

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

QUANTUM CORP /DE/

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

FORM 10-K

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

For the fiscal year ended March 31, 2003

OR

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

For the transition period from _____ to _____

Commission file number 0-13349

QUANTUM CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

94-2665054

(I.R.S. Employer Identification No.)

501 Sycamore Drive, Milpitas, California

(Address of Principal Executive Offices)

95035

(Zip Code)

Registrant's telephone number, including area code: (408) 944-4000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

QUANTUM CORPORATION-DLT & STORAGE SYSTEMS GROUP COMMON STOCK
RIGHTS TO PURCHASE SERIES B JUNIOR PARTICIPATING PREFERRED STOCK

Name of each exchange on which registered

NEW YORK STOCK EXCHANGE
NEW YORK STOCK EXCHANGE

Securities registered pursuant to Section 12(g) of the Act:

7% CONVERTIBLE SUBORDINATED NOTES DUE 2004

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No .

The aggregate market value of Quantum Corporation's common stock, \$0.01 par value per share, held by nonaffiliates of the Registrant was approximately \$208.7 million on September 29, 2002, the last day of the Registrant's most recently completed second fiscal quarter, based on the closing sales price of the Registrant's common stock on that date on the New York Stock Exchange. For purposes of this disclosure, shares of common stock held by persons who hold more than 5% of the outstanding shares of common stock and shares held by officers and directors of the Registrant have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily conclusive.

As of the close of business on June 24, 2003, there were approximately 175.7 million shares of Quantum Corporation's common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on September 3, 2003, which the Registrant will file with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this report, is incorporated by reference in Part III of this Form 10-K to the extent stated herein.

	<u>Page Number</u>
PART I	
Item 1. Business	3
Item 2. Properties	13
Item 3. Legal Proceedings	13
Item 4. Submission of Matters to a Vote of Security Holders	13
PART II	
Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters	14
Item 6. Selected Financial Data	14
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	56
Item 8. Financial Statements and Supplementary Data	57
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	112
PART III	
Item 10. Directors and Executive Officers of the Registrant	113
Item 11. Executive Compensation	113
Item 12. Security Ownership of Certain Beneficial Owners and Management	113
Item 13. Certain Relationships and Related Transactions	113
PART IV	
Item 14. Controls and Procedures	114
Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K	114
SIGNATURES	118
POWER OF ATTORNEY	119
CERTIFICATIONS	120

PART I

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements in this report usually contain the words "will," "estimate," "anticipate," "expect," "believe" or similar expressions and variations or negatives of these words. All forward-looking statements including, but not limited to, (1) our expectation that media royalties will continue to be a significant source of our DLTG revenues, (2) our expectation that we will continue to derive a substantial majority of our revenue from products based on our tape technology, (3) our belief that we can obtain any necessary intellectual property licenses for our business on commercially reasonable terms, (4) our belief that we will enhance our product line, expand our product reach and sales channels, seek out new OEM relationships and refine our branded sales model, (5) our belief that our existing facilities are adequate to meet our business needs for the next 12 months, (6) our expectation that our Benchmark acquisition will continue to have a favorable impact on our tape drive gross margin rate and will allow us to better serve the data protection needs of customers in the value segment of the tape drive business, (7) our intention to expand DLTtape technology to increase tape drive storage capacity to 2.4 terabytes in the next several years, (8) our intention to provide autoloaders and libraries from the desktop computer to the data center and expand our sales channels to sell our tape automation products to more customers, (9) our anticipated release of our DX100 product in the third quarter of fiscal year 2004, (10) our intention to pursue product initiatives in order to further improve gross margins, increase operating efficiencies and effectiveness, and reduce operating costs, (11) our belief that strong competition in the tape drive and tape automation systems markets will result in further price erosion, (12) our expectation that our third generation of tape drives based on DLTtape technology will begin shipping to customers in the third quarter of fiscal year 2004, (13) our expectation that we will realize annual cost savings from our restructuring programs of approximately \$55 million, (14) our expectation that any debentures that we issue after the date of this Annual Report on Form 10-K in connection with our acquisition of M4 Data will total approximately \$3 million in principal amount, (15) our expectation that revenue from the M4 Data acquisition for the purchased in-process projects will grow between 2002 and 2008, (16) our expectation that revenue from the SANlight acquisition for the purchased in-process projects will grow between 2003 and 2008, (17) our expectation that SANlight in-process research and development projects will be completed in the second half of fiscal year 2004, (18) our expectation that our purchases of property and equipment will increase for fiscal year 2004 compared to fiscal year 2003, (19) our expectation regarding our investment of cash balances in the future in order to achieve higher yields than money market deposits, (20) our expectation that we will generate cash from operating activities in fiscal 2004 through maintaining or improving gross margins and controlling operating costs, (21) our belief that our existing cash and capital resources will be sufficient to meet all currently planned expenditures and sustain our operations for the next 12 months, (22) our belief that Maxtor will ultimately pay us the \$95.8 million that it owes us, (23) our expectation that we will continue to devote substantial management and financial resources to

improving existing products and introducing new ones, (24) our belief that our ultimate liability in any infringement claims made by any third parties against us will not be material to us, (25) our expectation that we will make additional acquisitions in the future, (26) our belief that we incur a tax expense in fiscal year 2004 for foreign taxes, including withholding taxes, of approximately \$10 million and (27) our belief that our total foreign exchange rate exposure is not significant, is inherently uncertain as it is based on management's expectations and assumptions concerning future events, and they are subject to numerous known and unknown risks and uncertainties. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. As a result, our actual results may differ materially from the forward-looking statements contained herein. Factors that could cause actual results to differ materially from those described herein include, but are not limited to, (1) the amount of orders received in future periods; (2) our ability to timely ship our products; (3) uncertainty regarding IT spending and the corresponding uncertainty in the demand for tape drives and tape automation products; (4) our continued receipt of media royalties from media manufacturers at or above historical levels; (5) a continued trend toward centralization of storage; (6) our ability to achieve anticipated pricing, cost and gross margin levels, particularly on tape drives, given lower volumes and continuing price and cost pressures; (7) the successful execution of our strategy to expand our businesses into new directions; (8) our ability to successfully introduce new products; (9) our ability to achieve and capitalize on changes in market demand; (10) acceptance of, and demand for, our products; (11) our ability to maintain supplier relationships; and (12) those factors discussed under "Trends and Uncertainties" elsewhere in this Annual Report on Form 10-K. Our forward-looking statements are not guarantees of future performance. We disclaim any obligation to update information in any forward-looking statement.

ITEM 1. Business

Business Description

Quantum Corporation ("Quantum", the "Company", "us" or "we") (NYSE:DSS), founded in 1980, is a global leader in data protection, meeting the needs of business customers with our enterprise-wide storage solutions and services. With an installed base of nearly two million tape drives in use and more than 90 million tape media cartridges shipped to date, our DLTtape™ technology is the standard for backup, archiving, and recovery of mission-critical data. We are also a leader in the design, manufacture and service of automated tape libraries used to manage, store and transfer data. In fiscal year 2003, the company expanded into the area of disk-based backup, with a solution that emulates a tape library and is optimized for data protection.

Our Internet address is www.quantum.com. On our Investor Relations web site, we post all Securities and Exchange Commission filings as soon as reasonably practicable after they are electronically filed or furnished to the Securities and Exchange Commission. All such filings on our Investor Relations web site are available free of charge. The SEC maintains an Internet site at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Quantum named Richard Belluzzo as our new Chief Executive Officer for the Company effective September 3, 2002. Mr. Belluzzo succeeded Michael Brown, who retained the position of Chairman of Quantum's Board of Directors.

Quantum's stock symbol is DSS and this is the only stock symbol that represents Quantum. In the past, we had two separate classes of common stock. Until the beginning of fiscal year 2002, we operated our business through two separate business groups: the DLT & Storage Systems group ("DSS") and the Hard Disk Drive group ("HDD"), which were represented by two classes of Quantum common stock, DSS common stock and HDD common stock, which were intended to track separately the respective businesses of the Company. Our stockholders approved the tracking stock structure on July 23, 1999, and on August 3, 1999, each authorized share of Quantum common stock was exchanged for one share of DSS common stock and one-half share of HDD common stock. On March 30, 2001, our stockholders approved the disposition of HDD to Maxtor Corporation ("Maxtor"). On April 2, 2001, each authorized share of HDD common stock was exchanged for 1.52 shares of Maxtor common stock. The DSS business now represents Quantum, and as such, DSS is no longer a tracking stock, but is now the only common stock for Quantum Corporation.

Business Summary

Quantum's business consists of two main segments: the DLT group and the Storage Solutions group. Our DLT group consists of tape drive and tape media cartridge product lines. Our Storage Solutions group consists of tape automation systems and solutions product lines and includes our recently introduced disk-based backup system.

Both business groups had declining revenues and lower gross margins in fiscal year 2003 and in fiscal year 2002, compared to previous fiscal years. In addition, we incurred losses from continuing operations in fiscal years 2003 and 2002. The factors driving these trends were the generally weak economic conditions that have persisted for the last two years, which have resulted in reduced customer spending on Information Technology ("IT"), and increased competition from other computer equipment manufacturers. Because of these trends and the reduced corporate infrastructure that we required following the disposition of HDD to Maxtor, which represented a major corporate realignment for Quantum, we have taken numerous cost reduction actions in fiscal years 2003 and 2002, which are described in more detail within "Special Charges" in "Management's Discussion and Analysis of Financial Condition and Results of Operations".

We sold our Network Attached Storage ("NAS") business, which was part of our Storage Solutions group, to SNAP Appliance, Inc., (formerly known as Broadband Storage, Inc.), a privately held company, in October 2002. We engaged in the NAS business following the acquisition of Meridian Data Inc., in September 1999 and of certain assets of Connex in August 2001.

DLT Group (“DLTG”)

In DLTG, we design, develop, license, service, and market DLTtape and Super DLTtape drives (collectively referred to as “tape drives”), as well as DLTtape and Super DLTtape media cartridges (collectively referred to as “tape media cartridges”). The DLTtape drives are targeted at the “value” or “price sensitive” segment of the tape drive market in which we compete. The Super DLTtape drives are targeted at the “performance sensitive” segment of the tape drive market in which we compete. We earn most of our revenue by selling tape drives and the tape media cartridges used by tape drives and earn a significant portion of our media revenue from royalties paid to us by manufacturers who license tape media cartridge technology from us. Super DLTtape technology has a higher storage capacity and transfer rate than DLTtape technology. Both DLTtape and Super DLTtape products are used to back up large amounts of data stored on network servers. Digital Linear Tape, or DLTtape and Super DLTtape, is our half-inch tape technology that is the leader in mid-range UNIX and NT system backup and archive applications.

DLTtape and Super DLTtape drives store data on DLTtape and Super DLTtape media cartridges, respectively. Historical use of tape drives has shown that drives use many tape media cartridges per year in archival and backup processes. This historical use suggests that the installed base of tape drives will result in continued demand for tape media cartridges. Our tape media cartridges are manufactured and sold by licensed third-party manufacturers and directly by us.

4

We receive a royalty on tape media cartridges sold by our licensees, which, while resulting in lower revenue per unit than tape media cartridges sold directly by Quantum, generates relatively comparable gross margin dollars. We prefer that a substantial portion of tape media cartridge sales occur through this license model because this minimizes our operational risks and expenses and provides an efficient distribution channel. Currently, more than 80% of tape media cartridge unit sales occur through this license model. We believe that the large installed base of tape drives, and our licensing of tape media cartridges, are of strategic importance to us because they contribute to both our direct sales of tape media cartridges and also provide us with royalty income from our licensing partners. Media royalties have been a significant source of our gross margins, and this trend is expected to continue.

On August 29, 2002, we signed an agreement to outsource our DLT and Super DLT tape drive manufacturing and certain of our tape automation manufacturing to Jabil Circuit Inc. (“Jabil”). Under the terms of the agreement, Jabil acquired our tape drive raw materials, work-in-process inventories and production fixed assets from us, and will utilize our manufacturing facility in Penang, Malaysia. The outsourcing was completed in December 2002, at which time Jabil began production under the terms of the agreement. Jabil paid Quantum \$17 million during the third quarter of fiscal year 2003 mainly for inventory transferred from Quantum to Jabil.

On November 13, 2002, we completed the acquisition of Benchmark Storage Innovations, Inc. (“Benchmark”), a privately held company. The acquisition will enable us to expand our tape business by adding Benchmark’s complementary products to better serve the data protection needs of both new and existing customers in the value segment of the tape drive business. The acquisition combines our leadership in providing high-performance, high-capacity tape drives with Benchmark’s expertise in delivering high-quality tape products at a lower price for more value-oriented customers.

Storage Solutions Group (“SSG”)

In SSG, we design, develop, manufacture, service, and market tape automation systems and solutions. Our tape automation systems, including tape libraries and autoloaders, serve the entire tape library data storage market from desktop computers to enterprise-class computers. We offer a broad line of tape automation systems, which are used to manage, store and transfer data in enterprise networked computing environments.

The recent completion of the Benchmark acquisition enabled us to expand our tape automation business by adding Benchmark’s complementary low cost automation product to our product range.

In April 2001, we completed the acquisition of M4 Data (Holdings) Ltd., (“M4 Data”) a privately held data storage company based in the United Kingdom, to leverage M4 Data’s complementary high performance and scalable tape automation products and technologies to enhance the range of storage solutions offered to our customers.

In March 2003, we completed the acquisition of the remaining outstanding shares of SANlight Inc. (“SANlight”), which we did not already own. The acquisition provided us with software technology and expertise that we can leverage in our enhanced backup solutions.

Strategy

In fiscal year 2003, we established a strategy that defines our priorities. The strategy includes growing our tape drive and tape automation businesses, generating cash and profitability, increasing the efficiency of our operating structure and investing in new product categories for future growth. Our strategy consists of the following four strategic priorities:

1. *Establish Quantum as the undisputed leader in tape drives.* Our goal is to continue to deliver innovative tape drives and solutions to meet growing customer demand. This involves both Super DLTtape drive and Value DLTtape drive products and maintaining compatibility between the two product families.

Our progress during fiscal year 2003 included the introduction of the SDLT 320 tape drive, which drove an increase in our market share in the Super DLTtape drive category from 33 percent in calendar year 2001 to 38 percent in calendar year 2002. In addition, we added a low-cost value DLTtape drive to our product offering by completing the Benchmark acquisition. With this progress, our product offering spans the low-to high-end of the midrange tape market, and our products are capable of storing from 80 gigabytes to 320 gigabytes of compressed data on a single tape drive. We intend to expand DLTtape technology to increase tape drive storage capacity to 2.4 terabytes in the next several years.

5

2. *Significantly grow the tape automation business.* To achieve this goal, we intend to provide autoloaders and libraries from the desktop computer to the data center, and expand our sales channels to sell our tape automation products to more customers.

Our progress during fiscal year 2003 included the expansion of our tape automation product line with the introduction of the ATL ValueLoader and ATL SuperLoader in the entry-level autoloader area and the ATL M1800 and ATL M2500 modular libraries in the mid-range of the tape automation market. We added the ATL ValueLoader to our product offering by completing the Benchmark acquisition. Our progress in expanding our sales channels includes new OEM business with Dell Computer Corporation ("Dell"), Hewlett-Packard Company ("Hewlett-Packard"), IBM Corporation ("IBM") and Tandberg Data ASA ("Tandberg") at the entry level, Sun Microsystems Inc. ("Sun"), in the mid-range and Hewlett-Packard at the high-end of the tape automation market. We intend to continue to enhance our product line, expand our sales channels, seek out new OEM relationships and refine our branded sales model.

3. *Build a new category of enhanced backup solutions ("EBS").* The goal of offering EBS is to improve the data backup process by offering a disk-based storage appliance with integrated storage management software, which enables a company to better leverage its existing infrastructure to significantly accelerate the data backup and restore process.

