stockholders are, or at any time in the future will be, subject to tax upon the issuance of shares of either Hard Disk Drive group stock or DLT & Storage Systems group stock, or (ii) either Hard Disk Drive group stock or DLT & Storage Systems group stock is not, or at any time in the future will not be, treated as stock of Quantum. In the case of certain dispositions of all or substantially all of the assets of one group, the Board may determine to convert the tracking stock of such group into the tracking stock of the other group at a 10% premium during the first five years following the implementation of the tracking stock proposal and without any premium thereafter. Any conversion at a premium would dilute the interests in Quantum of the holders of the class of tracking stock being issued in the conversion. In addition, any conversion of a class of tracking stock into another class of tracking stock would preclude holders of both classes of tracking stock from retaining their investment in a security that is intended to reflect separately the performance of the relevant group.

The Board may modify or rescind our policies with respect to the allocation of corporate overhead, taxes, debt, interest and other matters, or may adopt additional policies in its sole discretion without stockholder approval.

The Hard Disk Drive group's combined financial statements reflect the application of the management and allocation policies adopted by the Board to various corporate activities, as described below.

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#### HARD DISK DRIVE GROUP

##### NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

**Financing Activities.** Quantum manages most financial activities of the Hard Disk Drive group and the DLT & Storage Systems group on a centralized basis. Such financial activities include the investment of surplus cash, the issuance and repayment of short-term and long-term debt, the issuance and repurchase of common stock, and the issuance and repurchase of any preferred stock.

At March 31, 1999, \$115 million of Quantum's debt was allocated to the Hard Disk Drive group and \$230 million was allocated to the DLT & Storage Systems group. The Board has adopted the following financing policy that will affect the combined statements of the Hard Disk Drive group and the DLT & Storage Systems group: Quantum will allocate its debt between the groups ("pooled debt") or, if Quantum so determines, in its entirety to a particular group. Quantum will allocate preferred stock, if issued, in a similar manner.

Cash allocated to one group that is used to repay pooled debt or redeem pooled preferred stock decreases such group's allocated portion of the pooled debt or preferred stock. Cash or other property allocated to one group that is transferred to the other group, if so determined by the Board, decreases the transferring group's allocated portion of the pooled debt or preferred stock and, correspondingly, increases the recipient group's allocated portion of the pooled debt or preferred stock.

Pooled debt bears interest for group financial statement purposes at a rate equal to the weighted average interest rate of the debt calculated on a quarterly basis and applied to the average pooled debt balance during the period. Preferred stock, if issued and if pooled in a manner similar to the pooled debt, may bear dividends for group financial statement purposes at a rate based on the weighted average dividend rate of the preferred stock similarly calculated and applied. Any expense related to increases in pooled debt or preferred stock is reflected in the weighted average interest or dividend rate of such pooled debt or preferred stock as a whole.

Debt for a particular financing allocated in its entirety to one group, bears interest for group financial statement purposes at the rate determined by the Board. For preferred stock allocated in its entirety to one group the dividend cost to that group is determined in a similar manner. If the interest or dividend cost is higher than Quantum's actual cost, the other group receives a credit for an amount equal to the difference as compensation for the use of Quantum's credit capacity. Any expense related to debt or preferred stock that is allocated in its entirety to a group is allocated in whole to that group.

Cash or other property that Quantum allocated to one group that is transferred to the other group is, if so determined by the Board, accounted for either as a short-term loan or as a long-term loan. Short-term loans and, unless Quantum's board determines otherwise, long-term loans bear interest at a rate equal to the weighted average interest rate of Quantum's pooled debt. If Quantum does not have any pooled debt, the Board determines the rate of interest for such loan. The Board establishes the terms on which long-term loans between the groups is made, including interest rate if not based on Quantum's weighted average interest rate, amortization schedule, maturity and redemption terms.

Although Quantum may allocate its debt and preferred stock between groups, the debt and preferred stock remain obligations of Quantum and all stockholders of Quantum are subject to the risks associated with those obligations.

Allocation of Support Activities. The Hard Disk Drive group is charged for specifically identified costs of certain support activities based upon the Hard Disk Drive group's use of such activities. Where determinations based on use alone were not practical, other methods and criteria were used to provide a reasonable allocation of the cost of support activities attributable to the Hard Disk Drive group. Such allocated support activities included certain selling and marketing, executive management, human resources, corporate finance, legal and corporate planning costs. The total of these allocations were \$98 million, \$79 million, and \$70 million in fiscal years 1997, 1998 and 1999, respectively. It is not practicable to provide a detailed estimate of the expenses which would be recognized if the Hard Disk Drive group were a separate entity.

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#### HARD DISK DRIVE GROUP

#### NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

Allocation of Federal and State Income Taxes. The federal income taxes of Quantum and the subsidiaries which own assets allocated between the groups are determined on a consolidated basis. Consolidated federal income tax provisions and related tax payments or refunds are allocated between the groups based principally on the taxable income and tax credits directly attributable to each group, as if each group were a stand-alone entity. Such allocations reflect each group's contribution (whether positive or negative) to Quantum's consolidated federal taxable income and the consolidated federal tax liability and tax credit position. Tax benefits that cannot be used by the group generating those benefits but can be used on a consolidated basis are credited to the group that generated such benefits. Accordingly, the amounts of taxes payable or refundable allocated to each group may not necessarily be the same as that which would have been payable or refundable had each group filed a separate income tax return.

Depending on the tax laws of the respective jurisdictions, state and local income taxes are calculated on either a consolidated or combined basis or on a separate corporation basis. State income tax provisions and related tax payments or refunds are allocated between the groups based on their respective contributions to such consolidated or combined state taxable incomes. State and local income tax provisions and related tax payments which are determined on a separate corporation basis are allocated between the groups in a manner designed to reflect the respective contributions of the groups to the corporation's separate state or local taxable income.

The discussion of the Hard Disk Drive group's income tax provision (Note 12) should be read in conjunction with Quantum's consolidated financial statements and notes thereto.

Use of Estimates. The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from the estimates and assumptions used in preparing the combined financial statements.

Revenue Recognition. Revenue from sales of products is recognized on shipment to customers, with provision made for estimated returns.

Foreign Currency Translation and Transactions. Assets, liabilities, and operations of foreign offices and subsidiaries are recorded based on the functional currency of the entity. For a majority of the Hard Disk Drive group's material foreign operations, the functional currency is the U.S. Dollar. The assets and liabilities of foreign offices with a local functional currency are translated at current exchange rates from the local currency to the reporting currency, the U.S. Dollar. The resulting gains or losses are reported as a component of group equity. Although close to half of the Hard Disk Drive group's sales are made to customers in non-U.S. locations and all of the Hard Disk Drive group's hard disk drive products are manufactured in Japan, Singapore and Ireland by Matsushita-Kotobuki Electronics Industries, Ltd. ("MKE"), a majority of the Hard Disk Drive group's material transactions are denominated in U.S. dollars, including the purchase by the Hard Disk Drive group of hard disk drives manufactured by MKE in U.S. dollars. Accordingly, transaction gains or losses have been immaterial to the financial statements for all years presented. The effect of foreign currency exchange rate fluctuations on cash was also immaterial for the years presented. Assets and liabilities denominated in other than the functional currency are remeasured each month with the remeasurement gain or loss recorded in other income.

Foreign Exchange Contracts. The effect of foreign currency rate changes on the remeasurement of certain assets and liabilities denominated in a foreign currency are managed using foreign currency forward exchange contracts. Foreign currency forward exchange contracts represent agreements to exchange the currency of one country for the currency of another country at an agreed-upon

price, on an agreed-upon settlement date. Foreign currency forward exchange contracts are accounted for by the fair value method. Foreign currency forward exchange contracts are carried on the balance sheet at fair value, with changes in that value recognized in other income.

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HARD DISK DRIVE GROUP

NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

Net Income (Loss) Per Share. Historical income (loss) per share is omitted from the statements of operations because the Hard Disk Drive group stock was not part of the capital structure of Quantum for the periods presented. Following the implementation of the tracking stock proposal, the method of calculating income per share for the Hard Disk Drive group stock will reflect the terms of the Restated Certificate of Incorporation and will be computed by dividing the net income of the Hard Disk Drive group by the weighted-average number of shares of Hard Disk Drive group stock outstanding during the applicable period. The effects of assuming issuance of Hard Disk Drive group stock on a pro forma basis under existing long-term incentive, stock option, and stock purchase plans will be anti-dilutive. Pro forma loss per share, reflecting the Hard Disk Drive group stock to be issued under the tracking stock proposal, is presented in the Hard Disk Drive group's statements of operations.

Cash Equivalents and Marketable Securities. Highly liquid debt instruments with a maturity of 90 days or less at the time of purchase are considered to be cash equivalents. Cash equivalents are carried at fair value, which approximates cost. Marketable securities have maturities of more than 90 days at the time of purchase. Cash equivalents and marketable securities have been classified as available-for-sale. Securities classified as available-for-sale are carried at fair value with material unrealized gains and losses reported in Group equity. The cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest income. Realized gains and losses and declines in value judged to be other-than-temporary are recorded in other income or expense. The cost of securities sold is based on the specific identification method.

Concentration of Credit Risk. Quantum performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from its customers. Reserves are maintained for potential credit losses and such losses have historically been within management's expectations.

Quantum invests its excess cash in deposits with major banks and in money market funds and short-term debt securities of companies with strong credit ratings from a variety of industries. These securities generally mature within 365 days and, therefore, bear minimal risk. Quantum has not experienced any material losses on its investments. Quantum, by corporate policy, limits the amount of credit exposure to any one issuer and to any one type of investment.

Investments in Joint Ventures and Other Entities. Investments in joint ventures and other entities are recorded in other assets. Investments in joint ventures are accounted for by the equity method. Dividends are recorded as a reduction of the carrying value of the investment when received.

Investments in other entities (less-than-20-percent-owned companies) that are not represented by marketable securities are carried at cost less write-downs for declines in value that are judged to be other-than-temporary. These valuation losses are recorded in other income when identified. Dividends are recorded in other income when received.

Inventories. Inventories are carried at the lower of cost or market. Cost is determined on a first-in, first-out basis.

Property, Plant, and Equipment. Property, plant, and equipment are carried at cost, less accumulated depreciation and amortization computed on a straight-line basis over the lesser of the estimated useful lives of the assets (generally three to ten years for machinery, equipment, furniture, and leasehold improvements; and twenty-five years for buildings) or the lease term.

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HARD DISK DRIVE GROUP

NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

Acquired Intangibles. Acquired intangible assets are being amortized over their estimated useful lives, which range from three to five years. The accumulated amortization at March 31, 1998 and 1999 was \$6 million and \$5 million, respectively. Intangible assets are reviewed for impairment whenever events or circumstances indicate impairment might exist, or at least annually.

Warranty Expense. The Hard Disk Drive group generally warrants its products

against defects for a period of one to five years. A provision for estimated future costs relating to warranty expense is recorded when products are shipped and revenue recognized.

Advertising Expense. The Hard Disk Drive group accrues for co-operative advertising as the related revenue is earned, and other advertising expense is recorded as incurred. Advertising expense for the years ended March 31, 1997, 1998 and 1999, was \$24 million, \$26 million, and \$20 million, respectively.

Stock-Based Compensation. The Hard Disk Drive group accounts for its stock-based employee compensation plans in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations ("APB Opinion No. 25").

Risks and Uncertainties. The Hard Disk Drive group's business entails a number of risks. As is typical in the information storage industry, a significant portion of the Hard Disk Drive group's customer base is concentrated with a small number of OEMs, and the Hard Disk Drive group is not able to predict whether there will be any significant change in the demand for its customers' products. The loss of any one of the Hard Disk Drive group's more significant customers could have a material adverse effect on the Hard Disk Drive group's results of operations. A limited number of hard disk drive storage products make up a significant majority of the Hard Disk Drive group's sales, and due to increasingly rapid technological change in the industry, the Hard Disk Drive group's future depends on its ability to develop and successfully introduce new products. The Hard Disk Drive group utilizes a third party, MKE, to manufacture all of the products it sells. The Hard Disk Drive group relies on MKE's ability to bring new products rapidly to volume production and to meet stringent quality standards. MKE manufactures the Hard Disk Drive group's drives in Japan, Singapore, and Ireland. If MKE were unable to satisfy the Hard Disk Drive group's production requirements, the Hard Disk Drive group would not have an alternative source to meet the demand for its products without substantial delay and disruption to its operations.

Comprehensive Income. In June 1997, the FASB released Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." SFAS 130 establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements and has been implemented by the Hard Disk Drive group.

Segment Information. In June 1997, The FASB released Statement of Financial Accounting Standards No. 131, "Disclosure about Segments of an Enterprise and Related Information." SFAS 131 changes the way companies report selected segment information in annual financial statements and also requires companies to report selected segment information in interim financial reports to stockholders. SFAS 131 has been implemented by the Hard Disk Drive group.

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HARD DISK DRIVE GROUP

NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

Note 2 Financial Instruments

Quantum's cash and cash equivalents, including certain available-for-sale securities, are allocated between the Hard Disk Drive group and the DLT & Storage Systems group. However, marketable securities have been allocated to the Hard Disk Drive group.

Available-For-Sale Securities

The following is a summary of Quantum's consolidated available-for-sale securities, all of which are classified as cash equivalents and marketable securities:

<TABLE>  
<CAPTION>

	March 31, 1998		March 31, 1999	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
<S>	<C>	<C>	<C>	<C>
Certificates of deposit.....	\$ 411,700	\$411,700	\$499,400	\$499,400
Money market funds.....	--	--	125,200	125,200
Corporate commercial paper and bank notes...	103,346	103,339	58,484	58,486
U.S. Treasury securities and obligations of U.S. government agencies....	165,364	165,360	100,589	100,589
Other.....	4,613	4,613	5,121	5,121
	-----	-----	-----	-----

	\$ 685,023	\$685,012	\$788,794	\$788,796
	=====	=====	=====	=====
Included in cash and cash equivalents.....	\$ 613,450	\$613,450	\$764,368	\$764,368
Included in marketable securities.....	71,573	71,562	24,426	24,428
	-----	-----	-----	-----
	\$ 685,023	\$685,012	\$788,794	\$788,796
	=====	=====	=====	=====

</TABLE>

The difference between the amortized cost of available-for-sale securities and fair value was immaterial at March 31, 1998 and 1999, and therefore no gross unrealized gains or losses were recorded in Quantum's stockholders' equity. The estimated fair value of available-for-sale securities is based on market quotations. There were no sales of available-for-sale securities in fiscal years 1998 or 1999. At March 31, 1999, the average available-for-sale portfolio duration was approximately 20 days, and no security had a maturity longer than one year.

#### Derivative Financial Instruments

Foreign Exchange--Asset and Liability Management. During the periods covered by the financial statements, Quantum utilized foreign currency forward exchange contracts to manage the effects of foreign currency remeasurement arising from certain assets and liabilities denominated in a foreign currency. The gains and losses from market rate changes on these contracts, which are intended to offset the losses and gains on certain foreign currency denominated assets and liabilities, are recorded monthly in other income.

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#### HARD DISK DRIVE GROUP

#### NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

The following is a summary of foreign currency forward contracts held for asset and liability management purposes:

<TABLE>

<CAPTION>

	March 31,	
	1998	1999
	-----	-----
	(In millions, except for forward rates)	
<S>	<C>	<C>
Currency to be sold.....	Yen	Yen
Maturity dates.....	April-May 1998	April-May 1999
Foreign currency notional amount.....	1,600 yen	2,900 yen
Weighted average forward rate.....	132.23	119.06
U.S. dollar notional amount.....	\$12.1	\$24.4
U.S. dollar equivalent.....	\$12.3	\$24.5
Fair value.....	\$(0.2)	\$(0.1)

<CAPTION>

	March 31,	
	1998	1999
	-----	-----
	(In millions, except for forward rates)	
<S>	<C>	<C>
Currency to be purchased.....	Swiss Franc	Swiss Franc
Maturity dates.....	April 1998	April 1999
Foreign currency notional amount.....	26.5 Swiss Francs	22.0 Swiss Francs
Weighted average forward rate.....	1.51	1.49
U.S. dollar notional amount.....	\$17.5	\$14.8
U.S. dollar equivalent.....	\$17.4	\$14.8
Fair value.....	\$(0.1)	\$ --

</TABLE>

The fair values for foreign currency forward contracts represent the difference between the contracted forward rate and the quoted fair value of the underlying Yen or Swiss Francs at the balance sheet dates. Quantum generally does not require collateral from the counterparties to foreign currency forward contracts.

#### Carrying Amount and Fair Values of Financial Instruments

The estimated fair value of Quantum's borrowings (pooled debt) are summarized as follows:

<TABLE>

<CAPTION>

		March 31,			
		1998		1999	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(In millions)			
<S>	<C>	<C>	<C>	<C>	<C>
Convertible subordinated debt.....		\$287.5	\$281.8	\$287.5	\$254.6
Revolving credit line...		--	--	18.0	18.0
Mortgage loan.....		40.9	41.8	40.0	40.8

</TABLE>

The fair values for the convertible subordinated debt were based on the quoted market price at the balance sheet dates. Fair value for the revolving credit agreement approximated its carrying amount, since interest rates on these borrowings are adjusted periodically to reflect market interest rates. The fair values of the mortgage loan were based on the estimated present value of the remaining payments, utilizing risk-adjusted market interest rates of similar instruments at the balance sheet dates.

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HARD DISK DRIVE GROUP

NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

Note 3 Inventories

Inventories consisted of:

<TABLE>  
<CAPTION>

		March 31,	
		1998	1999
		(In thousands)	
<S>	<C>	<C>	<C>
Materials and purchased parts.....		\$ 2,316	\$ 2,204
Work in process.....		14,616	5,377
Finished goods.....		195,075	139,943
		\$212,007	\$147,524

</TABLE>

In fiscal year 1998, the Hard Disk Drive group recorded a \$103 million charge to cost of revenue related to the transition to a new generation of its high-end disk drive products, primarily for inventory write-offs and adjustments and losses related to firm inventory purchase commitments.

Note 4 Property, Plant and Equipment

Property, plant, and equipment consisted of:

<TABLE>  
<CAPTION>

		March 31,	
		1998	1999
		(In thousands)	
<S>	<C>	<C>	<C>
Machinery and equipment.....		\$ 271,318	\$ 282,872
Furniture and fixtures.....		27,219	25,774
Buildings and leasehold improvements.....		116,327	123,319
Land.....		4,628	3,828
		419,492	435,793
Less accumulated depreciation and amortization.....		(191,732)	(236,987)
		\$ 227,760	\$ 198,806

</TABLE>

Note 5 Loss from Investee

On May 16, 1997, the Hard Disk Drive group sold a controlling interest in its recording heads operations to MKE, thereby forming a recording heads joint venture with MKE, MKE-Quantum Components LLC ("MKQC"). The operations were involved in the research, development, and manufacture of MR recording heads

used in the Hard Disk Drive group's hard disk drive products manufactured by MKE.

The Hard Disk Drive group contributed recording heads assets and operations, and leased certain premises to MKQC. The recording heads assets that Quantum contributed to MKQC consisted of inventory, equipment, accounts receivable, and intangibles, which aggregated \$211 million. MKQC assumed \$51 million of debt payable to Quantum and assumed \$24 million of third-party liabilities. MKE paid Quantum \$94 million and contributed \$110 million to MKQC in exchange for a 51% majority ownership interest in MKQC. Quantum retained a 49% minority ownership interest in MKQC. Quantum employees who were involved in the recording heads operations became employees of MKQC.

MKE and Quantum shared pro rata in MKQC's results of operations and agreed to share pro rata in any capital funding requirements.

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HARD DISK DRIVE GROUP

NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

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

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

Summarized Financial Information

The following is summarized financial information for MKQC:

<TABLE>  
<CAPTION>

	Period from May 16, 1997, to March 31, 1998 ----- (In thousands)
<S>	<C>
Revenue.....	\$ 165,775
Gross profit (loss).....	(43,677)
Loss from operations.....	(131,693)
Net loss.....	(134,816)
<CAPTION>	March 31, 1998 -----
<S>	<C>
Current assets.....	\$ 49,520
Noncurrent assets.....	213,230
Current liabilities.....	94,707
Note payable to Quantum.....	50,823
Other noncurrent liabilities.....	14,964

</TABLE>

On October 28, 1998, Quantum and MKE agreed to dissolve MKQC because MKQC had not been able to produce MR recording heads on a cost-effective basis. In connection with the dissolution, MKE has taken control and ownership of MKQC's manufacturing operations in Batam, Indonesia; MKQC's domestic operations have ceased; and its domestic assets are in liquidation. In the third quarter of fiscal year 1999, the Hard Disk Drive group recorded a \$101 million loss from investee which includes a write-off of the Hard Disk Drive group's investment in MKQC; a write-down of the Hard Disk Drive group's interest in facilities in Louisville, Colorado, and Shrewsbury, Massachusetts that were occupied by MKQC; warranty costs resulting from MR recording heads manufactured by MKQC; and the Hard Disk Drive group's 49% pro rata share in funding MKQC's repayment of its obligations, primarily bank debt, accounts payable, and other liabilities through June 1999 when the liquidation of MKQC is expected to be completed.

MKQC's unaudited net loss for the six months ended September 27, 1998 was \$84 million on revenue of \$62 million. The Hard Disk Drive group's 49% interest in the net loss was \$41 million.

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HARD DISK DRIVE GROUP

NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)



Quantum's debt includes the following:

<TABLE>  
<CAPTION>

	March 31,	
	1998	1999
	(In thousands)	
<S>	<C>	<C>
7% convertible subordinated notes.....	\$287,500	\$287,500
Revolving credit line, 6.0% average rate, payable through June 2000.....	--	18,000
Mortgage.....	40,920	39,985
	-----	-----
	328,420	345,485
	-----	-----
Less short-term portion of debt.....	935	1,024
	-----	-----
Total long-term debt and convertible subordinated debt.....	\$327,485	\$344,461
	=====	=====
The Hard Disk Drive group's portion of Quantum debt:		
Short-term debt.....	\$ 312	\$ 341
Long-term debt and convertible subordinated debt, excluding current portion.....	109,161	114,820
	-----	-----
The Hard Disk Drive group total debt.....	\$109,473	\$115,161
	=====	=====
The DLT & Storage Systems group's portion of Quantum debt:		
Short-term debt.....	\$ 623	\$ 683
Long-term debt and convertible subordinated debt, excluding current portion.....	218,324	229,641
	-----	-----
The DLT & Storage Systems group total debt.....	\$218,947	\$230,324
	=====	=====
Weighted average interest rate on Quantum's debt at period-end.....	7.39%	7.31%

</TABLE>

In June 1997, Quantum entered into an unsecured senior credit facility that provides a \$500 million revolving credit line and expires in June 2000. At the option of Quantum, borrowings under the revolving credit line bear interest at either LIBOR plus a margin determined by a total funded debt ratio, or a base rate, with option periods of one to six months. As of March 31, 1998 and March 31, 1999, there was no outstanding balance drawn on this line.

In July 1997, Quantum issued \$288 million of 7% convertible subordinated notes. The notes mature on August 1, 2004, and are convertible at the option of the holder at any time prior to maturity, unless previously redeemed, into shares of Quantum's common stock at a conversion price of \$46.325 per share. The notes are redeemable at Quantum's option on or after August 1, 1999, and prior to August 1, 2001, under certain conditions related to the price of Quantum's common stock. Subsequent to August 1, 2001, the notes are redeemable at Quantum's option at any time. In the event of certain changes involving all or substantially all of Quantum's common stock, the notes would become redeemable at the option of the holder. Redemption prices range from 107% of the principal to 100% at maturity. The notes are unsecured obligations subordinated in right of payment to all existing and future senior indebtedness of Quantum.

If the Tracking Stock Proposal is implemented, each of the 7% subordinated notes, which currently are convertible into shares of Quantum Common Stock, will become convertible into a number of shares of Hard Disk Drive group stock and a number of shares of DLT & Storage Systems group stock equal to the numbers

of such shares which the holder of such note would receive under the tracking stock proposal had such note been converted immediately prior to the implementation of the tracking stock proposal. The notes will not be separately convertible into solely DLT & Storage Systems group stock or solely Hard Disk Drive group stock. The exercise price and maturity date of each convertible note will not be affected by the implementation of the tracking stock proposal.

In September 1996, Quantum entered into a \$42 million mortgage related to certain domestic facilities at an effective interest rate of approximately

10.1%. The term of the mortgage is 10 years, with monthly payments based on a 20-year amortization period, and a balloon payment at the end of the 10-year term. The debt is secured by specified real estate.

Payments required on Quantum's long-term debt outstanding at March 31, 1999, are \$1.0 million in fiscal year 2000, \$1.1 million in fiscal year 2001, \$1.2 million in fiscal year 2002, \$1.3 million in fiscal year 2003 and \$1.5 million in fiscal year 2004.

Note 7 Redeemable Preferred Stock

In fiscal year 1998, the holder of the 90,000 shares of Redeemable Convertible Participating Series B Preferred Stock exercised its right to convert the shares to Quantum common stock. Quantum issued 180,000 shares of Quantum common stock pursuant to the conversion.

Note 8 Stock Incentive Plans

Long-Term Incentive Plan. Quantum has a Long-Term Incentive Plan (the "Plan") that provides for the issuance of stock options, stock appreciation rights, stock purchase rights, and long-term performance awards (collectively referred to as "options") to employees, consultants, officers and affiliates of Quantum. The Plan has available and reserved for future issuance 19.2 million shares and allows for an annual increase in the number of shares available for issuance, subject to a limitation. Available for grant as of March 31, 1999, were 529,000 shares. Options under the Plan expire no later than ten years from the grant date and generally vest over four years. Restricted stock granted under the Plan generally vests over two to three years. In fiscal years 1997, 1998 and 1999, Quantum recorded compensation expense of \$1,916,000, \$3,179,000 and \$3,211,000, respectively, related to restricted stock granted pursuant to stock purchase rights under the Plan, a portion of which was allocated to the Hard Disk Drive group. The number of shares of restricted stock granted under the Plan were 354,290 shares, 65,500 shares, and 157,200 shares, in fiscal years 1997, 1998 and 1999, respectively, at an exercise price of \$.01.

If the tracking stock proposal is approved by the stockholders and implemented by the Board, each share of restricted stock currently held will be changed into one share of DLT & Storage Systems group stock and 0.5 of a share of Hard Disk Drive group stock.

Stock Option Plans. Quantum has Stock Option Plans (the "Plans") under which 5.1 million shares of Quantum common stock was reserved for future issuance at March 31, 1999 to directors of Quantum. Options under the Plans are granted at prices determined by the Board, but at not less than the fair market value, and accordingly no compensation accounting has been required at the original date of grant. Options currently expire no later than ten years from the grant date and generally vest ratably over one to four years. At March 31, 1999, options with respect to 470,000 shares of Quantum common stock were available for grant.

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HARD DISK DRIVE GROUP

NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

Stock Option Summary Information. A summary of activity relating to Quantum's Long-Term Incentive Plan and the Stock Option Plans follows:

<TABLE>  
<CAPTION>

	Year Ended March 31,					
	1997		1998		1999	
	Shares (000s)	Weighted-Avg. Exercise Price	Shares (000s)	Weighted-Avg. Exercise Price	Shares (000s)	Weighted-Avg. Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Outstanding at beginning of period.....	16,746	\$6.75	16,354	\$ 7.52	17,005	\$12.09
Granted.....	5,850	\$8.59	6,163	\$19.80	10,781	\$21.51
Canceled.....	(1,564)	\$7.94	(718)	\$14.11	(1,880)	\$22.63
Exercised.....	(4,678)	\$5.97	(4,794)	\$ 6.10	(2,530)	\$ 7.23
	-----		-----		-----	
Outstanding at end of period.....	16,354	\$7.52	17,005	\$12.09	23,376	\$14.68
	=====		=====		=====	
Exercisable at end of period.....	8,514	\$6.53	8,332	\$ 8.84	11,786	\$10.65
	=====		=====		=====	

</TABLE>

The range of exercise prices for options outstanding at March 31, 1999 was

\$2.17 to \$30.81. Quantum recorded compensation expense of \$475,000, \$1,057,000 and \$2,188,000 was recorded in fiscal years 1997, 1998 and 1999, respectively, on accelerated stock options under the Plans, a portion of such expense was allocated to the Hard Disk Drive group.

The following tables summarize information about Quantum's options outstanding at March 31, 1999:

<TABLE>  
<CAPTION>

Range of Exercise Prices	Outstanding Options		
	Shares Outstanding at March 31, 1999 (000s)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
<C>	<S>	<C>	<C>
\$ 2.17 -- \$ 8.75	7,842	6.09	\$ 6.23
\$ 8.78 -- \$19.81	7,816	7.88	\$15.37
\$20.19 -- \$30.81	7,718	9.28	\$22.56
	-----		
	23,376	7.74	\$14.68
	=====		

</TABLE>

<TABLE>  
<CAPTION>

Range of Exercise Prices	Options Exercisable	
	Shares Exercisable at March 31, 1999 (000s)	Weighted-Average Exercise Price
<C>	<S>	<C>
\$ 2.17 -- \$ 8.75	6,576	\$ 6.24
\$ 8.78 -- \$19.81	4,095	\$14.28
\$20.19 -- \$30.81	1,115	\$23.30
	-----	
	11,786	\$10.65
	=====	

</TABLE>

Expiration dates ranged from May 8, 1999 to May 1, 2009 for options outstanding at March 31, 1999. Prices for options exercised during the three-year period ended March 31, 1999, ranged from \$0.01 to \$23.94. Proceeds received from exercises are credited to group equity.

Completing the acquisition of ATL included the conversion of outstanding ATL stock options into options to purchase 1.8 million shares of Quantum common stock. These options relate to Quantum's assumption of ATL's 1996 Stock Incentive Plan and 1997 Stock Incentive Plan, collectively referred to as the "ATL Plans." Under the terms of the ATL Plans, eligible key employees, directors and consultants received options to purchase shares of ATL's previously outstanding common stock at prices not less than 100% for incentive stock options and not less than 85% for nonqualified stock options of the fair value on the date of grant as

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HARD DISK DRIVE GROUP

NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

determined by ATL's Board of Directors. Options under ATL Plans vest over a three year period and expire ten years after date of grant or 90 days after termination of employment. Subsequent to completing the acquisition of ATL, no additional grants may be made from the ATL Plans.

If the tracking stock proposal is approved by the stockholders and implemented by the Board, each outstanding stock option under Quantum's stock option plans will be converted into separately exercisable options to acquire one share of DLT & Storage Systems group stock and 0.5 of a share of Hard Disk Drive group stock. The exercise price for the resulting DLT & Storage Systems group stock options and Hard Disk Drive group stock options will be calculated by multiplying the exercise price under the original option from which they were converted by a fraction, the numerator of which is the opening price of DLT & Storage Systems group stock or Hard Disk Drive group stock, as the case may be, on the first date such stock are traded on Nasdaq and the denominator of which is the sum of such DLT & Storage Systems group stock and Hard Disk Drive group stock prices. This is intended to ensure that the aggregate intrinsic value of the options will be preserved, and the ratio of the exercise price per option to the market value per share will not be reduced. In addition, the vesting provision and option periods of the original grants will remain the same when converted.

Stock Purchase Plan. Quantum has an employee stock purchase plan (the

"Purchase Plan") that allows for the purchase of stock at 85% of fair market value at the date of grant or the exercise date, whichever value is less. The Purchase Plan is qualified under Section 423 of the Internal Revenue Code. Of the 22.8 million shares authorized to be issued under the plan, 1,366,000 shares were available for issuance at March 31, 1999. Quantum's employees purchased 3,216,000 shares, 3,454,000 shares, and 2,555,000 shares under the Purchase Plan in fiscal years 1997, 1998, and 1999, respectively. The weighted average exercise price of stock purchased under the Purchase Plan was \$5.41, \$6.22 and \$9.41 in fiscal years 1997, 1998, and 1999, respectively.

If the tracking stock proposal is approved by the stockholders and implemented by the Board, the terms of the Purchase Plan will be adjusted to allow Quantum's employees to purchase one share of DLT & Storage Systems group stock and 0.5 of a share of Hard Disk Drive group stock for each share of Quantum common stock.

Other. The Hard Disk Drive group adopted SFAS No. 123, "Accounting for Stock-Based Compensation" in fiscal year 1997. The Hard Disk Drive group has elected to continue to account for its stock-based compensation plans under Accounting Principles Board ("APB") Opinion No. 25 and disclose the pro forma effects of the plans on net income and earnings per share as provided by SFAS No. 123. Accordingly, no compensation expense has been recognized for the stock option plans and the employee stock purchase plans as all options have been issued at fair market value. Since Hard Disk Drive group stock was not part of the capital structure of Quantum for the periods presented, there were no stock options outstanding. Therefore, the pro forma effect of Hard Disk Drive group stock options on the accompanying combined financial statements is not presented.

#### Note 9 Common Stock and Stockholder Rights Plan

The Hard Disk Drive group stock will represent a separate class of Quantum's stock if the tracking stock proposal is approved. Additional shares of Hard Disk Drive group stock may be issued from time to time upon exercise of stock options or at the discretion of Quantum's Board.

Quantum has a stockholder rights plan (the "Rights Plan") that provides existing stockholders with the right to purchase 1/1000 preferred share for each common share held in the event of certain changes in Quantum's ownership. Subject to certain exceptions, if any person or group becomes the beneficial owner of 20% or more of the outstanding common stock each right will entitle its holder to purchase 1/1000 preferred share or, under certain circumstances, shares of common stock with a market value twice the exercise price of the right. The Rights Plan may serve as a deterrent to takeover tactics that are not in the best interests of stockholders.

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#### HARD DISK DRIVE GROUP

#### NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

If the tracking stock proposal is approved by the stockholders and implemented by the Board, the Rights Agreement will be amended and restated (the "Restated Rights Agreement") to, among other things, (i) reflect the new equity structure of Quantum and (ii) reset the prices at which rights issued pursuant thereto may be exercised into units of Junior Preferred Stock.

If the tracking stock proposal is approved by the stockholders and implemented by the Board, as of the date on which the DLT & Storage Systems group stock and the Hard Disk Drive group stock is issued under the tracking stock proposal, the Board will by resolution (i) reduce the authorized number of shares of Series A Junior Preferred Stock to zero, (ii) designate a new series of Junior Preferred Stock as the Series B Junior Preferred Stock, (iii) designate another new series of Junior Preferred Stock as the Series C Junior Preferred Stock, (iv) exchange for each existing Right (A) one right with respect to each share of DLT & Storage Systems group stock (a "DLT & Storage Systems group right") which will entitle the holders thereof to purchase shares of Series B Junior Preferred Stock under the conditions specified in the Restated Rights Agreement, and (B) one right with respect to each share of Hard Disk Drive group stock (a "Hard Disk Drive group right"), which will entitle the holders thereof to purchase shares of Series C Junior Preferred Stock under the conditions specified in the Restated Rights Agreement. The DLT & Storage Systems group rights and the Hard Disk Drive group rights are herein collectively referred to as the "rights."

The rights will expire on August 4, 2008, unless earlier redeemed by Quantum or extended. The rights would be exercisable only if a person or group acquires (i) 20% or more of the then outstanding shares of DLT & Storage Systems group stock or (ii) 20% of the then outstanding shares of Hard Disk Drive group stock, or commences a tender offer that would result in such person or group beneficially owning such number of shares. In such event, each Right would entitle the holder to purchase from Quantum (i) in the case of a DLT & Storage Systems group right, 1/1000 of a share of Series B Junior Preferred Stock (a

"Series B Unit") at a purchase price to be determined by the Board, subject to adjustment or, under certain circumstances, shares of DLT & Storage Systems group stock with a market value twice the exercise price of the DLT & Storage Systems group right and (ii) in the case of a Hard Disk Drive group right, 1/1000 of a share of Series C Junior Preferred Stock (a "Series C Unit") at a purchase to be determined by the Board, subject to adjustment or, under certain circumstances, shares of Hard Disk Drive group stock with a market value twice the exercise price of the Hard Disk Drive group right.

Note 10 Savings and Investment Plan

Substantially all of the regular domestic employees are eligible to make contributions to Quantum's 401(k) savings and investment plan. Quantum matches a percentage of the employees' contributions and may also make additional discretionary contributions to the plan. Quantum contributions were \$5 million, \$6 million and \$7 million, in fiscal years 1997, 1998 and 1999, respectively.

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HARD DISK DRIVE GROUP

NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

Note 11 Income Taxes

The income tax benefit consists of the following:

<TABLE>  
<CAPTION>

		Year Ended March 31,		
		1997	1998	1999
		(In thousands)		
<C>	<S>	<C>	<C>	<C>
Federal:	Current.....	\$ (60,979)	\$ (106,585)	\$ (125,940)
	Deferred.....	4,946	21,029	20,682
		(56,033)	(85,556)	(105,258)
State:	Current.....	(5,470)	(8,591)	(23,574)
	Deferred.....	4,028	(15,098)	2,344
		(1,442)	(23,689)	(21,230)
Foreign:	Current.....	20,088	26,857	18,021
	Deferred.....	17,928	(593)	(3,510)
		38,016	26,264	14,511
Income tax benefit.....		\$ (19,459)	\$ (82,981)	\$ (111,977)
		=====	=====	=====

</TABLE>

The tax benefits associated with nonqualified stock options, disqualifying dispositions of incentive stock options, and employee stock purchase plan shares increase refundable taxes as shown above by \$4 million, \$7 million, and \$6 million in fiscal years 1997, 1998 and 1999, respectively. Such benefits are credited to group equity when realized.

The Hard Disk Drive group's income tax provision differs from the amount computed by applying the federal statutory rate of 35% to income before income taxes as follows:

<TABLE>  
<CAPTION>

		Year Ended March 31,		
		1997	1998	1999
		(In thousands)		
<S>	<C>	<C>	<C>	<C>
Tax (benefit) at federal statutory rate...		\$ 7,559	\$ (47,544)	\$ (92,576)
State income tax benefit, net of federal effect.....		(937)	(15,398)	(13,800)
Research and development credit.....		--	(5,990)	(1,631)
Foreign earnings taxed at less than U.S. rates.....		(17,169)	(15,813)	(5,004)
Valuation allowance.....		(8,431)	--	--
Other items.....		(481)	1,764	1,034
		\$ (19,459)	\$ (82,981)	\$ (111,977)
		=====	=====	=====

</TABLE>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

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HARD DISK DRIVE GROUP

NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

Significant components of deferred tax assets and liabilities are as follows:

<TABLE>  
<CAPTION>

	Year Ended March 31,	
	1998	1999
	(In thousands)	
<S>	<C>	<C>
Deferred tax assets:		
Inventory valuation methods.....	\$ 39,834	\$ 23,677
Accrued warranty expense.....	18,816	18,752
Allowance for doubtful accounts.....	3,398	2,433
Distribution reserves.....	6,387	6,785
Restructuring charges.....	20,422	4,331
Other accruals and reserves not currently deductible for tax purposes.....	20,821	29,099
Depreciation methods.....	24,441	41,699
Amortization methods.....	26,037	30,207
	-----	-----
	160,156	156,983
	-----	-----
Deferred tax liabilities:		
Foreign inventory valuation methods.....	(17,322)	(13,810)
Tax on unremitted foreign earnings net of foreign tax credits and foreign deferred taxes.....	(77,180)	(97,817)
Other.....	(14,015)	(13,234)
	-----	-----
	(108,517)	(124,861)
	-----	-----
Net deferred tax asset.....	\$ 51,639	\$ 32,122
	=====	=====

</TABLE>

Pretax income from foreign operations was \$241 million, \$139 million, and \$120 million for the fiscal years ended March 31, 1997, 1998, and 1999, respectively. U.S. taxes have not been provided for unremitted foreign earnings of \$354 million. The residual U.S. tax liability, if such amounts were remitted, would be approximately \$87 million.