Our disk-based appliances, referred to as the DX Series, enable customers to quickly back up critical data and then transfer the data at a later time to tape for archival purposes. Our first product in this new category was the DX30, which began shipment in the third quarter of fiscal year 2003 and was targeted at mid-sized data centers. Our next product in this category, targeted at the large enterprise-level will be the DX100, which will provide significantly more capacity and performance. This product is scheduled for release in the third quarter of fiscal year 2004.

4. *Build an efficient operational platform.* Our goal is to continue to streamline our processes, optimize our cost structure and focus on reducing expenses, in order to improve our operating and financial performance. As a follow-on to the restructuring and cost improvement actions that we completed in fiscal year 2003, we also intend to pursue product initiatives, including quality programs, system architecture streamlining and supply chain improvement efforts, in order to improve gross margins, as well as other streamlining initiatives to increase operating efficiency and effectiveness and reduce operating costs.

Products

Our products include:

DLTG:

We offer tape drive products and tape media cartridges based on DLTtape™ technology, which are targeted to serve workgroup, mid-range and enterprise business needs.

• Super DLTtape drives.

The Super DLTtape drive family includes drives that have native capacities of up to 160 gigabytes (GB) (320GB compressed) and transfer rates of up to 16 megabytes (MB) per second (32MB compressed). These tape drives use Super DLTtape media cartridges and can back-read cartridges written on most DLTtape and DLTtape VS drives.

• Value DLTtape drives

The family of Value DLTtape drives includes drives with up to 80GB of native capacity (160GB compressed) and sustained data transfer rates of up to 8MB per second (16MB compressed). These tape drives are compatible with DLTtape or DLTtape VS media cartridges.

• Super DLTtape media cartridges

The Super DLTtape media cartridges are designed and formulated specifically for use with Super DLTtape drives. The capacity of a Super DLTtape media cartridge is up to 160GB native (320GB compressed).

• DLTtape media cartridges

SSG:

Quantum ATL Tape Libraries™, Autoloaders and disk-based backup systems automatically manage and protect business-critical data in network environments. Modular solutions maximize customer investment with simple-to-manage systems for workgroup, departmental, mid-range, and enterprise-class applications. Our automated systems are fully compatible with major hardware platforms and are supported by nearly 40 popular data management software applications.

SSG's products are divided into the following two categories to reflect different go-to-market business models.

1. High-Volume Products

High-volume products are sold mainly through third-party distributors, value-added resellers and OEMs, and include the ATL ValueLoader™, the ATL SuperLoader™ and the ATL M1500/M1800.

The ATL SuperLoader tape library is a scalable tape autoloader that provides up to 3.5 terabytes (TB) of capacity and 108GB/hour throughput in a 2U (U is a standard of measure, 1.75" high) rack-mount form factor and is a modular, high-density tape automation solution designed for the workgroup environment. It contains one or two removable active magazines and is available with up to 16 cartridges and a bar code reader for high performance inventory management.

The ATL ValueLoader was added to our product portfolio through the acquisition of Benchmark in the third quarter of fiscal year 2003. The rack-optimized ATL ValueLoader uses a single DLT VS80 or LTO-1 tape drive with an eight-cartridge capacity and provides up to 800GB of data storage and 54GB/hour throughput.

Within our high-volume line are the ATL M1500 and ATL M1800, which are modular automation systems. The ATL M1500 is a modular library that is rack mountable and available in increments of two drives and 21 (DLT and Super DLT) or 25 (LTO) cartridges that easily scale up to 20 drives and 250 cartridges. The ATL M1800 has double the performance and capacity of the M1500 and can accommodate up to four drives and 50 cartridges, and is scalable to 20 drives and 250 cartridges.

2. High-Touch Products

High-touch products are sold mainly through value-added resellers, OEMs, and direct accounts. These products require a higher level of customer engagement to complete a more complex storage solutions sale and include the ATL M2500, the P-Series libraries, and our DX disk-based enhanced backup systems.

The ATL M2500 is an entry-point enterprise-class library that begins with one to six drives and can accommodate up to 100 cartridges. The M2500 is stackable with up to three modules in a standard rack, and utilizing a Stacklink™ feature, it can provide compressed storage capacity of up to 60TB per rack.

P-Series Libraries

The ATL P4000 and the ATL P7000 feature Prism Library Architecture™ and are high-performance storage solutions for the enterprise data center. The ATL P4000 scales to 322 data cartridges and 10 tape drives, providing up to 64TB of capacity and 1.3TB/hour performance. The ATL P7000 scales up to 679 data cartridges and 16 tape drives, providing up to 136TB capacity and 2TB/hour performance. Multiple P-Series libraries can be linked together to form a single library system providing up to 479TB capacity and 10TB/hour performance.

Disk-Based Backup Systems

The Quantum DX30 disk-based enhanced backup system significantly improves backup and restore times by incorporating RAID-protected* disks into the backup data path. Operating system-independent, the Quantum DX30 stores over 3TB of native capacity within a 4U (7 inch) rack-mounted package, expandable to 10TB of capacity. Because it emulates a tape library, the Quantum DX30 can be rapidly implemented and easily managed with no software modifications or policy changes required.

StorageCare Services

StorageCare™ services are a group of services that support Quantum products from purchase through product life. StorageCare services include product installation and integration, warranty support, and on-site service agreements.

*RAID denotes Redundant Array of Independent Disks, also known as Redundant Array of Inexpensive Disks.

Customers

Our tape drives have achieved broad market acceptance in the mid-range network server market with leading computer equipment manufacturers such as Hewlett-Packard, Dell, Storage Technology Corporation ("StorageTek") and Overland Storage Inc. Customers for our storage solutions, including tape automation systems, include Hewlett-Packard, Dell, Sun, EMC Corporation, IBM and Bell Microproducts Inc.

Because the leading computer equipment manufacturers have a dominant market share of the computer systems into which our products are incorporated, our sales are concentrated with several key customers. Sales to our top five customers in fiscal year 2003 represented 39% of revenue, compared to 45% of revenue in fiscal year 2002 and 48% of revenue in fiscal year 2001. Sales to Hewlett-Packard, which merged with the Compaq Computer Corporation ("Compaq") in 2002, were 22% of revenue in fiscal year 2003, compared to combined sales to Hewlett-Packard and Compaq of 28% of revenue in fiscal year 2002 and 30% of revenue in fiscal year 2001.

These sales concentrations do not include revenues from sales of our media that were sold directly to our top five customers by our licensees, for which we earn royalty revenue, or revenues from sales of tape libraries sold directly to our top five customers by our other OEM tape drive customers.

Sales and Marketing

We market our products directly to end customers, manufacturers of computer systems and workstations, distributors, resellers and systems integrators through our worldwide sales force.

We support international sales and operations by maintaining sales offices throughout the world. Our international revenue, including sales to foreign subsidiaries of U.S. companies, was 39% of our total revenue in fiscal year 2003 compared to 41% of our total revenue in fiscal year 2002 and 35% of our total revenue in fiscal year 2001.

Strategic Licensing Partners

Fuji Photo Film Co., Ltd. ("Fuji"), Hitachi Maxell, Ltd. ("Maxell"), Sony Corporation ("Sony") and Imation Corporation ("Imation") are qualified manufacturers of DLTtape media cartridges for Quantum. Maxell and Fuji are also licensed to manufacture Super DLTtape media cartridges. Our license agreements with Fuji, Maxell, Sony and Imation allow those companies to independently sell tape media cartridges for which we receive royalties. These strategic license agreements expand the market for DLTtape and Super DLTtape technology and provide customers with multiple channels for obtaining tape media cartridges.

In fiscal year 1999, we entered into a tape drive manufacturing license and marketing agreement with Tandberg, a European-based data storage company. Following this agreement, Tandberg became an independent manufacturer of our tape drives, and in fiscal year 2002, Tandberg elected to subcontract the manufacturing of tape drives to Quantum. Under this subcontract arrangement we sell drives to Tandberg for revenue and there is no royalty attached to Tandberg's sale of these drives. Tandberg markets a full spectrum of DLTtape drives, DLTtape media cartridges and tape automation systems.

Manufacturing

We manufacture certain tape automation systems in our facility in Irvine, California, and in Yately, United Kingdom. We previously manufactured our tape drives at our facility in Penang, Malaysia. During fiscal year 2003 we outsourced our tape drive manufacturing, and tape automation manufacturing of the ATL M1500 and ATL SuperLoader to Jabil, in order to continue to reduce our cost structure. Under the terms of the agreement, Jabil currently utilizes our manufacturing facility in Penang, Malaysia, and acquired raw materials, work-in-process inventories and production fixed assets from us in connection with this manufacturing outsourcing arrangement. We previously manufactured our ATL M1500 modular tape automation systems in Yately, United Kingdom. However, to improve our overall cost competitiveness, we shifted production of the ATL M1500 modular tape automation systems to our facility in Penang, Malaysia and the ATL M1500 is now also manufactured for us by Jabil.

The tape drives acquired in the Benchmark acquisition are manufactured in Mariveles, the Philippines, by Mitsumi Electric Co Ltd. ("Mitsumi"), a third party contract manufacturer. Third parties manufacture all of our tape media cartridges and certain of our tape automation systems.

We purchase subassemblies, parts, and components for our products from U.S. and international vendors. These purchases make up a substantial portion of our production costs. In-house manufacturing, assembly, and testing make up the remaining balance of our production costs.

Certain parts and components included in our products are obtained from sole source suppliers or a limited group of suppliers. For a discussion of risks associated with such suppliers, see Trends and Uncertainties - *“Our reliance on a limited number of third-party suppliers could result in significantly increased costs and delays in the event these suppliers experience shortages or quality problems, and, as a result, our business, financial condition and operating results may be materially and adversely affected”*.

With the outsourcing agreements to Jabil, in addition to other outsourcing agreements, we have a sole source of supply for all of our tape drives and most of our tape automation products. This may put us at greater risk of experiencing component shortages or other delays in customer deliveries, which could result in customer dissatisfaction and lost sales, which would materially damage customer relationships and result in lost revenue. In addition, we may not be able to control the amounts we will be required to pay Jabil and other contract manufacturers for the products they manufacture for us, or the quality of such products.

Research and Development

We invested approximately \$111.9 million, \$111.5 million and \$116.8 million in research and development in fiscal years 2003, 2002 and 2001, respectively. We are focusing our research and development efforts on the development of new tape drives, tape automation systems, disk-based backup systems, software storage architectures, and other storage solutions and services. In particular, we are currently developing future generations of Super DLTtape drives based on DLTtape technology. We expect our third generation of Super DLTtape drives based on DLTtape technology to begin shipping to customers in the third quarter of fiscal year 2004. We are also continuing to focus on a full range of tape automation products, including autoloaders, modular libraries and high-end enterprise libraries for the mid-range market, and on disk-based backup systems. We maintain research and development facilities in Boulder, Colorado; Shrewsbury, Massachusetts; and Irvine, California.

Competition

Competition in the mid-range network market for tape drives has intensified. In this market we compete primarily with Exabyte Corporation (“Exabyte”), Hewlett-Packard, IBM, Seagate Technology Inc. (“Seagate”), and Sony. Hewlett-Packard, IBM and Seagate are part of a consortium, referred to in the industry as the “LTO consortium”, which developed new tape drive products using linear tape open (or LTO) technology. Such products target the high-capacity data storage market and compete with products based on Super DLTtape technology. Key competitive factors in the tape storage market include capacity, transfer rate, reliability, durability, scalability, compatibility and cost.

Competition in tape automation systems has also intensified. In this market we compete primarily with Advanced Digital Information Corporation (“ADIC”), Exabyte, Hewlett-Packard, Overland Data Inc. and StorageTek, each of which offers competing tape automation systems and technologies.

Our tape storage products, both tape drives and tape automation systems, also compete with other storage technologies, such as hard disk drives. The competition from hard disk drives as an alternative backup solution has increased and may continue to increase, especially if the hard disk drive price/ performance ratio continues to decline. For a discussion of risks associated with competing technologies, see Trends and Uncertainties - *“We derive almost all of our revenue from products incorporating tape technology; if competition from alternative storage technologies continues or increases, our business, financial condition and operating results would be materially and adversely harmed.”*

In both segments of our business, strong competition has resulted in price erosion and we expect this trend to continue.

Warranty and Service

We generally warrant our products against defects for periods ranging from one to three years from the date of sale and provide warranty service on tape drives on a return-to-factory basis. Our tape automation systems have a warranty period of one to three years, with service agreements available to customers to extend or upgrade the warranty service. We perform services from our facility in Dundalk, Ireland, to support warranty and service obligations for tape drives, automation systems and other storage products. We also provide tape library warranty service from our facility in Irvine, California, and our outsourced manufacturer, Jabil, supports limited warranty and services for tape drives and tape libraries in Penang, Malaysia. In addition, we employ various third party service providers throughout the world that perform tape library and automation services for us.

Backlog

We manufacture our products based on forecasts of customer demand. We also place inventory in strategic locations in order to enable certain key customers to obtain inventories as needed. Orders are generally placed by customers on an as-needed basis. In general, customers may cancel or reschedule orders without penalty. For these reasons, we do not believe that orders are an accurate measure of backlog and, therefore, we believe that customer orders are not a meaningful indicator of revenues or material to an understanding

Employees

During fiscal year 2003, we reduced headcount by approximately one-third. The following table summarizes our changes in employee headcount in fiscal year 2003:

Employee headcount at March 31, 2002	3,100
Decreases from cost reduction actions:	
Reduced infrastructure supporting DLTG	(119)
Outsourcing of tape drive manufacturing	(861)
Reduced infrastructure supporting SSG	(211)
Increases from acquisitions — Benchmark and SANlight	126
Decrease from disposition of the NAS business	(45)
Net other additions	54
	2,044
Employee headcount at March 31, 2003	2,044

At March 31, 2003, we had 2,044 regular employees, including 253 in manufacturing operations and support; 571 in warranty and service; 314 in sales and marketing; 524 in research and development; and 382 in general and administrative positions. As of March 31, 2003, 1,411 employees were located in the United States and 633 outside of the United States.

We believe that our future success will depend in part on our ability to attract and retain highly skilled employees. We believe that our human resource policy provided reasonable levels of severance pay and other benefits for employees who were affected by reductions in headcount. None of our employees are represented by a union, and we have experienced no work stoppages. We believe that our employee relations are favorable.

Technology

We develop and protect our technology and know-how, principally in the field of computer-based on-line data storage, data backup and data archive technologies.

We presently hold 140 United States patents and have 84 United States patent applications. In general, these patents have a 20-year term from the first effective filing date for each patent. We also hold a number of foreign patents and patent applications for certain of our products and technologies. Although we believe that our patents and applications have significant value, rapidly changing computer industry technology means that our future success will depend primarily on the technical competence and creative skills of our employees rather than on patent protection.

From time to time, third parties have asserted that our manufacture and sale of our products and services has infringed their patents. We currently have a patent dispute with StorageTek (refer to Note 21 “*Litigation*”, to the Consolidated Financial Statements). We conduct ongoing investigations into these assertions and presently believe that any licenses ultimately determined to be required could be obtained on commercially reasonable terms. However, we cannot provide assurance that such licenses are presently obtainable, or if later determined to be required, could be obtained on commercially reasonable terms if at all.

We have signed a patent cross-licensing agreement with IBM and have agreed to a time-limited mutual patent non-assertion agreement with Maxtor covering certain technologies and patents of each party. We may enter into patent cross-licensing agreements with other third parties in the future as part of our normal business activities. These agreements, when and if entered into, would enable us to use certain patents owned by these third parties and to enable these third parties to use certain patents that we own.

EXECUTIVE OFFICERS OF QUANTUM CORPORATION

Set forth below are the names, ages (as of June 2, 2003), positions and offices held by, and a brief account of the business experience of, each executive officer of Quantum.

<u>Name</u>	<u>Age</u>	<u>Position with Quantum</u>
Richard E. Belluzzo	49	Chief Executive Officer since September 2002, Director
John B. Gannon	57	President, DLT Group
Michael J. Lambert	41	Executive Vice President and Chief Financial Officer
Jerald L. Maurer	61	Executive Vice President, Human Resources

Barbara H. Nelson	49	Executive Vice President, Corporate Marketing and Strategy
Lawrence M. Orecklin	39	President, Storage Solutions Group

Mr. Belluzzo has been Chief Executive Officer since joining the company in September 2002. Before joining Quantum, from September 1999 to May 2002, Mr. Belluzzo held senior management positions with Microsoft Corp., most recently President and Chief Operating Officer. Prior to Microsoft, from January 1998 to September 1999, Mr. Belluzzo was Chief Executive Officer of Silicon Graphics Inc. Before his tenure at Silicon Graphics, from 1975 to January 1998, Mr. Belluzzo was with Hewlett-Packard, most recently as Executive Vice President of the printer business. Mr. Belluzzo is also a member of the board of Specialty Laboratories, a public company that focuses on research and development of new assays.

Mr. Gannon has been President of the DLT group since November 2001. From February 1999 to August 2001, Mr. Gannon was President of the HDD group and 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 Personal Computer Business from 1996 to 1998 and its Digital Audio Tape business from 1993 to 1996.

Mr. Lambert has been Executive Vice President and Chief Financial Officer since June 2001. Prior to joining Quantum, from July 2000 to May 2001, Mr. Lambert was Senior Vice President and Chief Financial Officer of NerveWire, a systems integration consulting firm. From March 1996 to July 2000, Mr. Lambert spent four years at Lucent Technologies, most recently as Vice President and Chief Financial Officer of the InterNetworking Systems Division. From July 1993 to March 1996, Mr. Lambert spent three years at IBM Storage Systems Division, where he held several financial management positions, including Manager, Worldwide Pricing, and Worldwide Financial Operations. Mr. Lambert also spent three years in strategy consulting with Marakon Associates, as well as four years with Data General Corporation in finance and internal auditing.

Mr. Maurer joined Quantum as Executive Vice President of Human Resources in December 1998. Prior to joining Quantum, Mr. Maurer was Senior Vice President of Human Resources at Seagate from 1996 to 1998. Previously, he was Senior Vice President of Human Resources for Melville Corporation from 1993 to 1996 and spent more than 25 years in a variety of management and human resources positions with companies such as Illinois Bell Telephone Co., AT&T and Aetna Life & Casualty.

Ms. Nelson has been Executive Vice President, Corporate Marketing and Strategy since November 2001. Prior to this, from December 1999, Ms. Nelson was President of Quantum's DLT group. From September 1999 to December 1999, Ms. Nelson was the General Manager of Quantum's high-end storage division and before this, from November 1997 to August 1999, Ms. Nelson was Vice President and General Manager of Quantum's desktop storage division, joining Quantum as Vice President of Marketing in January 1997. Prior to joining Quantum, Ms. Nelson spent 20 years in various senior management positions at Intel Corporation, Maxtor, Lumina Office Products and Weitek Inc.

Mr. Orecklin has been President of Quantum's Storage Solutions group since October 2001. Prior to this, from 1998 to 2001, Mr. Orecklin was a Senior Vice President at Tivoli Systems, a subsidiary of IBM, where he had roles leading the Storage Management business and the Service Provider and Telecommunications Group. From 1995 to 1998, Mr. Orecklin worked at Oracle Corporation, most recently as Vice President of Business Development and Marketing. Before joining Oracle, from 1991 to 1995, Mr. Orecklin held management positions at Corporate Decisions, Inc., a strategy-consulting firm.

ITEM 2. Properties

Our headquarters are located in Milpitas, California. We own or lease facilities in North America, Europe and Asia. The following is a summary of the locations, functions and approximate square footage of those facilities as of March 31, 2003:

<u>Location</u>	<u>Function</u>	<u>Square Footage</u>
North America		
Milpitas, CA	Corporate headquarters	72,000
San Jose, CA	Sublet to Snap Appliances – see Note 4 to the Consolidated Financial Statements	72,000
Irvine, CA	Tape automation administration, configuration, research and development and service	330,000
Shrewsbury, MA	Tape research and development	40,000
Colorado Springs, CO	Tape administration	414,000
Boulder, CO	Tape research and development	169,000
Other North America	Sales offices	20,000
Europe		
Dundalk, Ireland	Tape configuration, distribution and service	112,000
Neuchatel, Switzerland	European administration	9,000
Yately, U.K.	Tape automation manufacturing	25,000
Other Europe	Sales, service and administrative offices	21,000
Asia		
Tokyo, Japan	Sales office and procurement center	10,000

Singapore City,	Sales office and distribution	5,000
Singapore		
Penang, Malaysia	Sublet to Jabil, our outsourced manufacturer of DLT and Super DLT tape drives and certain libraries	160,000
Other Asia	Sales offices	12,000

We believe that our existing facilities are adequate to meet our business needs through the next 12 months. However, there can be no assurance that we will be able to obtain additional space to accommodate future needs or dispose of excess space as required on reasonable terms.

ITEM 3. Legal Proceedings

For information regarding legal proceedings, refer to Note 21 to the Consolidated Financial Statements.

ITEM 4. Submission of Matters to a Vote of Security Holders

We did not submit any matters to a vote of security holders during the fourth quarter of fiscal year 2003.

13

PART II

ITEM 5. Market for the Registrant's Common Equity and Related Stockholder Matters

Our common stock is traded on the New York Stock Exchange under the symbol "DSS". As of June 24, 2003, the price of our common stock was \$3.86 per share. The prices per share reflected in the following table represent the range of high and low closing prices for the quarters indicated.

<u>Fiscal Year 2003</u>	<u>High</u>	<u>Low</u>
First quarter ended June 30, 2002	\$ 8.10	\$ 4.09
Second quarter ended September 29, 2002	4.25	2.06
Third quarter ended December 29, 2002	3.76	1.42
Fourth quarter ended March 31, 2003	3.81	2.63

<u>Fiscal Year 2002</u>	<u>High</u>	<u>Low</u>
First quarter ended July 1, 2001	\$ 12.85	\$ 9.65
Second quarter ended September 30, 2001	10.50	7.60
Third quarter ended December 30, 2001	10.25	7.62
Fourth quarter ended March 31, 2002	10.93	7.35

Historically, we have not paid cash dividends on our common stock and do not intend to pay dividends in the future. We anticipate retaining all future funds to finance growth and product development.

As of June 24, 2003, there were 1,749 Quantum stockholders of record including the Depository Trust Company, which holds shares of Quantum common stock on behalf of an indeterminate number of beneficial owners.

The information required by this item regarding equity compensation plans is incorporated by reference to the information set forth in Item 12 of this Annual Report on Form 10-K.

ITEM 6. Selected Financial Data

This summary of consolidated financial information of Quantum for fiscal years 1999 to 2003 should be read along with our Consolidated Financial Statements contained in this Annual Report on Form 10-K. The summarized financial information was taken from these financial statements, other than the statement of operations data for fiscal years 1999 and 2000 and the balance sheet data at March 31, 1999, 2000 and 2001, which were taken from financial statements included in previous filings on Form 10-K. As a result of the disposition of the HDD business on April 2, 2001, and the NAS business on October 28, 2002, the selected financial information below has been restated to present the results of the HDD business and NAS business as discontinued operations (refer to Note 4 "Discontinued Operations" to the Consolidated Financial Statements).

A number of items affect the comparability of selected financial information as discussed below:

- The results of continuing operations for fiscal year 2003 include charges of \$94.3 million related to the adoption of SFAS No. 142 and \$58.7 million for a write-off of goodwill in SSG. The results of operations for fiscal year 2003 also include \$24.2 million of special charges associated mainly with outsourcing manufacturing and cost reduction activities and a \$7.8 million charge for purchased in-process research and development in connection with the acquisition of SANlight.

- The results of continuing operations for fiscal year 2002 include the effect of \$72.9 million of special charges associated with the disposition of the HDD group and other cost reduction restructuring activities. The results of operations for fiscal year 2002 also include a \$13.2 million charge for purchased in-process research and development in connection with the acquisition of certain assets of M4 Data.

- The results of discontinued operations for fiscal year 2002 include the gain on disposition of the HDD group and losses from the operations of the NAS business.

- The results of continuing operations for fiscal year 2000 include the effect of a \$40.1 million special charge associated with a cost reduction project to reduce overhead expenses and product cost.

- The results of continuing operations for fiscal year 1999 include a charge of \$89.0 million for purchased in-process research and development in connection with the acquisition of ATL Products, Inc. ("ATL").

14

(in thousands, except per share data)

	For the year ended March 31,				
	2003	2002	2001	2000	1999
Statement of Operations Data:					
Product revenue	\$ 684,156	\$ 820,365	\$ 1,124,142	\$ 1,219,048	\$ 1,181,273
Royalty revenue	186,653	209,310	221,973	186,429	121,463
Total revenue	870,809	1,029,675	1,346,115	1,405,477	1,302,736
Cost of revenue	603,646	652,070	733,575	757,550	722,817
Gross margin	267,163	377,605	612,540	647,927	579,919
Research and development expenses	111,926	111,451	116,836	119,029	99,330
Sales and marketing, general and administrative expenses	171,720	224,274	186,333	167,129	114,895
Goodwill impairment	58,689	-	-	-	-
Special charges	24,200	72,856	-	40,083	-
Purchased in-process research and development expenses	7,802	13,200	-	-	89,000
Income (loss) from operations	(107,174)	(44,176)	309,371	321,686	276,694
Income (loss) from continuing operations	(132,088)	(49,000)	197,828	180,200	122,991
Income (loss) from discontinued operations	(37,909)	91,502	(37,142)	(139,356)	(152,526)
Cumulative effect of an accounting change	(94,298)	-	-	-	-
Net income (loss)	(264,295)	42,502	160,686	40,844	(29,535)
Income (loss) per share from continuing operations (1):					
Basic	\$ (0.81)	\$ (0.32)	\$ 1.34	\$ 0.72	\$ 0.77
Diluted	\$ (0.81)	\$ (0.32)	\$ 1.27	\$ 0.70	\$ 0.74
Net income (loss) per share (2):					
Basic	\$ (1.63)	\$ 0.27		\$ (0.10)	\$ (0.18)
Diluted	\$ (1.63)	\$ 0.27		\$ (0.10)	\$ (0.18)

	As of March 31,				
	2003	2002	2001	2000	1999
Balance Sheet Data:					
Property, plant and equipment, net	\$ 54,522	\$ 76,405	\$ 91,821	\$ 76,285	\$ 73,122
Total assets	921,729	1,193,772	1,814,697	1,776,396	1,804,889
Total long-term convertible debt	287,500	287,500	287,500	287,500	287,500
Net current assets (liabilities) of discontinued operations	-	49,605	18,139	(1,591)	708,610
Net non-current assets of discontinued operations	-	-	85,207	86,084	82,636

(1) Income (loss) per share from continuing operations for fiscal year 2000 presented in the table is for the period from August 4, 1999 through March 31, 2000, after the tracking stock recapitalization that occurred on August 3, 1999. The income per share from continuing operations for the period from April 1, 1999 through August 3, 1999 was \$0.36 (basic) and \$0.35 (diluted).

(2) Net income (loss) per share for fiscal year 2000 that is presented is for the period from April 1, 1999 through August 3, 1999, the date of the tracking stock recapitalization. Net income (loss) per share for fiscal year 2001 is not presented, as there was no single class of stock that represented Quantum in this year.

15

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The results of Quantum's continuing operations are presented as "Results of Continuing Operations" and the results of the HDD and NAS businesses are presented as "Results of Discontinued Operations". The disposition of the HDD group to Maxtor occurred on April 2, 2001 and the NAS business was disposed on October 28, 2002.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of the financial condition and results of operations is based on the accompanying Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these statements requires us to make significant estimates and judgments about future uncertainties that affect reported assets, liabilities, revenues and expenses and related disclosures. We base our estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances. Our reported financial position or results of operations may be materially different under different conditions or when using different estimates and assumptions. In the event that estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current information. We believe that the following accounting policies require our most difficult, subjective or complex judgments, because of the need to make estimates about the effect of matters that are inherently uncertain. The judgments and uncertainties that affect the application of those policies in particular, could result in materially different amounts being reported under different conditions or using different assumptions.

Revenue Recognition

Revenue from sales of products to original equipment manufacturers ("OEMs") and distributors is recognized when passage of title and risk of ownership are transferred to customers, when persuasive evidence of an arrangement exists, the price to the buyer is fixed or determinable and collection is reasonably assured. In the period when the revenue is recognized, allowances are provided for estimated future price adjustments, such as volume rebates and price protection, and future product returns. Since we have historically been able to reliably estimate the amount of allowances required for future price adjustments and product returns, we recognize revenue, net of projected allowances, upon shipment to our customers.

These allowances are based on the OEMs' and distributors' master agreements, programs in existence at the time the revenue is recognized, historical information, contractual limits and plans regarding price adjustments and product returns. Revenue from distributor arrangements was a significant portion of our total revenue. If we were unable to reliably estimate the amount of future price adjustments and product returns in any specific reporting period, then we would be required to defer recognition of the revenue until the right to future price adjustments and product returns lapsed and we were no longer under any obligation to reduce the price or accept the return of the product.

Royalty revenue is recognized based on actual licensee sales when such sales incorporate technology licensed from Quantum. Revenue from separately priced extended warranty and product service contracts is deferred and recognized as revenue ratably over the contract period.

Warranty expense and liability

We warrant our products against defects for periods ranging from one to three years. A provision for estimated future costs and estimated returns for credit relating to warranty claims is recorded when products are shipped and revenue recognized. Our estimate of future costs to satisfy warranty obligations is primarily based on our estimates of future failure rates and our estimates of future costs of repair including materials consumed in the repair, and labor and overhead amounts necessary to perform the repair.

The estimates of future product failure rates are based on both historical product failure data and anticipated future failure rates. If future actual failure rates differ from our estimates, we will record the impact in subsequent periods. Similarly, the estimates of future costs of repair are based on both historical data and anticipated future costs. If future actual costs to repair were to differ significantly from our estimates, we would record the impact of these unforeseen costs in subsequent periods.

Inventory Valuation

We value our inventories that are held for resale to customers at the lower of cost or market. Cost is determined by the first-in, first-out ("FIFO") method and includes direct material, direct labor, factory overhead and other direct costs. Market is "net realizable value", which, for finished goods and goods in process, is the estimated selling price, less costs to complete and dispose of the inventory. For

raw materials, it is replacement cost or the cost of acquiring similar products from our vendors. While cost is readily determinable, estimates of market value involve significant estimates and judgments about the future.

We initially record our inventory at cost and each quarter evaluate the difference, if any, between cost and market. The determination of the market value of inventories is primarily dependent on estimates of future demand for our products, which in turn is based on other market estimates such as technological change, competitor actions and estimates of future selling prices.

We record write-downs for the amount that cost of inventory exceeds our estimated market value. No adjustment is required when market value exceeds cost.

Service Inventories

We value our service inventories at the lower of cost or market. Service inventories consist of both component parts, which are primarily used to repair defective units, and finished units, which are provided for customer use permanently or on a temporary basis while the defective unit is being repaired. Cost is determined by the FIFO method and includes direct material, direct labor, overhead and other direct costs. Market is "net realizable value", which, for components, is replacement cost or the cost of acquiring similar products from our vendors. For finished goods, market value is the estimated selling price less costs to complete and dispose of the inventories. While cost is readily determinable, the estimates of market involve significant estimates and judgments about the future.