Quantum's federal income tax returns have been examined by the Internal Revenue Service (IRS) for all years through 1993. All issues have been resolved with no material effect, and the IRS has closed those years. Quantum's federal tax returns for the years 1994-1996 are presently under examination by the IRS. Management believes sufficient accruals have been provided in prior years for any adjustments that may result for the years under examination.

Note 12 Litigation

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

On February 25, 1997, in the Santa Clara County action, the Court sustained defendants' demurrer to most of the causes of action in the complaint, with leave to amend. At a June 12, 1997 demurrer hearing in state

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HARD DISK DRIVE GROUP

NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

court, the judge dismissed the action as to four of the individual defendants with prejudice and as to three of the individual defendants without prejudice. The demurrer as to Quantum was overruled. The Court heard oral argument on plaintiffs' motion for class certification on November 4, 1997. On March 4, 1998, the Court entered an order denying plaintiffs' motion without prejudice. Limited discovery is proceeding.

With respect to the federal action, defendants filed their motion to dismiss on April 16, 1997. On August 14, 1997, the Court granted defendants' motion to dismiss without prejudice. On September 11, 1997, plaintiff filed an amended complaint. Defendants filed a motion to dismiss the amended complaint on October 24, 1997. The hearing on defendants' motion took place on February 3, 1998. On April 16, 1998, the Court granted defendants' motion to dismiss with prejudice. On May 19, 1998, plaintiff filed a notice of appeal of the District Court's dismissal in the United States Court of Appeals for the Ninth Circuit. On September 25, 1998, plaintiff filed his opening appellate brief. Defendants filed their answering brief on November 30, 1998. Plaintiff's reply brief was filed on January 14, 1999.

Certain of Quantum's current and former officers and directors were also named as defendants in a derivative lawsuit, which was filed on November 8, 1996, in the Superior Court of Santa Clara County. The derivative complaint was based on factual allegations substantially similar to those alleged in the class-action lawsuits. Defendants' demurrer to the derivative complaint was sustained without prejudice on April 14, 1997. Plaintiffs did not file an amended complaint. On August 7, 1997, the Court issued an order of dismissal and entered final judgment dismissing the complaint.

On August 7, 1998, 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. On Quantum's motion, the suit has been moved to the Northern District of California. The plaintiff, Papst Licensing GmbH, owns at least 24 U.S. patents which it asserts that Quantum has infringed. Quantum has studied many of these patents before and, of the patents it has studied, believes that defenses of patent invalidity and non-infringement can be asserted. However, Quantum has not yet had time to make a complete study of all the patents asserted by Papst and there can be no assurance that Quantum has not infringed on these or other patents owned by Papst. The final results of this litigation, as with any litigation, are uncertain. If required, there can be no assurance that licenses to any technology owned by Papst or any other third party alleging infringement could be obtained on commercially reasonable terms if at all. Adverse resolution of the Papst litigation or any other intellectual property litigation could subject Quantum to substantial liabilities and require it to refrain from manufacturing certain products which could have a material adverse effect on Quantum's business, financial condition or results of operations. In addition, the costs of engaging in the Papst litigation or other intellectual property litigation could be substantial, regardless of the outcome.

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

Note 13 Commitments

Quantum leases certain facilities for the Hard Disk Drive group's use under non-cancelable operating lease agreements for periods of up to 15 years. Some of the leases have renewal options ranging from one to ten years and contain provisions for maintenance, taxes, or insurance.

The Hard Disk Drive group's rent expense was \$22 million, \$21 million, and \$22 million for the fiscal years ended March 31, 1997, 1998, and 1999, respectively.

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HARD DISK DRIVE GROUP

NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

Future minimum lease payments under operating leases are as follows:

<TABLE> <CAPTION>	Year ended March 31, <S>	(In thousands) <C>
	2000.....	\$ 22,337
	2001.....	21,329
	2002.....	20,197
	2003.....	20,018

2004.....	17,547
Thereafter.....	65,288
	-----
Total future minimum lease payments.....	\$166,716
	=====

</TABLE>

Note 14 Business Units and Geographic Information

The Hard Disk Drive group currently has two primary product lines, desktop hard disk drives and high-end hard disk drives. The Hard Disk Drive group has two separate business units that support these two product lines. In addition, through May 15, 1997, recording heads were manufactured by the Hard Disk Drive group and were used only in the Hard Disk Drive group hard disk drives.

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 the Hard Disk Drive group business units may become a single business unit as their markets begin to merge and be reported on a combined basis.

The Hard Disk Drive group's recording heads business through May 15, 1997 was reported in the Hard Disk Drive group's combined operations. Effective May 16, 1997, MKE acquired a 51% interest in the Hard Disk Drive group's recording heads business which became part of a joint venture with MKE. The Hard Disk Drive group accounted for its 49% interest in the joint venture using the equity method. On October 28, 1998, the joint venture was dissolved and a charge was recorded to write-off assets and recognize obligations related to the dissolution. For more information on the loss from investee see note 5 of the notes to combined financial statements.

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HARD DISK DRIVE GROUP

NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

<TABLE>

<CAPTION>

	At or For the Year Ended March 31,		
	1997	1998	1999
	-----		
	(In millions)		
<S>	<C>	<C>	<C>
Business unit:			
Desktop			
Revenue.....	\$4,005	\$3,981	\$3,079
Gross profit.....	566	453	232
Unit operating profit (loss).....	300	184	(49)
Inventory and property, plant and equipment, net of accumulated depreciation.....	259	320	294
Expenditures for long-lived assets.....	65	89	64
High-end			
Revenue.....	587	634	520
Gross profit (loss).....	(11)	(81)	59
Unit operating loss.....	(154)	(250)	(83)
Inventory and property plant and equipment, net of accumulated depreciation.....	167	120	52
Expenditures for long-lived assets.....	42	40	18
Recording heads			
Unit operating loss.....	(110)	(9)	--
Loss from investee.....	--	(66)	(142)
Inventory and property, plant and equipment, net of accumulated depreciation.....	148	--	--
Expenditures for long-lived assets.....	57	--	--

</TABLE>

<TABLE>

<CAPTION>

	Year Ended March 31,		
	1997	1998	1999
	-----		
	(In millions)		
<S>	<C>	<C>	<C>
Profit or (loss) reconciliation:			
Total unit operating profit (loss).....	\$ 36	\$ (74)	\$ (132)
Total loss from investee.....	--	(66)	(142)



Unallocated amounts:			
Interest and other income/(expense).....	(15)	4	10
	-----	-----	-----
Income (loss) before income taxes.....	\$ 21	\$ (136)	\$ (264)
	=====	=====	=====

</TABLE>

<TABLE>  
<CAPTION>

	March 31,		
	-----		
	1998	1999	
	-----		
	(In millions)		
<S>	<C>	<C>	<C>
Assets reconciliation:			
Total unit inventory and property, plant and equipment, net of accumulated depreciation.....	\$ 440	\$ 346	
Cash and cash equivalents.....	253	500	
Marketable securities.....	72	24	
Accounts receivable, net of allowance for doubtful accounts.....	586	392	
Deferred taxes.....	90	72	
Other current assets.....	118	97	
Intangible assets, less accumulated amortization.....	9	5	
Other assets.....	78	34	
	-----	-----	
Total combined assets.....	\$1,646	\$1,470	
	=====	=====	

</TABLE>

Recording heads produced by the recording heads business were transferred to MKE and used in the manufacture of hard disk drives for the Hard Disk Drive group. The value at which the recording heads were transferred was recorded as an offset to cost of sales by the Hard Disk Drive group.

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HARD DISK DRIVE GROUP

NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

Property plant and equipment, net of accumulated depreciation, included equipment related to research and development, testing and configuration of hard disk drives, logistics, customer service, and administration. Cash and cash equivalents, marketable securities, accounts receivable, deferred taxes, other current assets, intangible assets and other assets were not allocated to the business units.

Geographic Information

Revenue and long-lived assets by region are as follows (revenue is attributed to regions based on the location of customers):

<TABLE>  
<CAPTION>

	Year Ended March 31,					
	-----		-----		-----	
	1997		1998		1999	
	-----		-----		-----	
	Long-Lived		Long-Lived		Long-Lived	
	Revenue	Assets	Revenue	Assets	Revenue	Assets
	-----		-----		-----	
	(In millions)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
United States...	\$1,959	\$329	\$2,114	\$200	\$1,630	\$166
Europe.....	1,459	13	1,457	13	993	11
Asia Pacific...	1,069	61	969	24	871	27
Latin America...	104	--	75	--	105	--
	-----	-----	-----	-----	-----	-----
Total.....	\$4,591	\$403	\$4,615	\$237	\$3,599	\$204
	=====	=====	=====	=====	=====	=====

</TABLE>

One customer accounted for 10% or more of combined revenue in fiscal years 1997, 1998 and 1999. Revenue from this customer represented \$552 million, \$552 million and \$375 million of the Hard Disk Drive group's combined revenue in the respective periods. Another customer accounted for 10% or more of combined revenue in fiscal years 1998 and 1999. Revenue from this customer represented \$626 million and \$506 million of the Hard Disk Drive group's combined revenue in the respective periods.

<TABLE>  
<CAPTION>

Fiscal Year 1999				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(In thousands)			
<S>	<C>	<C>	<C>	<C>
Total revenue.....	\$ 847,321	\$ 874,253	\$ 959,086	\$ 918,660
Gross profit.....	52,699	60,214	77,788	100,718
Net loss.....	(40,554)	(34,878)	(75,968)	(1,126)

<CAPTION>

Fiscal Year 1998				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(In thousands)			
<S>	<C>	<C>	<C>	<C>
Total revenue.....	\$1,181,139	\$1,214,968	\$1,189,602	\$1,029,726
Gross profit (loss).....	169,872	160,076	(11,864)	55,223
Net income (loss).....	46,847	39,053	(98,247)	(40,511)

</TABLE>

The results of operations for the third quarter of fiscal year 1999 included the effect of a \$101 million charge related to the dissolution of MKQC.

The results of operations for the third quarter fiscal year 1998 included the effect of a \$103 million special charge related to the Hard Disk Drive group's high-end hard disk drive products.

The results of operations for the fourth quarter of fiscal year 1998 were impacted by the reduction in estimated bonus accrued earlier in the fiscal year.

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ANNEX I

RESTATED CERTIFICATE OF INCORPORATION

OF

QUANTUM CORPORATION

(Originally Incorporated January 28, 1987 Under the Same Name)

ARTICLE I.

NAME

The name of the corporation is Quantum Corporation (the "Corporation").

ARTICLE II.

ADDRESS OF REGISTERED OFFICE;  
NAME OF REGISTERED AGENT

The address of the Corporation's registered office in the State of Delaware is Incorporating Services, Ltd., 410 South State Street, in the city of Dover, County of Kent, 19901. The name of its registered agent at that address is Incorporating Services, Ltd.

ARTICLE III.

PURPOSE

The nature of the business or purposes to be conducted or promoted by the Corporation is to engage in any lawful act or activity for which corporations may be organized under the Delaware General Corporation Law (the "DGCL").

ARTICLE IV.

CAPITAL STOCK

Section 1. Authorization. The total number of shares of all classes of stock which the Corporation has authority to issue is 1,620,000,000 shares, consisting of 1,000,000,000 shares of a class of common stock designated as "Quantum Corporation--DSSG Common Stock," having a par value of \$0.01 per share (the "DSSG Stock"), 600,000,000 shares of a class of common stock designated as "Quantum Corporation--Hard Disk Drive group Common Stock," having a par value of \$0.01 per share (the "HDDG Stock"), and 20,000,000 shares of preferred stock having a par value of \$0.01 per share (the "Preferred Stock"). The DSSG Stock and the HDDG Stock shall hereinafter collectively be called "Common Stock" and

either shall sometimes be called a class of Common Stock. For purposes of this Article IV, references to the "Board of Directors" shall refer to the Board of Directors of the Corporation, as established in accordance with Article VI of the Certificate of Incorporation of the Corporation, and references to "the Certificate of Incorporation" shall refer to this Restated Certificate of Incorporation as the same may be amended from time to time. Certain capitalized terms used in this Article IV, shall have the meanings set forth in Section 2.6 of this Article. For purposes of this Article IV, the DSSG Stock, when issued, shall be considered issued in respect of the DSSG Stock and the HDDG Stock, when issued, shall be considered issued in respect of the HDDG Stock. The number of authorized shares of any class or classes of capital stock of the Corporation may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the voting power of the stock of the Corporation entitled to vote generally in the election of directors.

#### Annex I-1

Upon the date on which this Restated Certificate of Incorporation shall become effective, and without any further action on the part of the Corporation or its stockholders, each share of the Corporation's common stock, par value \$0.01 per share, that is issued and outstanding shall be changed into one share of DSSG Stock and 0.5 of a share of HDDG Stock.

Section 2. Common Stock. The voting powers, preferences and relative, participating, optional or other special rights of the Common Stock, and the qualifications and restrictions thereon, shall be as follows in this Section 2.

Section 2.1 Dividends. Subject to any preferences and relative, participating, optional or other special rights of any outstanding class or series of preferred stock of the Corporation and any qualifications or restrictions on either class of Common Stock created thereby, dividends may be declared and paid upon either class of Common Stock, upon the terms with respect to each such class, and subject to the limitations provided for below in this Section 2.1, as the Board of Directors may determine.

(a) Dividends on DSSG Stock. Dividends on DSSG Stock may be declared and paid only out of the lesser of (i) the funds of the Corporation legally available therefor and (ii) the DSSG Available Dividend Amount.

(b) Dividends on HDDG Stock. Dividends on HDDG Stock may be declared and paid only out of the lesser of (i) the funds of the Corporation legally available therefor and (ii) the HDDG Available Dividend Amount.

(c) Discrimination in Dividends Between Classes of Common Stock. The Board of Directors, subject to the provisions of Sections 2.1(a) and 2.1(b), may at any time declare and pay dividends exclusively on DSSG Stock, exclusively on HDDG Stock, or on both such classes, in equal or unequal amounts, notwithstanding the relative amounts of the Available Dividend Amount with respect to either Group, the amount of dividends previously declared on either class, the respective voting or liquidation rights of either class or any other factor.

(d) Shares Distributions. Except as permitted by Sections 2.4(a) and 2.4(b), the Board of Directors may declare and pay dividends or distributions of shares of DSSG Stock or HDDG Stock (or Convertible Securities convertible into or exchangeable or exercisable for shares of DSSG Stock or HDDG Stock) on shares of a class of Common Stock or shares of a class or series of preferred stock of the Corporation only as follows:

(i) dividends or distributions of shares of DSSG Stock (or Convertible Securities convertible into or exchangeable or exercisable for shares of DSSG Stock) on shares of DSSG Stock or shares of preferred stock attributed to the DLT & Storage Systems group; and

(ii) dividends or distributions of shares of HDDG Stock (or Convertible Securities convertible into or exchangeable or exercisable for shares of HDDG Stock) on shares of HDDG Stock or shares of preferred stock attributed to the HDDG.

Section 2.2 Voting Rights. (a) General. Except as otherwise provided by law, by the terms of any outstanding class or series of preferred stock of the Corporation or by any provision of the Certificate of Incorporation restricting the power to vote on a specified matter to other stockholders, the entire voting power of the stockholders of the Corporation shall be vested in the holders of the Common Stock, who shall be entitled to vote on any matter on which the holders of stock of the Corporation shall, by law or by the provisions of the Certificate of Incorporation or Bylaws of the Corporation, be entitled to vote, and both classes of Common Stock shall vote thereon together as a single class.

(b) Number of Votes for each Class of Common Stock. On each matter to be voted on by the holders of both classes of Common Stock voting together as a single class, the number of votes per share of each class shall be as follows:

(i) each outstanding share of DSSG Stock shall have one vote; and

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(ii) each outstanding share of HDDG Stock shall have a number of votes (including a fraction of one vote) equal to the quotient (rounded to the nearest three decimal places) of the average Market Value of one share of HDDG Stock during the 20-Trading Day Period ending on the tenth Trading Day prior to the record date for determining the stockholders entitled to vote, divided by the average Market Value of a share of DSSG Stock during such 20-Trading Day period.

Notwithstanding the foregoing, if shares of only one class of Common Stock are outstanding on the record date for determining the holders of Common Stock entitled to vote on any matter, then each share of that class shall be entitled to one vote and, if either class of Common Stock is entitled to vote as a separate class with respect to any matter, each share of that class shall, for purpose of such vote, be entitled to one vote on such matter.

In addition to any provision of law or any provision of the Certificate of Incorporation entitling the holders of outstanding shares of DSSG Stock or HDDG Stock to vote as a separate class, the Board of Directors may condition the approval of any matter submitted to stockholders on receipt of a separate vote of the holders of outstanding shares of DSSG Stock or HDDG Stock.

Section 2.3 Liquidation Rights. In the event of any voluntary or involuntary dissolution, liquidation or winding up of the Corporation, after payment or provision for payment of the debts and other liabilities of the Corporation and the full preferential amounts (including any accumulated and unpaid dividends) to which the holders of any outstanding shares of preferred stock of the Corporation are entitled (regardless of the Group to which such shares of preferred stock were attributed), the holders of the DSSG Stock and HDDG Stock shall be entitled to receive the assets, if any, of the Corporation remaining for distribution to holders of Common Stock on a per share basis in proportion to the respective liquidation units per share of such class. Each share of DSSG Stock shall have one liquidation unit and each share of HDDG Stock shall have a number of liquidation units (including a fraction of one liquidation unit) equal to the quotient (rounded to the nearest five decimal places) of the average Market Value of one share of HDDG Stock during the 20-Trading Day period ending on the 40th Trading Day after the effective date of this certificate of incorporation, divided by the average Market Value of one share of DSSG Stock during such 20-Trading Day period. Neither the merger nor consolidation of the Corporation into or with any other corporation, nor a sale, transfer or lease of all or any part of the assets of the Corporation, shall, alone, be deemed a liquidation or winding up of the Corporation or cause the dissolution of the Corporation, for purposes of this Section 2.3.

If the Corporation shall in any manner subdivide (by stock split, reclassification or otherwise) or combine (by reverse stock split, reclassification or otherwise) the outstanding shares of DSSG Stock or HDDG Stock, or declare a dividend in shares of either class to holders of such class, the per share liquidation units of either class of Common Stock specified in the preceding paragraph of this Section 2.3, as adjusted from time to time, shall be appropriately adjusted as determined by the Board of Directors, so as to avoid dilution in the aggregate, relative liquidation rights of the shares of any class of Common Stock.

Section 2.4 Conversion or Redemption of the Common Stock. DSSG Stock is subject to conversion or redemption and HDDG Stock is subject to conversion or redemption, in each case, upon the terms provided below in this Section 2.4; provided, however, that neither class of Common Stock may be converted or redeemed if the other class of Common Stock has been converted or redeemed in its entirety or notice thereof shall have been given as required by this Section 2.4.

(a) Mandatory and Optional Conversion and Redemption of DSSG Stock Other Than for DSSG Subsidiary Stock. (i) In the event of the Disposition, in one transaction or a series of related transactions, by the Corporation and/or its subsidiaries of all or substantially all of the properties and assets attributed to the DSSG to one or more persons or entities (other than the Disposition (w) by the Corporation of all or substantially all of its properties and assets in one transaction or a series of related transactions in connection with the dissolution, liquidation or winding up of the Corporation and the distribution of assets to stockholders as referred to in Section 2.3, (x) of the properties and assets attributed to the DSSG as contemplated by Section 2.4(c) or otherwise to all holders of shares of DSSG Stock divided among such holders on a pro rata basis in

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accordance with the number of shares of DSSG Stock outstanding, (y) to any person or entity controlled (as determined by the Board of Directors) by the

Corporation or (z) in connection with a Related Business Transaction in respect of the DLT & Storage Systems group), the Corporation shall, on or prior to the 95th Trading Day after the date of consummation of such Disposition (the "Disposition Date"), pay a dividend on DSSG Stock or redeem some or all of DSSG Stock or convert DSSG Stock into HDDG Stock (or another class or series of common stock of the Corporation), all as provided by the following Sections 2.4(a)(i)(1) and 2.4(a)(i)(2) and, to the extent applicable, by Section 2.4(f), as the Board of Directors shall have selected among such alternatives:

(1) provided that there are funds of the Corporation legally available therefor:

(A) pay to the holders of the shares of DSSG Stock a dividend pro rata in accordance with the number of shares of DSSG Stock held by each such holder, as the Board of Directors shall have declared subject to compliance with Section 2, in cash and/or in securities (other than a dividend of shares of a class of Common Stock) or other property having a Fair Value as of the Disposition Date in the aggregate equal to the Fair Value as of the Disposition Date of the Net Proceeds of such Disposition; or

(B) (I) subject to the last sentence of this Section 2.4(a)(i), if such Disposition involves all (not merely substantially all) of the properties and assets attributed to the DLT & Storage Systems group, redeem or exchange as of the Redemption Date determined as provided by Section 2.4(f)(iii), all outstanding shares of DSSG Stock in exchange for, on a pro rata basis, cash and/or for securities (other than shares of a class of Common Stock) or other property having a Fair Value as of the Disposition Date in the aggregate equal to the Fair Value as of the Disposition Date of the Net Proceeds of such Disposition; or

(II) subject to the last sentence of this Section 2.4(a)(i), if such Disposition involves substantially all (but not all) of the properties and assets attributed to the DLT & Storage Systems group, redeem or exchange as of the Redemption Date determined as provided by Section 2.4(f)(iv) such number of whole shares of DSSG Stock (which may be all, but not more than all, of such shares outstanding) as have in the aggregate an average Market Value during the period of ten consecutive Trading Days beginning on the 26th Trading Day immediately succeeding the Disposition Date closest to the Fair Value as of the Disposition Date of the Net Proceeds of such Disposition in consideration for, on a pro rata basis, cash and/or securities (other than shares of a class of Common Stock) or other property having a Fair Value as of the Disposition Date in the aggregate equal to such Fair Value of the Net Proceeds; or

(2) declare that each outstanding share of DSSG Stock shall be converted as of the Conversion Date determined as provided by Section 2.4(f)(v) into a number of fully paid and nonassessable shares of HDDG Stock (or, if HDDG Stock is not Publicly Traded at such time and shares of another class or series of common stock of the Corporation (other than DSSG Stock) are then Publicly Traded, of such other class or series of the common stock of the Corporation as has the largest Market Capitalization as of the close of business on the Trading Day immediately preceding the date of the notice of such conversion required by Section 2.4(f)(v) equal to 110% of the ratio, expressed as a decimal fraction rounded to the nearest five decimal places, of the average Market Value of one share of DSSG Stock over the period of ten consecutive Trading Days beginning on the 26th Trading Day immediately succeeding the Disposition Date to the average Market Value of one share of HDDG Stock (or such other class or series of common stock) over the same ten Trading Day period; provided, that with respect to any Conversion Date which is later than the fifth anniversary of the date on which this Restated Certificate of Incorporation shall have become effective, then such number of fully paid and nonassessable shares shall equal 100% of such ratio.

Notwithstanding the foregoing provisions of this Section 2.4(a)(i), the Corporation shall redeem shares of a class of Common Stock as provided by Section 2.4(a)(i)(1)(B)(I) or (II) only if the amount to be paid in redemption of such stock is less than or equal to the DSSG Available Dividend Amount as of the Redemption Date.

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(ii) For purposes of this Section 2.4(a): (1) as of any date, "substantially all of the properties and assets" attributed to the DLT & Storage Systems group shall mean a portion of such properties and assets (A) that represents at least 80% of the Fair Value of the properties and assets attributed to the DLT & Storage Systems group as of such date or (B) from which were derived at least 80% of the aggregate revenues for the immediately preceding twelve fiscal quarterly periods of the Corporation (calculated on a pro forma basis to include revenues derived from any of such properties and assets acquired during such period) derived from the properties and assets attributed to the DLT & Storage Systems group as of such date; (2) in the case of a Disposition of the

properties and assets attributed to the DLT & Storage Systems group in a series of related transactions, such Disposition shall not be deemed to have been consummated until the consummation of the last of such transactions; and (3) the Board of Directors may pay any dividend or redemption price referred to in Section 2.4(a)(i) in cash, securities (other than shares of a class of Common Stock) or other property, regardless of the form or nature of the proceeds of the Disposition.

(iii) The Board of Directors may at any time declare that each outstanding share of DSSG Stock shall be converted, as of the Conversion Date provided by Section 2.4(f)(v), into a number of fully paid and nonassessable shares of HDDG Stock (or, if HDDG Stock is not Publicly Traded at such time and shares of any other class or series of common stock of the Corporation (other than DSSG Stock) are then Publicly Traded, of such other class or series of common stock of the Corporation as has the largest Market Capitalization as of the close of business on the fifth Trading Day immediately preceding the date of the notice of conversion required by Section 2.4(f)(v)) equal to 110% of the Market Value Ratio of the DSSG Stock to HDDG Stock as of the fifth Trading Day prior to the date of the notice of such conversion required by Section 2.4(f)(v); provided, that (x) with respect to any Conversion Date which is later than the fifth anniversary of the date on which this Restated Certificate of Incorporation shall have become effective, or (y) if a Tax Event has occurred, then such number of fully paid and nonassessable shares shall equal 100% of such ratio.

(b) Mandatory and Optional Conversion and Redemption of HDDG Stock Other Than for HDDG Subsidiary Stock. (i) In the event of the Disposition, in one transaction or a series of related transactions, by the Corporation and/or its subsidiaries of all or substantially all of the properties and assets attributed to the Hard Disk Drive group to one or more persons or entities (other than (w) the Disposition by the Corporation of all or substantially all of its properties and assets in one transaction or a series of related transactions in connection with the dissolution, liquidation or winding up of the Corporation and the distribution of assets to stockholders as referred to in Section 2.3, (x) the Disposition of the properties and assets attributed to the Hard Disk Drive group as contemplated by Section 2.4(d) or otherwise to all holders of shares of HDDG Stock divided among such holders on a pro rata basis in accordance with the number of shares of HDDG Stock outstanding, (y) to any person or entity controlled (as determined by the Board of Directors) by the Corporation or (z) in connection with a Related Business Transaction in respect of the Hard Disk Drive group), the Corporation shall, on or prior to the 95th Trading Day after the date of consummation of such Disposition (the "Disposition Date"), pay a dividend on HDDG Stock or redeem some or all of HDDG Stock or convert HDDG Stock into DSSG Stock (or another class or series of common stock of the Corporation), all as provided by the following Sections 2.4(b)(i)(1) and 2.4(b)(i)(2) and, to the extent applicable, by Section 2.4(f), as the Board of Directors shall have selected among such alternatives:

(1) provided that there are funds of the Corporation legally available therefor:

(A) pay to the holders of the shares of HDDG Stock a dividend pro rata in accordance with the number of shares of HDDG Stock held by each such holder, as the Board of Directors shall have declared subject to compliance with Section 2.1, in cash and/or in securities (other than a dividend of shares of a class of Common Stock) or other property having a Fair Value as of the Disposition Date in the aggregate equal to the Fair Value as of the Disposition Date of the Net Proceeds of such Disposition; or

(B) (I) subject to the last sentence of this Section 2.4(b)(i), if such Disposition involves all (not merely substantially all) of the properties and assets attributed to the Hard Disk Drive group, redeem or exchange as of the Redemption Date determined as provided by Section 2.4(f)(iii), all outstanding shares of HDDG Stock in exchange for, on a pro rata basis, cash and/or for securities (other than

#### Annex I-5

shares of a class of Common Stock) or other property having a Fair Value as of the Disposition Date in the aggregate equal to the Fair Value as of the Disposition Date of the Net Proceeds of such Disposition; or

(II) subject to the last sentence of this Section 2.4(b)(i), if such Disposition involves substantially all (but not all) of the properties and assets attributed to the Hard Disk Drive group, redeem or exchange as of the Redemption Date determined as provided by Section 2.4(f)(iv) such number of whole shares of HDDG Stock (which may be all, but not more than all, of such shares outstanding) as have in the aggregate an average Market Value during the period of ten consecutive Trading Days beginning on the 26th Trading Day immediately succeeding the Disposition Date closest to the Fair Value as of the Disposition Date of the Net Proceeds of such Disposition in consideration for, on a pro rata basis, cash and/or securities (other than shares of a class of Common Stock) or other property having a Fair Value as of the

Disposition Date in the aggregate equal to such product; or

(2) declare that each outstanding share of HDDG Stock shall be converted as of the Conversion Date determined as provided by Section 2.4(f)(v) into a number of fully paid and nonassessable shares of DSSG Stock (or, if DSSG Stock is not Publicly Traded at such time and shares of another class or series of common stock of the Corporation (other than HDDG Stock) are then Publicly Traded, of such other class or series of the common stock of the Corporation as has the largest Market Capitalization as of the close of business on the Trading Day immediately preceding the date of the notice of such conversion required by Section 2.4(f)(v) equal to 110% of the ratio, expressed as a decimal fraction rounded to the nearest five decimal places, of the average Market Value of one share of HDDG Stock over the period of ten consecutive Trading Days beginning on the 26th Trading Day immediately succeeding the Disposition Date to the average Market Value of one share of DSSG Stock (or such other class or series of common stock) over the same ten Trading Day period; provided, that with respect to any Conversion Date which is later than the fifth anniversary of the date on which this Restated Certificate of Incorporation shall have become effective, then such number of fully paid and nonassessable shares shall equal 100% of such ratio.

Notwithstanding the foregoing provisions of this Section 2.4(b)(i), the Corporation shall redeem shares of a class of Common Stock as provided by Section 2.4(b)(i)(1)(B)(I) or (II) only if the amount to be paid in redemption of such stock is less than or equal to the HDDG Available Dividend Amount as of the Redemption Date.

(ii) For purposes of this Section 2.4(b): (1) as of any date, "substantially all of the properties and assets" attributed to the Hard Disk Drive group shall mean a portion of such properties and assets (A) that represents at least 80% of the Fair Value of the properties and assets attributed to the HDDG as of such date or (B) from which were derived at least 80% of the aggregate revenues for the immediately preceding twelve fiscal quarterly periods of the Corporation (calculated on a pro forma basis to include revenues derived from any of such properties and assets acquired during such period) derived from the properties and assets attributed to the HDDG as of such date; (2) in the case of a Disposition of the properties and assets attributed to the HDDG in a series of related transactions, such Disposition shall not be deemed to have been consummated until the consummation of the last of such transactions; and (3) the Board of Directors may pay any dividend or redemption price referred to in Section 2.4(b)(i) in cash, securities (other than shares of a class of Common Stock) or other property, regardless of the form or nature of the proceeds of the Disposition.

(iii) The Board of Directors may at any time declare that each outstanding share of HDDG Stock shall be converted, as of the Conversion Date provided by Section 2.4(f)(v), into a number of fully paid and nonassessable shares of DSSG Stock (or, if DSSG Stock is not Publicly Traded at such time and shares of any other class or series of common stock of the Corporation (other than HDDG Stock) are then Publicly Traded, of such other class or series of common stock of the Corporation as has the largest Market Capitalization as of the close of business on the fifth Trading Day immediately preceding the date of the notice of conversion required by Section 2.4(f)(v) equal to 110% of the Market Value Ratio of the HDDG Stock to DSSG Stock as of the fifth Trading

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Day prior to the date of the notice of such conversion required by Section 2.4(f)(v); provided, that (x) with respect to any Conversion Date which is later than the fifth anniversary of the date on which this Restated Certificate of Incorporation shall have become effective, or (y) if a Tax Event has occurred, then such number of fully paid and nonassessable shares shall equal 100% of such ratio.

(c) Redemption of DSSG Stock for DSSG Subsidiary Stock. At any time at which all of the assets and liabilities attributed to the DSSG (and no other assets or liabilities of the Corporation or any subsidiary thereof) are held directly or indirectly by one or more wholly-owned subsidiaries of the Corporation (each, an "DSSG Subsidiary"), the Board of Directors may, provided that there are funds of the Corporation legally available therefor, redeem all of the outstanding shares of DSSG Stock, on a Redemption Date of which notice is delivered in accordance with Section 2.4(f)(vi), in exchange for all of the shares of common stock of each DSSG Subsidiary as will be outstanding immediately following such exchange of shares, such shares of common stock of each DSSG Subsidiary to be delivered to the holders of shares of DSSG Stock on the Redemption Date either directly or indirectly through the delivery of shares of another DSSG Subsidiary that owns directly or indirectly all such shares, and to be divided among the holders of DSSG Stock pro rata in accordance with the number of shares of DSSG Stock held by each such holder on such Redemption Date, each of which shares of common stock of such DSSG Subsidiary shall be, upon such delivery, fully paid and nonassessable.

(d) Redemption of HDDG Stock for HDDG Subsidiary Stock. At any time at which all of the assets and liabilities attributed to the Hard Disk Drive group (and

no other assets or liabilities of the Corporation or any subsidiary thereof) are held directly or indirectly by one or more wholly-owned subsidiaries of the Corporation (each, a "HDDG Subsidiary"), the Board of Directors may, provided that there are funds of the Corporation legally available therefor, redeem all of the outstanding shares of HDDG Stock, on a Redemption Date of which notice is delivered in accordance with Section 2.4(f)(vi), in exchange for all of the shares of common stock of each HDDG Subsidiary as will be outstanding immediately following such exchange of shares, such shares of common stock of each HDD Subsidiary to be delivered to the holders of shares of HDDG Stock on the Redemption Date either directly or indirectly through the delivery of shares of another HDD Subsidiary that owns directly or indirectly all such shares, and to be divided among the holders of HDDG Stock pro rata in accordance with the number of shares of HDDG Stock held by each such holder on such Redemption Date, each of which shares of common stock of such HDDG Subsidiary shall be, upon such delivery, fully paid and nonassessable.

(e) Treatment of Convertible Securities. After any Conversion Date or Redemption Date on which all outstanding shares of either DSSG Stock or HDDG Stock are converted or redeemed, any share of such class of Common Stock that is to be issued on conversion, exchange or exercise of any Convertible Securities shall, immediately upon such conversion, exchange or exercise and without any notice from or to, or any other action on the part of, the Corporation or its Board of Directors or the holder of such Convertible Security:

(i) in the event the shares of such class of Common Stock outstanding on such Conversion Date were converted into shares of the other class of Common Stock (or another class or series of common stock of the Corporation) pursuant to Section 2.4(a)(i)(2), 2.4(a)(iii), 2.4(b)(i)(2) or 2.4(a)(iii), be converted into the amount of cash and/or the number of shares of the kind of capital stock and/or other securities or property of the Corporation that number of shares of such class of Common Stock that were to be issued upon such conversion, exchange or exercise would have received had such shares been outstanding on such Conversion Date; or

(ii) in the event the shares of such class of Common Stock outstanding on such Redemption Date were redeemed pursuant to Section 2.4(a)(i)(1)(B)(I), 2.4(b)(i)(1)(B)(I), 2.4(c) or 2.4(d), be redeemed, to the extent of funds of the Corporation legally available therefor, for \$0.01 per share in cash for each share of such class of Common Stock that otherwise would be issued upon such conversion, exchange or exercise.

The provisions of the preceding sentence of this Section 2.4(e) shall not apply to the extent that other adjustments in respect of such conversion, exchange or redemption of a class of Common Stock are otherwise made pursuant to the provisions of such Convertible Securities.

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(f) Notice and Other Provisions. (i) Not later than the 20th Trading Day following the consummation of a Disposition referred to in Section 2.4(a)(i) (in the case of DSSG Stock) or Section 2.4(b)(i) (in the case of HDDG Stock), the Corporation shall announce publicly by press release (1) the estimated Net Proceeds of such Disposition, (2) the number of shares outstanding of the class of Common Stock relating to the Group subject to such Disposition and (3) the number of shares of such class of Common Stock into or for which Convertible Securities are then convertible, exchangeable or exercisable and the conversion, exchange or exercise price thereof. Not earlier than the 36th Trading Day and not later than the 40th Trading Day following the consummation of such Disposition, the Corporation shall announce publicly by press release which of the actions specified in Section 2.4(a)(i) or 2.4(b)(i), as the case may be, it has irrevocably determined to take in respect of such Disposition.

(ii) If the Corporation determines to pay a dividend pursuant to Section 2.4(a)(i)(1)(A) (in the case of DSSG Stock) or Section 2.4(b)(i)(1)(A) (in the case of HDDG Stock), the Corporation shall, not later than the 40th Trading Day following the consummation of the Disposition referred to in such Section, cause notice to be given to the holders of shares of the class of Common Stock relating to the Group subject to such Disposition and to each holder of Convertible Securities that are convertible into or exchangeable or exercisable for shares of such class of Common Stock (unless alternate provision for such notice to the holders of such Convertible Securities is made pursuant to the terms of such Convertible Securities), setting forth (1) the record date for determining holders entitled to receive such dividend, which shall be not earlier than the tenth Trading Day and not later than the 20th Trading Day following the date of such notice, (2) the anticipated payment date of such dividend (which shall not be more than 95 Trading Days following the consummation of such Disposition), (3) the type of property to be paid as such dividend in respect of the outstanding shares of such class of Common Stock, (4) the Net Proceeds of such Disposition, (5) the number of outstanding shares of such class of Common Stock and the number of shares of such class of Common Stock into or for which outstanding Convertible Securities are then convertible, exchangeable or exercisable and the conversion, exchange or exercise price thereof and (6) in the case of notice to be given to holders of



Convertible Securities, a statement to the effect that a holder of such Convertible Securities shall be entitled to receive such dividend only if such holder properly converts, exchanges or exercises such Convertible Securities on or prior to the record date referred to in clause (1) of this sentence. Such notice shall be sent by first-class mail, postage prepaid, to each such holder at such holder's address as the same appears on the transfer books of the Corporation on the record date fixed for such notice.

(iii) If the Corporation determines to undertake a redemption pursuant to Section 2.4(a)(i)(1)(B)(I) (in the case of DSSG Stock) or Section 2.4(b)(i)(1)(B)(I) (in the case of HDDG Stock), the Corporation shall, not earlier than the 45th Trading Day and not later than the 35th Trading Day prior to the Redemption Date, cause notice to be given to the holders of shares of the class of Common Stock relating to the Group subject to the Disposition referred to in such Section and to each holder of Convertible Securities convertible into or exchangeable or exercisable for shares of such class of Common Stock (unless alternate provision for such notice to the holders of such Convertible Securities is made pursuant to the terms of such Convertible Securities), setting forth (1) a statement that all shares of such class of Common Stock outstanding on the Redemption Date shall be redeemed, (2) the Redemption Date (which shall not be more than 95 Trading Days following the consummation of such Disposition), (3) the type of property in which the redemption price for the shares of such class of Common Stock to be redeemed is to be paid, (4) the Net Proceeds of such Disposition, (5) the place or places where certificates for shares of such class of Common Stock, properly endorsed or assigned for transfer (unless the Corporation waives such requirement), are to be surrendered for delivery of cash and/or securities or other property, (6) the number of outstanding shares of such class of Common Stock and the number of shares of such class of Common Stock into or for which outstanding Convertible Securities are then convertible, exchangeable or exercisable and the conversion, exchange or exercise price thereof, (7) in the case of notice to be given to holders of Convertible Securities, a statement to the effect that a holder of such Convertible Securities shall be entitled to participate in such redemption only if such holder properly converts, exchanges or exercises such Convertible Securities on or prior to the Redemption Date referred to in clause (2) of this sentence and a statement as to what, if anything, such holder will be entitled to receive pursuant to the terms of such Convertible Securities or, if applicable, this Section 2.4

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if such holder thereafter converts, exchanges or exercises such Convertible Securities and (8) a statement to the effect that, except as otherwise provided by Section 2.4(f)(ix), dividends on shares of such class of Common Stock shall cease to be paid as of such Redemption Date. Such notice shall be sent by first-class mail, postage prepaid, to each such holder at such holder's address as the same appears on the transfer books of the Corporation on the record date fixed for such notice.

(iv) If the Corporation determines to undertake a redemption pursuant to Section 2.4(a)(i)(1)(B)(II) (in the case of DSSG Stock) or Section 2.4(b)(i)(1)(B)(II) (in the case of HDDG Stock), the Corporation shall, not later than the 40th Trading Day following the consummation of the Disposition referred to in such Section, cause notice to be given to the holders of shares of the class of Common Stock relating to the Group subject to such Disposition and to each holder of Convertible Securities that are convertible into or exchangeable or exercisable for shares of such class of Common Stock (unless alternate provision for such notice to the holders of such Convertible Securities is made pursuant to the terms of such Convertible Securities) setting forth (1) a date not earlier than the tenth Trading Day and not later than the 20th Trading Day following the date of such notice on which shares of such class of Common Stock shall be selected for redemption, (2) the anticipated Redemption Date (which shall not be more than 95 Trading Days following the consummation of such Disposition), (3) the type of property in which the redemption price for the shares to be redeemed is to be paid, (4) the Net Proceeds of such Disposition, (5) the number of shares of such class of Common Stock outstanding and the number of shares of such class of Common Stock into or for which outstanding Convertible Securities are then convertible, exchangeable or exercisable and the conversion, exchange or exercise price thereof, (6) in the case of notice to be given to holders of Convertible Securities, a statement to the effect that a holder of such Convertible Securities shall be eligible to participate in such selection for redemption only if such holder properly converts, exchanges or exercises such Convertible Securities on or prior to the record date referred to in clause (1) of this sentence, and a statement as to what, if anything, such holder will be entitled to receive pursuant to the terms of such Convertible Securities or, if applicable, this Section 2.4 if such holder thereafter converts, exchanges or exercises such Convertible Securities and (7) a statement that the Corporation will not be required to register a transfer of any shares of such class of Common Stock for a period of 15 Trading Days next preceding the date referred to in clause (1) of this sentence. Promptly following the date referred to in clause (1) of the preceding sentence, the Corporation shall cause a notice to be given to each holder of record of shares of such class of Common Stock to be redeemed setting forth (1) the number of shares of such class of Common Stock held by such holder to be redeemed, (2) a statement that such shares of such

class of Common Stock shall be redeemed, (3) the Redemption Date, (4) the kind and per share amount of cash and/or securities or other property to be received by such holder with respect to each share of such class of Common Stock to be redeemed, including details as to the calculation thereof, (5) the place or places where certificates for shares of such class of Common Stock, properly endorsed or assigned for transfer (unless the Corporation shall waive such requirement), are to be surrendered for delivery of such cash and/or securities or other property, (6) if applicable, a statement to the effect that the shares being redeemed may no longer be transferred on the transfer books of the Corporation after the Redemption Date and (7) a statement to the effect that, subject to Section 2.4(f) (ix), dividends on such shares of such class of Common Stock shall cease to be paid as of the Redemption Date. Such notices shall be sent by first-class mail, postage prepaid, to each such holder at such holder's address as the same appears on the transfer books of the Corporation on the record date fixed for such notice.

(v) If the Corporation determines to convert DSSG Stock into HDDG Stock or HDDG Stock into DSSG Stock (or, in either case, another class or series of common stock of the Corporation) pursuant to Section 2.4(a) (i) (2) or 2.4(a) (iii) (in the case of the conversion of DSSG Stock) or Section 2.4(b) (i) (2) or 2.4(b) (iii) (in the case of the conversion of HDDG Stock), the Corporation shall, not earlier than the 45th Trading Day and not later than the 35th Trading Day prior to the Conversion Date, cause notice to be given to the holders of shares of the class of Common Stock to be so converted and to each holder of Convertible Securities that are convertible into or exchangeable or exercisable for shares of such class of Common Stock (unless alternate provision for such notice to the holders of such Convertible Securities is made pursuant to the terms of such Convertible Securities) setting forth (1) a statement that all outstanding shares of such class of Common Stock shall be converted, (2) the Conversion Date (which, in the case of a conversion after a Disposition, shall not be more than 95 Trading Days following the consummation of such Disposition), (3) the per share number of shares of Common Stock (or

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another class or series of common stock of the Corporation) to be received with respect to each share of such class of Common Stock, including details as to the calculation thereof, (4) the place or places where certificates for shares of such class of Common Stock, properly endorsed or assigned for transfer (unless the Corporation shall waive such requirement), are to be surrendered for delivery of certificates for shares of such class of Common Stock, (5) the number of outstanding shares of such class of Common Stock and the number of shares of such class of Common Stock into or for which outstanding Convertible Securities are then convertible, exchangeable or exercisable and the conversion, exchange or exercise price thereof, (6) a statement to the effect that, subject to Section 2.4(f) (ix), dividends on shares of such class of Common Stock shall cease to be paid as of such Conversion Date and/or Redemption Date and (7) in the case of notice to holders of such Convertible Securities, a statement to the effect that a holder of such Convertible Securities shall be entitled to receive shares of such class of Common Stock upon such conversion if such holder properly converts, exchanges or exercises such Convertible Securities on or prior to such Conversion Date and a statement as to what, if anything, such holder will be entitled to receive pursuant to the terms of such Convertible Securities or, if applicable, this Section 2.4 if such holder thereafter converts, exchanges or exercises such Convertible Securities. Such notice shall be sent by first-class mail, postage prepaid, to each such holder at such holder's address as the same appears on the transfer books of the Corporation on the record date fixed for such notice.

(vi) If the Corporation determines to redeem shares of DSSG Stock pursuant to Section 2.4(c) or HDDG Stock pursuant to Section 2.4(d), the Corporation shall cause notice to be given to each holder of shares of such class of Common Stock to be redeemed and to the holders of Convertible Securities that are convertible into or exchangeable or exercisable for shares of such class of Common Stock (unless alternate provision for such notice to the holders of such Convertible Securities is made pursuant to the terms of such Convertible Securities), setting forth (1) a statement that all shares of such class of Common Stock outstanding on the Redemption Date shall be redeemed in exchange for shares of common stock of each of the DSSG Subsidiary or of the HDDG Subsidiary, as applicable, (2) the Redemption Date, (3) the place or places where certificates for shares of the class of Common Stock to be redeemed, properly endorsed or assigned for transfer (unless the Corporation shall waive such requirement), are to be surrendered for delivery of certificates for shares of common stock of each of the DSSG Subsidiary or of the HDDG Subsidiary, as applicable, (4) a statement to the effect that, subject to Section 2.4(f) (ix), dividends on shares of such class of Common Stock being redeemed shall cease to be paid as of such Redemption Date, (5) the number of shares of such class of Common Stock outstanding and the number of shares of such class of Common Stock into or for which outstanding Convertible Securities are then convertible, exchangeable or exercisable and the conversion, exchange or exercise price thereof and (6) in the case of notice to holders of Convertible Securities, a statement to the effect that a holder of Convertible Securities shall be entitled to receive shares of common stock of each the DSSG Subsidiary or the HDDG Subsidiary, as applicable, upon redemption only if such

holder properly converts, exchanges or exercises such Convertible Securities on or prior to the Redemption Date and a statement as to what, if anything, such holder will be entitled to receive pursuant to the terms of such Convertible Securities or, if applicable, this Section 2.4(f), if such holder thereafter converts, exchanges or exercises such Convertible Securities. Such notice shall be sent by first-class mail, postage prepaid, not earlier than the 45th Trading Day and not later than the 35th Trading Day prior to the Redemption Date, to each such holder at such holder's address as the same appears on the transfer books of the Corporation on the record date fixed for such notice.

(vii) If less than all of the outstanding shares of either class of Common Stock are to be redeemed pursuant to Section 2.4(a)(i)(1) (in the case of DSSG Stock) or Section 2.4(b)(i)(1) (in the case of HDDG Stock), the shares to be redeemed by the Corporation shall be selected from among the holders of shares of such class of Common Stock outstanding at the close of business on the record date for such redemption on a pro rata basis among all such holders or by lot or by such other method as may be determined by the Board of Directors to be equitable.

(viii) The Corporation shall not be required to issue or deliver fractional shares of any capital stock or of any other securities to any holder of either class of Common Stock upon any conversion, redemption, dividend or other distribution pursuant to this Section 2.4. If more than one share of either class of Common Stock shall be held at the same time by the same holder, the Corporation may aggregate the number of shares of any

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capital stock that shall be issuable or any other securities or property that shall be distributable to such holder upon any conversion, redemption, dividend or other distribution (including any fractional shares). If fractional shares of any capital stock or of any other securities would be required to be issued or distributed to the holders of either class of Common Stock, the Corporation shall, if such fractional shares are not issued or distributed to the holder, pay cash in respect of such fractional shares in an amount equal to the Fair Value thereof (without interest).

(ix) No adjustments in respect of dividends shall be made upon the conversion or redemption of any shares of either class of Common Stock; provided, however, that if the Conversion Date or Redemption Date, as the case may be, with respect to any shares of either class of Common Stock shall be subsequent to the record date for the payment of a dividend or other distribution thereon or with respect thereto, the holders of such class of Common Stock at the close of business on such record date shall be entitled to receive the dividend or other distribution payable on or with respect to such shares on the date set for payment of such dividend or other distribution, in each case without interest, notwithstanding the subsequent conversion or redemption of such shares.

(x) Before any holder of shares of either class of Common Stock shall be entitled to receive any cash payment and/or certificates or instruments representing shares of any capital stock and/or other securities or property to be distributed to such holder with respect to such class of Common Stock pursuant to this Section 2.4, such holder shall surrender at such place as the Corporation shall specify certificates for such shares of Common Stock, properly endorsed or assigned for transfer (unless the Corporation shall waive such requirement). The Corporation shall as soon as practicable after receipt of certificates representing such shares of Common Stock deliver to the person for whose account such shares of Common Stock were so surrendered, or to such person's nominee or nominees, the cash and/or the certificates or instruments representing the number of whole shares of the kind of capital stock and/or other securities or property to which such person shall be entitled as aforesaid, together with any payment in respect of fractional shares contemplated by Section 2.4(f)(viii), in each case without interest. If less than all of the shares of either class of Common Stock represented by any one certificate are to be redeemed, the Corporation shall issue and deliver a new certificate for the shares of such class of Common Stock not redeemed.

(xi) From and after any applicable Conversion Date or Redemption Date, as the case may be, all rights of a holder of shares of either class of Common Stock that were converted or redeemed shall cease except for the right, upon surrender of the certificates representing such shares of Common Stock as required by Section 2.4(f)(x), to receive the cash and/or the certificates or instruments representing shares of the kind and amount of capital stock and/or other securities or property for which such shares were converted or redeemed, together with any payment in respect of fractional shares contemplated by Section 2.4(f)(viii) (which shall be held by the Corporation for the holder of such shares of Common Stock that were redeemed until the receipt of certificates representing such shares of Common Stock as provided in Section 2.4(f)(x)) and rights to dividends as provided in Section 2.4(f)(ix), in each case without interest. No holder of a certificate that immediately prior to the applicable Conversion Date or Redemption Date represented shares of a class of Common Stock shall be entitled to receive any dividend or other distribution or interest payment with respect to shares of any kind of capital stock or other security or instrument for which such class of Common Stock was converted or

redeemed until the surrender as required by this Section 2.4 of such certificate in exchange for a certificate or certificates or instrument or instruments representing such capital stock or other security. Subject to applicable escheat and similar laws, upon such surrender, there shall be paid to the holder the amount of any dividends or other distributions (without interest) which theretofore became payable on any class or series of capital stock of the Corporation as of a record date after the Conversion Date or Redemption Date, but that were not paid by reason of the foregoing, with respect to the number of whole shares of the kind of capital stock represented by the certificate or certificates issued upon such surrender. From and after a Conversion Date or Redemption Date, the Corporation shall, however, be entitled to treat the certificates for a class of Common Stock that have not yet been surrendered for conversion or redemption as evidencing the ownership of the number of whole shares of the kind or kinds of capital stock of the Corporation for which the shares of such class of Common Stock represented by such certificates shall have been converted or redeemed, notwithstanding the failure to surrender such certificates.

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(xii) The Corporation shall pay any and all documentary, stamp or similar issue or transfer taxes that may be payable in respect of the issuance or delivery of any shares of capital stock and/or other securities upon conversion or redemption of shares of either class of Common Stock pursuant to this Section 2.4. The Corporation shall not, however, be required to pay any tax that may be payable in respect of any transfer involved in the issuance or delivery of any shares of capital stock and/or other securities in a name other than that in which the shares of such class of Common Stock so converted or redeemed were registered, and no such issuance or delivery shall be made unless and until the person requesting such issuance or delivery has paid to the Corporation the amount of any such tax or has established to the satisfaction of the Corporation that such tax has been paid.

(xiii) Neither the failure to mail any notice required by this Section 2.4 to any particular holder of a class of Common Stock or of Convertible Securities nor any defect therein shall affect the sufficiency thereof with respect to any other holder of outstanding shares of a class of Common Stock or of Convertible Securities or the validity of any such conversion or redemption.

(xiv) The Board of Directors may establish such rules and requirements to facilitate the effectuation of the transactions contemplated by this Section 2.4 as the Board of Directors shall determine to be appropriate.

Section 2.5 Application of the Provisions of Article IV. (a) Certain Determinations by the Board of Directors. The Board of Directors shall make such determinations with respect to the businesses, assets, properties and liabilities to be attributed to the Groups, the application of the provisions of the Certificate of Incorporation to transactions to be engaged in by the Corporation and the voting powers, preferences and relative, participating, optional and other special rights of the holders of either class of Common Stock, and the qualifications and restrictions thereon, provided by the Certificate of Incorporation as may be or become necessary or appropriate to the exercise of such powers, preferences and relative, participating, optional and other special rights, including, without limiting the foregoing, the determinations referred to in this Section 2.5. A record of any such determination shall be filed with the records of the actions of the Board of Directors.

(i) Upon any acquisition by the Corporation or its subsidiaries of any assets or business, or any assumption of liabilities, outside of the ordinary course of business of the DLT & Storage Systems group or the Hard Disk Drive group, as the case may be, the Board of Directors shall determine whether such assets, business and liabilities (or an interest therein) shall be for the benefit of the DLT & Storage Systems group or the Hard Disk Drive group or that an interest therein shall be partly for the benefit of the DLT & Storage Systems group and partly for the benefit of the Hard Disk Drive group and, accordingly, shall be attributed to the DLT & Storage Systems group or the Hard Disk Drive group, or partly to each, in accordance with Section 2.6(e) or 2.6(j), as the case may be.

(ii) Upon any issuance of any shares of any class or series of preferred stock of the Corporation, the Board of Directors shall attribute, based on the use of proceeds of such issuance of shares of preferred stock in the business of the DLT & Storage Systems group or the Hard Disk Drive group and any other relevant factors, the shares so issued entirely to the DLT & Storage Systems group or entirely to the Hard Disk Drive group or partly to the DLT & Storage Systems group and partly to the Hard Disk Drive group in such proportion as the Board of Directors shall determine.

(iii) Upon any redemption or repurchase by the Corporation or any subsidiary thereof of shares of preferred stock of any class or series or of other securities or debt obligations of the Corporation, the Board of Directors shall determine, based on the property used to redeem or purchase such shares, other securities or debt obligations, which, if any, of such shares, other securities or debt obligations redeemed or repurchased shall

be attributed to the DLT & Storage Systems group and which, if any, of such shares, other securities or debt obligations shall be attributed to the Hard Disk Drive group and, accordingly, how many of the shares of such class or series of preferred stock or of such other securities, or how much of such debt obligations, that remain outstanding, if any, are thereafter attributed to the DLT & Storage Systems group or the Hard Disk Drive group.

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(b) Certain Determinations Not Required. Notwithstanding the foregoing provisions of this Section 2.5, the provisions of Section 2.6(e) or 2.6(j) or any other provision of the Certificate of Incorporation, at any time when there are not outstanding both (i) one or more shares of DSSG Stock or Convertible Securities convertible into or exchangeable or exercisable for DSSG Stock and (ii) one or more shares of HDDG Stock or Convertible Securities convertible into or exchangeable or exercisable for HDDG Stock, the Corporation need not (A) attribute any of the assets or liabilities of the Corporation or any of its subsidiaries to the DLT & Storage Systems group or the Hard Disk Drive group or (B) make any determination required in connection therewith, nor shall the Board of Directors be required to make any of the determinations otherwise required by this Article, and in such circumstances the holders of the shares of DSSG Stock and HDDG Stock outstanding, as the case may be, shall (unless otherwise specifically provided by the Certificate of Incorporation) be entitled to all the voting powers, preferences and relative, participating, optional and other special rights of both classes of Common Stock without differentiation between the DSSG Stock and the HDDG Stock.

(c) Board Determinations Binding. Subject to applicable law, any determinations made in good faith by the Board of Directors of the Corporation under any provision of this Section 2.5 or otherwise in furtherance of the application of this Section 2 shall be final and binding on all stockholders.

Section 2.6 Certain Definitions. As used in the Certificate of Incorporation, the following terms shall have the following meanings (with terms defined in the singular having comparable meaning when used in the plural and vice versa), unless the context otherwise requires. As used in this Section 2.6, a "contribution" or "transfer" of assets or properties from one Group to another shall refer to the reattribution of such assets or properties from the contributing or transferring Group to the other Group and correlative phrases shall have correlative meanings.

(a) Available Dividend Amount shall mean, as the context requires, a reference to the DSSG Available Dividend Amount or the HDDG Available Dividend Amount.

(b) Conversion Date shall mean the date fixed by the Board of Directors as the effective date for the conversion of shares of DSSG Stock into shares of HDDG Stock (or another class or series of common stock of the Corporation) or of shares of HDDG Stock into shares of DSSG Stock (or another class or series of common stock of the Corporation), as the case may be, as shall be set forth in the notice to holders of shares of the class of Common Stock subject to such conversion and to holders of any Convertible Securities that are convertible into or exchangeable or exercisable for shares of the class of Common Stock subject to such conversion required pursuant to Section 2.4(f) (v).

(c) Convertible Securities shall mean, as of any date, any securities of the Corporation or of any subsidiary thereof (other than shares of a class of Common Stock), including warrants and options, outstanding at such time that by their terms are convertible into or exchangeable or exercisable for or evidence the right to acquire any shares of either class of Common Stock, whether convertible, exchangeable or exercisable at such time or a later time or only upon the occurrence of certain events; provided that securities shall only be Convertible Securities in respect of the number of shares of Common Stock into or for which such securities are then convertible, exchangeable or exercisable.

(d) Disposition shall mean a sale, transfer, assignment or other disposition (whether by merger, consolidation, sale or contribution of assets or stock or otherwise) of properties or assets (including stock, other securities and goodwill).

(e) The DLT & Storage Systems group shall mean, as of any date:

(i) all businesses, assets, properties and liabilities of the Corporation and its subsidiaries attributed by the Board of Directors to the DLT & Storage Systems group;

(ii) all businesses, assets, properties and liabilities transferred to the DLT & Storage Systems group from the Hard Disk Drive group pursuant to transactions in the ordinary course of business of the DLT &

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Storage Systems group and the Hard Disk Drive group or otherwise as the

Board of Directors may have directed as permitted by the Certificate of Incorporation; and

(iii) the interest of the Corporation or any of its subsidiaries in any business or asset acquired and any liabilities assumed by the Corporation or any of its subsidiaries outside of the ordinary course of business and attributed to the DLT & Storage Systems group, as determined by the Board of Directors as contemplated by Section 2.5(a)(i);

provided that from and after any transfer of any assets or properties from the DLT & Storage Systems group to the Hard Disk Drive group, the DLT & Storage Systems group shall no longer include such assets or properties so transferred.

(f) The DSSG Available Dividend Amount shall mean, on any date, either:

(x) (i) the amount equal to the fair market value of the total assets attributed to the DLT & Storage Systems group less the total liabilities attributed to the DLT & Storage Systems group (provided that preferred stock shall not be treated as a liability), in each case, as of such date and determined on a basis consistent with that applied in determining the DLT & Storage Systems group Net Income (Loss), minus (ii) the aggregate par value of, or any greater amount determined in accordance with applicable law to be capital in respect of, all outstanding shares of DSSG Stock and each class or series of preferred stock attributed in accordance with the Certificate of Incorporation to the DLT & Storage Systems group, or

(y) in case the total amount calculated pursuant to clause (i) above is not a positive number, an amount equal to the DSSG Net Income (Loss) (if positive) for the fiscal year in which the dividend is declared and/or the preceding fiscal year.

Notwithstanding the foregoing provisions of this Section 2.6(f), and consistent with Section 2.5(c), at any time when there are not outstanding both (i) one or more shares of DSSG Stock or Convertible Securities convertible into or exchangeable or exercisable for DSSG Stock and (ii) one or more shares of HDDG Stock or Convertible Securities convertible into or exchangeable or exercisable for HDDG Stock, the "Available Dividend Amount," on any calculation date during such time period, with respect to the DSSG Stock or the HDDG Stock, as the case may be (depending on which of such classes of Common Stock or Convertible Securities convertible into or exchangeable or exercisable for such class of Common Stock is outstanding), shall mean the amount available for the payment of dividends on such Common Stock in accordance with law.

(g) The DSSG Net Income (Loss) shall mean, for any period through any date, (i) the net income or loss of the DSSG for such period determined in accordance with generally accepted accounting principles in effect at such time, reflecting income and expense of the Corporation attributed to the DLT & Storage Systems group on a basis substantially consistent with attributions of income and expense made in the calculation of the HDDG Net Income (Loss), including, without limitation, corporate administrative costs, net interest and other financial costs and income taxes.

(h) Fair Value shall mean, (i) in the case of equity securities or debt securities of a class or series that has previously been Publicly Traded for a period of at least 15 months, the Market Value thereof (if such Market Value, as so defined, can be determined); (ii) in the case of an equity security or debt security that has not been Publicly Traded for at least 15 months or the Market Value of which cannot be determined, the fair value per share of stock or per other unit of such security, on a fully distributed basis, as determined by an independent investment banking firm experienced in the valuation of securities selected in good faith by the Board of Directors, or, if no such investment banking firm is, as determined in the good faith judgment of the Board of Directors, available to make such determination, in good faith by the Board of Directors; (iii) in the case of cash denominated in U.S. dollars, the face amount thereof and in the case of cash denominated in other than U.S. dollars, the face amount thereof converted into U.S. dollars at the rate published in The Wall Street Journal on the date for the determination of Fair Value or, if not so published, at such rate as shall be determined in good faith by the Board of Directors based upon such information as the Board of Directors shall

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in good faith determine to be appropriate; and (iv) in the case of property other than securities or cash, the "Fair Value" thereof shall be determined in good faith by the Board of Directors based upon such appraisals or valuation reports of such independent experts as the Board of Directors shall in good faith determine to be appropriate. Any such determination of Fair Value shall be described in a statement filed with the records of the actions of the Board of Directors.

(i) Group shall mean, as of any date, the DLT & Storage Systems group or the Hard Disk Drive group, as the case may be.

(j) The Hard Disk Drive group shall mean, as of any date:

(i) the interest of the Corporation or any of its subsidiaries on such date in all of the businesses, assets, properties and liabilities of the Corporation or any of its subsidiaries (and any successor companies), other than any businesses, assets, properties and liabilities attributed in accordance with this Article to the DLT & Storage Systems group;

(ii) all businesses, assets, properties and liabilities transferred to the Hard Disk Drive group from the DLT & Storage Systems group pursuant to transactions in the ordinary course of business of the Hard Disk Drive group and the DLT & Storage Systems group or otherwise as the Board of Directors may have directed as permitted by the Certificate of Incorporation; and

(iii) the interest of the Corporation or any of its subsidiaries in any business or asset acquired and any liabilities assumed by the Corporation or any of its subsidiaries outside of the ordinary course of business and attributed to the Hard Disk Drive group, as determined by the Board of Directors as contemplated by Section 2.5(a)(i);

provided that from and after any transfer of any assets or properties from the Hard Disk Drive group to the DLT & Storage Systems group, the Hard Disk Drive group shall no longer include such assets or properties so transferred.

(k) The HDDG Available Dividend Amount shall mean, on any date, either:

(x) (i) an amount equal to the fair market value of the total assets attributed to the Hard Disk Drive group less the total liabilities attributed to the Hard Disk Drive group (provided that preferred stock shall not be treated as a liability), in each case, as of such date and determined on a basis consistent with that applied in determining the HDDG Net Income (Loss), minus (ii) the aggregate par value of, or any greater amount determined in accordance with applicable law to be capital in respect of, all outstanding shares of HDDG Stock and each class or series of preferred stock attributed in accordance with the Certificate of Incorporation to the Hard Disk Drive group, or

(y) in case the total amount calculated pursuant to clause (i) above is not a positive number, an amount equal to the HDDG Net Income (Loss) (if positive) for the fiscal year in which the dividend is declared and/or the preceding fiscal year.

Notwithstanding the foregoing provisions of this Section 2.6(k), and consistent with Section 2.5(c), at any time when there are not outstanding both (i) one or more shares of DSSG Stock or Convertible Securities convertible into or exchangeable or exercisable for DSSG Stock and (ii) one or more shares of HDDG Stock or Convertible Securities convertible into or exchangeable or exercisable for HDDG Stock, the "Available Dividend Amount," on any calculation date during such time period, with respect to the DSSG Stock or the HDDG Stock, as the case may be (depending on which of such classes of Common Stock or Convertible Securities convertible into or exchangeable or exercisable for such class of Common Stock is outstanding), shall mean the amount available for the payment of dividends on such Common Stock in accordance with law.

(l) The HDDG Net Income (Loss) shall mean, for any period through any date, (i) the net income or loss of the Hard Disk Drive group for such period determined in accordance with generally accepted accounting

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principles in effect at such time, reflecting income and expense of the Corporation attributed to the Hard Disk Drive group on a basis substantially consistent with attributions of income and expense made in the calculation of the DLT & Storage Systems group Net Income (Loss), including, without limitation, corporate administrative costs, net interest and other financial costs and income taxes.

(m) Market Capitalization of any class or series of capital stock on any date shall mean the product of (i) the Market Value of one share of such class or series of capital stock on such date and (ii) the number of shares of such class or series of capital stock outstanding on such date.

(n) Market Value of a share of any class or series of capital stock of the Corporation on any day shall mean the average of the high and low reported sales prices regular way of a share of such class or series on such Trading Day or, in case no such reported sale takes place on such Trading Day, the average of the reported closing bid and asked prices regular way of a share of such class or series on such Trading Day, in either case as reported on the Nasdaq National Market System or, if the shares of such class or series are not quoted on the Nasdaq National Market System on such Trading Day, on the principal national securities exchange in the United States on which the shares of such class or series are listed or admitted to trading or, if not listed or admitted to trading on any national securities exchange on such Trading Day, the average of the closing bid and asked prices of a share of such class or series in the

over-the-counter market on such Trading Day as furnished by any New York Stock Exchange member firm selected from time to time by the Corporation or, if such closing bid and asked prices are not made available by any such New York Stock Exchange member firm on such Trading Day, the Fair Value of a share of such class or series as set forth in clause (ii) of the definition of Fair Value; provided that, for purposes of determining the "Market Value" of a share of any class or series of capital stock for any period, (i) the "Market Value" of a share of capital stock on any day prior to any "ex-dividend" date or any similar date occurring during such period for any dividend or distribution (other than any dividend or distribution contemplated by clause (ii)(B) of this sentence) paid or to be paid with respect to such capital stock shall be reduced by the Fair Value of the per share amount of such dividend or distribution and (ii) the "Market Value" of any share of capital stock on any day prior to (A) the effective date of any subdivision (by stock split or otherwise) or combination (by reverse stock split or otherwise) of outstanding shares of such class or series of capital stock occurring during such period or (B) any "ex-dividend" date or any similar date occurring during such period for any dividend or distribution with respect to such capital stock to be made in shares of such class or series of capital stock or Convertible Securities that are convertible, exchangeable or exercisable for such class or series of capital stock shall be appropriately adjusted, as determined by the Board of Directors, to reflect such subdivision, combination, dividend or distribution.

(o) Market Value Ratio of HDDG Stock to DSSG Stock as of any date shall mean the fraction (which may be greater or less than 1/1), expressed as a decimal (rounded to the nearest five decimal places), of a share of DSSG Stock (or another class or series of common stock of the Corporation, if so provided by Section 2.4(b)(iii) because DSSG Stock is not then Publicly Traded) to be issued in respect of a share of HDDG Stock upon a conversion of HDDG Stock into DSSG Stock (or another class or series of common stock of the Corporation) in accordance with Section 2.4(b)(iii) the numerator of which shall be the average Market Value of one share of HDDG Stock during the 20-Trading Day period ending on such date and the denominator of which shall be the average Market Value of one share of DSSG Stock (or such other common stock) during the 20-Trading Day period ending on such date.

(p) Market Value Ratio of DSSG Stock to HDDG Stock as of any date shall mean the fraction (which may be greater or less than 1/1), expressed as a decimal (rounded to the nearest five decimal places), of a share of HDDG Stock (or another class or series of common stock of the Corporation, if so provided by Section 2.4(a)(iii) because HDDG Stock is not then Publicly Traded) to be issued in respect of a share of DSSG Stock upon a conversion of DSSG Stock into HDDG Stock (or another class or series of common stock of the Corporation) in accordance with Section 2.4(a)(iii), the numerator of which shall be the average Market Value of one share of DSSG Stock during the 20-Trading Day period ending on such date and the denominator of

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which shall be the average Market Value of one share of HDDG Stock (or such other common stock) during the 20-Trading Day period ending on such date.

(q) Net Proceeds shall mean, as of any date with respect to any Disposition of any of the properties and assets attributed to the DLT & Storage Systems group or the Hard Disk Drive group, as the case may be, an amount, if any, equal to what remains of the gross proceeds of such Disposition after payment of, or reasonable provision is made as determined by the Board of Directors for, (i) any taxes payable by the Corporation (or which would have been payable but for the utilization of tax benefits attributable to the other Group) in respect of such Disposition or in respect of any resulting dividend or redemption pursuant to Section 2.4(a)(i)(1)(A), 2.4(a)(i)(1)(B), 2.4(b)(i)(1)(A) or 2.4(b)(i)(1)(B), (ii) any transaction costs, including, without limitation, any legal, investment banking and accounting fees and expenses and (iii) any liabilities (contingent or otherwise) of or attributed to such Group, including, without limitation, any liabilities for deferred taxes or any indemnity or guarantee obligations of the Corporation incurred in connection with the Disposition or otherwise, and any liabilities for future purchase price adjustments and any preferential amounts plus any accumulated and unpaid dividends in respect of the preferred stock attributed to such Group. For purposes of this definition, any properties and assets attributed to the Group, the properties and assets of which are subject to such Disposition, remaining after such Disposition shall constitute a reasonable provision for such amount of taxes, costs and liabilities (contingent or otherwise) as the Board of Directors determines can be expected to be supported by such properties and assets.

(r) Publicly Traded with respect to any security shall mean that such security is (i) registered under Section 12 of the Securities Exchange Act of 1934, as amended (or any successor provision of law), and (ii) listed for trading on the New York Stock Exchange or the American Stock Exchange (or any national securities exchange registered under Section 7 of the Securities Exchange Act of 1934, as amended (or any successor provision of law), that is the successor to either such exchange) or listed on The Nasdaq Stock Market (or any successor market system).



(s) Redemption Date shall mean the date fixed by the Board of Directors as the effective date for a redemption of shares of either class of Common Stock, as set forth in a notice to holders thereof required pursuant to Section 2.4(f) (iii), (iv), (v) or (vi).

(t) Related Business Transaction means any Disposition of all or substantially all the properties and assets attributed to the DLT & Storage Systems group or the Hard Disk Drive group, as the case may be, in a transaction or series of related transactions that result in the Corporation receiving in consideration of such properties and assets primarily equity securities (including, without limitation, capital stock, debt securities convertible into or exchangeable for equity securities or interests in a general or limited partnership or limited liability company, without regard to the voting power or other management or governance rights associated therewith) of any entity which (i) acquires such properties or assets or succeeds (by merger, formation of a joint venture or otherwise) to the business conducted with such properties or assets or controls such acquiror or successor and (ii) is engaged primarily or proposes to engage primarily in one or more businesses similar or complementary to the businesses conducted by such Group prior to such Disposition, as determined by the Board of Directors.

(u) Tax Event shall mean the receipt by the Corporation of an opinion of a tax advisor to the Corporation experienced in such matters, who shall not be an officer or employee of the Corporation or any of its affiliates, that, as a result of any amendment to, or change in, the laws (or any regulations thereunder) of the United States or any political subdivision or taxing authority thereof or therein (including any announced proposed change by an applicable legislative committee or the chair thereof in such laws or by an administrative agency in such regulations), or as a result of any official or administrative pronouncement or action or judicial decision interpreting or applying such laws or regulations, it is more likely than not that for United States federal income tax purposes (i) the Corporation or its stockholders is or, at any time in the future, will be subject to tax upon the issuance of shares of either DSSG Stock or HDDG Stock or (ii) either DSSG Stock or HDDG Stock is not or, at any time in the future, will not be treated solely as stock of the Corporation. For purposes of

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rendering such opinion, the tax advisor shall assume that any legislative or administrative proposals will be enacted or adopted as proposed.

(v) Trading Day shall mean each weekday other than any day on which the relevant class of common stock of the Corporation is not traded on any national securities exchange or listed on The Nasdaq Stock Market or in the over-the-counter market.

Section 3. Preferred Stock. The Preferred Stock may be issued from time to time in one or more series, each with such distinctive designation as may be stated in the Certificate of Incorporation or in any amendment hereto, or in a resolution or resolutions providing for the issue of such stock from time to time adopted by the Board of Directors. The resolution or resolutions providing for the issue of shares of a particular series shall fix, subject to applicable laws and the provisions of the Certificate of Incorporation, for each such series the number of shares constituting such series and the designation and the voting powers, preferences and relative, participating, optional or other special rights and the qualifications, limitations or restrictions thereof, including, without limiting the generality of the foregoing, such provisions as may be desired concerning voting, redemption, dividends, dissolution or the distribution of assets, conversion or exchange, and such other subjects or matters as may be fixed by the Board of Directors under the DGCL.

The Board of Directors is further authorized to increase or decrease the number of shares of any series, the number of which was fixed by it, subsequent to the issue of shares of such series then outstanding, subject to the limitations and restrictions stated in the resolution or resolutions of the Board of Directors originally fixing the number of shares of such series. If the number of shares of any series is so decreased, then the shares constituting such decreases shall resume the status which they had prior to the adoption of the resolution fixing the number of shares of such series.

#### ARTICLE V.

##### DURATION

The Corporation is to have perpetual existence.

#### ARTICLE VI.

##### BOARD OF DIRECTORS

Section 1. Number of Directors. The number of directors which constitute the whole Board of Directors shall be as specified in the By-laws of the

Corporation.

Section 2. Powers of the Board of Directors. In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to make, alter, amend or repeal the By-laws of the Corporation.

ARTICLE VII.

CUMULATIVE VOTING

Subject to Article X hereof, at all elections of directors of the Corporation, each holder of stock or of any class or classes or of a series or series thereof shall be entitled to as many votes as shall equal the number of votes which (except for this provision as to cumulative voting) he would be entitled to cast for the election of directors with respect to his shares of stock multiplied by the number of directors to be elected, and he may cast all of such votes for a single director or may distribute them among the number of directors to be voted for, or for any two or more of them as he may see fit.

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ARTICLE VIII.

MEETINGS OF STOCKHOLDERS

Meetings of stockholders may be held within or without the State of Delaware, as the By-laws may provide. The books of the Corporation may be kept (subject to any provision contained in the Statutes) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the By-laws of the Corporation.

ARTICLE IX.

LIMITATION ON LIABILITY OF DIRECTORS

To the fullest extent permitted by the DGCL as the same exists or as may hereafter be amended, a director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. Neither any amendment nor repeal of this Article IX shall, nor the adoption of any provision of this Certificate of Incorporation inconsistent with this Article IX, shall eliminate or reduce the effect of this Article IX in respect of any matter occurring, or any cause of action, suit or claim that, but for this Article IX, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

ARTICLE X.

ADVANCE NOTICE

Advance notice of new business and stockholder nominations for, and cumulative voting in, the election of directors shall be given in the manner and to the extent provided in the By-laws of the Corporation.

ARTICLE XI.

AMENDMENT OF CERTIFICATE OF INCORPORATION

The Corporation reserves the right to amend, alter, change or repeal any provision contained in the Certificate of Incorporation in the manner now or hereafter prescribed by statute and all rights conferred upon stockholders herein are granted subject to this reservation.

IN WITNESS WHEREOF, this Restated Certificate of Incorporation which restates, integrates and amends the provisions of the certificate of incorporation of the Corporation, and which has been duly adopted by in accordance with the provisions of Sections 242 and 245 of the Delaware General Corporation Law, has been executed by \_\_\_\_\_, its \_\_\_\_\_, this \_\_\_\_\_ day of \_\_\_\_\_, 1999.

Quantum Corporation

By: \_\_\_\_\_  
Name:  
Title:

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ANNEX II

QUANTUM CORPORATION

EMPLOYEE STOCK PURCHASE PLAN

The following constitute the provisions of the Employee Stock Purchase Plan (herein called the "Plan") of Quantum Corporation (herein called the "Company").

1. Purpose. The purpose of the Plan is to provide employees of the Company and its Designated Subsidiaries with an opportunity to purchase Common Stock of the Company through accumulated payroll deductions. It is the intention of the Company to have the Plan qualify as an "Employee Stock Purchase Plan" under Section 423 of the Internal Revenue Code of 1986, as amended. The provisions of the Plan shall, accordingly, be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.

2. Definitions.

- (a) "Board" shall mean the Board of Directors of the Company.
- (b) "Code" shall mean the Internal Revenue Code of 1986, as amended.
- (c) "Common Stock" shall mean the Common Stock, \$.01 par value, of the Company.
- (d) "Company" shall mean Quantum Corporation, a Delaware corporation.
- (e) "Compensation" shall mean all regular straight time earnings, payments for overtime, shift premium, incentive compensation, incentive payments, bonuses and commissions (except to the extent that the exclusion of any such items for all participants is specifically directed by the Board or its committee).
- (f) "Continuous Status as an Employee" shall mean the absence of any interruption or termination of service as an Employee. Continuous Status as an Employee shall not be considered interrupted in the case of: (i) a leave of absence agreed to in writing by the Company, provided that such leave is for a period of not more than 90 days or re-employment upon the expiration of such leave is guaranteed by contract or statute; or (ii) notification by the Company of termination under a reduction-in-force. Termination in the case of a reduction-in-force shall be considered to have occurred at the end of the employee's continuation period.
- (g) "Designated Subsidiaries" shall mean the Subsidiaries which have been designated by the Board from time to time in its sole discretion as eligible to participate in the Plan.
- (h) "Employee" means any person, including an officer, who is customarily employed for at least twenty (20) hours per week by the Company or one of its Designated Subsidiaries.
- (i) "Enrollment Date" shall mean the first day of each Offering Period.
- (j) "Exercise Date" shall mean the date one day prior to the date six months, twelve months, eighteen months, or twenty-four months after the Enrollment Date of an Offering Period; provided, however, that the exercise date under the June 1991 and December 1991 offering periods shall mean the date one day prior to the date seven and one-half (7 1/2) months, thirteen and one-half (13 1/2) months, nineteen and one-half (19 1/2) months, or twenty-five and one-half (25 1/2) months after the enrollment date of such offering periods.
- (k) "Exercise Period" shall mean a period commencing on an Enrollment Date or on the day after an Exercise Date and terminating one day prior to the date six (6) months later; provided, however, that for the offering periods beginning June 1991 and December 1991 , the initial exercise period under such offering periods shall be the period commencing on the Enrollment Date and terminating one day prior to the date seven and one-half (7 1/2) months later.