We carry service inventories because we provide product warranty for one to three years and earn revenue by providing enhanced warranty and repair service outside this warranty period. We initially record our service inventories at cost and each quarter evaluate the difference, if any, between cost and market. The determination of the market value of service inventories is dependent on estimates, including the estimated amount of component parts expected to be consumed in the future warranty and out of warranty service, the estimated number of units required to meet future customer needs, the estimated selling prices of the finished units, and the estimated useful lives of finished units.

We record write-downs for the amount that cost of service inventories exceeds our estimated market value. No adjustment is required when market value exceeds cost.

Goodwill and Intangible Assets

We have a significant amount of goodwill and intangible assets on our balance sheet related to acquisitions. At March 31, 2003 the net amount of \$120.4 million of goodwill and intangible assets represented 13% of total assets.

As a result of adopting SFAS No. 142, *Goodwill and Other Intangible Assets*, on April 1, 2002, we discontinued the amortization of goodwill. Instead, goodwill was reviewed for impairment upon adoption of SFAS No. 142 and will be reviewed annually thereafter, or more frequently when indicators of impairment are present. Refer to Note 5 and Note 6 of the Consolidated Financial Statements for a discussion of the impact of adopting and applying SFAS No. 142.

Intangible assets are carried and reported at acquisition cost, net of accumulated amortization subsequent to acquisition. The acquisition cost is amortized over the estimated useful lives, which range from three to ten years. Intangible assets are reviewed for impairment whenever events or circumstances indicate impairment might exist, or at least annually, in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*. Projected undiscounted net cash flows expected to be derived from the use of those assets are compared to the respective net carrying amounts to determine whether an impairment exists. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets.

The determination of the net carrying value of goodwill and intangible assets and the extent to which, if any, there is impairment are dependent on material estimates and judgments on our part, including the useful life over which the intangible assets are to be amortized, and the estimates of the value of future net cash flows, which are based upon further estimates of future revenues, expenses and operating margins.

Special Charges

From fiscal year 2001 through fiscal year 2003, we recorded significant special charges related to the realignment and restructuring of our business operations. These charges represent expenses incurred in connection with certain cost reduction programs that we have undertaken and consist of the cost of involuntary termination benefits, separation benefits, stock compensation charges, facilities charges and other costs of exiting activities.

The charges for severance and exit costs require the use of estimates, primarily related to the number of employees paid severance, the amount of severance and related benefits to be paid, and the cost of exiting facilities, including estimates and assumptions related to future maintenance costs, our ability to secure a sub-tenant, if applicable and any sublease income to be received in the future.

In the fourth quarter of fiscal year 2003, we became subject to SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, which superseded EITF Issue No. 94-3. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred rather than at the date of an entity's commitment to an exit plan. The statement further establishes fair value as the objective for initial measurement of the liability and that employee benefit arrangements requiring future service beyond a "minimum retention period" be recognized over the future service period. Under SFAS No. 146, if we fail to make accurate estimates regarding these costs or to the timing of the completion of planned activities, we may be required to record additional expenses or expense reductions in the future.

Prior to the fourth quarter of fiscal year 2003, we accounted for special charges under the provisions of EITF Issue No. 94-3. Under that pronouncement, we recorded a liability in the period in which management approved a restructuring plan if:

- Management having the appropriate level of authority approved and committed Quantum to the specific exit plan;
- The period of time to complete the plan indicated that significant changes to the plan of termination were not likely; and
- The plan, if it involved terminations, identified the number of employees and positions to be terminated, and the benefit arrangements were communicated to affected employees.

Income Taxes

We account for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*, which requires that deferred tax assets and liabilities be recognized for the effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. SFAS No. 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

As of March 31, 2003, we had net deferred tax assets of \$21 million. SFAS No. 109 considers future reversals of taxable temporary differences as one source of taxable income that is available to realize the tax benefit of deferred tax assets. This net amount represents future U.S. tax deductions that will reduce future U.S. tax liabilities only if we are able to generate sufficient amounts of future U.S. taxable income to realize the benefit of those tax deductions.

Our ability to estimate the utilization of the deferred tax assets is dependent upon our estimates of the amount, character and timing of future taxable income. If we are unable to make accurate estimates, we may incur additional future income tax expense to write-off the balance of this net deferred tax asset. In addition, the inability to generate sufficient amounts of future taxable income may prevent us from recognizing tax benefits associated with any losses that we might incur in the future.

RESULTS OF OPERATIONS FOR FISCAL YEARS 2003, 2002 AND 2001

This portion of Management's Discussion and Analysis of Financial Condition and Results of Operations entitled "Results of Operations For Fiscal Years 2003, 2002 and 2001", as well as other parts of this Annual Report on Form 10-K, contain forward-looking statements as described on page 3 hereof. For a discussion of factors that could impact our actual results, see "Trends and Uncertainties" elsewhere in this Annual Report on Form 10-K, including "We are exposed to general economic conditions that have continued to result in significantly reduced sales levels and significant operating losses, and, if such adverse economic conditions were to continue or worsen, our business, financial condition and operating results could be adversely impacted", "A majority of our sales come from a few customers, and these customers have no minimum or long-term purchase commitments, and the loss of, or a significant change in demand from, one or more key customers could materially and adversely affect our business, financial condition and operating results", "Competition has increased, and may increasingly intensify, in the tape drive market as a result of competitors introducing tape drive products based on new technology standards and on DLT tape technology, which could materially and adversely affect our business, financial condition and results of operations", "Competition has increased, and may increasingly intensify, and sales have trended lower in the tape automation market as a result of current economic conditions, and, if these adverse trends continue or worsen, our business, financial condition and operating results may be materially and adversely affected", "We derive almost all of our revenue from products incorporating tape technology; if competition from alternative storage technologies continues or increases, our business, financial condition and operating results would be materially and adversely harmed", and "Our operating results depend on new product introductions, which may not be successful, in which case, our business, financial condition and operating results may be materially and adversely affected".

RESULTS OF CONTINUING OPERATIONS

Revenue

For the year ended March 31,

(dollars in thousands)	2003	2002	2001	Increase/ (decrease)	Increase/ (decrease)

	% of revenue		% of revenue		% of revenue		2003 vs 2002	%	2002 vs 2001	%
Tape drives	\$ 336,005	38.6%	\$ 445,381	43.3%	\$ 754,404	56.0%	\$ (109,376)	-24.6%	\$ (309,023)	-41.0%
Tape media	157,374	18.1%	182,851	17.8%	114,067	8.5%	(25,477)	-13.9%	68,784	60.3%
Tape royalties	186,653	21.4%	209,316	20.3%	221,973	16.5%	(22,663)	-10.8%	(12,657)	-5.7%
DLT group	680,032	78.1%	837,548	81.3%	1,090,444	81.0%	(157,516)	-18.8%	(252,896)	-23.2%
Storage Solutions Group	227,112	26.1%	233,298	22.7%	353,097	26.2%	(6,186)	-2.7%	(119,799)	-33.9%
Inter-group elimination*	(36,335)	-4.2%	(41,171)	-4.0%	(97,426)	-7.2%	4,836	11.7%	56,255	57.7%
	<u>\$ 870,809</u>	<u>100%</u>	<u>\$ 1,029,675</u>	<u>100%</u>	<u>\$ 1,346,115</u>	<u>100%</u>	<u>\$ (158,866)</u>	<u>-15.4%</u>	<u>\$ (316,440)</u>	<u>-23.5%</u>

* Represents inter-group sales of tape drives for incorporation into tape automation systems, for which the sales are included in storage solutions revenue.

Total revenue in fiscal year 2003 was \$870.8 million, down \$158.9 million or 15 percent from \$1,029.7 million in fiscal year 2002. Our fiscal year 2002 total revenue was down \$316.4 million or 24 percent compared to fiscal year 2001 total revenue. These sequential decreases in revenue reflect decreased revenue in both DLTG and SSG.

DLTG Revenue

DLTG revenue decreased \$157.5 million, or 19 percent, to \$680.0 million in fiscal year 2003 compared to fiscal year 2002. DLTG revenue decreased \$252.9 million, or 23 percent, to \$837.5 million in fiscal year 2002 compared to \$1,090.4 million in fiscal year 2001. The main cause of the sequential decreases in DLTG revenue was a decrease in tape drive revenue, which decreased \$109.4 million in fiscal year 2003 compared to fiscal year 2002 and decreased \$309.0 million in fiscal year 2002 compared to fiscal year 2001. The majority of the decline in tape drive revenue in the fiscal year 2003 to fiscal year 2002 comparison was due to lower average unit prices, and to a lesser extent, due to lower tape drive unit sales volume. The decline in tape drive unit volumes in fiscal year 2003 was partially offset by the unit volume contributed by the sales of tape drives acquired from Benchmark. The vast majority of the decline in tape drive revenue in the fiscal year 2002 to fiscal year 2001 comparison was due to a decrease in tape drive unit sales volume, and to a lesser extent, due to lower average unit prices.

The decrease in tape drive revenue was affected by several major trends, including:

- A weak IT spending environment particularly in the mid-range server market, which includes servers priced from approximately \$5,000 to \$100,000. Our tape drives are commonly included as a backup component to servers and, accordingly, changes in server demand directly impact the demand for our tape products;
- A long-term trend toward networked storage, which enables centralization of storage resources and results in fewer tape drives consumed per server sold; and
- Increased competition from competing tape drive vendors and platforms that require us to lower our selling prices to remain competitive.

Tape media revenue in fiscal year 2003 was \$157.4 million, down \$25.5 million, or 14 percent, from \$182.9 million in fiscal year 2002. Tape media revenue in fiscal year 2002 increased \$68.8 million or 60 percent compared to fiscal year 2001. The decrease in tape media revenue in fiscal year 2003 primarily reflected a decrease in unit sales due to a sales mix shift from Quantum branded media produced and sold by us to media sales by licensed manufacturers who are qualified to manufacture such media and who pay us a royalty on sales of those products. On these sales, Quantum records only the royalty revenue, not the full media cartridge revenue. Super DLTtape media units were primarily sold directly by Quantum in fiscal year 2002, while in fiscal year 2003, Fujitsu and Maxell both began to sell Super DLTtape media following their completion of the qualification process.

The increase in tape media revenue in fiscal year 2002 compared to fiscal year 2001 reflects a media market sales mix shift from DLTtape media, which was mostly sold by licensed media manufacturers in fiscal year 2001, to Super DLTtape media, which was primarily sold directly by us as Quantum branded media in fiscal year 2002.

Tape media royalty revenue for fiscal year 2003 was \$186.7 million, down \$22.7 million, or 11 percent, compared to \$209.3 million in fiscal year 2002. Tape media royalties in fiscal year 2002 decreased by \$12.7 million, or 6 percent, from \$222.0 million in fiscal year 2001.

In fiscal year 2003 compared to fiscal year 2002, the vast majority of the decline in tape media royalty revenue was due to lower average unit prices, slightly offset by higher media licensees' unit sales volume following the qualification of Fujitsu and Maxell as licensed media manufacturers for Super DLTtape media units. In fiscal year 2002 compared to fiscal year 2001, the slight decrease in tape media royalties reflected mainly a decrease in unit sales, and to a lesser extent, a decrease in prices of tape media cartridges sold by licensed media manufacturers for which we earn a royalty based on price.

SSG Revenue

Storage solutions revenue in the fiscal year 2003 was \$227.1 million, down \$6.2 million, or 3 percent, compared to \$233.3 million in fiscal year 2002. Storage solutions revenue decreased by \$119.8 million, or 34 percent, in fiscal year 2002, compared to \$353.1 million in fiscal year 2001. These declines in revenue were caused primarily by a decrease in unit sales, particularly unit shipments of high-end tape automation systems, which declined as a result of weak IT spending and increasingly competitive market conditions. In fiscal year 2003 compared to fiscal year 2002, the decrease in revenue was slightly offset by revenue from ValueLoader sales, which we began selling following our acquisition of Benchmark on November 13, 2002.

Customers

Sales to the top five customers in fiscal year 2003 represented 39% of revenue, compared to 45% of revenue in fiscal year 2002 and 48% of revenue in fiscal year 2001. Sales to Hewlett-Packard were 22% of revenue in fiscal year 2003, compared to combined sales to Hewlett-Packard and Compaq representing 28% of revenue in fiscal year 2002, and 30% of revenue in fiscal year 2001.

These sales concentrations do not include revenues from sales of our media that were sold directly to our top five customers by our licensees, for which we earn royalty revenue, or revenues from sales of tape libraries sold directly to our top five customers by our other OEM tape drive customers.

Sales to computer equipment manufacturers and distribution channel customers were 45% and 21% of revenue, respectively, in fiscal year 2003, 48% and 18% of revenue, respectively, in fiscal year 2002, and 61% and 12% of revenue, respectively, in fiscal year 2001. The remaining revenue in fiscal years 2003, 2002, and 2001 represented media royalty revenue and sales to value-added resellers.

Gross Margin Rate

(dollars in thousands)

	For the year ended March 31,		
	2003	2002	2001
DLTG gross margin	\$ 206,216	\$ 298,951	\$ 487,295
SSG gross margin	60,947	78,654	125,245
Quantum gross margin	\$ 267,163	\$ 377,605	\$ 612,540
DLTG gross margin rate	30.3%	35.7%	44.7%
SSG gross margin rate	26.8%	33.7%	35.5%
Quantum gross margin rate*	30.7%	36.7%	45.5%

* On a consolidated basis the impact of eliminating the inter-group revenue results in a higher gross margin rate.

DLTG Gross Margin Rate

The DLTG gross margin rate in fiscal year 2003 decreased to 30.3% from 35.7% in fiscal year 2002. This decline of 5.4 percentage points mainly reflects unit prices for tape drives declining faster than unit costs, partially offset by a favorable sales mix that resulted in a slight increase in higher-margin media revenue as a proportion of total sales and increased shipments of the higher-margin SDLT products and value drives following the Benchmark acquisition in the third quarter of fiscal year 2003.

The DLTG gross margin rate in fiscal year 2002 decreased to 35.7% from 44.7% in fiscal year 2001. This decline of 9.0 percentage points in gross margin rate mainly reflects lower tape drive unit sales and prices, and to a lesser extent, the media sales mix shift toward lower-margin direct sales of Super DLTtape media and reduced higher-margin media royalties.

As a result of competitive pressure, we have offered Super DLTtape drives below prices at which we have historically introduced new generations of DLTtape drives, thereby contributing to gross margin pressure in the periods presented.

SSG Gross Margin Rate

The SSG gross margin rate in fiscal year 2003 decreased to 26.8% from 33.7% in fiscal year 2002. The decline of 6.9 percentage points in fiscal year 2003 from fiscal year 2002 mainly reflects lower average unit prices, slightly offset by higher unit sales volumes primarily contributed by the sales of the ValueLoader subsequent to the acquisition of Benchmark in the third quarter of the fiscal year 2003. The decline of 1.8 percentage points in gross margin rate in fiscal year 2002 from fiscal year 2001 was caused primarily by increased unit costs as a result of lower unit sales.

Gross Margin Rate Outlook

There are many complicated variables that, individually and in combination, impact short-term and long-term performance in media and result in a media revenue and gross margin dollar contribution trend for the company. These include, but are not limited to, media pricing decisions among our partners/licensees, end-user media consumption habits and rates, the size of the installed base of tape drives, tape drive retirement patterns, the mix of DLTtape media versus Super DLTtape media, channel inventory levels and other factors. In any given future quarter, the combination of these factors can cause a significant negative, neutral, or positive financial impact.

Over the course of fiscal year 2002 and fiscal year 2003, we have experienced a downward trend in media revenues, both in tape media and tape royalty revenues, which has lowered the gross margin dollar contribution we receive from our media business and lowered the DLTG gross margin dollar contribution in aggregate. The majority of this downward trend has been caused by reduced media prices on which tape media revenue and tape royalty revenue is earned and, to a lesser extent, by reduced media unit sales. We expect these factors to continue to impact our business. We are actively working to offset these factors with improved gross margin dollar contribution from tape drives as we improve our tape drive gross margin rates from fiscal year 2003 levels.