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(l) "Offering Period" shall mean a period of twenty-four (24) months consisting of four six-month Exercise Periods, or as otherwise set forth in Section 4 hereof; provided, however, that the offering periods commencing in June 1991 and December 1991 shall be for a period of twenty-five and one-half (25 1/2) months consisting of one seven and one-half (7 1/2) exercise period and three six (6) month exercise periods during which options granted pursuant to the Plan may be exercised or as otherwise set forth in Section 4 hereof.

(m) "Plan" shall mean this Employee Stock Purchase Plan.

(n) "Subsidiary" shall mean a corporation, domestic or foreign, of which not less than 50% of the voting shares are held by the Company or a Subsidiary, whether or not such corporation now exists or is hereafter organized or acquired by the Company or a Subsidiary.

3. Eligibility.

(a) Any Employee (as defined in paragraph 2) who shall be employed by the Company on the date his participation in the Plan is effective shall be eligible to participate in the Plan, subject to limitations imposed by Section 423 (b) of the Code.

(b) Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an option under the Plan (i) if, immediately, after the grant, such Employee (or any other person whose stock would be attributed to such Employee pursuant to Section 425 (d) of the Code) would own shares and/or hold outstanding options to purchase stock possessing five percent (5%) or more of the total combined voting power or value of all classes of shares of the Company or of any subsidiary of the Company, or (ii) which permits his rights to purchase shares under all employee stock plans of the Company and its subsidiaries to accrue at a rate which exceeds Twenty-Five Thousand Dollars (\$25,000) of the fair market value of the shares (determined at the time such option is granted) for each calendar year in which such stock option is outstanding at any time.

4. Offering Dates. The Plan shall be implemented by consecutive Offering Periods with a new Offering Period commencing on or about January 25 and July 25 of each year, and shall continue thereafter until terminated in accordance with paragraph 20 or 24 hereof; provided, however, that the Offering Period which began in June 1991 and the Offering Period planned to begin in December 1991 shall continue in effect for twenty-five and one-half (25 1/2) months and shall run concurrently with January and July Offering Periods until the respective twenty-five and one-half month term for the June and December 1991 Offering Periods has expired. Thereafter, Offering Periods shall begin only in January and July. The Board of Directors of the Company shall have the power to change the duration of Offering Periods and Exercise Periods with respect to future offerings without stockholder approval if such change is announced at least fifteen (15) days prior to the scheduled beginning of the first Offering Period to be affected. In no event shall the duration of an Offering Period exceed twenty-seven (27) months. Notwithstanding the foregoing, no offers hereunder shall be made until compliance with all applicable securities law has been obtained.

#### 5. Participation.

(a) An eligible Employee may become a participant in the Plan by completing a subscription agreement authorizing payroll deduction on the form provided by the Company and filing it with the Company's payroll office prior to the applicable Enrollment Date, unless a later time for filing the subscription agreement is set by the Board for all eligible Employees with respect to a given Offering Period.

(b) Payroll deductions for a participant shall commence on the first payroll following the Enrollment Date and shall end on the last payroll date in the Offering Period to which such authorization is applicable, unless sooner terminated by the participant as provided in paragraph 11.

#### 6. Payroll Deductions.

(a) At the time a participant files his subscription agreement, he shall elect to have payroll deductions made on each payday during the Offering Period at a rate not exceeding ten percent (10%) of the Compensation which he received on such payday, and the aggregate of such payroll deductions pursuant to the

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Plan during the Offering Period shall not exceed ten percent (10%) of his aggregate Compensation during said Offering Period.

(b) All payroll deductions made for a participant shall be credited to his account under the Plan. A participant may not make any additional payments into such account.

(c) A participant may discontinue participation in the Plan as provided in paragraph 11, or may change the rate of payroll deductions by giving written notice to the Company authorizing a change in the participant's payroll deduction rate. The change rate shall be effective (i) in the case of a decrease in rate, with the first payroll period following the Company's receipt of the notice of rate change, and (ii) in the case of an increase in rate at the beginning of the next Exercise Period following the Company's receipt of the notice of rate exchange.

#### 7. Grant of Option.

(a) On the Enrollment Date of each Offering Period, each eligible Employee participating in such Offering Period shall be granted an option to purchase on each Exercise Date during such Offering Period up to a number of shares of the Company's Common Stock determined by dividing such Employee's payroll deductions accumulated during the Exercise Period ending on such Exercise Date by the lower of (i) eighty-five percent (85%) of the fair market value of a share of the Company's Common Stock on the Enrollment Date or (ii) eighty-five

(85%) of the fair market value of a share of the Company's Common Stock on the Exercise Date; provided that in no event shall an Employee be permitted to purchase during each 24-month Offering Period more than a number of shares determined by dividing \$50,000 by the fair market value of a share of the Company's Common Stock on the Enrollment Date, and provided further that such purchase shall be subject to the limitations set forth in paragraphs 3(b) and 13 hereof. The option shall be automatically exercised on the Exercise Dates during the Offering Period, unless the participant has withdrawn pursuant to paragraph 11, and shall expire on the last day of the Offering Period. Fair market value of a share of the Company's Common Stock shall be determined as provided in paragraph 7(b) herein.

(b) The option price per share of the shares offered in a given offering Period shall be the lower of: (i) 85% of the fair market value of a share of the Common Stock of the Company on the Enrollment Date; or (ii) 85% of the fair market value of a share of the Common Stock of the Company on the Exercise Date. The fair market value of the Company's Common Stock on a given date shall be determined by the Board in its discretion; provided, however, that where there is a public market for the Common Stock, the fair market value per share shall be the closing price of the Common Stock for such date, as reported by the NASDAQ National Market System, or, in the event the Common Stock is listed on a stock exchange, the fair market value per share shall be the closing price on such exchange on such date, as reported in The Wall Street Journal.

(c) Notwithstanding the foregoing, to the extent necessary to comply with Section 423 (b) (8) of the Code and paragraph 3 (b) herein, a participant's payroll deductions may be decreased to 0% at such time during any Exercise Period which is scheduled to end during the current calendar year that the aggregate of all payroll deductions accumulated with respect to such Exercise Period and any other Exercise Period ending within the same calendar year equal \$21,250. Payroll deductions shall recommence at the rate provided in such participant's subscription scheduled to end in the following calendar year, unless terminated by the participant as provided in paragraph 11.

8. Exercise of Option. The participant's option for the purchase of shares will be exercised automatically on each Exercise Date of each Offering Period and the maximum number of full shares subject to option will be purchased for such participant at the applicable option price with the accumulated payroll deductions in his account unless prior to such Exercise Date the participant has withdrawn from the Offering Period as provided in paragraph 11. During a participant's lifetime, a participant's option to purchase shares hereunder is exercisable only by the participant. Any amount remaining in the participant's account after an Exercise Date shall be held in the account until the next Exercise Date in such Offering Period, unless the Offering Period has been over-subscribed or has terminated with such Exercise Date, in which case such amount shall be refunded to the participant.

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9. Delivery. As promptly as practicable after each Exercise Date, the Company shall arrange the delivery to each participant, as appropriate, of a certificate representing the shares purchased upon exercise of the option.

10. Automatic Transfer to Low Price Offering Period. If the fair market value of the Company's Common Stock on the first day of an Offering Period then in progress exceeds the fair market value of the Company's Common Stock on the first day of any subsequent Offering Period commencing immediately following an Exercise Date within the Offering Period in progress, then each participant in the Offering Period in progress shall be deemed to have withdrawn from the Offering Period in progress shall be deemed to have withdrawn from the Offering Period in progress immediately following the exercise of his option on such Exercise Date and to have enrolled in such subsequent Offering Period as of the first day thereof.

11. Withdrawal; Termination of Employment.

(a) A participant may withdraw all but not less than all the payroll deductions credited to his account under the Plan at any time prior to the end of the Offering Period by giving written notice to the Company. All of the participant's payroll deductions credited to his account will be paid to him promptly after receipt of his notice of withdrawal and his option for the current Offering Period will be automatically terminated, and no further payroll deductions for the purchase of shares will be made during the Offering Period. If a participant withdraws from an Offering Period, payroll deductions will not resume at the beginning of the succeeding Offering Period unless the participant delivers to the Company a new subscription agreement.

(b) Upon termination of the participant's employment prior to the end of the Offering Period for any reason, including retirement or death, the payroll deductions credited to his account will be returned to him or, in the case of his death, to the person or persons entitled thereto under paragraph 15, and his option will be automatically terminated.

(c) In the event a participant fails to remain in continuous Status as an Employee of the Company for at least twenty (20) hours per week during the

Offering Period in which the employee is a participant, the participant will be deemed to have elected to withdraw from the Plan and the payroll deductions credited to his account will be returned to such participant and such participant's option terminated; provided that

(i) if an Employee shall take a leave of absence approved by the Company in accordance with paragraph 2(f) of this Plan during an Offering Period in which the Employee is a participant, the participant will be deemed to have his or her payroll deductions reduced to 0% during such leave of absence, but he shall continue to be a participant in the applicable Offering Period and upon his return to full-time employment with the Company shall be eligible to participate fully in any remaining portion of the applicable Offering Period. If the participant fails to return to full-time employment with the Company at the end of such authorized leave of absence, or if his employment is otherwise terminated earlier, he shall be deemed to have withdrawn from participation in the Plan; and

(ii) if an Employee begins working part-time (fewer than twenty (20) hours per week) with the intent of returning to full-time employment before the end of the Offering Period in which he is currently participating, the participant will be deemed to have withdrawn from the applicable Exercise Period, the payroll deductions credited to his account will be returned to him, and the rate of his payroll deductions shall be reduced to 0% during such part-time employment, but he shall continue to be a participant in the applicable Offering Period, and upon his return to full-time employment with the Company he shall be eligible to participate fully in any remaining portion of the applicable Offering Period. If the participant fails to return to full-time employment with the Company before the end of the applicable Offering Period, or if his employment with the Company is otherwise terminated earlier, he shall be deemed to have withdrawn from participation in the Plan.

(d) A participant's withdrawal from an Offering Period will not have any effect upon his eligibility to participate in any similar plan which may hereafter be adopted by the Company or in succeeding Offering Periods.

#### Annex II-4

12. Interest. No interest shall accrue on the payroll deductions of a participant in the Plan.

13. Stock.

(a) The maximum number of shares of the Company's Common Stock which shall be made available for sale under the Plan shall be made available for sale under the Plan shall be 3,366,401 shares, plus an increase to be added on April 1 of each year beginning on April 1, 2000 and ending on and including April 1, 2005 equal to the lesser of (i) 5,000,000 shares, (ii) 2% of the outstanding shares on such date or (iii) a lesser amount determined by the Board, subject to adjustment upon changes in capitalization of the Company as provided in paragraph 19. If the total number of shares which would otherwise be subject to options granted pursuant to paragraph 7 (a) hereof at the beginning of an Offering Period exceeds the number of shares then available under the Plan (after deduction of all shares for which options have been exercised or are then outstanding), the Company shall make a pro rata allocation of the shares remaining available for option grant in as uniform a manner as shall be practicable and as it shall determine to be equitable. In such event, the Company shall give written notice of such reduction of the number of shares subject to the option to each Employee affected thereby and shall similarly reduce the rate of payroll deductions, if necessary.

(b) The participant will have no interest or voting right in shares covered by his option until such option has been exercised.

(c) Shares to be delivered to a participant under the Plan will be registered in the name of the participant or in the name of the participant and his spouse, or as otherwise directed by the participant.

14. Administration. The Plan shall be administered by the Board of Directors of the Company or a committee appointed by the Board. The administration, interpretation or application of the Plan by the Board or its committee shall be final, conclusive and binding upon all participants. Members of the Board who are eligible Employees are permitted to participate in the Plan, provided that:

(a) Members of the Board who are eligible to participate in the Plan may not vote on any matter affecting the administration of the Plan or the grant of any option pursuant to the Plan.

(b) If a Committee is established to administer the Plan, no member of the Board who is eligible to participate in the Plan may be a member of the Committee.

15. Designation of Beneficiary.

(a) A participant may file a written designation of a beneficiary who is to receive any shares and cash, if any, from the participant's account under the Plan in the event of such participant's death subsequent to the end of the Offering Period but prior to delivery to him of such shares and cash. In addition, a participant may file a written designation of a beneficiary who is to receive any cash from the participant's account under the Plan in the event of such participant's death prior to the end of the Offering Period.

(b) Such designation of beneficiary may be changed by the participant at any time by written notice. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company shall deliver such shares and/or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

16. Transferability. Neither payroll deductions credited to a participant's account nor any rights with regard to the exercise of an option or to receive shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution or as provided in paragraph 15 hereof) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds in accordance with paragraph 11.

#### Annex II-5

17. Use of Funds. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions.

18. Reports. Individual accounts will be maintained for each participant in the Plan. Statements of account will be given to participating Employees at least annually promptly following the Exercise Date, which statements will set forth the amounts of payroll deductions, the per share purchase price, the number of shares purchased and the remaining cash balance, if any.

19. Adjustments Upon Changes in Capitalization. Subject to any required action by the stockholders of the Company, the number of shares of Common Stock covered by each option under the Plan which has not yet been exercised and the number of shares of Common Stock which have been authorized for issuance under the Plan but have not yet been placed under option (collectively, the "Reserves"), as well as the price per share of Common Stock covered by each option under the Plan which has not yet been exercised, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split or the payment of a stock dividend (but only on the Common Stock) or any other increase or decrease in the number of shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to the number or price of shares of Common Stock subject to an Option.

The Board may, if it so determines in the exercise of its sole discretion, also make provision for adjusting the Reserves, as well as the price per share of Common Stock covered by each outstanding option, in the event that the Company effects one or more reorganizations, recapitalizations, rights offerings or other increases or reductions of shares of its outstanding Common Stock, and in the event of the Company being consolidated with or merged into any other corporation.

#### 20. Amendment or Termination.

(a) The Board of Directors of the Company may at any time and for any reason terminate or amend the Plan. Except as provided in Section 19 hereof, no such termination can affect options previously granted, provided that an Offering Period may be terminated by the Board of Directors on any Exercise Date if the Board determines that the termination of the Offering Period or the Plan is in the best interests of the Company and its shareholders. Except as provided in Section 19 and this Section 20 hereof, no amendment may make any change in any option theretofore granted which adversely affects the rights of any participant. To the extent necessary to comply with Section 423 of the Code (or any successor rule or provision or any other applicable law, regulation or stock exchange rule), the Company shall obtain shareholder approval in such a manner and to such a degree as required.

(b) Without shareholder consent and without regard to whether any participant rights may be considered to have been "adversely affected," the

Board (or its committee) shall be entitled to change the Offering Periods, limit the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each participant properly correspond with amounts withheld from the participant's Compensation, and establish such other limitations or procedures as the Board (or its committee) determines in its sole discretion advisable which are consistent with the Plan.

Annex II-6

(c) In the event the Board determines that the ongoing operation of the Plan may result in unfavorable financial accounting consequences, the Board may, in its discretion and, to the extent necessary or desirable, modify or amend the Plan to reduce or eliminate such accounting consequence including, but not limited to:

(i) altering the Purchase Price for any Offering Period including an Offering Period underway at the time of the change in Purchase Price;

(ii) shortening any Offering Period so that Offering Period ends on a new Exercise Date, including an Offering Period underway at the time of the Board action; and (iii) allocating shares.

Such modifications or amendments shall not require stockholder approval or the consent of any Plan participants.

21. Notices. All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

22. Stockholder Approval. Continuance of the Plan and, if required by paragraph 20, any amendment thereto shall be subject to approval by the stockholders of the Company within twelve months before or after the date the Plan or such amendment is adopted. If such stockholder approval is obtained at a duly held stockholders' meeting, it may be obtained by the affirmative vote of the holders of a majority of the outstanding shares of the Company present or represented and entitled to vote thereon, which approval shall be:

(a) (1) solicited substantially in accordance with Section 14 (a) of the Securities Act of 1934 as amended (the "Act") and the rules and regulations promulgated thereunder, or (2) solicited after the Company has furnished in writing to the holders entitled to vote substantially the same information concerning the Plan as that which would be required by the rules and regulations in effect under Section 14 (a) of the Act at the time such information is furnished; and

(b) obtained at or prior to the first annual meeting of stockholders held subsequent to the later of (i) the first registration of Common Stock under Section 12 of the Act, or (ii) the acquisition of an equity security for which exemption is claimed.

In the case of approval by written consent, it must be obtained in accordance with applicable state law.

23. Conditions Upon Issuance of Shares. Shares shall not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the shares are being purchased only for investment and without any present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

24. Term of Plan. The Plan shall become effective upon the earlier to occur of its adoption by the Board of Directors or its approval by the stockholders of the Company as described in paragraph 22. It shall continue in effect for a term of twenty (20) years unless sooner terminated under paragraph 20.

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INFORMATION NOT REQUIRED IN PROSPECTUS

Item 20. Indemnification of Directors and Officers.

Section 145 of the Delaware General Corporation Law (the "DGCL") permits the company's board of directors to indemnify any person against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with any threatened, pending or completed action (except settlements or judgments in derivative suits), suit or proceeding in which such person is made a party by reason of his or her being or having been a director, officer, employee or agent of the company, in terms sufficiently broad to permit such indemnification under certain circumstances for liabilities (including reimbursement for expenses incurred) arising under the Securities Act of 1933, as amended (the "Securities Act"). The statute provides that indemnification pursuant to its provisions is not exclusive of other rights of indemnification to which a person may be entitled under any by-law, agreement, vote of stockholders or disinterested directors, or otherwise.

The company's by-laws provide for the mandatory indemnification of its directors, officers, employees and other agents to the maximum extent permitted by the DGCL, and the company has entered into agreements with its officers, directors and certain key employees implementing such indemnification.

As permitted by sections 102 and 145 of the DGCL the company's certificate of incorporation eliminates a director's personal liability for monetary damages to the company and its stockholders arising from a breach or alleged breach of a director's fiduciary duty except for liability under section 174 of the DGCL, for liability for any breach of the director's duty of loyalty to the company or its stockholders, for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law or for any transaction which the director derived an improper personal benefit.

The directors and officers of the company are covered by insurance policies indemnifying against certain liabilities, including certain liabilities arising under the Securities Act which might be incurred by them in such capabilities and against which they cannot be indemnified by the company.

Item 21. Exhibits and Financial Statement Schedules.

(a) Exhibits

<TABLE>

<C> <S>

- 3.1 Form of Restated Certificate of Incorporation (included as Annex I to the Proxy Statement and Prospectus).
- 3.2 Form of By-laws.
- 3.3 Form of Certificate of Designations for the Series B Participating Junior Preferred Stock and Series C Participating Junior Preferred Stock (included as Exhibit A of the Restated Preferred Shares Rights Agreement contained in Exhibit 4.1).
- 4.1 Form of Restated Preferred Shares Rights Agreement between Quantum Corporation and Harris Trust and Savings Bank.
- 5.1 Opinion of Wilson Sonsini Goodrich & Rosati, P.C., as to the legality of the securities.
- 8.1 Opinion of Ernst & Young LLP, as to tax matters.
- 10.1 Quantum Corporation Employee Stock Purchase Plan, as amended (included as Annex II to the Proxy Statement and Prospectus).
- 23.1 Consent of Ernst & Young LLP, Independent Auditors.
- 23.2 Independent Accountant's Consent.
- 23.3 Consent of Wilson Sonsini Goodrich & Rosati, P.C. (contained in Exhibit 5.1).
- 23.4 Consent of Ernst & Young LLP, as to tax matters (contained in Exhibit 8.1).
- 24.1\* Powers of Attorney.
- 27.1 Financial Data Schedule.
- 99.1\* Form of Proxy.

</TABLE>

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Item 22. Undertakings.

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement;

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in the volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high and of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" Table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the registration statement is on Form S-3, Form S-8 or Form F-3, and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Commission by the registrant pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 that are incorporated in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) (1) The undersigned registrant hereby undertakes as follows: that prior to any public reoffering of the securities registered hereunder through use of a prospectus which is a part of this registration statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), the issuer undertakes that such reoffering prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other items of the applicable form.

(2) The registrant undertakes that every prospectus: (i) that is filed pursuant to paragraph (1) immediately preceding, or (ii) that purports to meet the requirements of Section 10(a)(3) of the Act and is used in connection with an offering of securities subject to Rule 415, will be filed as a part of an

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amendment to the registration statement and will not be used until such amendment is effective, and that, for purposes of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(d) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether

such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(e) The undersigned registrant hereby undertakes to respond to requests for information that is incorporated by reference into the prospectus pursuant to Item 4, 10(b), 11 or 13 of this form, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the registration statement through the date corresponding to the request.

(f) The undersigned registrant hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Milpitas, State of California, on June 10, 1999.

Quantum Corporation

By \*

-----  
 Name: Michael A. Brown  
 Title: Chairman of the Board and  
 Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

<TABLE>  
 <CAPTION>

Signature -----	Title -----	Date ----
<S> * _____ (Michael A. Brown)	<C> Chairman of the Board and Chief Executive Officer	<C> June 10, 1999
* _____ (Richard L. Clemmer)	Vice President, Finance and Chief Financial Officer	June 10, 1999
* _____ (Steven C. Wheelwright)	Director	June 10, 1999
* _____ (Stephen M. Berkeley)	Director	June 10, 1999
* _____ (David A. Brown)	Director	June 10, 1999
* _____ (Robert J. Casale)	Director	June 10, 1999
* _____ (Edward M. Esber, Jr.)	Director	June 10, 1999
/s/ Richard L. Clemmer _____ Richard L. Clemmer Attorney-in-Fact	Director	June 10, 1999

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EXHIBIT INDEX

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- 3.3 Form of Certificate of Designations for the Series B Participating Junior Preferred Stock and Series C Participating Junior Preferred Stock (included as Exhibit A of the Restated Preferred Shares Rights Agreement contained in Exhibit 4.1).
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- 10.1 Quantum Corporation Employee Stock Purchase Plan, as amended (included as Annex II to the Proxy Statement and Prospectus).
- 23.1 Consent of Ernst & Young LLP, Independent Auditors.
- 23.2 Independent Accountant's Consent.
- 23.3 Consent of Wilson Sonsini Goodrich & Rosati, P.C. (contained in Exhibit 5.1).
- 23.4 Consent of Ernst & Young LLP, as to tax matters (contained in Exhibit 8.1).
- 24.1\* Powers of Attorney.
- 27.1 Financial Data Schedule.
- 99.1\* Form of Proxy.

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Quantum Corporation

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AMENDED AND RESTATED BYLAWS

OF

QUANTUM CORPORATION

ARTICLE I

CORPORATE OFFICES

1.1 REGISTERED OFFICE

The registered office of the corporation shall be in the city of Dover, County of Kent, State of Delaware. The name of the registered agent of the corporation at such location is Incorporating Services, Ltd.

1.2 OTHER OFFICES

The Board of Directors may at any time establish other offices at any place or places where the corporation is qualified to do business.

ARTICLE II

MEETINGS OF STOCKHOLDERS

2.1 PLACE OF MEETINGS  
-----

Meetings of stockholders shall be held at any place, within or outside the State of Delaware, designated by the Board of Directors. In the absence of any such designation, stockholders' meetings shall be held at the registered office of the corporation.

2.2 ANNUAL MEETING  
-----

The Annual Meeting of Stockholders shall be held each year on a date and at a time designated by the Board of Directors. At the meeting, directors shall be elected and any other proper business may be transacted.

2.3 SPECIAL MEETING  
-----

A special meeting of the stockholders, may be called at any time by the Board of Directors, the Chairman of the Board, the President, or by one or more holders of shares entitled to cast not less than ten percent (10%) of the votes at the special meeting (determined as if the special meeting were

held on the date the requesting stockholder submits a written request to the corporation for a special meeting).

If a special meeting is called by any person or persons other than the Board of Directors, the request shall be in writing, specifying the time of such meeting and the general nature of the business proposed to be transacted, and shall be delivered personally or sent by registered mail or by telegraphic or other facsimile transmission to the Chairman of the Board, the President, any vice president, or the Secretary of the corporation. No business may be transacted at such special meeting otherwise than specified in such notice. The officer receiving the request shall cause notice to be promptly given to the stockholders entitled to vote, in accordance with the provisions of Sections 2.4 and 2.7 of this Article II, that a meeting will be held not less than thirty-five (35) nor more than sixty (60) days after the receipt of the request. If the notice is not given within twenty (20) days after the receipt of the request, the person or persons requesting the meeting may give the notice. Nothing contained in this paragraph of this Section 2.3 shall be construed as limiting, fixing, or affecting the time when a meeting of stockholders called by action of the Board of Directors may be held.

2.4 NOTICE OF STOCKHOLDERS' MEETINGS  
-----

All notices of meetings with stockholders shall be in writing and shall be sent or otherwise given in accordance with Section 2.7 of these Bylaws not less than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder entitled to vote at such meeting. The notice shall specify the place, date, and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called.

2.5 ADVANCE NOTICE OF STOCKHOLDER NOMINEES AND CUMULATIVE VOTING  
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Only persons who are nominated in accordance with the procedures set forth in this Section 2.5 shall be eligible for election as directors. Nominations of persons for election to the Board of Directors of the corporation may be made at a meeting of stockholders by or at the direction of the Board of Directors or by any stockholder of the corporation entitled to vote in the election of directors at the meeting who complies with the notice procedures set forth in this Section 2.5. Such nominations, other than those made by or at the direction of the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the corporation. Timely notice shall also be given of any stockholder's intention to cumulate votes in the election of directors at a meeting. In either case, to be timely, a stockholder's notice shall be delivered to or mailed and received at the principal executive officers of the corporation not less than twenty (20) days nor more than sixty (60) days prior to the meeting; provided, however, that in the event less than thirty (30) days notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the tenth day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made. Such stockholder's notice shall set forth (a) as to each person, if any, whom the stockholder proposes to nominate for election or re-election as a director: (i) the name, age, business address and residence address of such person, (ii) the principal

occupation or employment of such person, (iii) the class and number of shares of the corporation which are beneficially owned by such person, and (iv) any other information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in

each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including without limitation such person's written consent to being named in the proxy statement, if any, as a nominee and to serving as a director if elected); and (b) as to the stockholder giving the notice: (i) the name and address, as they appear on the corporation's books, of such stockholder, (ii) the class and number of shares of the corporation which are beneficially owned by such stockholder, and (iii) whether such stockholder intends to request cumulative voting in the election of directors at the meeting. At the request of the Board of Directors any person nominated by the Board for election as a director shall furnish to the Secretary of the corporation that information required to be set forth in the stockholder's notice of nomination which pertains to the nominee. No person shall be eligible for election as a director of the corporation unless nominated in accordance with the procedures set forth in this Section 2.5. The chairman of the meeting shall, if the facts warrant, determine and declare at the meeting that a nomination was not made in accordance with the procedures prescribed by these Bylaws, and if he should so determine, he shall so declare at the meeting and the defective nomination shall be disregarded.

## 2.6 ADVANCE NOTICE OF STOCKHOLDER BUSINESS

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At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be: (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (c) otherwise properly brought before the meeting by a stockholder. For business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the corporation not less than sixty (60) days nor more than ninety (90) days prior to the meeting; provided, however, that in the event that less than seventy (70) days notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the tenth day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made. A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting: (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address, as they appear on the corporation's books, of the stockholder proposing such business, (iii) the class and number of shares of the corporation which are beneficially owned by the stockholder, (iv) any material interest of the stockholder in such business and (v) any other information that is required to be provided by the stockholder pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, in his capacity as a proponent of a stockholder proposal. Notwithstanding the foregoing, in order to include information with respect to a stockholder proposal in the proxy statement and form of proxy for a stockholders' meeting, stockholders must provide notice as required by the regulations promulgated under the

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Securities and Exchange Act of 1934, as amended. Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at any annual meeting except in accordance with the procedures set forth in this Section 2.6. The chairman of the annual meeting shall, if the facts warrant, determine and declare at the meeting that business was not properly brought before the meeting and in accordance with the provisions of this Section 2.6, and, if he should so determine, he shall so declare at the meeting that any such business not properly brought before the meeting shall not be transacted.

## 2.7 MANNER OF GIVING NOTICE; AFFIDAVIT OF NOTICE

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Written notice of any meeting of stockholders, if mailed, is given when deposited in the United States mail, postage prepaid, directed to the stockholder at his address as it appears on the records of the corporation. An affidavit of the Secretary or an assistant secretary or of the transfer agent of the corporation that the notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

## 2.8 QUORUM

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The holders of the shares of capital stock of the Corporation entitled to cast a majority of the votes entitled to be cast by holders of all outstanding shares of capital stock entitled to vote, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute or by the Certificate of Incorporation. If, however, such quorum is not present or represented at any meeting of the stockholders, then either the chairman of the



meeting or the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present or represented. At such adjourned meeting at which a quorum is present or represented, any business may be transacted that might have been transacted at the meeting as originally noticed.

When a quorum is present at any meeting, the vote of the holders of the shares of capital stock having a majority of the voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which by express provision of the statutes or of the Certificate of Incorporation, a different vote is required in which case such express provision shall govern and control the decision of the question.

#### 2.9 ADJOURNED MEETING; NOTICE

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When a meeting is adjourned to another time or place, unless these Bylaws otherwise require, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the corporation may transact any business that might have been transacted at the original meeting. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

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#### 2.10 CONDUCT OF BUSINESS

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The chairman of any meeting of stockholders shall determine the order of business and the procedures at the meeting, including such matters as the regulation of the manner of voting and the conduct of business.

#### 2.11 VOTING; CUMULATIVE VOTING IN ELECTION OF DIRECTORS

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The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 2.14 of these Bylaws, subject to the provisions of Sections 217 and 218 of the General Corporation Law of Delaware (relating to voting rights of fiduciaries, pledgors and joint owners of stock and to voting trusts and other voting agreements).

Except as provided in the Certificate of Incorporation of the Corporation or by statute or in the last paragraph of this Section 2.11, or as may be otherwise provided in the Certificate of Incorporation, each stockholder shall be entitled to one vote for each share of capital stock held by such stockholder.

Every stockholder entitled to vote in any election of directors of this corporation may cumulate such stockholder's votes and give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which the stockholder's shares are otherwise entitled, or distribute the stockholder's votes on the same principle among as many candidates as such stockholder thinks fit. No stockholder, however, may cumulate such stockholder's votes for one or more candidates unless (a) the names of such candidates have been properly placed in nomination, in accordance with these Bylaws, prior to the voting, (b) the stockholder has given advance notice to the corporation of the intention to cumulate votes pursuant to Section 2.5 of these Bylaws, and (c) the stockholder has given proper notice to the other stockholders at the meeting, prior to voting, of such stockholder's intention to cumulate such stockholder's votes. If any one stockholder has given proper notice, all stockholders may cumulate their votes any candidates who have been properly placed in nomination. The candidates receiving the highest number of votes of the shares entitled to be voted for them up to the number of directors to be elected by such shares shall be declared elected. Elections of directors need not be by written ballot, except upon demand made by a stockholder at the meeting and before the voting begins.

#### 2.12 WAIVER OF NOTICE

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Whenever notice is required to be given under any provision of the General Corporation Law of Delaware, the Certificate of Incorporation or these Bylaws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice unless so required by the Certificate of Incorporation or these Bylaws.

2.13 STOCKHOLDER ACTION BY WRITTEN CONSENT WITHOUT A MEETING  
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Unless otherwise provided in the Certificate of Incorporation, any action required by these Bylaws or applicable laws to be taken at any annual or special meeting of stockholders of a corporation, or any action that may be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice, and without a vote if a consent in writing, setting forth the action so taken, is signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted.

Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing. If the action which is consented to is such as would have required the filing of a certificate under any section of the General Corporation Law of Delaware if such action had been voted on by stockholders at a meeting thereof, then the certificate filed under such section shall state, in lieu of any statement required by such section concerning any vote of stockholders, that written notice and written consent have been given as provided in Section 228 of the General Corporation Law of Delaware.

2.14 RECORD DATE FOR STOCKHOLDER NOTICE; VOTING; GIVING CONSENTS  
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In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting, nor more than sixty (60) nor less than ten (10) days prior to any other action.

If the Board of Directors does not so fix a record date:

(a) The record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

(b) The record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is necessary, shall be the day on which the first written consent is expressed.

(c) The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

2.15 PROXIES  
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Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for him by a written proxy or proxy in such other form as may be authorized by the Corporation, signed by the stockholder and filed with the Secretary of the corporation, but no such proxy shall be voted or acted upon after three (3) years from its date, unless the proxy provides for a longer period. A proxy shall be deemed signed if the stockholder's name is placed on the proxy or otherwise clearly identified as giving the signatory authority of the stockholder or the stockholder's attorney-in-fact (whether by manual signature, typewriting, telegraphic transmission, electronic transmission via the Internet or similar means, telephonic confirmation or otherwise). The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Section 212(c) of the General Corporation Law of Delaware.

2.16 LIST OF STOCKHOLDERS ENTITLED TO VOTE  
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The officer who has charge of the stock ledger of a corporation shall

prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. Such list shall presumptively determine the identity of the stockholders entitled to vote at the meeting and the number of shares held by each of them.

### ARTICLE III

#### DIRECTORS

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##### 3.1 POWERS

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Subject to the provisions of the General Corporation Law of Delaware and any limitations in the Certificate of Incorporation or these Bylaws relating to action required to be approved by the stockholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the Board of Directors.

##### 3.2 NUMBER OF DIRECTORS

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The Board of Directors shall consist of six (6) persons. This number may be changed by a duly adopted amendment to the Certificate of Incorporation or by an amendment to this Section 3.2 of these Bylaws adopted by the vote or written consent of the holders of the shares of capital stock entitled to cast a majority of the votes entitled to be cast by holders of all outstanding shares of capital stock entitled to vote or by resolution of a majority of the Board of Directors.

No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires.

##### 3.3 ELECTION, QUALIFICATION AND TERM OF OFFICE OF DIRECTORS

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Except as provided in Section 3.4 of these Bylaws, directors shall be elected at each annual meeting of stockholders to hold office until the next annual meeting. Directors need not be stockholders unless so required by the Certificate of Incorporation or these Bylaws, wherein other qualifications for directors may be prescribed. Each director, including a director elected to fill a vacancy, shall hold office until his successor is elected and qualified or until his earlier resignation or removal.

##### 3.4 RESIGNATION AND VACANCIES

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Any director may resign at any time upon written notice to the attention of the Secretary of the corporation. When one or more directors so resigns and the resignation is effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each director so chosen shall hold office as provided in this section in the filling of other vacancies.

Unless otherwise provided in the Certificate of Incorporation or these Bylaws:

(i) Vacancies and newly created directorships resulting from any increase in the authorized number of directors, elected by all of the stockholders having the right to vote as a single class, may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director.

(ii) Whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the Certificate of Incorporation, vacancies and newly created directorships of such class or classes or series may be filled by a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected.

A director elected or appointed to fill a vacancy shall serve until the next Annual Meeting of Stockholders or until a successor shall be elected and qualified.

3.5 PLACE OF MEETINGS; MEETINGS BY TELEPHONE  
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The Board of Directors of the corporation may hold meetings, both regular and special, either within or outside the State of Delaware.

Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, members of the Board of Directors, or any committee designated by the Board, may participate in a meeting of the Board of Directors, or any committee, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

3.6 REGULAR MEETINGS  
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Regular meetings of the Board of Directors may be held without notice at such time and at such place as shall from time to time be determined by the Board.

3.7 SPECIAL MEETINGS; NOTICE  
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Special meetings of the Board of Directors for any purpose or purposes may be called at any time by the Chairman of the Board, the President, any vice president, the Secretary or any two (2) directors.

Notice of the time and place of special meetings shall be delivered personally or by telephone to each director or sent by first-class mail or telegram or other facsimile transmission, charges prepaid, addressed to each director at that director's address as it is shown on the records of the corporation. If the notice is mailed, it shall be deposited in the United States mail at least four (4) days before the time of the holding of the meeting. If the notice is delivered personally or by telephone or telegram, it shall be delivered personally or by telephone or to the telegraph company at least forty-eight (48) hours before the time of the holding of the meeting. Any oral notice given personally or by telephone may be communicated either to the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the director. The notice need not specify the purpose or the place of the meeting, if the meeting is to be held at the principal executed office of the corporation.

3.8 QUORUM  
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At all meetings of the Board of Directors, a majority of the authorized number of directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors, except as may be otherwise specifically provided by statute or by the Certificate of Incorporation. If a quorum is not present at any meeting of the Board of Directors, then the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present.

3.9 WAIVER OF NOTICE  
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Whenever notice is required to be given under any provision of the General Corporation Law of Delaware, the Certificate of Incorporation or these Bylaws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the directors, or members of a committee of directors, need be specified in any written waiver of notice unless so required by the Certificate of Incorporation or these Bylaws.

3.10 BOARD ACTION BY WRITTEN CONSENT WITHOUT A MEETING  
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Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting if all members of the Board or committee, as the case may be, consent thereto in writing and the writing or writings are filed with the minutes of proceedings of the Board or committee.

### 3.11 FEES AND COMPENSATION OF DIRECTORS

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Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, the Board of Directors shall have the authority to fix the compensation of directors. The directors may be paid their expenses, if any, of attendance of each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary as director. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

### 3.12 APPROVAL OF LOANS TO OFFICERS

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The corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer or other employee of the corporation or of its subsidiary, including any officer or employee who is a director of the corporation or its subsidiary, whenever, in the judgment of the directors, such loan, guaranty or assistance may reasonably be expected to benefit the corporation. The loan, guaranty or other assistance may be with or without interest and may be unsecured, or secured in such manner as the Board of Directors shall approve, including, without limitation, a pledge of shares of stock of the corporation. Nothing in this section contained shall be deemed to deny, limit or restrict the powers of guaranty or warranty of the corporation at common law or under any statute.

### 3.13 REMOVAL OF DIRECTORS

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Unless otherwise restricted by statute, the Certificate of Incorporation or these Bylaws, any director or the entire Board of Directors may be removed, with or without cause, by the holders of

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the shares of capital stock of the Corporation entitled to cast a majority of the votes entitled to be cast by holders of all outstanding shares of capital stock entitled to vote in an election of directors; provided, however, that, so long as stockholders of the corporation are entitled to cumulative voting, if less than the entire board is to be removed, no director may be removed without cause if the votes cast against his removal would be sufficient to elect him if then cumulatively voted at an election of the entire Board of Directors.