Operating Expenses

For the year ended March 31,											
(dollars in thousands)	2003		2002		2001		Decrease		Increase		
		% of segment revenue		% of segment revenue		% of segment revenue	2003 vs 2002	%	2002 vs 2001	%	
DLTG	\$ 165,360	25.7%	\$ 211,467	26.6%	\$ 187,598	18.9%	\$ (46,107)	-21.8%	\$ 23,869	12.7%	
SSG	118,286	52.1%	124,258	53.3%	115,571	32.7%	(5,972)	-4.8%	8,687	7.5%	
Total Quantum	\$ 283,646	32.6%	\$ 335,725	32.6%	\$ 303,169	22.5%	\$ (52,079)	-15.5%	\$ 32,556	10.7%	

Operating expenses in fiscal year 2003 were \$283.6 million, or 32.6 percent of revenue, down \$52.1 million or 15.5% from fiscal year 2002. Operating expenses in fiscal year 2002 were \$335.7 million or 32.6 percent of revenue, an increase of \$32.6 million or 10.7% from \$303.2 in fiscal year 2001. In fiscal year 2002, \$25.3 million of transition expenses related to the disposition of the HDD group were included in the DLTG operating expenses and were classified as follows: \$6.5 million in research and development expenses, \$4.1 million in sales and marketing expenses, and \$14.7 million in general and administrative expenses. These transition expenses include stock compensation expenses, information systems related expenses, facilities related expenses and other expenses incurred related to the disposition of HDD.

Research and Development Expenses

For the year ended March 31,											
(dollars in thousands)	2003		2002		2001		Increase/(decrease)		Decrease		
		% of segment revenue		% of segment revenue		% of segment revenue	2003 vs 2002	%	2002 vs 2001	%	
DLTG	\$ 75,309	11.7%	\$ 83,080	10.4%	\$ 83,826	8.4%	\$ (7,771)	-9.4%	\$ (746)	-0.9%	
SSG	36,617	16.1%	28,371	12.2%	33,010	9.3%	8,246	29.1%	(4,639)	-14.1%	
Total Quantum	\$ 111,926	12.9%	\$ 111,451	10.8%	\$ 116,836	8.7%	\$ 475	0.4%	\$ (5,385)	-4.6%	

Research and development expenses in fiscal year 2003 were \$111.9 million, or 12.9 percent of revenue, an increase of \$0.5 million from \$111.5 million, or 10.8 percent of revenue, in fiscal year 2002. Research and development expenses in fiscal year 2002 decreased \$5.4 million compared to \$116.8 million in fiscal year 2001. The increases in research and development expenses as a percentage of revenue reflected lower revenue, without a proportional reduction in research and development expenses.

DLTG Research and Development Expenses

DLTG's research and development expenses decreased \$7.8 million to \$75.3 million in fiscal year 2003, compared to \$83.1 million in fiscal year 2002. DLTG's research and development expenses decreased \$0.7 million in fiscal year 2002 compared to \$83.8 million in fiscal year 2001. The decrease in research and development expenses in fiscal year 2003 compared to fiscal year 2002 reflected \$6.5 million of one-time HDD-related transition expenses included in fiscal year 2002. Excluding the HDD transition expenses in fiscal year 2002, the level of research and development spending decreased in fiscal year 2002 compared to fiscal year 2001 by approximately \$7.2 million, mainly due to reduced employee headcount.

22

SSG Research and Development Expenses

SSG's research and development expenses increased \$8.2 million to \$36.6 million in fiscal year 2003, compared to \$28.4 million in fiscal year 2002. SSG's research and development expenses in fiscal year 2002 decreased \$4.6 million compared to \$33.0 million in fiscal year 2001. The increase in research and development expenses in fiscal year 2003 compared to fiscal year 2002 was mainly due to product development costs associated with autoloader products and the development of enhanced backup solutions preceding the introduction of the DX30. The decrease in the level of research and development spending in fiscal year 2002 compared to fiscal year 2001 resulted primarily from lower salary and salary-related expenses, partially offset by the inclusion of M4 Data expenses after this acquisition.

Sales and Marketing Expenses

(dollars in thousands)

For the year ended March 31,

	2003		2002		2001		Increase/(decrease)		Decrease	
		% of segment revenue		% of segment revenue		% of segment revenue	2003 vs 2002	%	2002 vs 2001	%
DLTG	\$ 45,295	7.0%	\$ 61,966	7.8%	\$ 65,390	6.6%	\$ (16,671)	-26.9%	\$ (3,424)	-5.2%
SSG	55,159	24.3%	48,767	20.9%	52,900	15.0%	6,392	13.1%	(4,133)	-7.8%
Total Quantum	\$ 100,454	11.5%	\$ 110,733	10.8%	\$ 118,290	8.8%	\$ (10,279)	-9.3%	\$ (7,557)	-6.4%

Sales and marketing expenses in fiscal year 2003 were \$100.5 million, or 11.5 percent of revenue, a decrease of \$10.3 million from \$110.7 million, or 10.8 percent of revenue, in fiscal year 2002. Sales and marketing expenses in fiscal year 2002 decreased by \$7.6 million from \$118.3 million, or 8.8 percent of revenue, in fiscal year 2001. The increases in sales and marketing expenses as a percentage of revenue reflected lower revenue, without a proportional reduction in sales and marketing expenses.

DLTG Sales and Marketing Expenses

DLTG's sales and marketing expenses decreased \$16.7 million to \$45.3 million in fiscal year 2003, compared to \$62.0 million in fiscal year 2002. DLTG's sales and marketing expenses in fiscal year 2002 decreased by \$3.4 million from \$65.4 million in fiscal year 2001. In fiscal year 2002, \$4.1 million of HDD-related transition expenses were included in DLTG sales and marketing expenses, which makes the decrease in such expenses in 2003 appear unusually large. The decreases in the level of sales and marketing expenses in both fiscal year comparisons resulted from lower overall discretionary spending as well as from cost reduction actions.

SSG Sales and Marketing Expenses

SSG's sales and marketing expenses increased \$6.4 million to \$55.2 million in fiscal year 2003, compared to \$48.8 million in fiscal year 2002. SSG's sales and marketing expenses in fiscal year 2002 decreased \$4.1 million compared to \$52.9 million in fiscal year 2001. The increase in sales and marketing expenses in fiscal year 2003 compared to fiscal year 2002 was mainly due to increased channel marketing and new product advertising. The decrease in sales and marketing spending in fiscal year 2002 compared to fiscal year 2001 was the result of reduced advertising, outside services, and salary and salary related expenses.

General and Administrative Expenses

(dollars in thousands)	2003		2002		2001		Decrease		Increase	
		% of segment revenue		% of segment revenue		% of segment revenue	2003 vs 2002	%	2002 vs 2001	%
DLTG	\$ 44,756	7.0%	\$ 66,421	8.3%	\$ 38,382	3.9%	\$ (21,665)	-32.6%	\$ 28,039	73.1%
SSG	26,510	11.7%	47,120	20.2%	29,661	8.4%	(20,610)	-43.7%	17,459	58.9%
Total Quantum	\$ 71,266	8.2%	\$ 113,541	11.0%	\$ 68,043	5.1%	\$ (42,275)	-37.2%	\$ 45,498	66.9%

General and administrative expenses in fiscal year 2003 were \$71.3 million, a decrease of \$42.3 million, or 37.2 percent, from \$113.5 million in fiscal year 2002. General and administrative expenses in fiscal year 2002 increased by \$45.5 million, or 66.9 percent, from \$68.0 million in fiscal 2001. In fiscal year 2002, \$14.7 million of HDD-related transition expenses and \$15.2 million in amortization of goodwill were included in general and administrative expenses. Goodwill is no longer being amortized in accordance with our adoption of SFAS No. 142, *Goodwill and Other Intangible Assets*, on April 1, 2002.

DLTG General and Administrative Expenses

DLTG's general and administrative expenses decreased by \$21.7 million to \$44.8 million in fiscal year 2003 compared to \$66.4 million in the fiscal year 2002. DLTG's general and administrative expenses in fiscal year 2002 increased by \$28.0 million from \$38.4 million in fiscal year 2001.

These changes between the fiscal years mainly reflected the following:

- HDD-related transition expenses of \$14.7 million incurred in fiscal year 2002;
- Settlement of lawsuits with Imation in fiscal year 2002 for \$5.0 million; and
- Legal costs of approximately \$3.1 million incurred in the fiscal year 2002 related to the lawsuits with Imation, which were settled in the first quarter of fiscal year 2003.

SSG General and Administrative Expenses

SSG's general and administrative expenses decreased by \$20.6 million to \$26.5 million in fiscal year 2003 compared to \$47.1 million in fiscal year 2002. SSG's general and administrative expenses in fiscal year 2002 increased by \$17.5 million from \$29.7 million in fiscal year 2001.

The \$20.6 million decrease in the level of general and administrative expenses in fiscal year 2003 compared to fiscal year 2002 mainly reflected \$15.2 million of amortization of goodwill in fiscal year 2002. In accordance with the adoption of SFAS No. 142, *Goodwill and Other Intangible Assets*, on April 1, 2002, goodwill is no longer being amortized but is subject to annual impairment tests. The remaining \$5.4 million decrease in general and administrative expenses in fiscal year 2003 compared to fiscal year 2002 was due to lower spending as a result of cost reduction actions.

The \$17.5 million increase in the level of general and administrative expenses in fiscal year 2002 compared to fiscal year 2001 mainly reflected the acquisition of M4 Data in fiscal year 2002, which resulted in the addition of M4 Data's general and administrative expenses and an increase in amortization costs due to M4 Data's goodwill and intangibles. In addition, a bad debt expense of approximately \$3.0 million was also incurred in fiscal year 2002 related to a financially troubled European distributor.

Special Charges

In summary, throughout fiscal year 2002, and the first quarter of fiscal year 2003, both DLTG and SSG experienced more rapidly declining revenues and lower gross margins than we had anticipated in our business planning or had experienced in previous years. We found it necessary to broaden and accelerate certain cost reduction programs begun in prior years and to undertake new programs in the current fiscal year in an attempt to offset the effects of lower revenues and margins.

Although unit shipments sequentially increased in the latter quarters of fiscal year 2003, our tape drive business has experienced declining quarterly unit shipments in the previous two fiscal years, and more recently, sequential declines in gross margin rates. These trends resulted in Quantum incurring significant special charges in recent fiscal years related to plans to reduce costs in our tape drive business. In fiscal year 2000, we incurred charges related to reducing overhead expenses and discontinuing certain tape drive

production in Colorado Springs, Colorado, when we began to transfer manufacturing to Penang, Malaysia. Remaining tape drive production was discontinued at our operation in Colorado Springs, Colorado, in the second quarter of fiscal year 2002 as we completed the transfer of manufacturing to Penang, Malaysia. The manufacturing was then outsourced to Jabil in fiscal year 2003.

The Storage Solutions group incurred operating losses throughout fiscal years 2002 and 2003. Pursuant to plans to reduce our cost structure, we recorded special charges in fiscal years 2002 and 2003 primarily related to the outsourcing of manufacturing and reductions in the number of employees and sites.

The major cost reduction project involving the strategic realignment of Quantum resulting from the disposition of HDD was completed at March 31, 2002. The disposition of the HDD group to Maxtor on April 2, 2001, changed Quantum from a company with operations supporting over \$4 billion in revenue to a company with operations supporting less than \$1 billion in revenue. The special charges of \$27.2 million recorded in fiscal year 2002 for this cost reduction project were related to the disposition of the HDD group and actions taken to reduce our cost structure to a more appropriate level subsequent to the disposition. The cash portion of this charge was \$7.2 million.

The following two tables detail our other special charge activity:

Table 1: Discontinuation of Manufacturing in Colorado Springs

(in thousands)	Severance and Benefits	Facilities	Investments	Fixed Assets	Other	Total
Special Charge Provision	\$ 7,646	\$ 13,500	\$ 13,908	\$ 3,163	\$ 1,866	\$ 40,083
Cash payments	(956)	-	-	-	(1,102)	\$ (2,058)
Non-cash charges	-	-	(13,908)	(3,163)	-	\$(17,071)
Balance March 31, 2000	6,690	13,500	-	-	764	\$ 20,954
Cash payments	(5,181)	(748)	-	-	(68)	\$ (5,997)
Non-cash charges	-	(5,219)	-	-	-	\$ (5,219)
Special charge reversal	-	(7,000)	-	-	-	\$ (7,000)
Balance March 31, 2001	1,509	533	-	-	696	\$ 2,738
Provision associated with the transfer of the remainder of the tape drive manufacturing	8,376	5,005	-	3,247	-	\$ 16,628
Lease impairment provision	-	11,235	-	-	-	\$ 11,235
Cash payments	(7,675)	(533)	-	-	(696)	\$ (8,904)
Non-cash charges	-	-	-	(3,247)	-	\$ (3,247)
Balance March 31, 2002	2,210	16,240	-	-	-	\$ 18,450
Outsourcing of manufacturing	3,770	-	-	-	-	\$ 3,770
Lease provision	-	1,334	-	-	-	\$ 1,334
Cash payments	(5,980)	(15,190)	-	-	-	\$(21,170)
Balance March 31, 2003	\$ -	\$ 2,384	\$ -	\$ -	\$ -	\$ 2,384
Estimated timing of future payouts:						
Fiscal Year 2004	\$ -	\$ 440	\$ -	\$ -	\$ -	\$ 440
Fiscal Year 2005 to 2008	-	1,944	-	-	-	\$ 1,944
	\$ -	\$ 2,384	\$ -	\$ -	\$ -	\$ 2,384

Fiscal year 2000 provision - Discontinuation of manufacturing in Colorado Springs:

During the fourth quarter of fiscal year 2000, we recorded a special charge of \$40.1 million. This charge was primarily related to our DLTG operating segment and reflected our strategy to align our DLTtape drive operations with market conditions at that time. These conditions included slower growth in the mid-range server market and increased centralization of server backup through automation solutions, both of which resulted in declining DLTtape drive shipments. The charge included a reduction of infrastructure expenses throughout DLTG and an acceleration of our low cost manufacturing strategy, which included moving volume production of certain DLTtape drives from Colorado Springs, Colorado, to Penang, Malaysia.

The charge consisted of \$13.5 million in leased facility vacant space costs, \$13.9 million for the write-off of investments in optical technology, \$7.6 million for severance and benefits for terminated employees, \$3.2 million for fixed asset write-offs, primarily related to discontinuing manufacturing in Colorado Springs, and \$1.9 million in other costs associated with the plan.

Fiscal year 2001 provision - Discontinuation of manufacturing in Colorado Springs:

In the third quarter of fiscal year 2001, we reversed \$7.0 million as a special charge benefit on the statement of operations, which was reflected net of the \$7.0 million special charge described below under "Other Restructuring Programs". This reversal was primarily due to a revised estimate of the vacancy period related to a facility in Colorado Springs, Colorado.

In connection with this special charge, we reduced our workforce by 782 employees. The reduction in workforce primarily affected employees at our manufacturing operations in Colorado Springs, Colorado, as well as administrative employees within DLTG.

Fiscal year 2002 provisions - Discontinuation of manufacturing in Colorado Springs:

In July 2001, we announced an additional restructuring of DLTG. This restructuring resulted in the closure of the remaining tape drive production in Colorado Springs, Colorado. A charge of \$16.6 million was recorded related to the discontinuation of tape drive production in Colorado Springs, Colorado, and consisted of the following:

- Severance and benefits costs of \$8.4 million representing severance for 350 employees;
- Additional vacant facilities costs of \$5.0 million in Colorado Springs, Colorado; and
- Write-off of fixed assets and leasehold improvements of \$3.2 million.

We recorded an additional vacant facility charge of \$11.2 million in the fourth quarter of fiscal year 2002, related to the synthetic lease for our Colorado Springs facility, which had been the center of DLTG's operations that were subsequently transferred to Penang, Malaysia. We periodically review the valuation of the leased facilities, and in the fourth quarter of fiscal year 2002, a third party valuation appraisal resulted in us recording this charge of \$11.2 million, which reflected the difference between the current estimated market value of vacant facilities in Colorado Springs and the residual value guarantee to the lessor. Please refer to Note 23 to the Consolidated Financial Statements, "Commitments and Contingencies", for further discussion of this synthetic lease.

Fiscal year 2003 provisions - Discontinuation of manufacturing in Colorado Springs

In the third quarter of fiscal year 2003, the following special charges were recorded by DLTG:

- A charge of \$3.8 million related to severance for the 870 employees who were terminated as a result of us outsourcing our tape drive manufacturing and certain tape automation manufacturing to Jabil; and
- A charge of \$1.3 million reflecting vacant facilities' costs associated with the renegotiation of our synthetic lease (refer to Note 23, "Commitments and Contingencies").

Remaining special charge accrual - Discontinuation of manufacturing in Colorado Springs

The remaining special charge accrual reflects a vacant space accrual of \$2.4 million, which will be paid over the respective lease term through the third quarter of fiscal year 2008.

Table 2: Other Restructuring Programs

(in thousands)	Severance and Benefits	Fixed assets	Facilities	Demo equipment	Other	Total
Relocation of engineering provision	\$ 7,000	\$ -	\$ -	\$ -	\$ -	\$ 7,000
Cash payments	(1,657)	-	-	-	-	(1,657)
Balance March 31, 2001	5,343	-	-	-	-	\$ 5,343
SSG provision	2,353	-	3,903	6,315	1,145	\$ 13,716
European DLTG operations provision	1,718	401	530	-	-	\$ 2,649
Corporate provision	1,965	-	412	-	196	\$ 2,573
Cash payments	(8,152)	-	(1,435)	-	-	\$ (9,587)
Non-cash charges	-	(401)	(1,015)	(6,315)	(86)	\$ (7,817)
Special charge reversal	(1,100)	-	-	-	-	\$ (1,100)
Balance March 31, 2002	2,127	-	2,395	-	1,255	\$ 5,777
SSG provision	8,446	930	1,418	-	-	\$ 10,794
DLTG provision	5,556	-	-	-	-	\$ 5,556
Corporate provision	3,955	-	-	-	-	\$ 3,955
Cash payments	(19,020)	-	(448)	-	(495)	\$ (19,963)
Non-cash charges	(109)	(930)	-	-	-	\$ (1,039)
Special charge reversal	(85)	-	(1,124)	-	-	\$ (1,209)
Balance March 31, 2003	\$ 870	\$ -	\$ 2,241	\$ -	\$ 760	\$ 3,871
Estimated timing of future payouts:						
Fiscal Year 2004	\$ 870	\$ -	\$ 1,046	\$ -	\$ 760	\$ 2,676
Fiscal Year 2005 to 2006	-	-	1,195	-	-	\$ 1,195
	\$ 870	\$ -	\$ 2,241	\$ -	\$ 760	\$ 3,871

Fiscal year 2001 provision - Other Restructuring Programs:

We recorded a charge of \$7.0 million in the third quarter of fiscal year 2001 related to DLTG's decision to consolidate DLTtape engineering activities. This impacted engineering, marketing and administrative employees in Shrewsbury, Massachusetts, as these positions were eliminated or transitioned to Boulder, Colorado. The charge is related to severance and benefit costs associated with employees terminated as part of this plan.

We have reduced our workforce in this area by 200 employees. During the second quarter of fiscal year 2002, the severance program was completed, representing \$5.9 million in cash expenditures. Quantum reversed a charge of \$1.1 million on its income statement in the third quarter of fiscal year 2002, as a result of lower than expected severance costs.

Fiscal year 2002 provisions - Other Restructuring Programs:

SSG overhead reductions

We recorded a charge of approximately \$13.7 million in the first quarter of fiscal year 2002 related to staff reductions and other costs associated with cost saving actions in tape automation system activities. These costs were comprised of severance costs of \$2.4 million; vacant facilities costs of \$3.9 million for facilities in Irvine, California; sales and marketing demonstration equipment disposals of \$6.3 million; and contract cancellation fees of \$1.1 million.

European operations reorganization

A charge of \$2.6 million was recorded over the second and third quarters of fiscal year 2002 related to the closure of our Geneva, Switzerland sales office, and associated European distributor operations. These costs reflected vacant facilities costs, severance costs and the write-off of fixed assets.

Corporate overhead reductions

A special charge of \$2.6 million was recorded in the fourth quarter of fiscal year 2002 for employee reductions in our corporate headquarters in Milpitas, California. These costs reflected severance costs for 18 employees, facilities and fixed asset costs, and legal fees.

Fiscal year 2003 provisions - Other Restructuring Programs:

DLTG cost reductions

In the second quarter of fiscal year 2003, a charge of \$3.3 million was recorded to reflect a reduction in DLTG's costs resulting from a headcount reduction. The charge relates to severance benefits for approximately 75 employees.

In the third quarter of fiscal year 2003, DLTG recorded a charge of \$2.3 million in order to reduce future DLTG operating costs through a headcount reduction. The charge related to severance benefits for approximately 44 employees.

SSG cost reductions

In the first quarter of fiscal year 2003, a charge of \$1.1 million was recorded to reduce SSG's costs with the integration of sales and marketing activities within SSG. The charge primarily relates to severance benefits for approximately 30 employees who were terminated as a result of this restructuring plan.

In the second quarter of fiscal year 2003, a charge of \$7.2 million was recorded to reduce SSG's costs and the actions include outsourcing sub-assembly manufacturing of our enterprise tape libraries, consolidating the number of research and development sites for disk-based backup and tape automation, and centralizing sales and marketing support functions. The charge reflects severance benefits for approximately 140 employees, as well as fixed asset write-offs and vacant facility charges.

In the third quarter of fiscal year 2003, the following amounts were recorded by SSG:

- A special charge of \$2.5 million related to severance costs for 41 employees; and
- A special charge of \$0.7 million was reversed on our statement of operations related to special charges recorded in the second quarter of fiscal year 2003 for vacant facilities due to a renegotiation of the terms with the lessor.

Corporate severance

In the second quarter of fiscal year 2003, a charge of \$3.7 million was recorded primarily for separation costs related to our former Chief Executive Officer, who remains Quantum's Chairman of the Board of Directors.

Over the third and fourth quarters of fiscal year 2003, charges of \$0.3 million were recorded for additional costs relating to severance

for three corporate employees.

European operations reorganization

In the first quarter of fiscal year 2003, we reversed a charge of \$0.5 million on our statement of operations related to special charges recorded in the second quarter of fiscal year 2002 for the closure of our Geneva, Switzerland sales office. We reversed the special charge because the landlord was able to sublease the space to a new tenant on terms more favorable than originally anticipated.

Remaining special charge accrual - Other Restructuring Programs

The \$3.9 million remaining special charge accrual at March 31, 2003 was comprised mainly of obligations for severance, vacant facilities and contract cancellation fees. The severance charges will be paid during the first two quarters of fiscal year 2004. The facilities charges relating to vacant facilities in Irvine, California, will be paid over the respective lease term through the third quarter of fiscal year 2006. The contract cancellation fees are expected to be paid during fiscal year 2004.

We expect to realize annual cost savings from the restructuring programs detailed in the above two tables of approximately \$55 million, resulting mainly from employee reductions and reduced facility costs. Of this \$55 million, approximately \$20 million of the savings is expected to consist of reduced cost of revenue, with the remaining savings to come from reduced operating expenses. However, many factors, including reduced sales volume and price reductions, which have impacted gross margins in the past, and other operating costs, may offset some or all of these anticipated savings.

Purchased In-process Research and Development Expense

We expensed purchased in-process research and development in fiscal year 2002 of \$13.2 million as a result of the acquisition of M4 Data in April 2001, and \$7.8 million in fiscal year 2003 as a result of the acquisition of SANlight in February 2003. The following table summarizes the relevant factors used to determine the amount of purchased in process research and development.

(dollars in thousands)

	Amount of purchased IPR&D	Estimated cost to complete technology at time of acquisition	Percentage completion at time of acquisition	Overall compound growth rate	Discount rate
M4 Data	\$ 13,200	\$ 1,515	58% to 67%	27%	34%
SANlight Inc	\$ 7,802	\$ 2,638	30% to 40%	(1)	45%

(1) Not applicable as SANlight had no revenues at time of acquisition.

In these acquisitions, 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 that had not achieved technological feasibility and had no alternative future use 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 an appropriate discount rate. The discount rates used represent a premium to our cost of capital. All of the projections used were based on management's estimates of market size and growth, expected trends in technology and the expected timing of new product introductions.

Revenue from the M4 Data acquisition for the purchased in-process projects was expected to grow from approximately \$60 million in 2002 to more than \$260 million in 2008. The M4 Data in-process research and development projects were completed in the second quarter of fiscal year 2003.

Revenue from the SANlight acquisition for the purchased in-process projects was projected to grow from zero in fiscal year 2003 to approximately \$29 million in fiscal year 2005, and then, as other new products and technologies are expected to enter the market utilizing this base technology, increase to \$233 million in fiscal year 2008. The SANlight in-process research and development projects are expected to be completed in the second half of fiscal year 2004.

We did not expense any purchased in-process research and development in the acquisition of Benchmark, because each of the in-process research and development projects at the date of acquisition had achieved technological feasibility.

For additional information regarding the M4 Data and SANlight acquisitions, refer to Note 7, "Business Combinations", to the Consolidated Financial Statements.

Amortization of Goodwill and Intangible Assets

SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*, became effective for us on April 1, 2002. Under SFAS No. 142, goodwill and intangible assets deemed to have indefinite lives are no longer amortized but will be subject to annual impairment tests. With the adoption of SFAS No. 142, we ceased amortization of goodwill as of April 1, 2002. Our initial

impairment test of goodwill was conducted in the first quarter of fiscal year 2003 and resulted in a non-cash accounting change adjustment of \$94.3 million, reflecting a reduction in the carrying amount of our goodwill. This charge is reflected as a cumulative effect of an accounting change in our consolidated statements of operations. In the second quarter of fiscal year 2003, we recorded an additional goodwill impairment charge related to SSG of \$58.7 million due to a re-evaluation of SSG in light of deterioration in the market values of comparable companies, and to a lesser extent, a reduction in anticipated future cash flows. The continued slump in spending in the IT industry contributed to this decrease in estimated future cash flows. The fair value of the SSG reporting entity was calculated using a combination of a discounted cash flow analysis involving projected data, and a comparable market approach, which was a comparison with companies also in the tape automation sector.

The amortization expense associated with goodwill and intangible assets decreased by \$12.9 million to \$14.0 million in fiscal year 2003 compared to \$26.9 million in fiscal year 2002, and increased by \$8.7 million in fiscal year 2002 from \$18.3 million in fiscal year 2001. The decrease in fiscal year 2003 was due to the adoption of SFAS No. 142 on April 1, 2002, in which goodwill is no longer being amortized. The increase in fiscal year 2002 when compared to fiscal year 2001 was a result of amortization expense associated with the acquisition of M4 Data completed in the first quarter of fiscal year 2002.

The following table details this amortization expense by classification within our statements of operations:

	For the year ended March 31,		
	2003	2002	2001
(in thousands)			
Cost of revenue	\$ 8,350	\$ 7,089	\$ 4,500
Research and development	649	338	326
Sales and marketing	4,539	3,756	3,780
General and administrative	504	15,769	9,662
	\$ 14,042	\$ 26,952	\$ 18,268

The following table summarizes our goodwill and intangible assets:

	For the year ended March 31,	
	2003	2002
(in thousands)		
Goodwill	\$ 209,332	\$ 173,967
Less accumulated amortization	(41,230)	(38,150)
Less goodwill impairment	(58,689)	–
Accumulated effect of an accounting change (1)	(68,497)	–
Goodwill	\$ 40,916	\$ 135,817
Acquired intangible assets	127,949	101,500
Less accumulated amortization	(48,505)	(37,195)
Intangible Assets	\$ 79,444	\$ 64,305
Goodwill and Intangible Assets	\$ 120,360	\$ 200,122

(1) Excludes \$25.8 million related to the NAS business, which has been classified as discontinued operations.

Net goodwill and intangible assets at March 31, 2003 and March 31, 2002 represented approximately 13% and 17% of total assets, respectively. The goodwill and intangible asset balances, net of amortization, at March 31, 2003 and March 31, 2002 were \$120.4 million and \$200.1 million, respectively, and included the following goodwill from acquisitions net of amortization:

	As of March 31,		Segment
	2003	2002	
(in thousands)			
ATL	\$ 7,711	\$ 105,720	SSG
M4 Data	3,223	30,097	SSG
Benchmark (allocated to DLTG)	20,991	–	DLTG
Benchmark (allocated to SSG)	8,991	–	SSG
	\$ 40,916	\$ 135,817	

The \$94.9 million decrease in goodwill from March 31, 2002 to March 31, 2003 reflects the following:

- The \$68.5 million portion of the cumulative effect of an accounting change of \$94.3 million upon adoption of SFAS No. 142 that is applicable to continuing operations; and
 - A goodwill impairment charge in the second quarter of fiscal year 2003 of \$58.7 million;
- partially offset by:
- An addition to goodwill of \$30.0 million attributable to the acquisition of Benchmark;
 - An addition to goodwill of \$1.0 million due to the earn out provisions of the M4 Data acquisition agreement; and
 - The reclassification of assembled workforce of \$1.3 million from intangible assets to goodwill.

Acquired intangible assets are amortized over their estimated useful lives, which range from three to ten years. Management, in estimating the useful lives of intangible assets, considered the following factors:

- The cash flow projections used to estimate the useful lives of the intangible assets showed a trend of growth that was expected to continue for an extended period of time;
- The tape automation products, in particular, have long development cycles and have experienced long product life cycles; and
- The ability to leverage core technology into new tape automation products, and to therefore extend the lives of these technologies.

We assess the recoverability of our long-lived assets, including intangible assets with finite lives, in accordance with SFAS No. 144 by comparing projected undiscounted net cash flows associated with those assets against their respective carrying amounts to determine whether impairment exists. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets. As of March 31, 2003, no such impairment has been identified with respect to our acquired intangible assets.

Goodwill is reviewed for impairment at least on an annual basis, and more frequently when indicators of impairment are present. Goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its fair value. The fair values of the reporting units underlying SSG and DLTG are estimated using a discounted cash flow methodology. If the reporting units' net book values exceed their fair values, therefore indicating impairment, then we will compare the implied fair values of the reporting units' goodwill to their carrying amounts.

Refer to Note 5, "Cumulative Effect of an Accounting Change"; and Note 6, "Goodwill and Intangible Assets", of the Consolidated Financial Statements for further information on the effect on goodwill and intangible assets of adopting and applying SFAS No. 142.

Stock Compensation Expense

The following table details stock compensation charges and the classifications within the consolidated statements of operations:

(in thousands)

	For the year ended March 31,		
	2003	2002	2001
Stock compensation related to the disposition of the HDD group:			
Cost of revenue or Operating expenses	\$ 306	\$ 15,288	\$ —
Special charges	—	17,108	—
	306	32,396	—
Stock compensation not related to the disposition of the HDD group:			
Cost of revenue or Operating expenses	1,238	2,995	12,747
	\$ 1,544	\$ 35,391	\$ 12,747

Stock compensation expense decreased by \$33.8 million to \$1.5 million in fiscal year 2003, compared to \$35.4 million in fiscal year 2002. This decrease was mainly due to HDD disposition-related stock compensation expense of \$32.4 million recorded in fiscal year 2002 for the conversion and/or acceleration of stock equity awards for employees remaining with Quantum after the disposition of HDD. The classification of the \$32.4 million of stock compensation expense between "Cost of revenue or Operating expenses" and "Special charges" was dependent on two factors: the unusual and non-recurring nature of the event (i.e., the disposition of the HDD business) that gave rise to stock awards and stock award modifications; and whether the vesting had already occurred or was accelerated to full vesting at the time of the award or modification. If vesting had already occurred or was accelerated to full vesting then there was no future benefit to Quantum and the related stock compensation expense for the vested portion of the award was treated as "Special charges". When the unvested portion of an award was to be earned and vest over a future service period providing future value to Quantum, the related stock charge was recognized ratably as compensation expense over the vesting period in the appropriate category of "Cost of revenue or Operating expenses".