## ARTICLE IV

### COMMITTEES

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#### 4.1 COMMITTEES OF DIRECTORS

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The Board of Directors may, by resolution passed by a majority of the Board, designate one or more committees, with each committee to consist of one or more of the directors of the corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board of Directors establishing such committee or in the Bylaws of the corporation, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers that may require it; but no such committee shall have the power or authority to (i) amend the Certificate of Incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the Board of Directors as provided in Section 151(a) of the General Corporation Law of Delaware, fix any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the corporation), (ii) adopt an agreement of merger or consolidation under Sections 251 or 252 of the General Corporation Law of Delaware, (iii) recommend to the stockholders the sale, lease or exchange of all or substantially all of the corporation's property and assets, (iv) recommend to the stockholders a dissolution of the corporation or a revocation of a dissolution, or (v) amend the Bylaws of the corporation; and, unless the Board resolution establishing the committee, the Bylaws or the Certificate of Incorporation expressly so provide, no such committee shall have the power or authority to declare a dividend, to authorize the issuance of stock, or to adopt a certificate of ownership and merger pursuant to Section 253 of the General

4.2 COMMITTEE MINUTES  
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Each committee shall keep regular minutes of its meetings and report the same to the Board of Directors when required.

4.3 MEETINGS AND ACTIONS OF COMMITTEES  
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Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these Bylaws, Section 3.5 (place of meetings and meetings by telephone), Section 3.6 (regular meetings), Section 3.7 (special meetings and notice), Section 3.8 (quorum), Section 3.9 (waiver of notice), and Section 3.10 (Board action by written consent without a meeting), with such changes in the context of those Bylaws as are necessary to substitute the committee and its members for the Board of Directors and its members; provided, however, that the time of regular meetings of committees may also be called by resolution of the Board of Directors and that notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The Board of Directors may adopt rules for the government of any committee not inconsistent with the provisions of these Bylaws.

ARTICLE V

OFFICERS  
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5.1 OFFICERS  
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The officers of the corporation shall be a President, a Secretary, and a Chief Financial Officer. The corporation may also have, at the discretion of the Board of Directors, a Chairman of the Board, one or more vice presidents, a treasurer, one or more assistant secretaries, one or more assistant treasurers, and any such other officers as may be appointed in accordance with the provisions of Section 5.3 of these Bylaws. Any number of offices may be held by the same person.

5.2 ELECTION OF OFFICERS  
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The officers of the corporation, except such officers as may be appointed in accordance with the provisions of Sections 5.3 or 5.5 of these Bylaws, shall be chosen by the Board of Directors, subject to the rights, if any, of an officer under any contract of employment.

5.3 SUBORDINATE OFFICERS  
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The Board of Directors may appoint, or empower the President to appoint such other officers and agents as the business of the corporation may require, each of whom shall hold office for such period, have such authority, and perform such duties as are provided in these Bylaws or as the Board of Directors may from time to time determine.

5.4 REMOVAL AND RESIGNATION OF OFFICERS  
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Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by the Board of Directors at any regular or special meeting

of the board or, except in the case of an officer chosen by the Board of Directors, by any officer upon whom such power of removal may be conferred by the Board of Directors.

Any officer may resign at any time by giving written notice to the corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

5.5 VACANCIES IN OFFICES  
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Any vacancy occurring in any office because of death, resignation, removal,

disqualification or any other cause shall be filled in the manner prescribed in these Bylaws for regular appointments to that office.

#### 5.6 CHAIRMAN OF THE BOARD

The Chairman of the Board, if such an officer be elected, shall, if present, preside at meetings of the Board of Directors and exercise and perform such other powers and duties as may from time to time be assigned to him by the Board of Directors or as may be prescribed by these Bylaws. If there is no President, then the Chairman of the Board shall also be the chief executive officer of the corporation and shall have the powers and duties prescribed in Section 5.7 of these Bylaws.

#### 5.7 PRESIDENT

Subject to such supervisory powers, if any, as may be given by the Board of Directors to the Chairman of the Board, if there be such an officer, the President shall be the chief executive officer of the corporation and shall, subject to the control of the Board of Directors, have general supervision, direction, and control of the business and the officers of the corporation. He shall preside at all meetings of the stockholders and, in the absence or nonexistence of a Chairman of the Board, at all meetings of the Board of Directors. He shall have the general powers and duties of management usually vested in the office of president of a corporation and shall have such other powers and duties as may be prescribed by the Board of Directors or these Bylaws.

#### 5.8 VICE PRESIDENTS

In the absence or disability of the President, the vice presidents, if any, in order of their rank as fixed by the Board of Directors or, if not ranked, a vice president designated by the Board of Directors, shall perform all the duties of the President and when so acting shall have all the powers of, and be subject to all the restrictions upon, the President. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the Board of Directors, these Bylaws, the President or the Chairman of the Board.

#### 5.9 SECRETARY

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The Secretary shall keep or cause to be kept, at the principal executive office of the corporation or such other place as the Board of Directors may direct, a book of minutes of all meetings and actions of directors, committees of directors, and stockholders. The minutes shall show the time and place of each meeting, whether regular or special (and, if special, how authorized and the notice given), the names of those present at directors' meetings or committee meetings, the number of shares present or represented at stockholders' meetings, and the proceedings thereof.

The Secretary shall keep, or cause to be kept, at the principal executive office of the corporation or at the office of the corporation's transfer agent or registrar, as determined by resolution of the Board of Directors, a share register, or a duplicate share register, showing the names of all stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates evidencing such shares, and the number and date of cancellation of every certificate surrendered for cancellation.

The Secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the Board of Directors required to be given by law or by these Bylaws. He shall keep the seal of the corporation, if one be adopted, in safe custody and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or by these Bylaws.

#### 5.10 CHIEF FINANCIAL OFFICER

The Chief Financial Officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings, and shares. The books of account shall at all reasonable times be open to inspection by any director.

The Chief Financial Officer shall deposit all money and other valuables in the name and to the credit of the corporation with such depositories as may be designated by the Board of Directors. He shall disburse the funds of the corporation as may be ordered by the Board of Directors, shall render to the President and directors, whenever they request it, an account of all of his transactions as Chief Financial Officer and of the financial condition of the

corporation, and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or these Bylaws.

5.11 REPRESENTATION OF SHARES OF OTHER CORPORATIONS  
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The Chairman of the Board, the President, any vice president, the Chief Financial Officer, the Secretary or assistant secretary of this corporation, or any other person authorized by the Board of Directors or the President or a vice president, is authorized to vote, represent, and exercise on behalf of this corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of this corporation. The authority granted herein may be exercised by any other person authorized to do so by proxy or power of attorney duly executed by such persons having the authority.

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ARTICLE VI

INDEMNITY  
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6.1 THIRD PARTY ACTIONS  
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The corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit or proceeding, whether civil, criminal, administrative, or investigative (other than an action by or in the right of the corporation) by reason of the fact that he is or was a director or officer of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise (collectively, "Agent") against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit, or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent, shall not, of

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itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

6.2 ACTIONS BY OR IN THE RIGHT OF CORPORATION  
-----

The corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he is or was an Agent of the corporation or serving at the request of the corporation against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue, or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

6.3 SUCCESSFUL DEFENSE  
-----

To the extent that an Agent of the corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Sections 6.1 or 6.2 of this Article VI, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

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6.4 DETERMINATION OF CONDUCT  
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Subject to any rights under any contract between this corporation and any Agent, any indemnification (unless ordered by a court) shall be made by the corporation only as authorized in the specific case upon a determination that indemnification of the Agent is proper in the circumstances because he has met the applicable standard of conduct set forth in Sections 6.1 or 6.2 of this Article VI. Such determination shall be made (1) by the Board of Directors (or



by an executive committee thereof) by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (2) if such a quorum is not obtainable, or, even if obtainable, if a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (3) by the stockholders. Notwithstanding the foregoing, an Agent of the corporation shall be able to contest any determination that the director or officer has not met the applicable standard of conduct, set forth in Section 6.1 or 6.2 of this Article VI, by petitioning a court of appropriate jurisdiction.

#### 6.5 PAYMENT OF EXPENSES IN ADVANCE

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Expenses incurred in defending or settling a civil or criminal action, suit or proceeding by an individual who may be entitled to indemnification pursuant to Sections 6.1 or 6.2 of this Article VI shall be paid by the corporation in advance of the final disposition of such action, suit or proceeding as authorized by the Board of Directors upon receipt of an undertaking by or on behalf of the director or officer to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the corporation as authorized in this Article VI.

#### 6.6 INDEMNITY NOT EXCLUSIVE

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The indemnification and advancement of expenses provided by, or granted pursuant to, the other subparagraphs of this Article VI shall not be deemed exclusive of, and shall be subject to, any other rights to which those seeking indemnification or advancement of expenses may be entitled under any Bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office.

#### 6.7 INSURANCE INDEMNIFICATION

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The corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was an Agent of the corporation, or is or was serving at the request of the corporation as an Agent against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability under the provisions of this Article VI.

#### 6.8 THE CORPORATION

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For purposes of this Article VI, references to "the corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger, so that any person who is or was an Agent of such constituent

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corporation, or is or was serving at the request of such constituent corporation as an Agent, shall stand in the same position under the provisions of this Article VI (including without limitation the provisions of Section 6.4 of this Agreement) with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

#### 6.9 EMPLOYEE BENEFIT PLANS

-----

For purposes of this Article VI, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to "serving at the request of the corporation" shall include any service as a director, officer, employee or agent of the corporation which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the corporation" as referred to in this Article VI.

#### 6.10 INDEMNITY FUND

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Upon resolution passed by the Board of Directors, the corporation may establish a trust or other designated account, grant a security interest or use other means (including, without limitation, a letter of credit), to ensure the payment of any or all of its obligations arising under this Article and/or agreements which may be entered into between the corporation and its officers and directors from time to time.

6.11 INDEMNIFICATION OF OTHER PERSONS  
-----

The provisions of this Article VI shall not be deemed to preclude the indemnification of any person who is not an Agent, but whom the corporation has the power or obligation to indemnify under the provisions of the General Corporation Law of the State of Delaware or otherwise. The corporation may, in its sole discretion, indemnify an employee, trustee or other agent as permitted by the General Corporation Law of the State of Delaware. The corporation shall indemnify an employee, trustee or other agent where required by law.

6.12 SAVINGS CLAUSE  
-----

If this Article or any portion thereof shall be invalidated on any ground by any court of competent jurisdiction, then the corporation shall nevertheless indemnify each Agent against expense (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any action, suit, proceeding or investigation, whether civil, criminal or administrative, and whether internal or external, including a grand jury proceeding and an action or suit brought by or in the right of the corporation, to the full extent permitted by any applicable portion of this Article that shall not have been invalidated or by any other applicable law.

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6.13 CONTINUATION OF INDEMNIFICATION AND ADVANCEMENT OF EXPENSES  
-----

The indemnification and advancement of expenses provided by, or granted pursuant to, this Article VI shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

ARTICLE VII

RECORDS AND REPORTS  
-----

7.1 MAINTENANCE AND INSPECTION OF RECORDS  
-----

The corporation shall keep, either at its principal executive office or at such place or places as designated by the Board of Directors, a record of its stockholders listing their names and addresses and the number and class of shares held by each stockholder, a copy of these Bylaws as amended to date, accounting books, and other records.

Any stockholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the corporation's stock ledger, a list of its stockholders, and its other books and records and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person's interest as a stockholder. In every instance where an attorney or other agent is the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing that authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the corporation at its registered office in Delaware or at its principal place of business.

7.2 INSPECTION BY DIRECTORS  
-----

Any director shall have the right to examine the corporation's stock ledger, a list of its stockholders, and its other books and records for a purpose reasonably related to his position as a director. The Court of Chancery is hereby vested with the exclusive jurisdiction to determine whether a director is entitled to the inspection sought. The Court may summarily order the corporation to permit the director to inspect any and all books and records, the stock ledger, and the stock list and to make copies or extracts therefrom. The Court may, in its discretion, prescribe any limitations or conditions with reference to the inspection, or award such other and further relief as the Court may deem just and proper.

7.3 ANNUAL STATEMENT TO STOCKHOLDERS  
-----

The Board of Directors shall present at each annual meeting, and at any special meeting of the stockholders when called for by vote of the stockholders, a full and clear statement of the business and condition of the corporation.

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ARTICLE VIII

GENERAL MATTERS  
-----

8.1 CHECKS  
-----

From time to time, the Board of Directors shall determine by resolution which person or persons may sign or endorse all checks, drafts, other orders for payment of money, notes or other evidences of indebtedness that are issued in the name of or payable to the corporation, and only the persons so authorized shall sign or endorse those instruments.

8.2 EXECUTION OF CORPORATE CONTRACTS AND INSTRUMENTS  
-----

The Board of Directors, except as otherwise provided in these Bylaws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by the Board of Directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

8.3 STOCK CERTIFICATES; PARTLY PAID SHARES  
-----

The shares of the corporation shall be represented by certificates, provided that the Board of Directors of the corporation may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the corporation. Notwithstanding the adoption of such a resolution by the Board of Directors, every holder of stock represented by certificates and upon request every holder of uncertificated shares shall be entitled to have a certificate signed by, or in the name of the corporation by the Chairman of the Board, or the President or vice-president, and by the Chief Financial Officer, the treasurer or an assistant treasurer, or the Secretary or an assistant secretary of such corporation representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

The corporation may issue the whole or any part of its shares as partly paid and subject to call for the remainder of the consideration to be paid therefor. Upon the face or back of each stock certificate issued to represent any such partly paid shares, upon the books and records of the corporation in the case of uncertificated partly paid shares, the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated. Upon the declaration of any dividend on fully paid shares, the corporation shall declare a dividend upon partly paid shares of the same class, but only upon the basis of the percentage of the consideration actually paid thereon.

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8.4 SPECIAL DESIGNATION ON CERTIFICATES  
-----

If the corporation is authorized to issue more than one class of stock or more than one series of any class, then the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate that the corporation shall issue to represent such class or series of stock; provided, however, that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate that the corporation shall issue to represent such class or series of stock a statement that the corporation will furnish without charge to each stockholder who so requests such a statement of the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

8.5 LOST CERTIFICATES  
-----

Except as provided in this Section 8.5, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the corporation and cancelled at the same time. The corporation

may issue a new certificate of stock or uncertificated shares in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the corporation may require the owner of the lost, stolen or destroyed certificate, or his legal representative, to give the corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate or uncertificated shares.

#### 8.6 CONSTRUCTION; DEFINITIONS -----

Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the Delaware General Corporation Law shall govern the construction of these Bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a corporation and a natural person.

#### 8.7 DIVIDENDS -----

The Board of Directors of the corporation, subject to any restrictions contained in the General Corporation Law of Delaware or the Certificate of Incorporation, may declare and pay dividends upon the shares of its capital stock. Dividends may be paid in cash, in property, or in shares of the corporation's capital stock.

The directors of the corporation may set apart out of any of the funds of the corporation available for dividends a reserve or reserves for any proper purpose and may abolish any such reserve. Such purposes shall include but not be limited to equalizing dividends, repairing or maintaining any property of the corporation, and meeting contingencies.

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#### 8.8 FISCAL YEAR -----

The fiscal year of the corporation shall be fixed by resolution of the Board of Directors and may be changed by the Board of Directors.

#### 8.9 SEAL -----

The corporation may adopt and may subsequently alter the corporate seal and it may use the same by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

#### 8.10 TRANSFER OF STOCK -----

Upon surrender to the corporation or the transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate, and record the transaction in its books.

#### 8.11 STOCK TRANSFER AGREEMENTS -----

The corporation shall have power to enter into and perform any agreement with any number of stockholders of any one or more classes of stock of the corporation to restrict the transfer of shares of stock of the corporation of any one or more classes owned by such stockholders in any manner not prohibited by the General Corporation Law of Delaware.

#### 8.12 REGISTERED STOCKHOLDERS -----

The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends and to vote as such owner, shall be entitled to hold liable for calls and assessments the person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of another person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

### ARTICLE IX

#### AMENDMENTS -----

The original or other Bylaws of the corporation may be adopted, amended or repealed by the stockholders entitled to vote; provided, however, that the

corporation may, in its Certificate of Incorporation, confer the power to adopt, amend or repeal Bylaws upon the Board of Directors. The fact that such power has been so conferred upon the Board of Directors shall not divest the stockholders of the power, nor limit their power to adopt, amend or repeal Bylaws.

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CERTIFICATE OF ADOPTION OF AMENDED AND RESTATED BYLAWS

OF

QUANTUM CORPORATION

The undersigned hereby certifies that he is the duly elected, qualified, and acting Assistant Secretary of QUANTUM CORPORATION, a Delaware corporation, and that the foregoing Bylaws, comprising twenty-one (21) pages, were adopted as the Bylaws of the corporation on \_\_\_\_\_, 1999.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand and affixed the corporate seal this \_\_\_\_\_ day of \_\_\_\_\_, 1999.

-----  
Andrew L. Kryder  
Assistant Secretary

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QUANTUM CORPORATION  
and  
HARRIS TRUST AND SAVINGS BANK  
as Rights Agent  
AMENDED AND RESTATED  
PREFERRED SHARES RIGHTS AGREEMENT  
Dated as of \_\_\_\_\_, 1999  
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AMENDED AND RESTATED

PREFERRED SHARES RIGHTS AGREEMENT

Amended and Restated Preferred Shares Rights Agreement (this "Agreement"), dated as of \_\_\_\_\_, 1999, between Quantum Corporation, a Delaware corporation (the "Company"), and Harris Trust and Savings Bank (the "Rights Agent").

WHEREAS, on April 30, 1998, the Board of Directors of the Company adopted and implemented a Rights Agreement (the "Original Agreement") and authorized and declared a dividend of one preferred share purchase right (an "Original Right") for each share of common stock of the Company, \$0.01 par value (the "Existing Common Stock"), outstanding as of the Close of Business (as hereinafter defined) on August 5, 1998 (the "Original Record Date"), and further authorized and directed the issuance of one Original Right with respect to each share of Existing Common Stock that became outstanding after the Original Record Date;

WHEREAS, on \_\_\_\_\_, 1999, the Company's stockholders approved the restated certificate of incorporation of the Company pursuant to which each share of Existing Common Stock will be changed (the "Recapitalization" and the date the Recapitalization is implemented shall be referred to as the "Recapitalization Date") into one share of Quantum Corporation--DSSG Common Stock, par value \$0.01 per share ("DSSG Common Shares"), and one-half share of Quantum Corporation--HDDG Common Stock, par value \$0.01 per share ("HDDG Common Shares") (shares of DSSG Common Stock and HDDG Common Stock, or any other equity securities of the Company into which DSSG Common Stock and/or HDDG Common Stock shall be reclassified or changed, are collectively referred to herein as the "Common Shares");

WHEREAS, on \_\_\_\_\_, 1999, the Board of Directors of the Company, conditioned upon and simultaneously with the implementation of the Recapitalization, authorized and declared a distribution of one DSSG Right for each share of DSSG Common Stock issued in the Recapitalization and one HDDG Right for each share of HDDG Common Stock issued in the Recapitalization, all of such rights to be distributed in exchange for all the outstanding Original Rights on the Recapitalization Date;

WHEREAS, each DSSG right will represent the right to purchase (a "DSSG Right") one one-thousandth of a share of Series B Junior Participating Preferred Stock, \$0.01 par value per share ("Series B Preferred Shares") having the rights and preferences set forth on Exhibit A hereto, and each HDDG Right will represent the right to purchase (a "HDDG Right" and together with the DSSG Rights, the "Rights") one one-thousandth of a share of Series C Junior Participating Preferred Stock, \$0.01 per share ("Series C Preferred Shares") having the rights and preferences set forth on Exhibit A hereto, in each such case upon the terms and subject to the conditions set forth herein; and

WHEREAS, the Board of Directors of the Company has further authorized and directed the issuance of one DSSG Right with respect to each DSSG Common Share and one HDDG Right with respect to each HDDG Common Share, as the case may be, which shall be issued and become outstanding between the Recapitalization Date and the earliest of the Close of Business on the Distribution Date, the Redemption Date and the Close of Business on the Final Expiration Date (as such terms are hereinafter defined); provided, however, that Rights may be issued

with respect to Common Shares that shall become outstanding after the Distribution Date and prior to the Redemption in accordance with Section 22; and

WHEREAS, the Company desires to appoint the Rights Agent to act on behalf of the Company, and the Rights Agent is willing to so act, in connection with the issuance, transfer, exchange and replacement of Rights Certificates, the exercise of Rights and other matters referred to herein.

NOW, THEREFORE, in consideration of the promises and the mutual agreements

herein set forth, the parties hereby agree as follows:

Section 1. Certain Definitions. For purposes of this Agreement, the  
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following terms have the meanings indicated:

(a) "Acquiring Person" shall mean any Person who or which, together with all Affiliates and Associates of such Person, shall be the Beneficial Owner of (i) 20% or more of the DSSG Common Shares then outstanding or (ii) 20% or more of the HDDG Common Shares then outstanding, but shall not include the Company, any Subsidiary of the Company or any employee benefit plan of the Company or of any Subsidiary of the Company, or any entity holding Common Shares for or pursuant to the terms of any such plan. Notwithstanding the foregoing, no Person shall be deemed to be an Acquiring Person as the result of an acquisition of Common Shares by the Company which, by reducing the number of shares outstanding, increases the proportionate number of shares beneficially owned by such Person to (i) 20% or more of the DSSG Common Shares then outstanding or (ii) 20% or more of the HDDG Common Shares then outstanding; provided, however,

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that if a Person shall become the Beneficial Owner of (i) 20% or more of the DSSG Common Shares then outstanding or (ii) 20% or more of the HDDG Common Shares then outstanding by reason of share purchases by the Company and shall, after such share purchases by the Company, become the Beneficial Owner of any additional Common Shares of the Company (other than pursuant to a dividend or distribution paid or made by the Company on the outstanding Common Shares in Common Shares or pursuant to a split or subdivision of the outstanding Common Shares), then such Person shall be deemed to be an Acquiring Person unless upon becoming the Beneficial Owner of such additional Common Shares of the Company such Person does not beneficially own (i) 20% or more of the DSSG Common Shares then outstanding or (ii) 20% or more of the HDDG Common Shares then outstanding. Notwithstanding the foregoing, (i) if the Company's Board of Directors determines in good faith that a Person who would otherwise be an "Acquiring Person," as defined pursuant to the foregoing provisions of this paragraph (a), has become such inadvertently (including, without limitation, because (A) such Person was unaware that it beneficially owned a percentage of the Common Shares that would otherwise cause such Person to be an "Acquiring Person," as defined pursuant to the foregoing provisions of this paragraph (a), or (B) such Person was

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aware of the extent of the Common Shares it beneficially owned but had no actual knowledge of the consequences of such beneficial ownership under this Agreement) and without any intention of changing or influencing control of the Company, and if such Person divested or divests as promptly as practicable a sufficient number of Common Shares so that such Person would no longer be an "Acquiring Person," as defined pursuant to the foregoing provisions of this paragraph (a), then such Person shall not be deemed to be or to have become an "Acquiring Person" for any purposes of this Agreement; and (ii) if, as of the date hereof, any Person is the Beneficial Owner of (i) 20% or more of the DSSG Common Shares then outstanding or (ii) 20% or more of the HDDG Common Shares then outstanding, such Person shall not be or become an "Acquiring Person," as defined pursuant to the foregoing provisions of this paragraph (a), unless and until such time as such Person shall become the Beneficial Owner of additional Common Shares (other than pursuant to a dividend or distribution paid or made by the Company on the outstanding Common Shares in Common Shares or pursuant to a split or subdivision of the outstanding Common Shares), unless, upon becoming the Beneficial Owner of such additional Common Shares, such Person is not then the Beneficial Owner of (i) 20% or more of the DSSG Common Shares then outstanding or (ii) 20% or more of the HDDG Common Shares then outstanding.

(b) "Adjustment Fraction" shall have the meaning set forth in Section 11(a)(i) hereof.

(c) "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Exchange Act, as in effect on the date of this Agreement.

(d) A Person shall be deemed the "Beneficial Owner" of and shall be deemed to "beneficially own" any securities:

(i) which such Person or any of such Person's Affiliates or Associates beneficially owns, directly or indirectly, for purposes of Section 13(d) of the Exchange Act and Rule 13d-3 thereunder (or any comparable or successor law or regulation);

(ii) which such Person or any of such Person's Affiliates or Associates has (A) the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding (other than customary agreements with and between underwriters and selling group members with respect to a bona fide public offering of securities), or upon the exercise of conversion rights, exchange rights, rights (other than the Rights), warrants or options, or otherwise; provided, however, that a Person shall not be deemed pursuant to this Section



1(d)(ii)(A) to be the Beneficial Owner of, or to beneficially own, (1) securities tendered pursuant to a tender or exchange offer made by or on behalf of such Person or any of such Person's Affiliates or Associates until such tendered securities are accepted for purchase or exchange, or (2) securities which a Person or any of such Person's Affiliates or Associates may be deemed to have the right to acquire pursuant to any merger or other acquisition agreement between the Company and such Person (or one or more of its Affiliates or Associates) if such agreement has been approved by the Board of Directors of the Company prior to there being an Acquiring Person; or (B) the right to vote pursuant to any

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agreement, arrangement or understanding; provided, however, that a Person shall

not be deemed the Beneficial Owner of, or to beneficially own, any security under this Section 1(d)(ii)(B) if the agreement, arrangement or understanding to vote such security (1) arises solely from a revocable proxy or consent given to such Person in response to a public proxy or consent solicitation made pursuant to, and in accordance with, the applicable rules and regulations of the Exchange Act and (2) is not also then reportable on Schedule 13D under the Exchange Act (or any comparable or successor report); or

(iii) which are beneficially owned, directly or indirectly, by any other Person (or any Affiliate or Associate thereof) with which such Person or any of such Person's Affiliates or Associates has any agreement, arrangement or understanding, whether or not in writing (other than customary agreements with and between underwriters and selling group members with respect to a bona fide public offering of securities) for the purpose of acquiring, holding, voting (except to the extent contemplated by the proviso to Section 1(d)(ii)(B)) or disposing of any securities of the Company; provided, however, that in no

case shall an officer or director of the Company be deemed (x) the Beneficial Owner of any securities beneficially owned by another officer or director of the Company solely by reason of actions undertaken by such persons in their capacity as officers or directors of the Company or (y) the Beneficial Owner of securities held of record by the trustee of any employee benefit plan of the Company or any Subsidiary of the Company for the benefit of any employee of the Company or any Subsidiary of the Company, other than the officer or director, by reason of any influence that such officer or director may have over the voting of the securities held in the plan.

(e) "Business Day" shall mean any day other than a Saturday, Sunday or a day on which banking institutions in New York or Illinois are authorized or obligated by law or executive order to close

(f) "Close of Business" on any given date shall mean 5:00 P.M., New York time, on such date; provided, however, that if such date is not a Business Day it shall mean 5:00 P.M., New York time, on the next succeeding Business Day.

(g) "Common Shares" when used with reference to the Company, shall mean DSSG Common Shares or HDDG Common Shares, as the context requires. "Common Shares" when used with reference to any Person other than the Company shall mean the capital stock (or equity interest) with the greatest voting power of such other Person or, if such other Person is a Subsidiary of another Person, the Person or Persons which ultimately control such first-mentioned Person.

(h) "Common Stock Equivalents" shall have the meaning set forth in Section 11(a)(iii) hereof.

(i) "Company" shall mean Quantum Corporation, a Delaware corporation, subject to the terms of Section 13(a)(iii)(C) hereof.

(j) "Current Per Share Market Price" of any security (a "Security" for purposes of this definition), for all computations other than those made pursuant to Section 11(a)(iii) hereof, shall

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mean the average of the daily closing prices per share of such Security for the thirty (30) consecutive Trading Days immediately prior to such date, and for purposes of computations made pursuant to Section 11(a)(iii) hereof, the Current Per Share Market Price of any Security on any date shall be deemed to be the average of the daily closing prices per share of such Security for the ten (10) consecutive Trading Days immediately prior to such date; provided, however,

that in the event that the Current Per Share Market Price of the Security is determined during a period following the announcement by the issuer of such Security of (i) a dividend or distribution on such Security payable in shares of such Security or securities convertible into such shares or (ii) any subdivision, combination or reclassification of such Security, and prior to the expiration of the applicable thirty (30) Trading Day or ten (10) Trading Day period, after the ex-dividend date for such dividend or distribution, or the record date for such subdivision, combination or reclassification, then, and in

each such case, the Current Per Share Market Price shall be appropriately adjusted to reflect the current market price per share equivalent of such Security. The closing price for each day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange or, if the Security is not listed or admitted to trading on the New York Stock Exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the Security is listed or admitted to trading or, if the Security is not listed or admitted to trading on any national securities exchange, the last sale price or, if such last sale price is not reported, the average of the high bid and low asked prices in the over-the-counter market, as reported by Nasdaq or such other system then in use, or, if on any such date the Security is not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the Security selected by the Board of Directors of the Company. If on any such date no market maker is making a market in the Security, the fair value of such shares on such date as determined in good faith by the Board of Directors of the Company shall be used. If the Preferred Shares are not publicly traded, the Current Per Share Market Price of the Preferred Shares shall be conclusively deemed to be the Current Per Share Market Price of the Common Shares as determined pursuant to this Section 1(k), as appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date hereof, multiplied by 1000. If the Security is not publicly held or so listed or traded, Current Per Share Market Price shall mean the fair value per share as determined in good faith by the Board of Directors of the Company, whose determination shall be described in a statement filed with the Rights Agent and shall be conclusive for all purposes.

(k) "Current Value" shall have the meaning set forth in Section 11(a)(iii) hereof.

(l) "Distribution Date" shall mean the earlier of (i) the Close of Business on the tenth day after the Shares Acquisition Date or (ii) the Close of Business on the tenth Business Day (or such later date as may be determined by action of the Company's Board of Directors) after the date that a tender or exchange offer by any Person (other than the Company, any Subsidiary of the Company, any employee benefit plan of the Company or of any Subsidiary of the Company, or any Person or entity organized, appointed or established by the Company for or pursuant to the terms of any such plan) is first

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published or sent or given within the meaning of Rule 14d-2(a) of the General Rules and Regulations under the Exchange Act, if, assuming the successful consummation thereof, such Person would be an Acquiring Person.

(m) "DSSG Common Shares" shall have the meaning set forth in the recitals hereto.

(n) "DSSG Right" shall have the meaning set forth in the recitals hereto.

(o) "Equivalent Shares" shall mean Preferred Shares and any other class or series of capital stock of the Company which is entitled to the same rights, privileges and preferences as the Preferred Shares.

(p) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(q) "Exchange Ratio" shall have the meaning set forth in Section 24(a) hereof.

(r) "Exercise Price" shall have the meaning set forth in Section 4(a) hereof.

(s) "Existing Common Stock" shall have the meaning set forth in the recitals hereto.

(t) "Expiration Date" shall mean the earliest of (i) the Close of Business on the Final Expiration Date, (ii) the Redemption Date, or (iii) the time at which the Board of Directors orders the exchange of the Rights as provided in Section 24 hereof.

(u) "Final Expiration Date" shall mean August 4, 2008.

(v) "HDDG Common Shares" shall have the meaning set forth in the recitals hereto.

(w) "HDDG Right" shall have the meaning set forth in the recitals hereto.

(x) "Nasdaq" shall mean the National Association of Securities

Dealers, Inc. Automated Quotations System.

(y) "Original Agreement" shall have the meaning set forth in the recitals hereto.

(z) "Original Record Date" shall have the meaning set forth in the recitals hereto.

(aa) "Original Right" shall have the meaning set forth in the recitals hereto.

(bb) "Person" shall mean any individual, firm, corporation or other entity, and shall include any successor (by merger or otherwise) of such entity.

(cc) "Post-Event Transferee" shall have the meaning set forth in Section 7(e) hereof.

(dd) "Pre-Event Transferee" shall have the meaning set forth in Section 7(e) hereof.

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(ee) "Preferred Shares" shall mean Series B Preferred Shares or Series C Preferred Shares, as the context requires.

(ff) "Principal Party" shall have the meaning set forth in Section 13(b) hereof.

(gg) "Purchase Price" shall mean the Series B Purchase Price and/or the Series C Purchase Price, as the context requires.

(hh) "Recapitalization" shall have the meaning set forth in the recitals hereto.

(ii) "Recapitalization Date" shall have the meaning set forth in the recitals hereto.

(jj) "Redemption Date" shall have the meaning set forth in Section 23(a) hereof.

(kk) "Redemption Price" shall have the meaning set forth in Section 23(a) hereof.

(ll) "Rights" shall have the meaning set forth in the recitals hereto.

(mm) "Rights Certificate" shall mean a certificate substantially in the form attached hereto as Exhibit B-1 (for the DSSG Rights) or Exhibit B-2 (for the HDDG Rights), as the case may be.

(nn) "Section 11(a) (ii) Trigger Date" shall have the meaning set forth in Section 11(a) (iii) hereof.

(oo) "Section 13 Event" shall mean any event described in clause (i), (ii) or (iii) of Section 13(a) hereof.

(pp) "Securities Act" shall mean the Securities Act of 1933, as amended.

(qq) "Series B Preferred Shares" shall have the meaning set forth in the recitals hereto.

(rr) "Series C Preferred Shares" shall have the meaning set forth in the recitals hereto.

(ss) "Shares Acquisition Date" shall mean the first date of public announcement (which, for purposes of this definition, shall include, without limitation, a report filed pursuant to Section 13(d) under the Exchange Act) by the Company or an Acquiring Person that an Acquiring Person has become such; provided that, if such Person is determined not to have become an Acquiring  
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Person pursuant to Section 1(a) hereof, then no Shares Acquisition Date shall be deemed to have occurred.

(tt) "Spread" shall have the meaning set forth in Section 11(a) (iii) hereof.

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(uu) "Subsidiary" of any Person shall mean any corporation or other entity of which an amount of voting securities sufficient to elect a majority of the directors or Persons having similar authority of such corporation or other entity is beneficially owned, directly or indirectly, by such Person, or any corporation or other entity otherwise controlled by such Person.

(vv) "Substitution Period" shall have the meaning set forth in Section

11(a)(iii) hereof.

(ww) "Total Exercise Price" shall have the meaning set forth in Section 4(a) hereof.

(xx) "Trading Day" shall mean a day on which the principal national securities exchange on which a referenced security is listed or admitted to trading is open for the transaction of business or, if a referenced security is not listed or admitted to trading on any national securities exchange, a Business Day.

(yy) A "Triggering Event" shall be deemed to have occurred upon any Person becoming an Acquiring Person.

Section 2. Appointment of Rights Agent. The Company hereby appoints the

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Rights Agent to act as agent for the Company and the holders of the Rights (who, in accordance with Section 3 hereof, shall prior to the Distribution Date also be the holders of the Common Shares) in accordance with the terms and conditions hereof, and the Rights Agent hereby accepts such appointment. The Company may from time to time appoint such co-Rights Agents as it may deem necessary or desirable upon ten (10) days prior written notice to the Rights Agent. The Rights Agent shall have no duty to supervise, and shall in no event be liable for, the acts or omissions of any such co-Rights Agent.

Section 3. Issuance of Rights Certificates.

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(a) Until the Distribution Date, (i) the Rights will be evidenced (subject to the provisions of Sections 3(b) and 3(c) hereof) by the certificates for Common Shares registered in the names of the holders thereof (which certificates shall also be deemed to be Rights Certificates) and not by separate Rights Certificates and (ii) the right to receive Rights Certificates will be transferable only in connection with the transfer of Common Shares. Until the earlier of the Distribution Date or the Expiration Date, the surrender for transfer of such certificates for Common Shares shall also constitute the surrender for transfer of the Rights associated with the Common Shares represented thereby. As soon as practicable after the Distribution Date, the Company will prepare and execute, the Rights Agent will countersign, and the Company will send or cause to be sent (and the Rights Agent will, if requested, send at the expense of the Company) by first-class, postage-prepaid mail, to each record holder of Common Shares as of the Close of Business on the Distribution Date, at the address of such holder shown on the records of the Company, a Rights Certificate evidencing one DSSG Right for each DSSG Common Share and a Rights Certificate evidencing one HDDG Right for each HDDG Common Share so held (subject to adjustment as provided herein). In the event that an adjustment in the number of Rights per Common Share has been made pursuant to Section 11 hereof, then at the time of distribution

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of the Rights Certificates, the Company shall make the necessary and appropriate rounding adjustments (in accordance with Section 14(a) hereof) so that Rights Certificates representing only whole numbers of Rights are distributed and cash is paid in lieu of any fractional Rights. As of the Distribution Date, the Rights will be evidenced solely by such Rights Certificates and may be transferred by the transfer of the Rights Certificates as permitted hereby, separately and apart from any transfer of Common Shares, and the holders of such Rights Certificates as listed in the records of the Company or any transfer agent or registrar for the Rights shall be the record holders thereof.

(b) On the Recapitalization Date or as soon as practicable thereafter, the Company will send a copy of the Summary of Rights in substantially the form attached hereto as Exhibit C by first class, postage prepaid mail, to each

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record holder of Common Shares as of the Close of Business on the Record Date, at the address of such holder shown on the records of the Company's transfer agent and registrar. With respect to certificates for Common Shares outstanding as of the Recapitalization, until the Distribution Date, the Rights will be evidenced by such certificates registered in the names of the holders thereof together with the Summary of Rights. Until the Distribution Date (or, if earlier, the Expiration Date), the surrender for transfer of any certificate for Common Shares shall also constitute the transfer of the Rights associated with the Common Shares represented thereby.

(c) Unless the Board of Directors by resolution adopted at or before the time of the issuance of any Common Shares specifies to the contrary, Rights shall be issued in respect of all Common Shares that are issued after the Recapitalization Date but prior to the earlier of the Distribution Date, the Redemption Date, the Final Expiration Date or, in certain circumstances provided in Section 22 hereof, after the Distribution Date. Certificates representing such Common Shares shall also be deemed to be certificates for Rights, and shall bear the following legend:

THIS CERTIFICATE ALSO EVIDENCES AND ENTITLES THE HOLDER HEREOF TO CERTAIN

RIGHTS AS SET FORTH IN AN AMENDED AND RESTATED RIGHTS AGREEMENT BETWEEN QUANTUM CORPORATION AND HARRIS TRUST & SAVINGS BANK AS THE RIGHTS AGENT, DATED AS OF \_\_\_\_\_, 1999 (THE "RIGHTS AGREEMENT"), THE TERMS OF WHICH ARE HEREBY INCORPORATED HEREIN BY REFERENCE AND A COPY OF WHICH IS ON FILE AT THE PRINCIPAL EXECUTIVE OFFICES OF QUANTUM CORPORATION. UNDER CERTAIN CIRCUMSTANCES, AS SET FORTH IN THE RIGHTS AGREEMENT, SUCH RIGHTS WILL BE EVIDENCED BY SEPARATE CERTIFICATES AND WILL NO LONGER BE EVIDENCED BY THIS CERTIFICATE. QUANTUM CORPORATION WILL MAIL TO THE HOLDER OF THIS CERTIFICATE A COPY OF THE RIGHTS AGREEMENT WITHOUT CHARGE AFTER RECEIPT OF A WRITTEN REQUEST THEREFOR. UNDER CERTAIN CIRCUMSTANCES SET FORTH IN THE RIGHTS AGREEMENT, RIGHTS ISSUED TO, OR HELD BY, ANY PERSON WHO IS, WAS OR BECOMES AN ACQUIRING PERSON OR ANY AFFILIATE OR ASSOCIATE THEREOF (AS SUCH TERMS ARE DEFINED IN THE RIGHTS AGREEMENT), WHETHER CURRENTLY HELD BY OR ON BEHALF OF SUCH PERSON OR BY ANY SUBSEQUENT HOLDER, MAY BECOME NULL AND VOID.