Stock compensation expense recorded in fiscal year 2003 that related to the disposition of HDD reflects the vesting of DSS option and DSS restricted stock grants, which were converted from HDD option and HDD restricted stock grants, respectively, on April 2, 2001, the date of disposition of HDD to Maxtor.

Stock compensation expense not related to the disposition of HDD consists mainly of the vesting of DSS restricted stock grants and decreased by \$1.8 million, to \$1.2 million in fiscal year 2003 from \$3.0 million in fiscal year 2002, which had decreased by \$9.8 million from fiscal year 2001. These decreases reflect the lower number and value of restricted stock grants that are outstanding.

Interest Income and Other and Interest Expense

(dollars in thousands)	For the year ended March 31,					
	2003	% of revenue	2002	% of revenue	2001	% of revenue
Interest income and other, net	\$ 11,481	1.3%	\$ 15,904	1.5%	\$ 17,962	1.3%
Interest expense	(24,419)	-2.8%	(22,976)	-2.2%	(17,658)	-1.3%
	\$ (12,938)	-1.5%	\$ (7,072)	-0.7%	\$ 304	0.0%
Equity investment write-downs	\$ (17,061)	-2.0%	\$ (7,364)	-0.7%	\$ —	0.0%

Net interest and other expense was \$12.9 million, \$7.1 million and income of \$0.3 million in fiscal years 2003, 2002 and 2001, respectively. The increase in expense in fiscal year 2003 when compared to fiscal year 2002 mainly reflected reduced interest income as a result of lower interest rates and lower cash balances, as well as a \$1.8 million net currency loss, attributable to the effect that the weakening U.S. dollar had on dollar-denominated bank accounts held by our European subsidiaries. The change from income of \$0.3 million in fiscal year 2001 to expense of \$7.1 million in fiscal year 2002 also reflected reduced interest income as a result of lower interest rates, plus higher interest expense as a result of the debentures that were issued in connection with the M4 Data acquisition.

During fiscal year 2003, we recorded charges of \$17.1 million, compared to charges of \$7.4 million in the fiscal year 2002, to write down our equity investments to net realizable value based on other-than-temporary declines in the estimated value of these investments. In the second quarter of fiscal year 2003, we sold our entire portfolio of venture capital equity investments for \$11.0 million (refer to Note 22, "Investments in Other Entities"). Our remaining equity investments are recorded in "Other long-term assets".

Income Taxes

The tax benefit on continuing operations recorded for fiscal year 2003 was \$5.1 million compared to a \$9.6 million benefit and a \$111.8 million expense for fiscal years 2002 and 2001, respectively. Included in the tax benefit for fiscal year 2003 was a \$10.2 million tax charge related to the repatriation of offshore earnings connected with the outsourcing of our tape drive manufacturing in Malaysia and a \$1.8 million tax charge related to a foreign subsidiary's purchase of international technology and marketing rights as a part of the acquisition of Benchmark. Excluding these charges, our effective tax rates on continuing operations were 13%, 16% and 36% in fiscal years 2003, 2002, and 2001, respectively. These rates reflect the non-deductibility of goodwill amortization and write-downs, purchased in-process research and development, equity investment write-downs and certain restructuring charges.

We expect to incur a tax expense in fiscal year 2004 for foreign taxes, including withholding taxes, in the range of \$10 million. Those foreign taxes will be payable on a current basis, generally as incurred or shortly thereafter.

We have \$21.3 million of deferred tax assets in excess of deferred tax liabilities. This net amount represents future U.S. tax deductions that will be realized when we generate future U.S. taxable income. If we are unable to generate sufficient future taxable income, we may incur a tax expense to write-off the balance of the deferred tax asset. The accounting guidance stipulates that cumulative losses in recent years make it difficult to rely on future income to realize deferred tax assets. Therefore, we will closely monitor the realizability of our deferred tax asset during fiscal 2004. In addition, our inability to generate sufficient amounts of future taxable income may prevent us from continuing to recognize tax benefits associated with any losses and foreign taxes that we may incur in the future. This could have a material and adverse impact on our results of operations and financial condition.

Under a tax sharing and indemnity agreement between us and Maxtor entered into in connection with the disposition of the HDD group, Maxtor has agreed to assume responsibility for payments related to certain taxes, penalties, and interest resulting from the conduct of business by the Quantum DSS group for all periods before our issuance of tracking stock and the conduct of business by the Quantum HDD group for all periods before the disposition of the group to Maxtor. If audit adjustments are successfully asserted with respect to

such conduct, and if Maxtor fails to indemnify us under this obligation, we could experience a material adverse effect on our business, financial condition and operating results.

The tax sharing and indemnity agreement between Maxtor and us, entered into in connection with the disposition of the HDD group, provided for the allocation of certain liabilities related to taxes. Maxtor and Quantum presently disagree about the amounts owed by each party under this Agreement. The parties are in negotiations to resolve this matter, and no litigation has been initiated to date. However, there can be no assurance that we will be successful in asserting our position. If disputes regarding contested amounts cannot be resolved favorably, we may incur costs, including litigation as well as the payment of the disputed amounts, which could have a material adverse effect on our business, financial condition and operating results.

Income (loss) from Continuing Operations

The loss from continuing operations was \$132.1 million in fiscal year 2003, \$49.0 million in fiscal year 2002 and an income of \$197.8 million in fiscal year 2001. The increase in the loss from continuing operations in fiscal year 2003 when compared to fiscal year 2002 reflects the following factors:

- Decreased revenues and gross margins;
- Goodwill impairment charge of \$58.7 million; and
- Increase in the write-downs of investments in other entities of \$9.7 million;

partially offset by:

- Decreased special charges; and
- Decreased operating expenses.

The change from income from continuing operations in fiscal year 2001 to a loss from continuing operations in fiscal year 2002 reflects the following factors:

- Decreased revenues and gross margins;
- HDD disposition-related transition expenses of \$29.9 million related to activities that were eliminated as a result of the disposition of the HDD group;
- Special charges of \$72.8 million;
- Expensed purchased in-process research and development of \$13.2 million;
- Write-downs of investments in other entities of \$7.4 million; and
- Reduced interest income earned on cash investments.

RESULTS OF DISCONTINUED OPERATIONS

Loss from NAS discontinued operations, net of income taxes

(in thousands)

	For the year ended March 31,		
	2003	2002	2001
Revenue	\$ 19,899	\$ 58,117	\$ 59,703
Gross margin	(3,075)	8,285	10,496
Operating expenses	45,707	59,415	58,621
Loss from operations	(48,782)	(51,130)	(48,125)
Loss before income taxes	(48,633)	(51,189)	(48,040)
Income tax benefit	(10,724)	(17,719)	(17,658)
Loss from NAS discontinued operations	(37,909)	(33,470)	(30,382)

On October 28, 2002, we sold most assets and assigned certain contract rights related to our NAS business. The assets included inventories, service inventories, fixed assets and intellectual property. The proceeds from the sale included approximately \$4.7 million in cash, \$3.9 million in restricted equity securities of the buyer with an option to acquire additional equity securities, a secured promissory note for \$2.4 million issued by the buyer and the assumption by the buyer of \$1.6 million of warranty liability related to the prior installed customer base of NAS products.

The loss from operations in fiscal year 2003 includes an impairment charge of \$16.4 million and special charges of \$11.7 million. In the second quarter of fiscal year 2003, we determined that the sale of the NAS business was probable and wrote down the assets held for sale to fair value less cost to sell. The fair value of the assets held for sale was determined to be the proceeds from the sale. The resulting \$16.4 million impairment charge related mainly to completed technology arising from the acquisitions of Meridian Data Inc. and certain assets of Connex. In the fiscal year 2003, we recorded \$11.7 million of special charges related to the consolidation of sales and

marketing activities, including severance charges and vacant facilities charges associated with the sale of the NAS business.

In fiscal year 2002, the loss from operations included \$3.3 million of purchased in-process research and development related to the acquisition of certain assets of Connex in August 2001. The loss also included \$4.5 million of special charges associated mainly with writing off deferred costs related to the abandonment of the planned initial public offering for the subsidiary that operated our NAS business, as well as severance charges related to restructurings.

Gain on disposition of HDD, net of income taxes and Loss from HDD discontinued operations, net of income taxes

On March 30, 2001, our stockholders approved the disposition of the HDD group to Maxtor. On April 2, 2001, each authorized and outstanding share of HDD common stock was exchanged for 1.52 shares of Maxtor common stock.

The HDD group produced two primary product lines, desktop hard disk drives and high-end hard disk drives. HDD had two separate business units that supported these two product lines. The desktop business unit designed, developed and marketed 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 designed, developed and marketed high-end hard disk drives designed to meet the storage requirements of network servers, workstations and storage subsystems.

In fiscal year 2002, we recorded a non-cash gain of \$125.0 million on the disposition of the HDD group to Maxtor. This gain, net of tax, is comprised of the proceeds recorded for the exchange of HDD shares for Maxtor shares, less the disposal of the assets and liabilities in conjunction with the disposition of the HDD group to Maxtor, and stock compensation charges for the conversion of unvested DSS options to DSS restricted stock for employees who transferred to Maxtor. See risk factor entitled—*If we incur an uninsured tax liability as a result of the disposition of HDD, our financial condition and operating results could be negatively affected.*

34

The following table sets forth the components of the gain on disposition of the HDD group recorded in fiscal year 2002 (in thousands, except exchange ratio and closing price):

Outstanding HDD shares at March 30, 2001		80,085
Exchange ratio of Maxtor shares for HDD shares		1.52
		<hr/>
Maxtor shares received		121,729
Maxtor closing price on March 30, 2001	\$	7.00
		<hr/>
Proceeds from the disposition of the HDD group		852,100
Net assets disposed		(619,757)
Stock compensation		(47,371)
Deferred income taxes		(60,000)
		<hr/>
Gain on disposition of HDD group, net of income taxes	\$	124,972
		<hr/>

The following table summarizes the results of the HDD group's operations for fiscal year 2001:

(in thousands)		For the year ended March 31, 2001
Revenue	\$	3,046,489
Gross margin		410,867
Operating expenses		434,418
Loss from operations		(23,551)
Loss before income taxes		(9,660)
Income tax benefit		2,900
Loss from discontinued operations		(6,760)

35

RECENT ACCOUNTING PRONOUNCEMENTS

Accounting for Costs Associated with Exit or Disposal Activities

In June 2002, the Financial Accounting Standards Board issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. This statement supersedes EITF Issue No. 94-3 and requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred rather than at the date of an entity's commitment to an exit plan. The statement further establishes fair value as the objective for initial measurement of the liability and that employee benefit arrangements requiring future service beyond a "minimum retention period" be recognized over the future service period. This statement is effective

prospectively for exit or disposal activities initiated after December 31, 2002. We did not record any special charges in the fourth quarter of fiscal year 2003.

Guarantor's Disclosure Requirements for Guarantees

In November 2002, the Financial Accounting Standards Board issued FASB Interpretation (FIN) No. 45, *Guarantor's Disclosure Requirements for Guarantees, Including Indirect Guarantees of Others*. FIN No. 45 clarifies the guarantor's requirements relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees and requires the guarantor to recognize at the inception of a guarantee a liability for the fair value of the lease obligation. The provisions for the initial recognition and measurement of guarantees are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002 and we do not believe these provisions will have a material impact on our results of operations or financial position. The disclosures required for product warranties are included in Note 12, *Accrued Warranty and Indemnifications*. The disclosures required for the synthetic lease guaranteed value and for shares contingently issuable in connection with business combinations are included in Note 23, *Commitments and Contingencies*.

Accounting for Stock-Based Compensation

In December 2002, the Financial Accounting Standards Board issued SFAS No. 148, *Accounting for Stock-Based Compensation, Transition and Disclosure*. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. Additionally, SFAS No. 148 requires disclosure of the pro forma effect in interim financial statements. The additional disclosure requirements of SFAS No. 148 are effective for fiscal years ended after December 15, 2002. We do not intend to adopt the fair value based method of accounting for stock-based employee compensation, but will provide the additional disclosures required by SFAS No. 148.

Consolidation of Variable Interest Entities

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation (FIN) No. 46, *Consolidation of Variable Interest Entities*. FIN No. 46 requires that if a business enterprise has a controlling interest in a variable interest entity (also known as a special purpose entity), the assets, liabilities and results of operations of the variable interest entity should be included in the Consolidated Financial Statements of the business enterprise. FIN No. 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. We believe that the synthetic lease disclosed in Note 23, *Commitments and Contingencies* might be subject to FIN 46. We are in the process of evaluating the financial statement impact, if any, of adoption of FIN No. 46.

LIQUIDITY AND CAPITAL RESOURCES

(dollars in thousands)

	As of or for the year ended,		
	March 31, 2003	March 31, 2002	March 31, 2001
Cash and cash equivalents (1)	\$ 221,734	\$ 343,878	\$ 801,190
Days sales outstanding (DSO)	56.1	53.0	56.5
Inventory turns	9.1	6.6	6.3
Net cash provided by operating activities of continuing operations	\$ 33,983	\$ 56,629	\$ 299,260
Net cash used in investing activities of continuing operations	\$ (108,689)	\$ (81,639)	\$ (71,102)
Net cash used in financing activities of continuing operations	\$ (35,886)	\$ (1,165)	\$ (111,509)

(1) Cash of \$97.0 million was used to purchase short-term investments, which remained outstanding as of March 31, 2003.

Net cash provided by operating activities:

Net cash provided by operating activities of continuing operations was \$34.0 million in fiscal year 2003, compared to \$56.6 million in fiscal year 2002, and \$299.3 million in fiscal year 2001. The primary sources of this change are listed in the following table:

(in thousands)

	For the year ended			
	March 31, 2003	Change FY 2003 vs FY 2002	March 31, 2002	Change FY 2002 vs FY 2001
cash (used), provided				

Income (loss) from continuing operations including cumulative effect of an accounting change	\$ (226,386)	\$ (177,386)	\$ (49,000)	\$ (246,828)	\$ 197,828
Non-cash income statement items	212,591	129,437	83,154	(17,167)	100,321
Adjusted income (loss) from continuing operations	\$ (13,795)	\$ (47,949)	\$ 34,154	\$ (263,995)	\$ 298,149
Accounts receivable	17,351	(34,878)	52,229	38,763	13,466
Inventories	41,800	16,231	25,569	45,928	(20,359)
Accounts payable	34,467	57,492	(23,025)	(14,011)	(9,014)
Income taxes payable	(15,687)	(22,901)	7,214	(23,320)	30,534
Other, net	(30,153)	9,359	(39,512)	(25,996)	(13,516)
Net cash provided by operating activities	\$ 33,983	\$ (22,646)	\$ 56,629	\$ (242,631)	\$ 299,260

Net cash provided by operating activities of continuing operations decreased by \$22.6 million in fiscal year 2003 compared to fiscal year 2002. Of this decrease, \$47.9 million was caused by a loss from continuing operations, adjusted for non-cash items, of \$13.8 million in fiscal year 2003, compared to \$34.1 million of income, adjusted for non-cash items, in fiscal year 2002. The declining revenues and gross margins that we experienced during fiscal year 2003 primarily caused the decrease. The \$47.9 million decrease was partially offset by net changes in other items, bringing the year over year net decrease to \$22.6 million. There was an increase in cash provided by inventories, due to outsourcing our tape drive manufacturing to Jabil. There was an increase in cash provided by accounts payable due to the prepayment of suppliers in the fourth quarter of fiscal year 2002 that was not required in fiscal year 2003. The cash used in net other liabilities decreased as we lowered our overall spending in fiscal year 2003, and there were decreases in cash provided by accounts receivable and income taxes payable.