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With respect to such certificates containing the foregoing legend, until the earlier of (i) the Distribution Date or (ii) the Expiration Date, the Rights associated with the Common Shares represented by such certificates shall be evidenced by such certificates alone, and the surrender for transfer of any such certificate shall also constitute the transfer of the Rights associated with the Common Shares represented thereby.

(d) In the event that the Company purchases or acquires any Common Shares after the Record Date but prior to the Distribution Date, any Rights associated with such Common Shares shall be deemed canceled and retired so that the Company shall not be entitled to exercise any Rights associated with the Common Shares which are no longer outstanding. On the Recapitalization Date, the Original Rights associated with the Existing Common Stock shall be automatically canceled and retired.

Section 4. Form of Rights Certificates.  
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(a) The Rights Certificates (and the forms of election to purchase Common Shares and of assignment to be printed on the reverse thereof) shall be substantially in the form of Exhibit B-1 hereto for the DSSG Rights and Exhibit B-2 for the HDDG Rights and may have such marks of identification or designation -----  
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and such legends, summaries or endorsements printed thereon as the Company may deem appropriate and as are not inconsistent with the provisions of this Agreement, or as may be required to comply with any applicable law or with any rule or regulation made pursuant thereto or with any rule or regulation of any stock exchange or a national market system, on which the Rights may from time to time be listed or included, or to conform to usage. Subject to the provisions of Section 11 and Section 22 hereof, the Rights Certificates, whenever distributed, shall be dated as of the Recapitalization Date (or in the case of Rights issued with respect to Common Shares issued by the Company after the Recapitalization Date, as of the date of issuance of such Common Shares) and on their face shall entitle the holders thereof to purchase such number of one-thousandths of a Preferred Share as shall be set forth therein at the price set forth therein (such exercise price per one one-thousandth of a Preferred Share being hereinafter referred to as the "Exercise Price" and the aggregate Exercise Price of all Preferred Shares issuable upon exercise of one Right being hereinafter referred to as the "Total Exercise Price"), but the number and type of securities purchasable upon the exercise of each Right and the Exercise Price shall be subject to adjustment as provided herein.

(b) Any Rights Certificate issued pursuant to Section 3(a) or Section 22 hereof that represents Rights beneficially owned by: (i) an Acquiring Person or any Associate or Affiliate of an Acquiring Person, (ii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee after the Acquiring Person becomes such or (iii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee prior to or concurrently with the Acquiring Person becoming such and receives such Rights pursuant to either (A) a transfer (whether or not for consideration) from the Acquiring Person to holders of equity interests in such Acquiring Person or to any Person with whom such Acquiring Person has any continuing agreement, arrangement or understanding regarding the transferred Rights or (B) a transfer which a majority of the Company's Board of Directors has determined is part of a plan, arrangement or understanding which has as a primary purpose or effect avoidance of Section 7(e) hereof, and any Rights Certificate issued pursuant

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to Section 6 or Section 11 hereof upon transfer, exchange, replacement or adjustment of any other Rights Certificate referred to in this sentence, shall contain (to the extent feasible) the following legend:

THE RIGHTS REPRESENTED BY THIS RIGHTS CERTIFICATE ARE OR WERE BENEFICIALLY OWNED BY A PERSON WHO WAS OR BECAME AN ACQUIRING PERSON OR AN AFFILIATE OR

ASSOCIATE OF AN ACQUIRING PERSON (AS SUCH TERMS ARE DEFINED IN THE RIGHTS AGREEMENT). ACCORDINGLY, THIS RIGHTS CERTIFICATE AND THE RIGHTS REPRESENTED HEREBY MAY BECOME NULL AND VOID IN THE CIRCUMSTANCES SPECIFIED IN SECTION 7(e) OF THE RIGHTS AGREEMENT.

Section 5. Countersignature and Registration.  
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(a) The Rights Certificates shall be executed on behalf of the Company by its Chairman of the Board, its Chief Executive Officer, its Chief Financial Officer, its President or any Vice President, either manually or by facsimile signature, and by the Secretary or an Assistant Secretary of the Company, either manually or by facsimile signature, and shall have affixed thereto the Company's seal (if any) or a facsimile thereof. The Rights Certificates shall be manually countersigned by the Rights Agent and shall not be valid for any purpose unless countersigned. In case any officer of the Company who shall have signed any of the Rights Certificates shall cease to be such officer of the Company before countersignature by the Rights Agent and issuance and delivery by the Company, such Rights Certificates, nevertheless, may be countersigned by the Rights Agent and issued and delivered by the Company with the same force and effect as though the person who signed such Rights Certificates on behalf of the Company had not ceased to be such officer of the Company; and any Rights Certificate may be signed on behalf of the Company by any person who, at the actual date of the execution of such Rights Certificate, shall be a proper officer of the Company to sign such Rights Certificate, although at the date of the execution of this Rights Agreement any such person was not such an officer.

(b) Following the Distribution Date, the Rights Agent will keep or cause to be kept, at its office designated for such purposes, books for registration and transfer of the Rights Certificates issued hereunder. Such books shall show the names and addresses of the respective holders of the Rights Certificates, the number of Rights evidenced on its face by each of the Rights Certificates and the date of each of the Rights Certificates.

Section 6. Transfer, Split Up, Combination and Exchange of Rights  
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Certificates; Mutilated, Destroyed, Lost or Stolen Rights Certificates.  
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(a) Subject to the provisions of Sections 7(e), 14, 23 and 24 hereof, at any time after the Close of Business on the Distribution Date, and at or prior to the Close of Business on the Expiration Date, any Rights Certificate or Rights Certificates may be transferred, split up, combined or exchanged for another Rights Certificate or Rights Certificates, entitling the registered holder to purchase a like number of one-thousandths of a Preferred Share (or, following a Triggering Event, other securities, cash or other assets, as the case may be) as the Rights Certificate or Rights Certificates surrendered then

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entitled such holder to purchase. Any registered holder desiring to transfer, split up, combine or exchange any Rights Certificate or Rights Certificates shall make such request in writing delivered to the Rights Agent, and shall surrender the Rights Certificate or Rights Certificates to be transferred, split up, combined or exchanged at the office of the Rights Agent designated for such purpose. Neither the Rights Agent nor the Company shall be obligated to take any action whatsoever with respect to the transfer of any such surrendered Rights Certificate until the registered holder shall have completed and signed the certificate contained in the form of assignment on the reverse side of such Rights Certificate and shall have provided such additional evidence of the identity of the Beneficial Owner (or former Beneficial Owner) or Affiliates or Associates thereof as the Company shall reasonably request. Thereupon the Rights Agent shall, subject to Sections 7(e), 14, 23 and 24 hereof, countersign and deliver to the person entitled thereto a Rights Certificate or Rights Certificates, as the case may be, as so requested. The Company may require payment of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any transfer, split up, combination or exchange of Rights Certificates.

(b) Upon receipt by the Company and the Rights Agent of evidence reasonably satisfactory to them of the loss, theft, destruction or mutilation of a Rights Certificate, and, in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to them, and, at the Company's request, reimbursement to the Company and the Rights Agent of all reasonable expenses incidental thereto, and upon surrender to the Rights Agent and cancellation of the Rights Certificate if mutilated, the Company will make and deliver a new Rights Certificate of like tenor to the Rights Agent for delivery to the registered holder in lieu of the Rights Certificate so lost, stolen, destroyed or mutilated.

Section 7. Exercise of Rights; Exercise Price; Expiration Date of Rights.  
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(a) Subject to Sections 7(e), 23(c) and 24(b) hereof, the registered holder of any Rights Certificate may exercise the Rights evidenced thereby (except as otherwise provided herein) in whole or in part at any time after the Distribution Date and prior to the Close of Business on the Expiration Date by surrender of the Rights Certificate, with the form of election to purchase on the reverse side thereof duly executed, to the Rights Agent at the office of the Rights Agent designated for such purpose, together with payment of the Exercise Price for each one-thousandth of a Preferred Share (or, following a Triggering Event, other securities, cash or other assets as the case may be) as to which the Rights are exercised.

(b) The exercise price for each one-thousandth of a Series B Preferred Share issuable pursuant to the exercise of a DSSG Right shall initially be \_\_\_\_\_ (\$\_\_\_\_), and the exercise price for each one-thousandth of a Series C Preferred Share issuable pursuant to the exercise of a HDDG Right shall initially be \_\_\_\_\_ (\$\_\_\_\_), each of such exercise prices shall be subject to adjustment from time to time as provided in Sections 11 and 13 hereof and shall be payable in lawful money of the United States of America in accordance with paragraph (c) below.

(c) Upon receipt of a Rights Certificate representing exercisable Rights, with the form of election to purchase duly executed, accompanied by payment of the Exercise Price for the

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number of one-thousandths of a Preferred Share (or, following a Triggering Event, other securities, cash or other assets as the case may be) to be purchased and an amount equal to any applicable transfer tax required to be paid by the holder of such Rights Certificate in accordance with Section 9(e) hereof, the Rights Agent shall, subject to Section 20(k) hereof, thereupon promptly (i) (A) requisition from any transfer agent of the Preferred Shares (or make available, if the Rights Agent is the transfer agent for the Preferred Shares) a certificate or certificates for the number of one-thousandths of a Preferred Share (or, following a Triggering Event, other securities, cash or other assets as the case may be) to be purchased and the Company hereby irrevocably authorizes its transfer agent to comply with all such requests or (B) if the Company shall have elected to deposit the total number of one-thousandths of a Preferred Share (or, following a Triggering Event, other securities, cash or other assets as the case may be) issuable upon exercise of the Rights hereunder with a depository agent, requisition from the depository agent depository receipts representing such number of one-thousandths of a Preferred Share (or, following a Triggering Event, other securities, cash or other assets as the case may be) as are to be purchased (in which case certificates for the Preferred Shares (or, following a Triggering Event, other securities, cash or other assets as the case may be) represented by such receipts shall be deposited by the transfer agent with the depository agent) and the Company hereby directs the depository agent to comply with such request, (ii) when appropriate, requisition from the Company the amount of cash to be paid in lieu of issuance of fractional shares in accordance with Section 14 hereof, (iii) after receipt of such certificates or depository receipts, cause the same to be delivered to or upon the order of the registered holder of such Rights Certificate, registered in such name or names as may be designated by such holder and (iv) when appropriate, after receipt thereof, deliver such cash to or upon the order of the registered holder of such Rights Certificate. The payment of the Exercise Price (as such amount may be reduced (including to zero) pursuant to Section 11(a)(iii) hereof) and an amount equal to any applicable transfer tax required to be paid by the holder of such Rights Certificate in accordance with Section 9(e) hereof, may be made in cash or by certified bank check, cashier's check or bank draft payable to the order of the Company. In the event that the Company is obligated to issue securities of the Company other than Preferred Shares, pay cash and/or distribute other property pursuant to Section 11(a) hereof, the Company will make all arrangements necessary so that such other securities, cash and/or other property are available for distribution by the Rights Agent, if and when appropriate.

(d) In case the registered holder of any Rights Certificate shall exercise less than all the Rights evidenced thereby, a new Rights Certificate evidencing Rights equivalent to the Rights remaining unexercised shall be issued by the Rights Agent to the registered holder of such Rights Certificate or to his or her duly authorized assigns, subject to the provisions of Section 14 hereof.

(e) Notwithstanding anything in this Agreement to the contrary, from and after the first occurrence of a Triggering Event, any Rights beneficially owned by (i) an Acquiring Person or an Associate or Affiliate of an Acquiring Person, (ii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee after the Acquiring Person becomes such (a "Post-Event Transferee"), (iii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee prior to or concurrently with the Acquiring Person becoming such and receives such Rights pursuant to either (A) a transfer (whether or not for consideration) from the Acquiring

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Person to holders of equity interests in such Acquiring Person or to any Person with whom the Acquiring Person has any continuing agreement, arrangement or understanding regarding the transferred Rights or (B) a transfer which a majority of the Company's Board of Directors has determined is part of a plan, arrangement or understanding which has as a primary purpose or effect the avoidance of this Section 7(e) (a "Pre-Event Transferee") or (iv) any subsequent transferee receiving transferred Rights from a Post-Event Transferee or a Pre-Event Transferee, either directly or through one or more intermediate transferees, shall become null and void without any further action and no holder of such Rights shall have any rights whatsoever with respect to such Rights, whether under any provision of this Agreement or otherwise. The Company shall use all reasonable efforts to ensure that the provisions of this Section 7(e) and Section 4(b) hereof are complied with, but shall have no liability to any holder of Rights Certificates or to any other Person as a result of its failure to make any determinations with respect to an Acquiring Person or any of such Acquiring Person's Affiliates, Associates or transferees hereunder.

(f) Notwithstanding anything in this Agreement to the contrary, neither the Rights Agent nor the Company shall be obligated to undertake any action with respect to a registered holder upon the occurrence of any purported exercise as set forth in this Section 7 unless such registered holder shall, in addition to having complied with the requirements of Section 7(a) above, have (i) completed and signed the certificate contained in the form of election to purchase set forth on the reverse side of the Rights Certificate surrendered for such exercise and (ii) provided such additional evidence of the identity of the Beneficial Owner (or former Beneficial Owner) or Affiliates or Associates thereof as the Company shall reasonably request.

Section 8. Cancellation and Destruction of Rights Certificates. All Rights  
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Certificates surrendered for the purpose of exercise, transfer, split up, combination or exchange shall, if surrendered to the Company or to any of its agents, be delivered to the Rights Agent for cancellation or in canceled form, or, if surrendered to the Rights Agent, shall be canceled by it, and no Rights Certificates shall be issued in lieu thereof except as expressly permitted by any of the provisions of this Agreement. The Company shall deliver to the Rights Agent for cancellation and retirement, and the Rights Agent shall so cancel and retire, any Rights Certificate purchased or acquired by the Company otherwise than upon the exercise thereof. The Rights Agent shall deliver all canceled Rights Certificates to the Company, or shall, at the written request of the Company, destroy such canceled Rights Certificates, and in such case shall deliver a certificate of destruction thereof to the Company.

Section 9. Reservation and Availability of Preferred Shares.  
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(a) The Company covenants and agrees that it will use its best efforts to cause to be reserved and kept available out of its authorized and unissued Preferred Shares not reserved for another purpose (and, following the occurrence of a Triggering Event, out of its authorized and unissued Common Shares and/or other securities), the number of Preferred Shares (and, following the occurrence of the Triggering Event, Common Shares and/or other securities) that will be sufficient to permit the exercise in full of all outstanding Rights.

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(b) If the Company shall hereafter list any of its Preferred Shares on a national securities exchange, then so long as the Preferred Shares (and, following the occurrence of a Triggering Event, Common Shares and/or other securities) issuable and deliverable upon exercise of the Rights may be listed on such exchange, the Company shall use its best efforts to cause, from and after such time as the Rights become exercisable (but only to the extent that it is reasonably likely that the Rights will be exercised), all shares reserved for such issuance to be listed on such exchange upon official notice of issuance upon such exercise.

(c) The Company shall use its best efforts to (i) file, as soon as practicable following the earliest date after the first occurrence of a Triggering Event in which the consideration to be delivered by the Company upon exercise of the Rights is described in Section 11(a) (ii) or Section 11(a) (iii) hereof, or as soon as is required by law following the Distribution Date, as the case may be, a registration statement under the Securities Act with respect to the securities purchasable upon exercise of the Rights on an appropriate form, (ii) cause such registration statement to become effective as soon as practicable after such filing and (iii) cause such registration statement to remain effective (with a prospectus at all times meeting the requirements of the Securities Act) until the earlier of (A) the date as of which the Rights are no longer exercisable for such securities and (B) the date of expiration of the Rights. The Company may temporarily suspend, for a period not to exceed ninety (90) days after the date set forth in clause (i) of the first sentence of this Section 9(c), the exercisability of the Rights in order to prepare and file such registration statement and permit it to become effective. Upon any such suspension, the Company shall issue a public announcement stating, and notify the Rights Agent, that the exercisability of the Rights has been temporarily suspended, as well as a public announcement and notification to the Rights Agent



at such time as the suspension is no longer in effect. The Company will also take such action as may be appropriate under, or to ensure compliance with, the securities or "blue sky" laws of the various states in connection with the exercisability of the Rights. Notwithstanding any provision of this Agreement to the contrary, the Rights shall not be exercisable in any jurisdiction, unless the requisite qualification in such jurisdiction shall have been obtained, or an exemption therefrom shall be available, and until a registration statement has been declared effective.

(d) The Company covenants and agrees that it will take all such action as may be necessary to ensure that all Preferred Shares (or other securities of the Company) delivered upon exercise of Rights shall, at the time of delivery of the certificates for such securities (subject to payment of the Exercise Price), be duly and validly authorized and issued and fully paid and nonassessable shares.

(e) The Company further covenants and agrees that it will pay when due and payable any and all federal and state transfer taxes and charges which may be payable in respect of the original issuance or delivery of the Rights Certificates or of any Preferred Shares (or other securities of the Company) upon the exercise of Rights. The Company shall not, however, be required to pay any transfer tax which may be payable in respect of any transfer or delivery of Rights Certificates to a person other than, or the issuance or delivery of certificates or depositary receipts for the Preferred Shares (or other securities of the Company) in a name other than that of, the registered holder of the Rights Certificate evidencing Rights surrendered for exercise or to issue or to deliver any certificates or depositary receipts for Preferred Shares (or other securities of the Company) upon the exercise of any

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Rights until any such tax shall have been paid (any such tax being payable by the holder of such Rights Certificate at the time of surrender) or until it has been established to the Company's satisfaction that no such tax is due.

Section 10. Record Date. Each Person in whose name any certificate for a  
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number of one-thousandths of a Preferred Share (or other securities of the Company) is issued upon the exercise of Rights shall for all purposes be deemed to have become the holder of record of Preferred Shares (or other securities of the Company) represented thereby on, and such certificate shall be dated, the date upon which the Rights Certificate evidencing such Rights was duly surrendered and payment of the Total Exercise Price with respect to which the Rights have been exercised (and any applicable transfer taxes) was made; provided, however, that if the date of such surrender and payment is a date upon  
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which the transfer books of the Company are closed, such Person shall be deemed to have become the record holder of such shares on, and such certificate shall be dated, the next succeeding Business Day on which the transfer books of the Company are open. Prior to the exercise of the Rights evidenced thereby, the holder of a Rights Certificate shall not be entitled to any rights of a holder of Preferred Shares (or other securities of the Company) for which the Rights shall be exercisable, including, without limitation, the right to vote, to receive dividends or other distributions or to exercise any preemptive rights, and shall not be entitled to receive any notice of any proceedings of the Company, except as provided herein.

Section 11. Adjustment of Exercise Price, Number of Shares or Number of  
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Rights. The Exercise Price, the number and kind of shares or other property  
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covered by each Right and the number of Rights outstanding are subject to adjustment from time to time as provided in this Section 11.

(a) (i) Anything in this Agreement to the contrary notwithstanding, in the event the Company shall at any time after the date of this Agreement (A) declare a dividend on the Preferred Shares payable in Preferred Shares, (B) subdivide the outstanding Preferred Shares, (C) combine the outstanding Preferred Shares (by reverse stock split or otherwise) into a smaller number of Preferred Shares, or (D) issue any shares of its capital stock in a reclassification of the Preferred Shares (including any such reclassification in connection with a consolidation or merger in which the Company is the continuing or surviving corporation), then, in each such event, except as otherwise provided in this Section 11 and Section 7(e) hereof: (1) the Exercise Price in effect at the time of the record date for such dividend or of the effective date of such subdivision, combination or reclassification shall be adjusted so that the Exercise Price thereafter shall equal the result obtained by multiplying the Exercise Price in effect immediately prior to such time by a fraction (the "Adjustment Fraction"), the numerator of which shall be the total number of Preferred Shares (or shares of capital stock issued in such reclassification of the Preferred Shares) outstanding immediately following such time and the denominator of which shall be the total number of Preferred Shares outstanding immediately prior to such time; provided, however, that in no event shall the  
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consideration to be paid upon the exercise of one Right be less than the

aggregate par value of the shares of capital stock of the Company issuable upon exercise of such Right; and (2) the number of one-thousandths of a Preferred Share (or share of such other capital stock) issuable upon the exercise of each Right shall equal the number of one-thousandths of a Preferred Share (or share of such other capital stock) as was issuable upon exercise of a Right immediately prior to the occurrence of the event described in clauses (A)-(D) of this Section

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11(a)(i), multiplied by the Adjustment Fraction; provided, however, that, no such adjustment shall be made pursuant to this Section 11(a)(i) to the extent that there shall have simultaneously occurred an event described in clause (A), (B), (C) or (D) of Section 11(n) with a proportionate adjustment being made thereunder. Each Common Share that shall become outstanding after an adjustment has been made pursuant to this Section 11(a)(i) shall have associated with the number of Rights, exercisable at the Exercise Price and for the number of one-thousandths of a Preferred Share (or shares of such other capital stock) as one Common Share has associated with it immediately following the adjustment made pursuant to this Section 11(a)(i).

(ii) Subject to Section 24 of this Agreement, in the event a Triggering Event shall have occurred, then promptly following such Triggering Event each holder of a Right, except as provided in Section 7(e) hereof, shall thereafter have the right to receive for each Right, upon exercise thereof in accordance with the terms of this Agreement and payment of the Total Exercise Price in effect immediately prior to the occurrence of the Triggering Event, in lieu of a number of one-thousandths of a Preferred Share, such number of DSSG Common Shares or HDDG Common Shares, as the case may be, as shall equal the result obtained by multiplying the Exercise Price in effect immediately prior to the occurrence of the Triggering Event by the number of one-thousandths of a Preferred Share for which a Right was exercisable (or would have been exercisable if the Distribution Date had occurred) immediately prior to the first occurrence of a Triggering Event, and dividing that product by 50% of the Current Per Share Market Price for DSSG Common Shares or HDDG Common Shares, as the case may be, on the date of occurrence of the Triggering Event; provided,

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however, that the Exercise Price and the number of Common Shares of the Company -

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so receivable upon exercise of a Right shall be subject to further adjustment as appropriate in accordance with Section 11(e) hereof to reflect any events occurring in respect of the Common Shares of the Company after the occurrence of the Triggering Event.

(iii) In lieu of issuing Common Shares in accordance with Section 11(a)(ii) hereof, the Company may, if a majority of the Company's Board of Directors determines that such action is necessary or appropriate and not contrary to the interest of holders of Rights (and, in the event that the number of Common Shares which are authorized by the Company's Certificate of Incorporation but not outstanding or reserved for issuance for purposes other than upon exercise of the Rights are not sufficient to permit the exercise in full of the Rights, or if any necessary regulatory approval for such issuance has not been obtained by the Company, the Company shall): (A) determine the excess of (1) the value of the Common Shares issuable upon the exercise of a Right (the "Current Value") over (2) the Exercise Price (such excess, the "Spread") and (B) with respect to each Right, make adequate provision to substitute for such Common Shares, upon exercise of the Rights, (1) cash, (2) a reduction in the Exercise Price, (3) other equity securities of the Company (including, without limitation, shares or units of shares of any series of preferred stock which a majority of the Company's Board of Directors has deemed to have the same value as Common Shares (such shares or units of shares of preferred stock are herein called "Common Stock Equivalents")), except to the extent that the Company has not obtained any necessary stockholder or

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regulatory approval for such issuance, (4) debt securities of the Company, except to the extent that the Company has not obtained any necessary stockholder or regulatory approval for such issuance, (5) other assets or (6) any combination of the foregoing, having an aggregate value equal to the Current Value, where such aggregate value has been determined by a majority of the Company's Board of Directors based upon the advice of a nationally recognized investment banking firm selected by a majority of the Company's Board of Directors; provided, however, if the Company shall not have made adequate

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provision to deliver value pursuant to clause (B) above within thirty (30) days following the later of (x) the first occurrence of a Triggering Event and (y) the date on which the Company's right of redemption pursuant to Section 23(a) expires (the later of (x) and (y) being referred to herein as the "Section 11(a)(ii) Trigger Date"), then the Company shall be obligated to deliver, upon the surrender for exercise of a Right and without requiring payment of the Exercise Price, Common Shares (to the extent available), except to the extent that the Company has not obtained any necessary stockholder or regulatory approval for such issuance, and then, if necessary, cash, which shares and/or cash have an aggregate value equal to the Spread. If a majority of the Company's

Board of Directors shall determine in good faith that it is likely that sufficient additional Common Shares could be authorized for issuance upon exercise in full of the Rights or that any necessary regulatory approval for such issuance will be obtained, the thirty (30) day period set forth above may be extended to the extent necessary, but not more than ninety (90) days after the Section 11(a)(ii) Trigger Date, in order that the Company may seek stockholder approval for the authorization of such additional shares or take action to obtain such regulatory approval (such period, as it may be extended, the "Substitution Period"). To the extent that the Company determines that some action need be taken pursuant to the first and/or second sentences of this Section 11(a)(iii), the Company (x) shall provide, subject to Section 7(e) hereof, that such action shall apply uniformly to all outstanding Rights and (y) may suspend the exercisability of the Rights until the expiration of the Substitution Period in order to seek any authorization of additional shares, to take any action to obtain any required regulatory approval and/or to decide the appropriate form of distribution to be made pursuant to such first sentence and to determine the value thereof. In the event of any such suspension, the Company shall issue a public announcement stating that the exercisability of the Rights has been temporarily suspended, as well as a public announcement at such time as the suspension is no longer in effect. For purposes of this Section 11(a)(iii), the value of the Common Shares shall be the Current Per Share Market Price of the Common Shares on the Section 11(a)(ii) Trigger Date and the value of any Common Stock Equivalent shall be deemed to have the same value as the Common Shares on such date.

(b) In case the Company shall, at any time after the date of this Agreement, fix a record date for the issuance of rights, options or warrants to all holders of Preferred Shares entitling such holders (for a period expiring within forty-five (45) calendar days after such record date) to subscribe for or purchase Preferred Shares or Equivalent Shares or securities convertible into Preferred Shares or Equivalent Shares at a price per share (or having a conversion price per share, if a security convertible into Preferred Shares or Equivalent Shares) less than the then Current Per Share Market Price of the Preferred Shares or Equivalent Shares on such record date, then, in each such case, the Exercise Price to be in effect after such record date shall be determined by multiplying the Exercise Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the number of Preferred Shares and Equivalent Shares (if any) outstanding on such record date, plus the number of Preferred Shares or Equivalent Shares, as the case may be, which the aggregate offering price of the total

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number of Preferred Shares or Equivalent Shares, as the case may be, to be offered or issued (and/or the aggregate initial conversion price of the convertible securities to be offered or issued) would purchase at such current market price, and the denominator of which shall be the number of Preferred Shares and Equivalent Shares (if any) outstanding on such record date, plus the number of additional Preferred Shares or Equivalent Shares, as the case may be, to be offered for subscription or purchase (or into which the convertible securities so to be offered are initially convertible); provided, however,

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that in no event shall the consideration to be paid upon the exercise of one Right be less than the aggregate par value of the shares of capital stock of the Company issuable upon exercise of one Right. In case such subscription price may be paid in a consideration part or all of which shall be in a form other than cash, the value of such consideration shall be as determined in good faith by a majority of the Company's Board of Directors, whose determination shall be described in a statement filed with the Rights Agent and shall be binding on the Rights Agent and the holders of the Rights. Preferred Shares and Equivalent Shares owned by or held for the account of the Company shall not be deemed outstanding for the purpose of any such computation. Such adjustment shall be made successively whenever such a record date is fixed, and in the event that such rights, options or warrants are not so issued, the Exercise Price shall be adjusted to be the Exercise Price which would then be in effect if such record date had not been fixed.

(c) In case the Company shall, at any time after the date of this Agreement, fix a record date for the making of a distribution to all holders of the Preferred Shares or of any class or series of Equivalent Shares (including any such distribution made in connection with a consolidation or merger in which the Company is the continuing or surviving corporation) of evidences of indebtedness or assets (other than a regular quarterly cash dividend, if any, or a dividend payable in Preferred Shares) or subscription rights, options or warrants (excluding those referred to in Section 11(b)), then, in each such case, the Exercise Price to be in effect after such record date shall be determined by multiplying the Exercise Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the Current Per Share Market Price of a Preferred Share or an Equivalent Share on such record date, less the fair market value per Preferred Share or Equivalent Share (as determined in good faith by the Board of Directors of the Company, whose determination shall be described in a statement filed with the Rights Agent) of the portion of the cash, assets or evidences of indebtedness so to be distributed or of such subscription rights or warrants applicable to a Preferred Share or Equivalent Share, as the case may be, and the denominator of which

shall be such Current Per Share Market Price of a Preferred Share or Equivalent Share on such record date; provided, however, that in no event shall the

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consideration to be paid upon the exercise of one Right be less than the aggregate par value of the shares of capital stock of the Company issuable upon exercise of one Right. Such adjustments shall be made successively whenever such a record date is fixed, and in the event that such distribution is not so made, the Exercise Price shall be adjusted to be the Exercise Price which would have been in effect if such record date had not been fixed.

(d) Anything herein to the contrary notwithstanding, no adjustment in the Exercise Price shall be required unless such adjustment would require an increase or decrease of at least 1% in the Exercise Price; provided, however  
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that any adjustments which by reason of this Section 11(d) are

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not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Section 11 shall be made to the nearest cent or to the nearest ten-thousandth of a Common Share or other share or one hundred-thousandth of a Preferred Share, as the case may be. Notwithstanding the first sentence of this Section 11(d), any adjustment required by this Section 11 shall be made no later than the earlier of (i) three (3) years from the date of the transaction which requires such adjustment or (ii) the Expiration Date.

(e) If as a result of an adjustment made pursuant to Section 11(a) or 13(a) hereof, the holder of any Right thereafter exercised shall become entitled to receive any shares of capital stock other than Preferred Shares, thereafter the number of such other shares so receivable upon exercise of any Right and, if required, the Exercise Price thereof, shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Preferred Shares contained in Sections 11(a), 11(b), 11(c), 11(d), 11(g), 11(h), 11(i), 11(j), 11(k) and 11(l), and the provisions of Sections 7, 9, 10, 13 and 14 with respect to the Preferred Shares shall apply on like terms to any such other shares.

(f) All Rights originally issued by the Company subsequent to any adjustment made to the Exercise Price hereunder shall evidence the right to purchase, at the adjusted Exercise Price, the number of one-thousandths of a Preferred Share purchasable from time to time hereunder upon exercise of the Rights, all subject to further adjustment as provided herein.

(g) Unless the Company shall have exercised its election as provided in Section 11(h), upon each adjustment of the Exercise Price as a result of the calculations made in Sections 11(b) and (c), each Right outstanding immediately prior to the making of such adjustment shall thereafter evidence the right to purchase, at the adjusted Exercise Price, that number of Preferred Shares (calculated to the nearest one hundred-thousandth of a share) obtained by (i) multiplying (x) the number of Preferred Shares covered by a Right immediately prior to this adjustment, by (y) the Exercise Price in effect immediately prior to such adjustment of the Exercise Price, and (ii) dividing the product so obtained by the Exercise Price in effect immediately after such adjustment of the Exercise Price.

(h) The Company may elect on or after the date of any adjustment of the Exercise Price as a result of the calculations made in Section 11(b) or (c) to adjust the number of Rights, in substitution for any adjustment in the number of Preferred Shares purchasable upon the exercise of a Right. Each of the Rights outstanding after such adjustment of the number of Rights shall be exercisable for the number of one-thousandths of a Preferred Share for which a Right was exercisable immediately prior to such adjustment. Each Right held of record prior to such adjustment of the number of Rights shall become that number of Rights (calculated to the nearest one hundred-thousandth) obtained by dividing the Exercise Price in effect immediately prior to adjustment of the Exercise Price by the Exercise Price in effect immediately after adjustment of the Exercise Price. The Company shall make a public announcement of its election to adjust the number of Rights, indicating the record date for the adjustment, and, if known at the time, the amount of the adjustment to be made. This record date may be the date on which the Exercise Price is adjusted or any day thereafter, but, if the Rights Certificates have been issued, shall be at least ten (10) days later than the date of the public announcement. If Rights

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Certificates have been issued, upon each adjustment of the number of Rights pursuant to this Section 11(h), the Company shall, as promptly as practicable, cause to be distributed to holders of record of Rights Certificates on such record date Rights Certificates evidencing, subject to Section 14 hereof, the additional Rights to which such holders shall be entitled as a result of such adjustment, or, at the option of the Company, shall cause to be distributed to such holders of record in substitution and replacement for the Rights Certificates held by such holders prior to the date of adjustment, and upon surrender thereof, if required by the Company, new Rights Certificates

evidencing all the Rights to which such holders shall be entitled after such adjustment. Rights Certificates so to be distributed shall be issued, executed and countersigned in the manner provided for herein (and may bear, at the option of the Company, the adjusted Exercise Price) and shall be registered in the names of the holders of record of Rights Certificates on the record date specified in the public announcement.

(i) Irrespective of any adjustment or change in the Exercise Price or the number of Preferred Shares issuable upon the exercise of the Rights, the Rights Certificates theretofore and thereafter issued may continue to express the Exercise Price per one one-thousandth of a Preferred Share and the number of one-thousandths of a Preferred Share which were expressed in the initial Rights Certificates issued hereunder.

(j) Before taking any action that would cause an adjustment reducing the Exercise Price below the par or stated value, if any, of the number of one-thousandths of a Preferred Share issuable upon exercise of the Rights, the Company shall take any corporate action which may, in the opinion of its counsel, be necessary in order that the Company may validly and legally issue as fully paid and nonassessable shares such number of one-thousandths of a Preferred Share at such adjusted Exercise Price.

(k) In any case in which this Section 11 shall require that an adjustment in the Exercise Price be made effective as of a record date for a specified event, the Company may elect to defer until the occurrence of such event the issuing to the holder of any Right exercised after such record date of the number of one-thousandths of a Preferred Share and other capital stock or securities of the Company, if any, issuable upon such exercise over and above the number of one-thousandths of a Preferred Share and other capital stock or securities of the Company, if any, issuable upon such exercise on the basis of the Exercise Price in effect prior to such adjustment; provided, however, that the Company shall deliver to such holder a due bill or other appropriate instrument evidencing such holder's right to receive such additional shares (fractional or otherwise) upon the occurrence of the event requiring such adjustment.

(l) Anything in this Section 11 to the contrary notwithstanding, prior to the Distribution Date, the Company shall be entitled to make such reductions in the Exercise Price, in addition to those adjustments expressly required by this Section 11, as and to the extent that it in its sole discretion shall determine to be advisable in order that any (i) consolidation or subdivision of the Preferred or Common Shares, (ii) issuance wholly for cash of any Preferred or Common Shares at less than the current market price, (iii) issuance wholly for cash of Preferred or Common Shares or securities which by their terms are convertible into or exchangeable for Preferred or Common Shares, (iv) stock

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dividends or (v) issuance of rights, options or warrants referred to in this Section 11, hereafter made by the Company to holders of its Preferred or Common Shares shall not be taxable to such stockholders.

(m) The Company covenants and agrees that, after the Distribution Date, it will not, except as permitted by Sections 23, 24 or 27 hereof, take (or permit to be taken) any action if at the time such action is taken it is reasonably foreseeable that such action will diminish substantially or otherwise eliminate the benefits intended to be afforded by the Rights.

(n) In the event the Company shall at any time after the date of this Agreement (A) declare a dividend on the DSSG Common Shares or HDDG Common Shares, as the case may be, payable in DSSG Common Shares or HDDG Common Shares, as the case may be, (B) subdivide the outstanding Common Shares, (C) combine the outstanding DSSG Common Shares or HDDG Common Shares, as the case may be, (by reverse stock split or otherwise) into a smaller number of DSSG Common Shares or HDDG Common Shares, as the case may be, or (D) issue any shares of its capital stock in a reclassification of the DSSG Common Shares or HDDG Common Shares, as the case may be, (including any such reclassification in connection with a consolidation or merger in which the Company is the continuing or surviving corporation), then, in each such event, except as otherwise provided in this Section 11(a) and Section 7(e) hereof: (1) each DSSG Common Share or HDDG Common Share, as the case may be (or shares of capital stock issued in such reclassification of the Common Shares), outstanding immediately following such time shall have associated with it the number of Rights as were associated with one DSSG Common Share or HDDG Common Share, as the case may be, outstanding immediately prior to the occurrence of the event described in clauses (A)-(D) above; (2) the Exercise Price in effect at the time of the record date for such dividend or of the effective date of such subdivision, combination or reclassification shall be adjusted so that the Exercise Price thereafter shall equal the result obtained by multiplying the Exercise Price in effect immediately prior to such time by a fraction, the numerator of which shall be the total number of DSSG Common Shares or HDDG Common Shares, as the case may be, outstanding immediately prior to the event described in clauses (A)-(D) above, and the denominator of which shall be the total number of DSSG Common Shares or HDDG Common Shares, as the case may be, outstanding immediately after such event; provided, however, that in no event shall the consideration to be

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paid upon the exercise of one Right be less than the aggregate par value of the shares of capital stock of the Company issuable upon exercise of such Right; and (3) the number of one-thousandths of a Preferred Share (or shares of such other capital stock) issuable upon the exercise of each Right outstanding after such event shall equal the number of one-thousandths of a Preferred Share (or shares of such other capital stock) as were issuable with respect to one Right immediately prior to such event. Each DSSG Common Share or HDDG Common Share, as the case may be, that shall become outstanding after an adjustment has been made pursuant to this Section 11(n) shall have associated with it the number of Rights, exercisable at the Exercise Price and for the number of one-thousandths of a Preferred Share (or shares of such other capital stock) as one Common Share has associated with it immediately following the adjustment made pursuant to this Section 11(n). If an event occurs which would require an adjustment under both this Section 11(n) and Section 11(a)(ii) hereof, the adjustment provided for in this Section 11(n) shall be in addition to, and shall be made prior to, any adjustment required pursuant to Section 11(a)(ii) hereof.

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Section 12. Certificate of Adjusted Exercise Price or Number of Shares.  
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Whenever an adjustment is made as provided in Sections 11 and 13 hereof, the Company shall promptly (a) prepare a certificate setting forth such adjustment and a brief statement of the facts accounting for such adjustment, (b) file with the Rights Agent and with each transfer agent for the Preferred Shares a copy of such certificate and (c) mail a brief summary thereof to each holder of a Rights Certificate in accordance with Section 26 hereof. Notwithstanding the foregoing sentence, the failure of the Company to make such certification or give such notice shall not affect the validity of such adjustment or the force or effect of the requirement for such adjustment. The Rights Agent shall be fully protected in relying on any such certificate and on any adjustment contained therein, and shall not be obligated or responsible for calculating any adjustment, nor shall it be deemed to have knowledge of such adjustment, unless and until it shall have received such certificate.

Section 13. Consolidation, Merger or Sale or Transfer of Assets or Earning  
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Power.  
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(a) In the event that, following a Triggering Event, directly or indirectly:

(i) the Company shall consolidate with, or merge with and into, any other Person (other than a wholly-owned Subsidiary of the Company in a transaction the principal purpose of which is to change the state of incorporation of the Company and which complies with Section 11(m) hereof);

(ii) any Person shall consolidate with the Company, or merge with and into the Company and the Company shall be the continuing or surviving corporation of such consolidation or merger and, in connection with such merger, all or part of the Common Shares shall be changed into or exchanged for stock or other securities of any other person (or of the Company); or

(iii) the Company shall sell or otherwise transfer (or one or more of its Subsidiaries shall sell or otherwise transfer), in one or more transactions, assets or earning power aggregating 50% or more of the assets or earning power of the Company and its Subsidiaries (taken as a whole) to any other Person or Persons (other than the Company or one or more of its wholly-owned Subsidiaries in one or more transactions, each of which individually (and together) complies with Section 11(m) hereof),

then, concurrent with and in each such case,

(A) each holder of a Right (except as provided in Section 7(e) hereof) shall thereafter have the right to receive, upon the exercise thereof at a price equal to the Total Exercise Price applicable immediately prior to the occurrence of the Section 13 Event in accordance with the terms of this Agreement, such number of validly authorized and issued, fully paid, nonassessable and freely tradeable Common Shares of the Principal Party (as hereinafter defined), free of any liens, encumbrances, rights of first refusal or other adverse claims, as shall be equal to the result obtained by dividing such Total Exercise Price by 50% of the Current Per Share Market Price of the Common Shares of such Principal Party on the date of consummation of such Section 13 Event, provided, however, that  
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the Exercise Price and the number of Common Shares of such Principal Party so receivable upon exercise of a Right shall be subject to further adjustment as appropriate in accordance with Section 11(e) hereof;

(B) such Principal Party shall thereafter be liable for, and

shall assume, by virtue of such Section 13 Event, all the obligations and duties of the Company pursuant to this Agreement;

(C) the term "Company" shall thereafter be deemed to refer to such Principal Party, it being specifically intended that the provisions of Section 11 hereof shall apply only to such Principal Party following the first occurrence of a Section 13 Event;

(D) such Principal Party shall take such steps (including, but not limited to, the reservation of a sufficient number of its Common Shares) in connection with the consummation of any such transaction as may be necessary to ensure that the provisions hereof shall thereafter be applicable, as nearly as reasonably may be, in relation to its Common Shares thereafter deliverable upon the exercise of the Rights; and

(E) upon the subsequent occurrence of any consolidation, merger, sale or transfer of assets or other extraordinary transaction in respect of such Principal Party, each holder of a Right shall thereupon be entitled to receive, upon exercise of a Right and payment of the Total Exercise Price as provided in this Section 13(a), such cash, shares, rights, warrants and other property which such holder would have been entitled to receive had such holder, at the time of such transaction, owned the Common Shares of the Principal Party receivable upon the exercise of such Right pursuant to this Section 13(a), and such Principal Party shall take such steps (including, but not limited to, reservation of shares of stock) as may be necessary to permit the subsequent exercise of the Rights in accordance with the terms hereof for such cash, shares, rights, warrants and other property.

(F) For purposes hereof, the "earning power" of the Company and its Subsidiaries shall be determined in good faith by the Company's Board of Directors on the basis of the operating earnings of each business operated by the Company and its Subsidiaries during the three fiscal years preceding the date of such determination (or, in the case of any business not operated by the Company or any Subsidiary during three full fiscal years preceding such date, during the period such business was operated by the Company or any Subsidiary).

(b) For purposes of this Agreement, the term "Principal Party" shall mean:

(i) in the case of any transaction described in clause (i) or (ii) of Section 13(a) hereof: (A) the Person that is the issuer of the securities into which the Common Shares are converted in such merger or consolidation, or, if there is more than one such issuer, the issuer the Common Shares of which have the greatest aggregate market value of shares outstanding, or (B) if no securities are so issued, (x) the Person that is the other party to the merger, if such Person survives said merger, or, if there is more than one such Person, the Person the Common Shares of which have the

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greatest aggregate market value of shares outstanding or (y) if the Person that is the other party to the merger does not survive the merger, the Person that does survive the merger (including the Company if it survives) or (z) the Person resulting from the consolidation; and

(ii) in the case of any transaction described in clause (iii) of Section 13(a) hereof, the Person that is the party receiving the greatest portion of the assets or earning power transferred pursuant to such transaction or transactions, or, if more than one Person that is a party to such transaction or transactions receives the same portion of the assets or earning power so transferred and each such portion would, were it not for the other equal portions, constitute the greatest portion of the assets or earning power so transferred, or if the Person receiving the greatest portion of the assets or earning power cannot be determined, whichever of such Persons is the issuer of Common Shares having the greatest aggregate market value of shares outstanding;

provided, however, that in any such case described in the foregoing clause

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(b) (i) or (b) (ii), if the Common Shares of such Person are not at such time or have not been continuously over the preceding 12-month period registered under Section 12 of the Exchange Act, then (1) if such Person is a direct or indirect Subsidiary of another Person the Common Shares of which are and have been so registered, the term "Principal Party" shall refer to such other Person, or (2) if such Person is a Subsidiary, directly or indirectly, of more than one Person, the Common Shares of which are and have been so registered, the term "Principal Party" shall refer to whichever of such Persons is the issuer of Common Shares having the greatest aggregate market value of shares outstanding, or (3) if such Person is owned, directly or indirectly, by a joint venture formed by two or more Persons that are not owned, directly or indirectly by the same Person, the rules set forth in clauses (1) and (2) above shall apply to each of the owners having an interest in the venture as if the Person owned by the joint venture was a Subsidiary of both or all of such joint venturers, and the Principal Party in each such case shall bear the obligations set forth in this Section 13 in the same ratio as its interest in such Person bears to the total of such interests.

(c) The Company shall not consummate any Section 13 Event unless the Principal Party shall have a sufficient number of authorized Common Shares that have not been issued or reserved for issuance to permit the exercise in full of the Rights in accordance with this Section 13 and unless prior thereto the Company and such issuer shall have executed and delivered to the Rights Agent a supplemental agreement confirming that such Principal Party shall, upon consummation of such Section 13 Event, assume this Agreement in accordance with Sections 13(a) and 13(b) hereof, that all rights of first refusal or preemptive rights in respect of the issuance of Common Shares of such Principal Party upon exercise of outstanding Rights have been waived, that there are no rights, warrants, instruments or securities outstanding or any agreements or arrangements which, as a result of the consummation of such transaction, would eliminate or substantially diminish the benefits intended to be afforded by the Rights and that such transaction shall not result in a default by such Principal Party under this Agreement, and further providing that, as soon as practicable after the date of such Section 13 Event, such Principal Party will:

(i) prepare and file a registration statement under the Securities Act with respect to the Rights and the securities purchasable upon exercise of the Rights on an appropriate form,

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use its best efforts to cause such registration statement to become effective as soon as practicable after such filing and use its best efforts to cause such registration statement to remain effective (with a prospectus at all times meeting the requirements of the Securities Act) until the Expiration Date, and similarly comply with applicable state securities laws;

(ii) use its best efforts to list (or continue the listing of) the Rights and the securities purchasable upon exercise of the Rights on a national securities exchange or to meet the eligibility requirements for quotation on Nasdaq and list (or continue the listing of) the Rights and the securities purchasable upon exercise of the Rights on Nasdaq; and

(iii) deliver to holders of the Rights historical financial statements for such Principal Party which comply in all respects with the requirements for registration on Form 10 (or any successor form) under the Exchange Act.

In the event that at any time after the occurrence of a Triggering Event some or all of the Rights shall not have been exercised at the time of a transaction described in this Section 13, the Rights which have not theretofore been exercised shall thereafter be exercisable in the manner described in Section 13(a) (without taking into account any prior adjustment required by Section 11(a)(ii)).

(d) In case the "Principal Party" for purposes of Section 13(b) hereof has provision in any of its authorized securities or in its certificate of incorporation or by-laws or other instrument governing its corporate affairs, which provision would have the effect of (i) causing such Principal Party to issue (other than to holders of Rights pursuant to Section 13 hereof), in connection with, or as a consequence of, the consummation of a Section 13 Event, Common Shares or Equivalent Shares of such Principal Party at less than the then Current Per Share Market Price thereof or securities exercisable for, or convertible into, Common Shares or Equivalent Shares of such Principal Party at less than such then Current Per Share Market Price, or (ii) providing for any special payment, tax or similar provision in connection with the issuance of the Common Shares of such Principal Party pursuant to the provisions of Section 13 hereof, then, in such event, the Company hereby agrees with each holder of Rights that it shall not consummate any such transaction unless prior thereto the Company and such Principal Party shall have executed and delivered to the Rights Agent a supplemental agreement providing that the provision in question of such Principal Party shall have been canceled, waived or amended, or that the authorized securities shall be redeemed, so that the applicable provision will have no effect in connection with or as a consequence of, the consummation of the proposed transaction.

(e) The Company covenants and agrees that it shall not, at any time after the Distribution Date, effect or permit to occur any Section 13 Event, if (i) at the time or immediately after such Section 13 Event there are any rights, warrants or other instruments or securities outstanding or agreements in effect which would substantially diminish or otherwise eliminate the benefits intended to be afforded by the Rights, (ii) prior to, simultaneously with or immediately after such Section 13 Event, the stockholders of the Person who constitutes, or would constitute, the "Principal Party" for purposes of Section 13(b) hereof shall have received a distribution of Rights previously owned by such

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Person or any of its Affiliates or Associates or (iii) the form or nature of organization of the Principal Party would preclude or limit the exercisability of the Rights.

(f) The provisions of this Section 13 shall similarly apply to



successive mergers or consolidations or sales or other transfers.

Section 14. Fractional Rights and Fractional Shares  
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(a) The Company shall not be required to issue fractions of Rights or to distribute Rights Certificates which evidence fractional Rights. In lieu of such fractional Rights, there shall be paid to the registered holders of the Rights Certificates with regard to which such fractional Rights would otherwise be issuable, an amount in cash equal to the same fraction of the current market value of a whole Right. For the purposes of this Section 14(a), the current market value of a whole Right shall be the closing price of the Rights for the Trading Day immediately prior to the date on which such fractional Rights would have been otherwise issuable, as determined pursuant to the second sentence of Section 1(j) hereof.

(b) The Company shall not be required to issue fractions of Preferred Shares (other than fractions that are integral multiples of one one-thousandth of a Preferred Share) upon exercise of the Rights or to distribute certificates which evidence fractional Preferred Shares (other than fractions that are integral multiples of one one-thousandth of a Preferred Share). Interests in fractions of Preferred Shares in integral multiples of one one-thousandth of a Preferred Share may, at the election of the Company, be evidenced by depository receipts, pursuant to an appropriate agreement between the Company and a depository selected by it; provided, that such agreement shall provide that the

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holders of such depository receipts shall have all the rights, privileges and preferences to which they are entitled as beneficial owners of the Preferred Shares represented by such depository receipts. In lieu of fractional Preferred Shares that are not integral multiples of one one-thousandth of a Preferred Share, the Company shall pay to the registered holders of Rights Certificates at the time such Rights are exercised as herein provided an amount in cash equal to the same fraction of the current market value of a Preferred Share. For purposes of this Section 14(b), the current market value of a Preferred Share shall be one thousand times the closing price of a Common Share (as determined pursuant to the second sentence of Section 1(j) hereof) for the Trading Day immediately prior to the date of such exercise.

(c) The Company shall not be required to issue fractions of Common Shares or to distribute certificates which evidence fractional Common Shares upon the exercise or exchange of Rights. In lieu of such fractional Common Shares, the Company shall pay to the registered holders of Rights Certificates at the time such Rights are exercised as herein provided an amount in cash equal to the same fraction of the current market value of a Common Share. For purposes of this Section 14(c), the current market value of a Common Share shall be the closing price of a Common Share (as determined pursuant to the second sentence of Section 1(j) hereof) for the Trading Day immediately prior to the date of such exercise.

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(d) The holder of a Right by the acceptance of the Right expressly waives his or her right to receive any fractional Rights or any fractional shares (other than fractions that are integral multiples of one one-thousandth of a Preferred Share) upon exercise of a Right.

Section 15. Rights of Action. All rights of action in respect of this  
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Agreement, excepting the rights of action given to the Rights Agent under Section 18 hereof, are vested in the respective registered holders of the Rights Certificates (and, prior to the Distribution Date, the registered holders of the Common Shares); and any registered holder of any Rights Certificate (or, prior to the Distribution Date, of the Common Shares), without the consent of the Rights Agent or of the holder of any other Rights Certificate (or, prior to the Distribution Date, of the Common Shares), may, in his or her own behalf and for his or her own benefit, enforce, and may institute and maintain any suit, action or proceeding against the Company to enforce, or otherwise act in respect of, his or her right to exercise the Rights evidenced by such Rights Certificate in the manner provided in such Rights Certificate and in this Agreement. Without limiting the foregoing or any remedies available to the holders of Rights, it is specifically acknowledged that the holders of Rights would not have an adequate remedy at law for any breach of this Agreement and will be entitled to specific performance of the obligations under, and injunctive relief against actual or threatened violations of, the obligations of any Person subject to this Agreement.

Section 16. Agreement of Rights Holders. Every holder of a Right, by  
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accepting the same, consents and agrees with the Company and the Rights Agent and with every other holder of a Right that:

(a) prior to the Distribution Date, the Rights will be transferable only in connection with the transfer of the Common Shares;

(b) after the Distribution Date, the Rights Certificates are

transferable only on the registry books of the Rights Agent if surrendered at the principal office or offices of the Rights Agent designated for such purposes, duly endorsed or accompanied by a proper instrument of transfer and with the appropriate forms and certificates fully executed; and

(c) subject to Sections 6(a) and 7(f) hereof, the Company and the Rights Agent may deem and treat the person in whose name the Rights Certificate (or, prior to the Distribution Date, the associated Common Shares certificate) is registered as the absolute owner thereof and of the Rights evidenced thereby (notwithstanding any notations of ownership or writing on the Rights Certificates or the associated Common Shares certificate made by anyone other than the Company or the Rights Agent) for all purposes whatsoever, and neither the Company nor the Rights Agent shall be affected by any notice to the contrary.

Section 17. Rights Certificate Holder Not Deemed a Stockholder. No holder,  
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as such, of any Rights Certificate shall be entitled to vote, receive dividends or be deemed for any purpose to be the holder of the Preferred Shares or any other securities of the Company which may at any time be issuable on the exercise of the Rights represented thereby, nor shall anything contained herein or in any Rights Certificate be construed to confer upon the holder of any Rights Certificate, as such, any of the rights of a stockholder of the Company or any right to vote for the election of directors or upon any matter

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submitted to stockholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting stockholders (except as provided in Section 25 hereof), or to receive dividends or subscription rights, or otherwise, until the Right or Rights evidenced by such Rights Certificate shall have been exercised in accordance with the provisions hereof.

Section 18. Concerning the Rights Agent.  
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(a) The Company agrees to pay to the Rights Agent reasonable compensation for all services rendered by it hereunder and, from time to time, on demand of the Rights Agent, its reasonable expenses and counsel fees and other disbursements incurred in the administration and execution of this Agreement and the exercise and performance of its duties hereunder. The Company also agrees to indemnify the Rights Agent for, and to hold it harmless against, any loss, liability or expense, incurred without gross negligence, bad faith or willful misconduct on the part of the Rights Agent, for anything done or omitted by the Rights Agent in connection with the acceptance and administration of this Agreement, including the costs and expenses of defending against any claim of liability in the premises. The indemnity provided for herein shall survive the expiration of the Rights, the termination of this Agreement, and the resignation or removal of the Rights Agent. The costs and expenses of enforcing this right of indemnification shall also be paid by the Company.

(b) The Rights Agent may conclusively rely upon and shall be protected and shall incur no liability for, or in respect of any action taken, suffered or omitted by it in connection with, its administration of this Agreement in reliance upon any Rights Certificate or certificate for the Preferred Shares or Common Shares or for other securities of the Company, instrument of assignment or transfer, power of attorney, endorsement, affidavit, letter, notice, direction, consent, certificate, statement or other paper or document reasonably believed by it to be genuine and to be signed, executed and, where necessary, verified or acknowledged, by the proper Person or Persons, or otherwise upon the advice of counsel as set forth in Section 20 hereof.

(c) Notwithstanding anything in this Agreement to the contrary, in no event shall the Rights Agent be liable for special, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Rights Agent has been advised of the likelihood of such loss or damage and regardless of the form of the action.

Section 19. Merger or Consolidation or Change of Name of Rights Agent.  
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(a) Any corporation into which the Rights Agent or any successor Rights Agent may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which the Rights Agent or any successor Rights Agent shall be a party, or any corporation succeeding to the corporate trust business of the Rights Agent or any successor Rights Agent, shall be the successor to the Rights Agent under this Agreement without the execution or filing of any paper or any further act on the part of any of the parties hereto; provided, however, that such corporation would be eligible for

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appointment as a successor Rights Agent under the provisions of Section 21 hereof. In case at the time such successor Rights Agent shall succeed to the agency created

by this Agreement, any of the Rights Certificates shall have been countersigned but not delivered, any such successor Rights Agent may adopt the countersignature of the predecessor Rights Agent and deliver such Rights Certificates so countersigned; and in case at that time any of the Rights Certificates shall not have been countersigned, any successor Rights Agent may countersign such Rights Certificates either in the name of the predecessor Rights Agent or in the name of the successor Rights Agent; and in all such cases such Rights Certificates shall have the full force provided in the Rights Certificates and in this Agreement.

(b) In case at any time the name of the Rights Agent shall be changed and at such time any of the Rights Certificates shall have been countersigned but not delivered, the Rights Agent may adopt the countersignature under its prior name and deliver Rights Certificates so countersigned; and in case at that time any of the Rights Certificates shall not have been countersigned, the Rights Agent may countersign such Rights Certificates either in its prior name or in its changed name; and in all such cases such Rights Certificates shall have the full force provided in the Rights Certificates and in this Agreement.

Section 20. Duties of Rights Agent. The Rights Agent undertakes the  
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duties and obligations imposed by this Agreement upon the following terms and conditions, and no implied duties or obligations shall be read into this Agreement against the Rights Agent, by all of which the Company and the holders of Rights Certificates, by their acceptance thereof, shall be bound:

(a) Before the Rights Agent acts or refrains from acting, the Rights Agent may consult with legal counsel (who may be legal counsel for the Company), and the opinion of such counsel shall be full and complete authorization and protection to the Rights Agent as to any action taken or omitted by it in good faith and in accordance with such opinion.

(b) Whenever in the performance of its duties under this Agreement the Rights Agent shall deem it necessary or desirable that any fact or matter (including, without limitation, the identity of any Acquiring Person and the determination of Current Per Share Market Price) be proved or established by the Company prior to taking or suffering any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by any one of the Chairman of the Board, the Chief Executive Officer, the President, any Vice President, the Chief Financial Officer, the Secretary or any Assistant Secretary of the Company and delivered to the Rights Agent; and such certificate shall be full authorization to the Rights Agent for any action taken or suffered in good faith by it under the provisions of this Agreement in reliance upon such certificate.

(c) The Rights Agent shall be liable hereunder to the Company and any other Person only for its own gross negligence, bad faith or willful misconduct.

(d) The Rights Agent shall not be liable for or by reason of any of the statements of fact or recitals contained in this Agreement or in the Rights Certificates (except its countersignature

thereof) or be required to verify the same, but all such statements and recitals are and shall be deemed to have been made by the Company only.

(e) The Rights Agent shall not be under any responsibility in respect of the validity of this Agreement or the execution and delivery hereof (except the due execution hereof by the Rights Agent) or in respect of the validity or execution of any Rights Certificate (except its countersignature thereof); nor shall it be responsible for any breach by the Company of any covenant or condition contained in this Agreement or in any Rights Certificate; nor shall it be responsible for any change in the exercisability of the Rights or any adjustment in the terms of the Rights (including the manner, method or amount thereof) provided for in Sections 3, 11, 13, 23 or 24, or the ascertaining of the existence of facts that would require any such change or adjustment (except with respect to the exercise of Rights evidenced by Rights Certificates after receipt by the Rights Agent of a certificate furnished pursuant to Section 12 describing such change or adjustment); nor shall it by any act hereunder be deemed to make any representation or warranty as to the authorization or reservation of any Preferred Shares to be issued pursuant to this Agreement or any Rights Certificate or as to whether any Preferred Shares will, when issued, be validly authorized and issued, fully paid and nonassessable.

(f) The Company agrees that it will perform, execute, acknowledge and deliver or cause to be performed, executed, acknowledged and delivered all such further and other acts, instruments and assurances as may reasonably be required by the Rights Agent for the carrying out or performing by the Rights Agent of the provisions of this Agreement.

(g) The Rights Agent is hereby authorized and directed to accept

instructions with respect to the performance of its duties hereunder from any one of the Chairman of the Board, the Chief Executive Officer, the President, any Vice President, the Chief Financial Officer, the Secretary or any Assistant Secretary of the Company, and to apply to such officers for advice or instructions in connection with its duties, and it shall not be liable for any action taken or suffered by it in good faith in accordance with instructions of any such officer or for any delay in acting while waiting for those instructions. Any application by the Rights Agent for written instructions from the Company may, at the option of the Rights Agent, set forth in writing any action proposed to be taken or omitted by the Rights Agent under this Rights Agreement and the date on and/or after which such action shall be taken or such omission shall be effective. The Rights Agent shall not be liable for any action taken by, or omission of, the Rights Agent in accordance with a proposal included in any such application on or after the date specified in such application (which date shall not be less than five (5) Business Days after the date any officer of the Company actually receives such application, unless any such officer shall have consented in writing to an earlier date) unless, prior to taking any such action (or the effective date in the case of an omission), the Rights Agent shall have received written instructions in response to such application specifying the action to be taken or omitted.

(h) The Rights Agent and any stockholder, director, officer or employee of the Rights Agent may buy, sell or deal in any of the Rights or other securities of the Company or become pecuniarily interested in any transaction in which the Company may be interested, or contract with or lend money to the Company or otherwise act as fully and freely as though it were not the Rights Agent

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under this Agreement. Nothing herein shall preclude the Rights Agent from acting in any other capacity for the Company or for any other legal entity.

(i) The Rights Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys or agents, and the Rights Agent shall not be answerable or accountable for any act, default, neglect or misconduct of any such attorneys or agents or for any loss to the Company resulting from any such act, default, neglect or misconduct, provided reasonable care was exercised in the selection and continued employment thereof.

(j) No provision of this Agreement shall require the Rights Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of its rights if there shall be reasonable grounds for believing that repayment of such funds or adequate indemnification against such risk or liability is not reasonably assured to it.

(k) If, with respect to any Rights Certificate surrendered to the Rights Agent for exercise or transfer, the certificate attached to the form of assignment or form of election to purchase, as the case may be, has either not been completed or indicates an affirmative response to clause 1 and/or 2 thereof, the Rights Agent shall not take any further action with respect to such requested exercise or transfer without first consulting with the Company.

(l) The Rights Agent shall not be required to take notice or be deemed to have notice of any fact, event or determination (including, without limitation, any dates or events defined in this Agreement or the designation of any Person as an Acquiring Person, Affiliate or Associate) under this Agreement unless and until the Rights Agent shall be specifically notified in writing by the Company of such fact, event or determination.

Section 21. Change of Rights Agent. The Rights Agent or any successor

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Rights Agent may resign and be discharged from its duties under this Agreement upon thirty (30) days' notice in writing mailed to the Company and to each transfer agent of the Preferred Shares and the Common Shares by registered or certified mail, and, at the expense of the Company, to the holders of the Rights Certificates by first-class mail. The Company may remove the Rights Agent or any successor Rights Agent upon thirty (30) days' notice in writing, mailed to the Rights Agent or successor Rights Agent, as the case may be, and to each transfer agent of the Preferred Shares and the Common Shares by registered or certified mail, and to the holders of the Rights Certificates by first-class mail. If the Rights Agent shall resign or be removed or shall otherwise become incapable of acting, the Company shall appoint a successor to the Rights Agent. If the Company shall fail to make such appointment within a period of thirty (30) days after giving notice of such removal or after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Rights Agent or by the holder of a Rights Certificate (who shall, with such notice, submit his or her Rights Certificate for inspection by the Company), then the registered holder of any Rights Certificate may apply to any court of competent jurisdiction for the appointment of a new Rights Agent. Any successor Rights Agent, whether appointed by the Company or by such a court, shall be a corporation organized and doing business under the laws of the United States or of any state of the United States, in good standing, which is authorized under

exercise corporate trust or stockholder services powers and is subject to supervision or examination by federal or state authority and which has at the time of its appointment as Rights Agent a combined capital and surplus of at least \$50 million. After appointment, the successor Rights Agent shall be vested with the same powers, rights, duties and responsibilities as if it had been originally named as Rights Agent without further act or deed; but the predecessor Rights Agent shall deliver and transfer to the successor Rights Agent any property at the time held by it hereunder, and execute and deliver any further assurance, conveyance, act or deed necessary for the purpose. Not later than the effective date of any such appointment, the Company shall file notice thereof in writing with the predecessor Rights Agent and each transfer agent of the Preferred Shares and the Common Shares, and mail a notice thereof in writing to the registered holders of the Rights Certificates. Failure to give any notice provided for in this Section 21, however, or any defect therein, shall not affect the legality or validity of the resignation or removal of the Rights Agent or the appointment of the successor Rights Agent, as the case may be.

Section 22. Issuance of New Rights Certificates. Notwithstanding any of

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the provisions of this Agreement or of the Rights to the contrary, the Company may, at its option, issue new Rights Certificates evidencing Rights in such form as may be approved by its Board of Directors to reflect any adjustment or change in the Exercise Price and the number or kind or class of shares or other securities or property purchasable under the Rights Certificates made in accordance with the provisions of this Agreement. In addition, in connection with the issuance or sale of Common Shares following the Distribution Date and prior to the redemption or expiration of the Rights, the Company (a) shall, with respect to Common Shares so issued or sold pursuant to the exercise of stock options or under any employee plan or arrangement or upon the exercise, conversion or exchange of other securities of the Company outstanding at the date hereof or upon the exercise, conversion or exchange of securities hereinafter issued by the Company and (b) may, in any other case, if deemed necessary or appropriate by the Board of Directors of the Company, issue Rights Certificates representing the appropriate number of Rights in connection with such issuance or sale; provided, however, that (i) no such Rights Certificate

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shall be issued and this sentence shall be null and void ab initio if, and to

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the extent that, such issuance or this sentence would create a significant risk of or result in material adverse tax consequences to the Company or the Person to whom such Rights Certificate would be issued or would create a significant risk of or result in such options' or employee plans' or arrangements' failing to qualify for otherwise available special tax treatment and (ii) no such Rights Certificate shall be issued if, and to the extent that, appropriate adjustment shall otherwise have been made in lieu of the issuance thereof.

Section 23. Redemption.

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(a) The Company may, at its option and with the approval of the Board of Directors, at any time prior to the Close of Business on the earlier of (i) the tenth day following the Shares Acquisition Date (or such later date as may be determined by action of a majority of the Company's Board of Directors and publicly announced by the Company) and (ii) the Final Expiration Date, redeem all but not less than all the then outstanding Rights at a redemption price of \$0.01 per Right, appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date hereof (such redemption price being herein referred to as the "Redemption Price") and the Company may, at its option, pay the Redemption Price either in Common Shares (based on the Current

Per Share Market Price thereof at the time of redemption) or cash. Such redemption of the Rights by the Company may be made effective at such time, on such basis and with such conditions as the Board of Directors in its sole discretion may establish. The date on which the Board of Directors elects to make the redemption effective shall be referred to as the "Redemption Date."

(b) Immediately upon the action of the Board of Directors of the Company ordering the redemption of the Rights, evidence of which shall have been filed with the Rights Agent, and without any further action and without any notice, the right to exercise the Rights will terminate and the only right thereafter of the holders of Rights shall be to receive the Redemption Price. The Company shall promptly give public notice of any such redemption; provided, however, that the failure to give or any defect in, any such notice

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shall not affect the validity of such redemption. Within ten (10) days after the action of the Board of Directors ordering the redemption of the Rights, the Company shall give notice of such redemption to the Rights Agent and the holders of the then outstanding Rights by mailing such notice to all such holders at

their last addresses as they appear upon the registry books of the Rights Agent or, prior to the Distribution Date, on the registry books of the transfer agent for the Common Shares. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of redemption will state the method by which the payment of the Redemption Price will be made. Neither the Company nor any of its Affiliates or Associates may redeem, acquire or purchase for value any Rights at any time in any manner other than that specifically set forth in this Section 23 or in Section 24 hereof, and other than in connection with the purchase of Common Shares prior to the Distribution Date.

Section 24. Exchange.  
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(a) Subject to applicable laws, rules and regulations, and subject to subsection 24(c) below, the Company may, at its option, by action of the Board of Directors, at any time after the occurrence of a Triggering Event, exchange all or part of the then outstanding and exercisable Rights (which shall not include Rights that have become void pursuant to the provisions of Section 7(e) hereof) for Common Shares at an exchange ratio of one DSSG Common Share per DSSG Right and one HDDG Common Share per HDDG Right, appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date hereof (such exchange ratio being hereinafter referred to as the "Exchange Ratio"). Notwithstanding the foregoing, the Board of Directors shall not be empowered to effect such exchange at any time after any Person (other than the Company, any Subsidiary of the Company, any employee benefit plan of the Company or any such Subsidiary, or any entity holding Common Shares for or pursuant to the terms of any such plan), together with all Affiliates and Associates of such Person, becomes the Beneficial Owner of (i) 50% or more of the DSSG Common Shares then outstanding, or (ii) 50% or more of the HDDG Common Shares then outstanding.

(b) Immediately upon the action of the Board of Directors ordering the exchange of any Rights pursuant to subsection 24(a) of this Section 24 and without any further action and without any notice, the right to exercise such Rights shall terminate and the only right thereafter of a holder of such Rights shall be to receive that number of Common Shares equal to the number of such Rights held by such holder multiplied by the Exchange Ratio. The Company shall give public notice of any such

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exchange; provided, however, that the failure to give, or any defect in, such  
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notice shall not affect the validity of such exchange. The Company shall mail a notice of any such exchange to all of the holders of such Rights at their last addresses as they appear upon the registry books of the Rights Agent. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of exchange will state the method by which the exchange of the Common Shares for Rights will be effected and, in the event of any partial exchange, the number of Rights which will be exchanged. Any partial exchange shall be effected pro rata based on the number of Rights (other than Rights which have become void pursuant to the provisions of Section 7(e) hereof) held by each holder of Rights.

(c) In the event that there shall not be sufficient Common Shares issued but not outstanding or authorized but unissued to permit any exchange of Rights as contemplated in accordance with Section 24(a), the Company shall either take such action as may be necessary to authorize additional Common Shares for issuance upon exchange of the Rights or alternatively, at the option of a majority of the Board of Directors, with respect to each Right (i) pay cash in an amount equal to the Current Value (as hereinafter defined), in lieu of issuing Common Shares in exchange therefor, or (ii) issue debt or equity securities or a combination thereof, having a value equal to the Current Value, in lieu of issuing Common Shares in exchange for each such Right, where the value of such securities shall be determined by a nationally recognized investment banking firm selected by majority vote of the Board of Directors, or (iii) deliver any combination of cash, property, Common Shares and/or other securities having a value equal to the Current Value in exchange for each Right. For purposes of this Section 24(c) only, the Current Value shall mean the product of the Current Per Share Market Price of Common Shares on the date of the occurrence of the event described above in subparagraph (a), multiplied by the number of Common Shares for which the Right otherwise would be exchangeable if there were sufficient shares available. To the extent that the Company determines that some action need be taken pursuant to clauses (i), (ii) or (iii) of this Section 24(c), the Board of Directors may temporarily suspend the exercisability of the Rights for a period of up to sixty (60) days following the date on which the event described in Section 24(a) shall have occurred, in order to seek any authorization of additional Common Shares and/or to decide the appropriate form of distribution to be made pursuant to the above provision and to determine the value thereof. In the event of any such suspension, the Company shall issue a public announcement stating that the exercisability of the Rights has been temporarily suspended.

(d) The Company shall not be required to issue fractions of Common

Shares or to distribute certificates which evidence fractional Common Shares. In lieu of such fractional Common Shares, there shall be paid to the registered holders of the Rights Certificates with regard to which such fractional Common Shares would otherwise be issuable, an amount in cash equal to the same fraction of the current market value of a whole Common Share (as determined pursuant to the second sentence of Section 1(j) hereof).

(e) The Company may, at its option, by majority vote of the Board of Directors, at any time before any Person has become an Acquiring Person, exchange all or part of the then outstanding Rights for rights of substantially equivalent value, as determined reasonably and with good

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faith by the Board of Directors, based upon the advice of one or more nationally recognized investment banking firms.

(f) Immediately upon the action of the Board of Directors ordering the exchange of any Rights pursuant to subsection 24(e) of this Section 24 and without any further action and without any notice, the right to exercise such Rights shall terminate and the only right thereafter of a holder of such Rights shall be to receive that number of rights in exchange therefor as has been determined by the Board of Directors in accordance with subsection 24(e) above. The Company shall give public notice of any such exchange; provided, however,

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that the failure to give, or any defect in, such notice shall not affect the validity of such exchange. The Company shall mail a notice of any such exchange to all of the holders of such Rights at their last addresses as they appear upon the registry books of the transfer agent for the Common Shares of the Company. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of exchange will state the method by which the exchange of the Rights will be effected.

Section 25. Notice of Certain Events.  
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(a) In case the Company shall propose to effect or permit to occur any Triggering Event or Section 13 Event, the Company shall give notice thereof to each holder of Rights in accordance with Section 26 hereof at least twenty (20) days prior to occurrence of such Triggering Event or such Section 13 Event.

(b) In case any Triggering Event or Section 13 Event shall occur, then, in any such case, the Company shall as soon as practicable thereafter give to each holder of a Rights Certificate, in accordance with Section 26 hereof, a notice of the occurrence of such event, which shall specify the event and the consequences of the event to holders of Rights under Sections 11(a)(ii) and 13 hereof.

Section 26. Notices. Notices or demands authorized by this Agreement  
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to be given or made by the Rights Agent or by the holder of any Rights Certificate to or on the Company shall be sent by registered or certified mail and shall be deemed given upon receipt, addressed (until another address is filed in writing with the Rights Agent) as follows:

Quantum Corporation  
500 McCarthy Boulevard  
Milpitas, CA 95035  
Attention: General Counsel

with a copy to:

Wilson Sonsini Goodrich & Rosati  
Professional Corporation  
650 Page Mill Road  
Palo Alto, California 94304-1050  
Attention: Steven E. Bochner, Esq.

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Subject to the provisions of Section 21 hereof, any notice or demand authorized by this Agreement to be given or made by the Company or by the holder of any Rights Certificate to or on the Rights Agent shall be sent by registered or certified mail and shall be deemed given upon receipt, addressed (until another address is filed in writing with the Company) as follows:

Harris Trust and Savings Bank  
311 West Monroe Street  
Chicago, IL 60606  
Attention: Shareholder Services Division

Notices or demands authorized by this Agreement to be given or made by the Company or the Rights Agent to the holder of any Rights Certificate shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed to such holder at the address of such holder as shown on the registry

books of the Company.

Section 27. Supplements and Amendments.  
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(a) Prior to the occurrence of a Distribution Date, the Company may supplement or amend this Agreement in any respect without the approval of any holders of Rights and the Rights Agent shall, if the Company so directs, execute such supplement or amendment. From and after the occurrence of a Distribution Date, the Company and the Rights Agent may from time to time supplement or amend this Agreement without the approval of any holders of Rights in order to (i) cure any ambiguity, (ii) correct or supplement any provision contained herein which may be defective or inconsistent with any other provisions herein, (iii) shorten or lengthen any time period hereunder, or (iv) change or supplement the provisions hereunder in any manner that the Company may deem necessary or desirable and that shall not adversely affect the interests of the holders of Rights (other than an Acquiring Person or an Affiliate or Associate of an Acquiring Person); provided, this Agreement may not be supplemented or amended

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to lengthen, pursuant to clause (iii) of this sentence, (A) a time period relating to when the Rights may be redeemed at such time as the Rights are not then redeemable or (B) any other time period unless such lengthening is for the purpose of protecting, enhancing or clarifying the rights of, and/or the benefits to, the holders of Rights (other than an Acquiring Person or an Affiliate or Associate of an Acquiring Person). Upon the delivery of a certificate from an appropriate officer of the Company that states that the proposed supplement or amendment is in compliance with the terms of this Section 27, the Rights Agent shall execute such supplement or amendment. Prior to the Distribution Date, the interests of the holders of Rights shall be deemed coincident with the interests of the holders of Common Shares.

(b) Notwithstanding anything in this Agreement to the contrary, no supplement or amendment that changes the rights and duties of the Rights Agent under this Agreement will be effective against the Rights Agent without the execution of such supplement or amendment by the Rights Agent.

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Section 28. Successors.  
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All the covenants and provisions of this Agreement by or for the benefit of the Company or the Rights Agent shall bind and inure to the benefit of their respective successors and assigns hereunder.

Section 29. Determinations and Actions by the Board of Directors, etc.  
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For all purposes of this Agreement, any calculation of the number of Common Shares outstanding at any particular time, including for purposes of determining the particular percentage of such outstanding Common Shares of which any Person is the Beneficial Owner, shall be made in accordance with the last sentence of Rule 13d-3(d) (1) (i) of the General Rules and Regulations under the Exchange Act. The Board of Directors of the Company shall have the exclusive power and authority to administer this Agreement and to exercise all rights and powers specifically granted to the Board, or the Company, or as may be necessary or advisable in the administration of this Agreement, including, without limitation, the right and power to (i) interpret the provisions of this Agreement and (ii) make all determinations deemed necessary or advisable for the administration of this Agreement (including a determination to redeem or not redeem the Rights or to amend the Agreement). All such actions, calculations, interpretations and determinations (including, for purposes of clause (y) below, all omissions with respect to the foregoing) which are done or made by the Board in good faith, shall (x) be final, conclusive and binding on the Company, the Rights Agent, the holders of the Rights Certificates and all other parties and (y) not subject the Board to any liability to the holders of the Rights.

Section 30. Benefits of this Agreement. Nothing in this Agreement shall  
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be construed to give to any Person other than the Company, the Rights Agent and the registered holders of the Rights Certificates (and, prior to the Distribution Date, the Common Shares) any legal or equitable right, remedy or claim under this Agreement; but this Agreement shall be for the sole and exclusive benefit of the Company, the Rights Agent and the registered holders of the Rights Certificates (and, prior to the Distribution Date, the Common Shares).

Section 31. Severability. If any term, provision, covenant or  
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restriction of this Agreement is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated; provided, however, that notwithstanding anything in this Agreement to the contrary, if any such term, provision, covenant or restriction is held by such court or authority to be invalid, void or unenforceable and the Board of Directors of the Company determines in its good faith judgment that severing the



invalid language from this Agreement would adversely affect the purpose or effect of this Agreement, the right of redemption set forth in Section 23 hereof shall be reinstated and shall not expire until the Close of Business on the tenth day following the date of such determination by the Board of Directors.

Section 32. Governing Law. This Agreement and each Right and each

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Rights Certificate issued hereunder shall be deemed to be a contract made under the laws of the State of Delaware and for all purposes shall be governed by and construed in accordance with the laws of such State applicable to contracts to be made and performed entirely within such State, except as to the rights and obligations

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of the Rights Agent, which shall be governed by and construed in accordance with the laws of the State of Illinois.

Section 33. Counterparts. This Agreement may be executed in any

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number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

Section 34. Descriptive Headings. Descriptive headings of the

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several Sections of this Agreement are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

"COMPANY"

QUANTUM CORPORATION

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

"RIGHTS AGENT"

HARRIS TRUST AND SAVINGS BANK,  
as Rights Agent

By: \_\_\_\_\_  
Thomas Blatchford  
Title: \_\_\_\_\_

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

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

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

1. That pursuant to the authority conferred upon the Board of Directors by the Restated Certificate of Incorporation of the said Corporation (as such may be amended from time to time, the "Restated Certificate of Incorporation"), the said Board of Directors on \_\_\_\_\_, 1999 designated a series of 1,000,000 shares of Preferred Stock designated as Series B Junior Participating Preferred Stock and a series of 600,000 shares of Preferred Stock designated as Series C Junior Participating Preferred Stock.

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

3. That pursuant to the authority conferred upon the Board of Directors by the Restated Certificate of Incorporation of the said Corporation, the said Board of Directors on \_\_\_\_\_, 1999, adopted the following resolution designating the Series B Junior Participating Preferred Stock and Series C Junior Participating Preferred:

"RESOLVED: That pursuant to the authority granted to and vested in the  
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Board of Directors of the Corporation in accordance with the provisions of its Restated Certificate of Incorporation, the Board of Directors hereby designates a series of 1,000,000 shares of Preferred Stock designated as Series B Junior Participating Preferred Stock and a series of 600,000 shares of Preferred Stock designated as Series C Junior Participating Preferred Stock, and fixes the relative rights, preferences and limitations thereof (in addition to the provisions set forth in the Restated Certificate of Incorporation of the Corporation, which are applicable to the Preferred Stock of all classes and series) as follows:

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

Section 2. Proportional Adjustment. In the event the Corporation shall  
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at any time after the issuance of any share or shares of Series B Junior Participating Preferred Stock (i) declare any dividend on Quantum Corporation--DSSG Common Stock, par value \$0.01 per share, of the Corporation ("DSSG Common Stock") payable in shares of DSSG Common Stock, (ii) subdivide the outstanding DSSG Common Stock or (iii) combine the outstanding DSSG Common Stock into a smaller number of shares, then in each such case the Corporation shall simultaneously effect a proportional adjustment to the number of outstanding shares of Series B Junior Participating Preferred Stock, if any.

Section 3. Dividends and Distributions.  
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(a) Subject to the prior and superior right of the holders of any shares of any series of Preferred Stock ranking prior and superior to the shares of Series B Junior Participating Preferred Stock with respect to dividends, the holders of shares of Series B Junior Participating Preferred Stock shall be entitled to receive when, as and if declared by the Board of Directors out of funds legally available for that purpose, quarterly dividends payable in cash on the last day of January, April, July and October in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series B Junior Participating Preferred Stock, in an amount per share (rounded to the nearest cent) equal to 1,000 times the aggregate per share amount of all cash dividends, and 1,000 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions (except as provided in Section A.2 hereof) other than a dividend payable in shares of DSSG Common Stock or a subdivision of the outstanding shares of DSSG Common Stock (by reclassification or otherwise), declared on the DSSG Common Stock since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series B Junior Participating Preferred Stock; provided that, in the event of a Disposition (as defined in the Restated Certificate of Incorporation) resulting in a dividend on the DSSG Common Stock, such dividend shall not be paid unless the corresponding dividend on the Series B Junior Participating Preferred Stock under this Section A.3 is paid at the same time (and the amount of such corresponding dividend shall be a preferential amount for the purposes of calculating the Net Proceeds (as defined in the Restated Certificate of Incorporation) of such Disposition.

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

(c) Dividends shall begin to accrue on outstanding shares of Series B Junior Participating Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series B Junior Participating Preferred Stock, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series B Junior Participating Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the

shares of Series B Junior Participating Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series B Junior Participating Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 30 days prior to the date fixed for the payment thereof.

Section 4. Voting Rights. The holders of shares of Series B Junior

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Participating Preferred Stock shall have the following voting rights:

(a) Each share of Series B Junior Participating Preferred Stock shall entitle the holder thereof to 1,000 votes on all matters upon which holders of DSSG Common Stock are entitled to vote.

(b) Except as otherwise provided herein, in the Restated Certificate of Incorporation or in any other Certificate of Designations creating a series of Preferred Stock, and except as otherwise required by law, the holders of Series B Junior Participating Preferred Stock, Series C Junior Participating Preferred Stock, DSSG Common Stock and HDDG Common Stock and any other capital stock or the Corporation having general voting rights shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

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

Section 5. Certain Restrictions.

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

(b) Whenever quarterly dividends or other dividends or distributions payable on the Series B Junior Participating Preferred Stock as provided in Section A.3 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series B Junior Participating Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

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

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

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

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

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

Section 6. Reacquired Shares. Any shares of Series B Junior Participating

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

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Section 7. Liquidation, Dissolution or Winding Up. Upon any liquidation,

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dissolution or winding up of the Corporation, the holders of shares of Series B Junior Participating Preferred Stock shall be entitled to receive an aggregate amount per share equal to 1000 times the aggregate amount to be distributed per share to holders of shares of DSSG Common Stock plus an amount equal to any accrued and unpaid dividends on such shares of Series B Junior Participating Preferred Stock.

Section 8. Consolidation, Merger, etc. In case the Corporation shall

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

Section 9. No Redemption.

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(a) The shares of Series B Junior Participating Preferred Stock shall not be redeemable from any holder except as provided in this Section A.9.

(b) In the event of a Disposition (as defined in the Restated Certificate of Incorporation) resulting in a redemption of DSSG Common Stock, the Series B Junior Participating Preferred Stock shall be redeemed in the same manner as the DSSG Common Stock; provided that the redemption price for the Series B Junior Participating Preferred Stock shall be 1,000 times the aggregate amount to be distributed per share to holders of shares of DSSG Common Stock (and the aggregate amount of the redemption price for the Series B Junior Participating Preferred Stock shall be a preferential amount for the purposes of calculating the Net Proceeds (as defined in the Restated Certificate of Incorporation) of such Disposition (as defined in the Restated Certificate of Incorporation)).

(c) In the event of any conversion of DSSG Common Stock into HDDG Common Stock pursuant to Section 2.4 of the Restated Certificate of Incorporation, the Series B Junior Participating Preferred Stock shall be converted into the Series B Junior Participating Preferred Stock in the same manner, and at the same conversion ratio, as the conversion of the DSSG Common Stock.

Section 10. Ranking. The Series B Junior Participating Preferred Stock

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shall rank junior to all other series of the Corporation's Preferred Stock as to the payment of dividends and the distribution of assets, unless the terms of any such series shall provide otherwise.

Section 11. Amendment. The Restated Certificate of Incorporation shall

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not be further amended in any manner which would materially alter or change the powers, preference or special rights of the Series B Junior Participating Preferred Stock so as to affect them adversely without the affirmative vote of the holders of a majority of the outstanding shares of Series B Junior Participating Preferred Stock, voting separately as a class.

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Section 12. Fractional Shares. Series B Junior Participating Preferred

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

B. Series C Junior Participating Preferred Stock

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Section 1. Designation and Amount. The shares of such series shall be

designated as "Series C Junior Participating Preferred Stock." The Series C Junior Participating Preferred Stock shall have a par value of \$0.01 per share, and the number of shares constituting such series shall be 600,000.

Section 2. Proportional Adjustment. In the event the Corporation shall

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at any time after the issuance of any share or shares of Series C Junior Participating Preferred Stock (i) declare any dividend on Quantum Corporation HDDG Common Stock, par value \$0.01 per share, of the Corporation ("HDDG Common Stock") payable in shares of HDDG Common Stock, (ii) subdivide the outstanding HDDG Common Stock or (iii) combine the outstanding HDDG Common Stock into a smaller number of shares, then in each such case the Corporation shall simultaneously effect a proportional adjustment to the number of outstanding shares of Series C Junior Participating Preferred Stock, if any.

Section 3. Dividends and Distributions.

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(a) Subject to the prior and superior right of the holders of any shares of any series of Preferred Stock ranking prior and superior to the shares of Series C Junior Participating Preferred Stock with respect to dividends, the holders of shares of Series C Junior Participating Preferred Stock shall be entitled to receive when, as and if declared by the Board of Directors out of funds legally available for that purpose, quarterly dividends payable in cash on the last day of January, April, July and October in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series C Junior Participating Preferred Stock, in an amount per share (rounded to the nearest cent) equal to 1,000 times the aggregate per share amount of all cash dividends, and 1,000 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions (except as provided in Section A.2 hereof) other than a dividend payable in shares of HDDG Common Stock or a subdivision of the outstanding shares of HDDG Common Stock (by reclassification or otherwise), declared on the HDDG Common Stock since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series C Junior Participating Preferred Stock; provided that, in the event of a Disposition (as defined in the Restated Certificate of Incorporation) resulting in a dividend on the HDDG Common Stock, such dividend shall not be paid unless the corresponding dividend on the Series C Junior Participating Preferred Stock under this Section B.3 is paid at the same time (and the amount of such corresponding dividend shall be a preferential amount for the purposes of calculating the Net Proceeds (as defined in the Restated Certificate of Incorporation) of such Disposition.

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

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

Section 4. Voting Rights. The holders of shares of Series C Junior

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Participating Preferred Stock shall have the following voting rights:

(a) On all matters upon which holders of HDDG Common Stock are entitled to vote, each share of Series C Junior Participating Preferred Stock shall entitle the holder thereof to a number of votes equal to the quotient of (x) the number of votes 1000 shares of HDDG Common Stock are entitled to with respect to such matters, divided by (y) 1000.

(b) Except as otherwise provided herein, in the Restated Certificate of Incorporation or in any other Certificate of Designations creating a series

of Preferred Stock, and except as otherwise required by law, the holders of Series B Junior Participating Preferred Stock, Series C Junior Participating Preferred Stock, DSSG Common Stock and HDDG Common Stock and any other capital stock or the Corporation having general voting rights shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

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

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Section 5. Certain Restrictions.  
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(a) The Corporation shall not declare any dividend on, make any distribution on, or redeem or purchase or otherwise acquire for consideration any shares of HDDG Common Stock after the first issuance of a share or fraction of a share of Series C Junior Participating Preferred Stock unless concurrently therewith it shall declare a dividend on the Series C Junior Participating Preferred Stock as required by Section B.3 hereof.

(b) Whenever quarterly dividends or other dividends or distributions payable on the Series C Junior Participating Preferred Stock as provided in Section B.3 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series C Junior Participating Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

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

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

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

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

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

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

Section 7. Liquidation, Dissolution or Winding Up. Upon any liquidation,  
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dissolution or winding up of the Corporation, the holders of shares of Series C Junior Participating Preferred Stock shall be entitled to receive an aggregate amount per share equal to 1000 times the aggregate amount to be distributed per

share to holders of shares of HDDG Common Stock plus an amount equal to any accrued and unpaid dividends on such shares of Series C Junior Participating Preferred Stock.

Section 8. Consolidation, Merger, etc. In case the Corporation shall

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

Section 9. No Redemption.

-----  
(a) The shares of Series C Junior Participating Preferred Stock shall not be redeemable from any holder except as provided in this Section B.9.

(b) In the event of a Disposition (as defined in the Restated Certificate of Incorporation) resulting in a redemption of HDDG Common Stock, the Series C Junior Participating Preferred Stock shall be redeemed in the same manner as the HDDG Common Stock; provided that the redemption price for the Series C Junior Participating Preferred Stock shall be 1,000 times the aggregate amount to be distributed per share to holders of shares of HDDG Common Stock (and the aggregate amount of the redemption price for the Series C Junior Participating Preferred Stock shall be a preferential amount for the purposes of calculating the Net Proceeds (as defined in the Restated Certificate of Incorporation) of such Disposition (as defined in the Restated Certificate of Incorporation)).

(c) In the event of any conversion of HDDG Common Stock into HDDG Common Stock pursuant to Section 2.4 of the Restated Certificate of Incorporation, the Series C Junior Participating Preferred Stock shall be converted into the Series C Junior Participating Preferred Stock in the same manner, and at the same conversion ratio, as the conversion of the HDDG Common Stock.

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Section 10. Ranking. The Series C Junior Participating Preferred Stock

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shall rank junior to all other series of the Corporation's Preferred Stock as to the payment of dividends and the distribution of assets, unless the terms of any such series shall provide otherwise.

Section 11. Amendment. The Restated Certificate of Incorporation shall

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not be further amended in any manner which would materially alter or change the powers, preference or special rights of the Series C Junior Participating Preferred Stock so as to affect them adversely without the affirmative vote of the holders of a majority of the outstanding shares of Series C Junior Participating Preferred Stock, voting separately as a class.

Section 12. Fractional Shares. Series C Junior Participating Preferred

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

RESOLVED FURTHER: That \_\_\_\_\_ shares of Series B Junior Participating

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Preferred Stock and \_\_\_\_\_ shares of Series C Junior Participating Preferred Stock be, and they hereby are, reserved for issuance upon exercise of the HDDG Rights and HDDG Rights, as the case may be, such number to be subject to adjustment from time to time in accordance with the Amended and Restated Rights Agreement.

RESOLVED FURTHER: That the appropriate officers of the Company be, and they

-----  
hereby are, authorized and directed to prepare and file a Certificate of Designation of Rights, Preferences and Privileges in accordance with the foregoing resolutions and the provisions of Delaware law and to take such actions as they may deem necessary or appropriate to carry out the intent of the foregoing resolutions."

I, Michael A. Brown, President and Chief Executive Officer of Quantum Corporation further declare under penalty of perjury that the matters set forth in the foregoing Certificate of Designation is true and correct of my own knowledge.

Executed at Milpitas, California on \_\_\_\_\_, 1999.

\_\_\_\_\_  
Michael A. Brown  
President and Chief Executive Officer

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EXHIBIT B-1  
-----

FORM OF RIGHTS CERTIFICATE

Certificate No. R-\_\_\_\_\_ Rights

NOT EXERCISABLE AFTER THE EARLIER OF (i) JUNE 24, 2008, (ii) THE DATE TERMINATED BY THE COMPANY OR (iii) THE DATE THE COMPANY EXCHANGES THE RIGHTS PURSUANT TO THE RIGHTS AGREEMENT. THE RIGHTS ARE SUBJECT TO REDEMPTION, AT THE OPTION OF THE COMPANY, AT \$0.01 PER RIGHT ON THE TERMS SET FORTH IN THE RIGHTS AGREEMENT. UNDER CERTAIN CIRCUMSTANCES, RIGHTS BENEFICIALLY OWNED BY AN ACQUIRING PERSON OR AN AFFILIATE OR ASSOCIATE OF AN ACQUIRING PERSON (AS SUCH TERMS ARE DEFINED IN THE RIGHTS AGREEMENT) AND ANY SUBSEQUENT HOLDER OF SUCH RIGHTS MAY BECOME NULL AND VOID. [THE RIGHTS REPRESENTED BY THIS RIGHTS CERTIFICATE ARE OR WERE BENEFICIALLY OWNED BY A PERSON WHO WAS OR BECAME AN ACQUIRING PERSON OR AN AFFILIATE OR ASSOCIATE OF AN ACQUIRING PERSON (AS SUCH TERMS ARE DEFINED IN THE RIGHTS AGREEMENT). ACCORDINGLY, THIS RIGHTS CERTIFICATE AND THE RIGHTS REPRESENTED HEREBY MAY BECOME NULL AND VOID IN THE CIRCUMSTANCES SPECIFIED IN SECTION 7(e) OF SUCH RIGHTS AGREEMENT.] \*

RIGHTS CERTIFICATE

QUANTUM CORPORATION

This certifies that \_\_\_\_\_, or registered assigns, is the registered owner of the number of Rights set forth above, each of which entitles the owner thereof, subject to the terms, provisions and conditions of the Amended and Restated Rights Agreement dated as of \_\_\_\_\_, 1999 (the "Rights Agreement"), between Quantum Corporation, a Delaware corporation (the "Company"), and Harris Trust and Savings Bank (the "Rights Agent"), to purchase from the Company at any time after the Distribution Date (as such term is defined in the Rights Agreement) and prior to 5:00 P.M., New York time, on June 24, 2008 at the office of the Rights Agent designated for such purpose, or at the office of its successor as Rights Agent, one one-thousandth (1/1,000) of a fully paid non-assessable share of Series B Junior Participating Preferred Stock, \$0.01 par value, (the "Preferred Shares"), of the Company, at a Exercise Price of [\_\_\_\_\_] (\$\_\_\_\_\_) per one-thousandth of a Preferred Share (the "Exercise Price"), upon presentation and surrender of this Rights Certificate with the Form of Election to Purchase and related Certificate duly executed. The number of Rights evidenced by this Rights Certificate (and the number of one-thousandths of a Preferred Share which may be purchased upon exercise hereof) set forth above are the number and Exercise Price as of \_\_\_\_\_, 1999, based on the Preferred Shares as constituted at such date. As provided in the Rights Agreement,

- -----

\* The portion of the legend in bracket shall be inserted only if applicable and shall replace the preceding sentence.

the Exercise Price and the number and kind of Preferred Shares or other securities which may be purchased upon the exercise of the Rights evidenced by this Rights Certificate are subject to modification and adjustment upon the happening of certain events.

This Rights Certificate is subject to all of the terms, provisions and conditions of the Rights Agreement, which terms, provisions and conditions are hereby incorporated herein by reference and made a part hereof and to which Rights Agreement reference is hereby made for a full description of the rights, limitations of rights, obligations, duties and immunities hereunder of the Rights Agent, the Company and the holders of the Rights Certificates, which limitations of rights include the temporary suspension of the exercisability of such Rights under the specific circumstances set forth in the Rights Agreement. Copies of the Rights Agreement are on file at the principal executive offices of the Company and the above-mentioned office of the Rights Agent.

Subject to the provisions of the Rights Agreement, the Rights evidenced by this Rights Certificate (i) may be redeemed by the Company, at its option, at a redemption price of \$0.01 per Right or (ii) may be exchanged by the Company in whole or in part for Quantum Corporation DSSG Common Stock, substantially equivalent rights or other consideration as determined by the Company.

This Rights Certificate, with or without other Rights Certificates, upon surrender at the office of the Rights Agent designated for such purpose, may be exchanged for another Rights Certificate or Rights Certificates of like tenor



and date evidencing Rights entitling the holder to purchase a like aggregate amount of securities as the Rights evidenced by the Rights Certificate or Rights Certificates surrendered shall have entitled such holder to purchase. If this Rights Certificate shall be exercised in part, the holder shall be entitled to receive upon surrender hereof another Rights Certificate or Rights Certificates for the number of whole Rights not exercised.

No fractional portion of less than one one-thousandth of a Preferred Share will be issued upon the exercise of any Right or Rights evidenced hereby but in lieu thereof a cash payment will be made, as provided in the Rights Agreement.

No holder of this Rights Certificate, as such, shall be entitled to vote or receive dividends or be deemed for any purpose the holder of the Preferred Shares or of any other securities of the Company which may at any time be issuable on the exercise hereof, nor shall anything contained in the Rights Agreement or herein be construed to confer upon the holder hereof, as such, any of the rights of a stockholder of the Company or any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting stockholders (except as provided in the Rights Agreement), or to receive dividends or subscription rights, or otherwise, until the Right or Rights evidenced by this Rights Certificate shall have been exercised as provided in the Rights Agreement.

This Rights Certificate shall not be valid or obligatory for any purpose until it shall have been countersigned by the Rights Agent.

-2-

WITNESS the facsimile signature of the proper officers of the Company and its corporate seal. Dated as of \_\_\_\_\_, 19\_\_\_\_.

ATTEST: QUANTUM CORPORATION

By: \_\_\_\_\_  
Andrew Kryder, Vice President, Finance  
and Assistant Secretary

By: \_\_\_\_\_  
Michael A. Brown, President and  
Chief Executive Officer

Countersigned:  
HARRIS TRUST AND SAVINGS BANK,  
as Rights Agent

By: \_\_\_\_\_  
Its: \_\_\_\_\_

-3-

Form of Reverse Side of Rights Certificate

FORM OF ASSIGNMENT  
-----

(To be executed by the registered holder if such holder desires to transfer the Rights Certificate)

FOR VALUE RECEIVED \_\_\_\_\_ hereby sells, assigns and transfers unto

-----  
(Please print name and address of transferee)  
-----

this Rights Certificate, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint \_\_\_\_\_ Attorney, to transfer the within Rights Certificate on the books of the within-named Company, with full power of substitution.

Dated: \_\_\_\_\_, 19\_\_\_\_

-----  
Signature  
Signature Guaranteed:

Signatures must be guaranteed by an eligible guarantor institution (a bank, stockbroker, savings and loan association or credit union with membership in an

approved signature guarantee medallion program) pursuant to Rule 17Ad-15 of the Securities Exchange Act of 1934.

-4-

CERTIFICATE

The undersigned hereby certifies by checking the appropriate boxes that:

(1) this Rights Certificate [ ] is [ ] is not being sold, assigned and transferred by or on behalf of a Person who is or was an Acquiring Person, or an Affiliate or Associate of any such Person (as such terms are defined in the Rights Agreement);

(2) after due inquiry and to the best knowledge of the undersigned, it [ ] did [ ] did not acquire the Rights evidenced by this Rights Certificate from any Person who is, was or subsequently became an Acquiring Person or an Affiliate or Associate of any such Person.

Dated: \_\_\_\_\_, 19\_\_

- \_\_\_\_\_  
Signature

Signature Guaranteed:

Signatures must be guaranteed by an eligible guarantor institution (a bank, stockbroker, savings and loan association or credit union with membership in an approved signature guarantee medallion program) pursuant to Rule 17Ad-15 of the Securities Exchange Act of 1934.

-5-

Form of Reverse Side of Rights Certificate -- continued

FORM OF ELECTION TO PURCHASE

(To be executed if holder desires to exercise the Rights Certificate)

To: \_\_\_\_\_

The undersigned hereby irrevocably elects to exercise \_\_\_\_\_ Rights represented by this Rights Certificate to purchase the number of one-thousandths of a Preferred Share issuable upon the exercise of such Rights and requests that certificates for such number of one-thousandths of a Preferred Share issued in the name of:

Please insert social security or other identifying number

- \_\_\_\_\_  
(Please print name and address)

If such number of Rights shall not be all the Rights evidenced by this Rights Certificate, a new Rights Certificate for the balance remaining of such Rights shall be registered in the name of and delivered to:

Please insert social security or other identifying number

- \_\_\_\_\_  
(Please print name and address)

Dated: \_\_\_\_\_, 19\_\_

- \_\_\_\_\_  
Signature

Signature Guaranteed:

-6-

Signatures must be guaranteed by an eligible guarantor institution (a bank, stockbroker, savings and loan association or credit union with membership in an approved signature guarantee medallion program) pursuant to Rule 17Ad-15 of the Securities Exchange Act of 1934.

-7-

CERTIFICATE

-----

The undersigned hereby certifies by checking the appropriate boxes that:

(1) the Rights evidenced by this Rights Certificate [ ] are [ ] are not being exercised by or on behalf of a Person who is or was an Acquiring Person or an Affiliate or Associate of any such Person (as such terms are defined in the Rights Agreement);

(2) after due inquiry and to the best knowledge of the undersigned, it [ ] did [ ] did not acquire the Rights evidenced by this Rights Certificate from any Person who is, was or subsequently became an Acquiring Person or an Affiliate or Associate of any such Person.

Dated: \_\_\_\_\_, 19\_\_

- -----  
Signature

Signature Guaranteed:

Signatures must be guaranteed by an eligible guarantor institution (a bank, stockbroker, savings and loan association or credit union with membership in an approved signature guarantee medallion program) pursuant to Rule 17Ad-15 of the Securities Exchange Act of 1934.

-8-

Form of Reverse Side of Rights Certificate -- continued

NOTICE

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The signature in the foregoing Forms of Assignment and Election must conform to the name as written upon the face of this Rights Certificate in every particular, without alteration or enlargement or any change whatsoever.

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EXHIBIT B-2

-----

FORM OF RIGHTS CERTIFICATE

Certificate No. R-\_\_\_\_\_ Rights

NOT EXERCISABLE AFTER THE EARLIER OF (i) JUNE 24, 2008, (ii) THE DATE TERMINATED BY THE COMPANY OR (iii) THE DATE THE COMPANY EXCHANGES THE RIGHTS PURSUANT TO THE RIGHTS AGREEMENT. THE RIGHTS ARE SUBJECT TO REDEMPTION, AT THE OPTION OF THE COMPANY, AT \$0.01 PER RIGHT ON THE TERMS SET FORTH IN THE RIGHTS AGREEMENT. UNDER CERTAIN CIRCUMSTANCES, RIGHTS BENEFICIALLY OWNED BY AN ACQUIRING PERSON OR AN AFFILIATE OR ASSOCIATE OF AN ACQUIRING PERSON (AS SUCH TERMS ARE DEFINED IN THE RIGHTS AGREEMENT) AND ANY SUBSEQUENT HOLDER OF SUCH RIGHTS MAY BECOME NULL AND VOID. [THE RIGHTS REPRESENTED BY THIS RIGHTS CERTIFICATE ARE OR WERE BENEFICIALLY OWNED BY A PERSON WHO WAS OR BECAME AN ACQUIRING PERSON OR AN AFFILIATE OR ASSOCIATE OF AN ACQUIRING PERSON (AS SUCH TERMS ARE DEFINED IN THE RIGHTS AGREEMENT). ACCORDINGLY, THIS RIGHTS CERTIFICATE AND THE RIGHTS REPRESENTED HEREBY MAY BECOME NULL AND VOID IN THE CIRCUMSTANCES SPECIFIED IN SECTION 7(e) OF SUCH RIGHTS AGREEMENT.]\*

RIGHTS CERTIFICATE

QUANTUM CORPORATION

This certifies that \_\_\_\_\_, or registered assigns, is the registered owner of the number of Rights set forth above, each of which entitles the owner thereof, subject to the terms, provisions and conditions of the Amended and Restated Rights Agreement dated as of \_\_\_\_\_, 1999 (the "Rights Agreement"), between Quantum Corporation, a Delaware corporation (the "Company"), and Harris Trust and Savings Bank (the "Rights Agent"), to purchase from the Company at any time after the Distribution Date (as such term is defined in the Rights Agreement) and prior to 5:00 P.M., New York time, on June 24, 2008 at the office of the Rights Agent designated for such purpose, or at the office of its successor as Rights Agent, one one-thousandth (1/1,000) of a fully paid non-assessable share of Series C Junior Participating Preferred Stock, \$0.01 par value, (the "Preferred Shares"), of the Company, at a Exercise

Price of \_\_\_\_\_ (\$\_\_\_\_) per one-thousandth of a Preferred Share (the "Exercise Price"), upon presentation and surrender of this Rights Certificate with the Form of Election to Purchase and related Certificate duly executed. The number of Rights evidenced by this Rights Certificate (and the number of one-thousandths of a Preferred Share which may be purchased upon exercise hereof) set forth above are the number and Exercise Price as of \_\_\_\_\_,

- -----  
\* The portion of the legend in bracket shall be inserted only if applicable and shall replace the preceding sentence.

1999, based on the Preferred Shares as constituted at such date. As provided in the Rights Agreement, the Exercise Price and the number and kind of Preferred Shares or other securities which may be purchased upon the exercise of the Rights evidenced by this Rights Certificate are subject to modification and adjustment upon the happening of certain events.

This Rights Certificate is subject to all of the terms, provisions and conditions of the Rights Agreement, which terms, provisions and conditions are hereby incorporated herein by reference and made a part hereof and to which Rights Agreement reference is hereby made for a full description of the rights, limitations of rights, obligations, duties and immunities hereunder of the Rights Agent, the Company and the holders of the Rights Certificates, which limitations of rights include the temporary suspension of the exercisability of such Rights under the specific circumstances set forth in the Rights Agreement. Copies of the Rights Agreement are on file at the principal executive offices of the Company and the above-mentioned office of the Rights Agent.

Subject to the provisions of the Rights Agreement, the Rights evidenced by this Rights Certificate (i) may be redeemed by the Company, at its option, at a redemption price of \$0.01 per Right or (ii) may be exchanged by the Company in whole or in part for Quantum CorporationHDDG Common Stock, substantially equivalent rights or other consideration as determined by the Company.

This Rights Certificate, with or without other Rights Certificates, upon surrender at the office of the Rights Agent designated for such purpose, may be exchanged for another Rights Certificate or Rights Certificates of like tenor and date evidencing Rights entitling the holder to purchase a like aggregate amount of securities as the Rights evidenced by the Rights Certificate or Rights Certificates surrendered shall have entitled such holder to purchase. If this Rights Certificate shall be exercised in part, the holder shall be entitled to receive upon surrender hereof another Rights Certificate or Rights Certificates for the number of whole Rights not exercised.

No fractional portion of less than one one-thousandth of a Preferred Share will be issued upon the exercise of any Right or Rights evidenced hereby but in lieu thereof a cash payment will be made, as provided in the Rights Agreement.

No holder of this Rights Certificate, as such, shall be entitled to vote or receive dividends or be deemed for any purpose the holder of the Preferred Shares or of any other securities of the Company which may at any time be issuable on the exercise hereof, nor shall anything contained in the Rights Agreement or herein be construed to confer upon the holder hereof, as such, any of the rights of a stockholder of the Company or any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting stockholders (except as provided in the Rights Agreement), or to receive dividends or subscription rights, or otherwise, until the Right or Rights evidenced by this Rights Certificate shall have been exercised as provided in the Rights Agreement.

This Rights Certificate shall not be valid or obligatory for any purpose until it shall have been countersigned by the Rights Agent.

WITNESS the facsimile signature of the proper officers of the Company and its corporate seal. Dated as of \_\_\_\_\_, 19\_\_\_\_.

ATTEST: QUANTUM CORPORATION

By: \_\_\_\_\_  
Andrew Kryder, Vice President, Finance and Assistant Secretary

By: \_\_\_\_\_  
Michael A. Brown, President and Chief Executive Officer

Countersigned:  
HARRIS TRUST AND SAVINGS BANK,  
as Rights Agent

By: \_\_\_\_\_  
Its: \_\_\_\_\_

Form of Reverse Side of Rights Certificate

FORM OF ASSIGNMENT

-----

(To be executed by the registered holder if such holder desires to transfer the Rights Certificate)

FOR VALUE RECEIVED \_\_\_\_\_ hereby sells, assigns and transfers unto

-----  
(Please print name and address of transferee)  
-----

this Rights Certificate, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint \_\_\_\_\_ Attorney, to transfer the within Rights Certificate on the books of the within-named Company, with full power of substitution.

Dated: \_\_\_\_\_, 19\_\_\_\_

-----  
Signature

Signature Guaranteed:

Signatures must be guaranteed by an eligible guarantor institution (a bank, stockbroker, savings and loan association or credit union with membership in an approved signature guarantee medallion program) pursuant to Rule 17Ad-15 of the Securities Exchange Act of 1934.

CERTIFICATE

-----

The undersigned hereby certifies by checking the appropriate boxes that:

(1) this Rights Certificate [ ] is [ ] is not being sold, assigned and transferred by or on behalf of a Person who is or was an Acquiring Person, or an Affiliate or Associate of any such Person (as such terms are defined in the Rights Agreement);

(2) after due inquiry and to the best knowledge of the undersigned, it [ ] did [ ] did not acquire the Rights evidenced by this Rights Certificate from any Person who is, was or subsequently became an Acquiring Person or an Affiliate or Associate of any such Person.

Dated: \_\_\_\_\_, 19\_\_\_\_

-----  
Signature

Signature Guaranteed:

Signatures must be guaranteed by an eligible guarantor institution (a bank, stockbroker, savings and loan association or credit union with membership in an approved signature guarantee medallion program) pursuant to Rule 17Ad-15 of the Securities Exchange Act of 1934.

Form of Reverse Side of Rights Certificate -- continued

FORM OF ELECTION TO PURCHASE

-----

(To be executed if holder desires to exercise the Rights Certificate)

To: \_\_\_\_\_

The undersigned hereby irrevocably elects to exercise \_\_\_\_\_ Rights represented by this Rights Certificate to purchase the number of one-thousandths of a Preferred Share issuable upon the exercise of such Rights and requests that certificates for such number of one-thousandths of a Preferred Share issued in the name of:

Please insert social security or other identifying number

-----  
(Please print name and address)

-----  
If such number of Rights shall not be all the Rights evidenced by this Rights Certificate, a new Rights Certificate for the balance remaining of such Rights shall be registered in the name of and delivered to:

Please insert social security  
or other identifying number

-----

(Please print name and address)

-----

Dated: \_\_\_\_\_, 19\_\_

-----

Signature

Signature Guaranteed:

Signatures must be guaranteed by an eligible guarantor institution (a bank, stockbroker, savings and loan association or credit union with membership in an approved signature guarantee medallion program) pursuant to Rule 17Ad-15 of the Securities Exchange Act of 1934.

CERTIFICATE  
-----

The undersigned hereby certifies by checking the appropriate boxes that:

(1) the Rights evidenced by this Rights Certificate [ ] are [ ] are not being exercised by or on behalf of a Person who is or was an Acquiring Person or an Affiliate or Associate of any such Person (as such terms are defined in the Rights Agreement);

(2) after due inquiry and to the best knowledge of the undersigned, it [ ] did [ ] did not acquire the Rights evidenced by this Rights Certificate from any Person who is, was or subsequently became an Acquiring Person or an Affiliate or Associate of any such Person.

Dated: \_\_\_\_\_, 19\_\_

-----

Signature

Signature Guaranteed:

Signatures must be guaranteed by an eligible guarantor institution (a bank, stockbroker, savings and loan association or credit union with membership in an approved signature guarantee medallion program) pursuant to Rule 17Ad-15 of the Securities Exchange Act of 1934.

Form of Reverse Side of Rights Certificate -- continued

NOTICE  
-----

The signature in the foregoing Forms of Assignment and Election must conform to the name as written upon the face of this Rights Certificate in every particular, without alteration or enlargement or any change whatsoever.

EXHIBIT C  
-----

Summary of Rights

[Letterhead of Wilson Sonsini Goodrich & Rosati]

June 10, 1999

Quantum Corporation  
500 McCarthy Boulevard  
Milpitas, CA 95035

Ladies and Gentlemen:

This opinion letter is furnished to you in connection with the Registration Statement on Form S-4, as amended (the "Registration Statement") of Quantum Corporation, a Delaware corporation (the "Company"), relating to the issuance of shares of Quantum Corporation-DSSG Common Stock, par value \$.01 per share (the "DSSG Stock") and shares of Quantum Corporation-HDDG Common Stock, par value \$.01 per share (the "HDDG Stock").

We have examined, and have relied as to matters of fact upon, a copy of the Registration Statement, and originals or copies, certified or otherwise identified to our satisfaction, of such corporate records, agreements, documents and other instruments and such certificates or comparable documents of public officials and of officers and representatives of the Company, and have made such other and further investigations, as we have deemed relevant and necessary as a basis for the opinions hereinafter set forth.

In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies, and the authenticity of the originals of such latter documents.

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion that the shares of DSSG Stock and HDDG Stock to be issued by the Company have been duly authorized (subject only to the approval of the tracking stock proposal by a majority of the outstanding shares of your existing common stock and the filing and acceptance of the Restated Certificate of Incorporation with the Secretary of State of the State of Delaware) and, when issued in accordance with the Registration Statement, will be legally issued, fully paid and nonassessable.

We are members of the Bar of the State of California and we do not express any opinion herein concerning any law other than the Delaware General Corporation Law.

This opinion letter is rendered to you in connection with the above described transaction. We hereby consent to the filing of this opinion letter as an exhibit to the Registration Statement and to the use of our name therein under the caption "Legal Opinions."

Very truly yours,

/s/ Wilson Sonsini Goodrich & Rosati  
-----  
WILSON SONSINI GOODRICH & ROSATI

[LETTERHEAD OF ERNST & YOUNG LLP]

June 10, 1999

Quantum Corporation  
500 McCarthy Boulevard  
Milpitas, Ca 95035

Ladies and Gentlemen:

We have acted as the tax advisor to Quantum Corporation ("Quantum") in connection with the proposed adoption of an amended and restated certificate of incorporation which would result in the exchange of its existing class of outstanding common stock for two new classes of common stock of Quantum.

We have examined the Registration Statement on Form S-4 (the "Registration Statement"), including the preliminary Proxy Statement and Prospectus dated June 10, 1999 that forms a part thereof, relating to the above-described transaction. In addition, we have examined such other documents, obtained such certifications of officers, and have made such other and further investigations, as we have deemed relevant and necessary as a basis for the opinion hereinafter set forth. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to originals documents of all documents submitted to us a draft or as certified, conformed, photostatic or facsimile copies, and the authenticity of the originals of such latter documents. We have also assumed that all information, statements and descriptions in the Registration Statement, officers certificates and other relevant documents are true, correct and complete in all material aspects and any statement subject to a knowledge qualification is true without such qualification.

Based upon the foregoing, we hereby confirm that, subject to the qualifications and limitations stated herein and in the Registration Statement, our opinion set forth in the Registration Statement under "Proposal 1--The Tracking Stock Proposal" with respect to "United States Federal Income Tax Considerations" under the captions "Tax Implications of the Tracking Stock Proposed to Stockholders" and "Tax Implications of a Conversion of DSSG Stock or HDDG Stock", insofar as they purport to constitute a summary of matters of United States federal tax law and regulations or legal conclusions with respect thereto, constitute an accurate description of the matters described therein in all material respects.

Our opinion is based upon the Internal Revenue Code of 1986, as amended, the Treasury regulations promulgated thereunder and other relevant authorities and law, all as in effect on the date hereof. No opinion is expressed except as specifically set forth in the above-referred captions. This opinion merely represents our best judgment based on existing authorities, none of which directly addresses the Federal income tax consequences of the issuance of multiple classes of stock of a single corporation which are intended to separately track the economic performance of different businesses of the issuer. The Internal Revenue Service is not precluded from successfully asserting a position contrary to that set forth in the above-referenced captions. Finally, future interpretations of, or changes in, the law may cause the tax treatment of the transactions referred to herein to be materially different from that described above, including, but not limited to the proposed change described under "Proposal 1--The Tracking Stock Proposal" with respect to "United States Federal Income Tax Considerations" under the caption "Clinton Administration Proposal". nevertheless, we undertake no responsibility to notify you of any subsequent development.

We hereby consent to the filing of this opinion with the Securities and Exchange Commission as an exhibit to the Registration Statement and to the reference to our firm under the appropriate headings in the prospectus that forms a part of the Registration Statement.

Very truly yours,

/s/ Ernst & Young LLP

Palo Alto, California



CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the reference to our firm under the caption "Experts" and to the use of our reports dated April 26, 1999, included in Amendment No. 2 to the Proxy Statement of Quantum Corporation that are made a part of the Registration Statement (Form S-4 No. 333-75153) and Prospectus of Quantum Corporation for the registration shares of its DSSG and HDDG common stock.

/s/ Ernst & Young LLP

Palo Alto, California

June 9, 1999

INDEPENDENT ACCOUNTANTS' CONSENT

The Board of Directors  
MKE-Quantum Components LLC

We consent to the incorporation by reference in the registration statement on Form S-4 of Quantum Corporation of our report dated April 14, 1998, except for notes 6(b) and 12, which are as of June 5, 1998, with respect to the consolidated balance sheet of MKE-Quantum Components LLC and subsidiaries as of March 31, 1998, and the related consolidated statements of operations, members' equity, and cash flows for the period from May 16, 1997 (Inception) through March 31, 1998, which report appears in Form 8-K of Quantum Corporation dated March 26, 1999, and to the reference to our firm under the heading "Experts".

/s/ KPMG Peat Marwick LLP

Boston, Massachusetts

June 8, 1999

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF QUANTUM CORPORATION AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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