37

Net cash provided by operating activities of continuing operations decreased by \$242.6 million in fiscal year 2002 compared to fiscal year 2001. Of this decrease, \$264.0 million was caused by the decrease in income from continuing operations, adjusted for non-cash items, to \$34.2 million in fiscal year 2002, compared to \$298.2 million of income, adjusted for non-cash items, in fiscal year 2001. This decrease was principally due to the declining revenues and gross margins that we experienced during fiscal year 2002, transitional costs following the disposition of the HDD group and special charges incurred related to our cost reduction projects. The \$264.0 million decrease was partially offset by net changes in other items, bringing the year over year net decrease to \$242.6 million. There were increases in cash provided by accounts receivable and inventories. There was an increase in cash used by net other liabilities and accounts payable, as we prepaid certain key suppliers to ensure uninterrupted vendor shipments during the upgrade of our computer system in the fourth quarter of fiscal year 2002. There was a decrease in cash provided by income taxes payable reflecting the decrease in income (loss) from operations before income taxes in fiscal year 2002 compared to fiscal year 2001.

Net cash used in investing activities:

Net cash used in investing activities of continuing operations was \$108.7 million, 81.4 million, and \$71.1 million in fiscal years 2003, 2002 and 2001, respectively.

(in thousands)

	For the year ended				
	March 31, 2003		March 31, 2002		March 31, 2001
	cash (used), provided	Change FY 2003 vs FY 2002	cash (used), provided	Change FY 2002 vs FY 2001	cash (used), provided
Purchases of short term investments, net	\$ (97,000)	\$ (97,000)	\$ —	\$ —	\$ —
Maturities of marketable securities	—	—	—	(2,032)	2,032
Proceeds from sale of equity securities	11,000	11,000	—	—	—
Purchases of equity securities	—	27,550	(27,550)	(12,982)	(14,568)
Net cash used in the acquisition of					
SANlight, Inc. (net of cash acquired)	(1,945)	(1,945)	—	—	—
Benchmark Storage Innovations, Inc. (net of cash acquired)	(3,020)	(3,020)	—	—	—
M4 Data (Holdings) Ltd	—	15,210	(15,210)	(15,210)	—
Subtotal	(4,965)	10,245	(15,210)	(15,210)	—
Proceeds from disposition of property and equipment	801	(1,868)	2,669	2,669	—
Purchases of property and equipment	(18,525)	22,777	(41,302)	17,264	(58,566)
Net purchases of property and equipment	(17,724)	20,909	(38,633)	19,933	(58,566)

Net cash used in investing activities	\$	(108,689)	\$	(27,296)	\$	(81,393)	\$	(10,291)	\$	(71,102)
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The increase of \$27.3 million in cash used in investing activities in fiscal year 2003 compared to fiscal year 2002 reflects the following:

- The increase in purchases of short term investments of \$97.0 million; partially offset by:
 - A decrease in the purchase of equity securities of \$27.6 million;
 - Proceeds from the sale of equity securities of \$11.0 million;
 - A decrease in net cash used in acquisitions of \$10.2 million;
 - A decrease in net cash used for purchases of property and equipment of \$20.9 million.

The increase in net cash used to purchase short-term investments, net of proceeds, resulted from the investment of cash balances in quality interest bearing instruments with maturity dates greater than 90 days and paying a slightly higher yield than money market funds. We expect to continue to invest cash balances in quality interest bearing instruments with maturity dates greater than 90 days and paying a slightly higher yield. The decrease in the net cash used to purchase equity securities and the proceeds from the sale of equity securities are the direct result of our decision to cease operation of Quantum Technology Ventures and to sell the portfolio during fiscal year 2003. The decrease in net cash used in acquisitions occurred because we acquired entities with lower valuations with lesser amounts of cash compared to acquisitions that we undertook in previous years. The decrease in net cash used for purchases of property and equipment occurred because we reduced our capital spending because of the reduced IT spending environment and our efforts to reduce our expenditures.

We evaluate the strategic fit and cost of potential acquisitions and may in the future make acquisitions if we believe there is adequate economic justification. We regularly evaluate whether our anticipated purchases of property and equipment are appropriate for our business outlook and expect these purchases to be higher in fiscal year 2004 given the new tape drive, tape media and tape automation offerings that we expect to introduce over the course of this coming fiscal year.

The increase of \$10.3 million in cash used in investing activities in fiscal year 2002 when compared to fiscal year 2001 was mainly due to:

- Higher amounts of net cash used for:
- An increase in the purchase of equity securities of \$13.0 million;
 - A decrease in proceeds from marketable securities of \$2.0 million; and
 - An increase in the cash portion of the price paid for acquisitions of \$15.2 million;
- partially offset by:
- A decrease in net cash used for purchases of property and equipment of \$19.9 million.

Net cash used in financing activities:

Net cash used in financing activities of continuing operations was \$35.9 million in fiscal year 2003, \$1.2 million, and \$111.5 million in fiscal years 2003, 2002 and 2001, respectively.

(in thousands)

	For the year ended				
	March 31, 2003		March 31, 2002		March 31, 2001
	cash (used), provided	Change FY 2003 vs FY 2002	cash (used), provided	Change FY 2002 vs FY 2001	cash (used), provided
Purchases of treasury stock	\$ —	\$ 46,630	\$ (46,630)	\$ 99,621	\$ (146,251)
Principal payments	(41,363)	(41,363)	—	754	(754)
Proceeds from issuance of common stock, net	5,477	(39,988)	45,465	9,969	35,496
Net cash used in financing activities	\$ (35,886)	\$ (34,721)	\$ (1,165)	\$ 110,344	\$ (111,509)

The increase in cash used in the financing activities of continuing operations in fiscal year 2003 of \$34.7 million when compared to fiscal year 2002 reflects:

- The increase in principal payments of \$41.4 million;

- The decrease in proceeds from issuance of common stock of \$40.0 million;
- partially offset by:
- A decrease in net cash used to repurchases common stock of \$46.6 million.

The increase in principal payments was primarily the result of the retirement of the debentures from the M4 Data acquisition. The lower proceeds from the issuance of our common stock were primarily the result of fewer stock option exercises by Quantum employees. The decrease in cash used to repurchase our common stock resulted from our decision not to repurchase any additional shares, to conserve cash during the challenging business environment we experienced during fiscal year 2003.

We are not able to estimate the amount of proceeds, if any, we expect to realize from the future issuance of our common stock or the amount of cash, if any, we may use to repurchase our common stock because they are dependent on a variety of broad economic, strategic, and other factors most of which we cannot control.

The \$110.3 million decrease in cash used in financing activities in fiscal year 2002 compared to fiscal year 2001 was mainly due to a \$99.6 million decrease in the repurchases of our common stock and a \$10.0 million increase in the proceeds from the exercise of employee stock options in fiscal year 2002.

Credit line

In April 2000, we entered into an unsecured senior credit facility with a group of banks providing a \$187.5 million revolving credit line that would have expired in April 2003. In December 2002, we terminated this facility and entered into a secured senior credit facility with a group of five banks, providing us with a \$100 million revolving credit line that expires in June 2004. As of March 31, 2003, \$89 million is committed to standby letters of credit and there were no borrowings from the remaining \$11 million available under this credit facility. The credit facility is secured by a blanket lien on substantially all of the assets of Quantum and contains certain financial and reporting covenants, which we are required to satisfy as a condition of the credit line. There is also a cross default provision between this facility and the synthetic lease facility (see below and Note 23, "*Commitments and Contingencies*"), such that a default on one facility constitutes a default on the other facility. If in future quarters we are in violation of any financial or reporting covenant and receive a notice of default letter from the bank group, the credit line could become unavailable, and any amounts outstanding could become immediately due and payable and any default under the credit facility would cause us to be in default under our synthetic lease commitment. Our compliance with the covenants depends upon our ability to return to profitable operations. If the trends of declining revenue and gross margin were to worsen in the future, that could delay or prevent our return to profitable operations and cause us to violate certain or all of the covenants in future periods. In addition, if we were unsuccessful in securing a waiver for any violation in subsequent quarters, we would also lose access to the \$89 million standby letters of credit contained within our credit line facility and have to restrict \$89 million of our cash to cover these existing letters of credit.

Synthetic Lease Commitment

As described in Note 23, '*Commitments and Contingencies*', we have a synthetic lease commitment, accounted for as an operating lease in accordance with SFAS No. 13, *Accounting for Leases*, that requires us to maintain specified financial and reporting covenants, which we entered into in August 1997 and renegotiated in December 2002. In January 2003, we amended the lease commitment agreement to change one of the financial measurements in order to facilitate the acquisition of SANlight. There is a cross default provision between this facility and the credit line facility (refer to Note 15 to the Consolidated Financial Statements, "*Credit Agreements, Short-Term Debt and Convertible Subordinated Debt*") such that a default on one facility constitutes a default on the other facility. If in future quarters Quantum were to fail to comply with these financial covenants and was unable to obtain a waiver, or amend the lease, for such non-compliance, the lessor could terminate the lease, resulting in the acceleration of our obligation to purchase the leased facilities for the stipulated sales price of approximately \$50 million. This could result in our having to purchase and resell the facilities promptly and potentially at a substantial discount to their current appraised value. If this occurred, our liquidity and financial condition could be materially and adversely affected. As described in greater detail in Note 23, at the end of the term of the lease we must either renew the lease, purchase the facility for the stipulated sales price of approximately \$50 million, or find a third party to purchase the facility (as to which third party sale we would guarantee any shortfall below the stipulated sales price up to a maximum amount of \$43.9 million payable by us).

General outlook

We have taken numerous actions over the last year to strengthen our cash position and balance sheet and to improve our ability to generate net income and positive cash flow from operating activities. Many of these actions were taken in order to offset the negative impacts of increased competition in our product and market segments, as well as to counter the negative effects of the economic downturn, which have adversely impacted our business.

The actions that we have taken to strengthen our balance sheet include the following:

- The sale of our venture capital portfolio;
- The transition to an outsourced manufacturing model;
- The reduction in inventory levels;
- The decision to make no common stock repurchases in fiscal year 2003; and
- The reduction in capital expenditure levels.

Actions that we have taken to increase our ability to generate positive cash flow from operating activities include the following:

- The sale of our NAS business, which was unprofitable and had negative cash flow;
- The significant restructuring actions implemented over the last several quarters that were aimed at reducing costs (see Note 8, "*Special Charges*");
- The outsourcing of our manufacturing; and
- The acquisition of Benchmark.

While we have taken actions to increase cash flows, there have been significant uses of cash that reduced cash inflow in the fiscal year 2003 relative to fiscal year 2002, including: our settlement of \$41.4 million of debentures associated with the M4 Data acquisition; the payment of \$12.8 million toward our Colorado Springs, Colorado, synthetic lease commitment in order to bring this commitment in line with the facility's appraised value; and the fact that cash inflows from the exercise of employee stock options are down by \$40.0 million reflecting the decline in the company's common stock price in fiscal year 2003 and the exercises in fiscal year 2002 of employee options associated with the HDD divestiture.

We expect to generate cash from operating activities in fiscal year 2004 as a result of a continued emphasis on controlling operating costs and attempting to improve gross margins.

We believe that our existing cash and capital resources, including cash generated from operations, if any, will be sufficient to meet all currently planned expenditures and sustain operations for the next 12 months. This belief is dependent upon our ability to generate acceptable levels of revenue, maintain or improve gross margins, and maintain or reduce operating expenses in order to provide net income and positive cash flow from operating activities in the future. Operating cash flows, driven by net income, have been a significant source of our past liquidity. If in the future we do not return to sustained profitability, such lack of profitability may have a material adverse impact on our operating cash flows, liquidity and financial condition. Key factors in generating net income and positive operating cash flow include the introduction of competitive products and their effect on sales of our own comparable products, our ability to timely develop and offer new products, customer acceptance of new products, and our ability to deliver continued reductions in our cost of sales and operating expenses. Also, changes in accounts receivable and inventory balances are significant factors in whether we provide or use cash from operations and are affected by our ability to collect cash from our customers in a timely manner and the continued demand for our inventory. If we were to experience a significant deterioration in sales, profit margins and/or working capital management and performance, cash flows from our operating activities would be materially and adversely affected, which would impact the future availability of debt or equity arrangements on terms acceptable to us as well as prevent us from making strategic investments in property, equipment, tangible and intangible assets. We can make no assurances that we will be able to generate sufficient liquidity or obtain sufficient amounts of cash in the future, and if we cannot, this lack of cash could have a material adverse impact on our liquidity and financial condition.

Capital Resources

During fiscal year 2000, the Board of Directors authorized us to repurchase up to \$700 million of our common stock in open market or private transactions. Of the total repurchase authorization, \$600 million was authorized for repurchase of Quantum, DSS or the previously outstanding HDD common stock. An additional \$100 million was authorized solely for repurchase of the previously outstanding HDD common stock. For the fiscal year 2003, there were no repurchases of Quantum common stock. Since the beginning of the stock repurchase authorization through March 31, 2003, we have repurchased a total of 8.6 million shares of Quantum common stock (including 3.9 million shares that were outstanding prior to the issuance of the DSS and HDD common stocks), 29.2 million shares of DSS common stock and 13.5 million shares of HDD common stock, for a combined total of \$612.1 million. At March 31, 2003, there was approximately \$87.9 million remaining on our authorization to repurchase Quantum common stock, although our ability to repurchase is restricted under our credit facility.

We filed a registration statement that 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 a \$450 million aggregate public offering price. In July 1997, under the registration statement, we issued \$287.5 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 and Maxtor common stock. The notes are convertible into 6,206,152 shares of Quantum common stock (or 21.587 shares per \$1,000 note), and 4,716,676 shares of Maxtor common stock (or 16.405 shares per \$1,000 note). We have recorded a receivable from Maxtor of \$95.8 million of aggregate principal amount for the portion of the debt previously attributed to HDD and for which Maxtor has agreed to reimburse us for

both principal and associated interest payments. Although we believe the \$95.8 million of aggregate principal amount due from Maxtor will ultimately be realized, if Maxtor were for any reason unable or unwilling to pay such amount, we would be obligated to pay this amount and record a loss with respect to this amount in a future period. 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 a current premium of 102% 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.

Our ability to retire or refinance these 7% convertible subordinated notes, which mature in August of 2004, will depend on our ability to generate sufficient cash flow and/or obtain refinancing on commercially reasonable terms. Over the next twelve months we will be evaluating financing alternatives available to us. If we are unable to generate sufficient cash flow and/or are unable to refinance these notes, we may have to:

- Reduce or delay capital expenditures planned for replacements, improvements and expansions;
- Sell assets;
- Restructure these notes; and/or
- Obtain additional debt or equity financing, if available at all, in order to meet these maturing obligations.

If our losses from operations were to persist at current levels or worsen, or if Maxtor were unable or unwilling to reimburse us for its portion of our debt, or we were unable to refinance the debt on commercially reasonable terms, we would not have sufficient cash resources to repay our debt and this would have a material and adverse effect on our business.

Debentures payable of \$41.4 million were issued as partial consideration for the acquisition of M4 Data in April 2001. The debenture holders called and received payment from Quantum for \$38.7 million in the first quarter of fiscal year 2003 and \$2.7 million in the third quarter of fiscal year 2003. We expect that debentures issued in the future, if any, under the earn out provisions of the acquisition agreement will be up to \$1 million annually through to fiscal year 2005, when the earn out provisions of the acquisition agreement expire.

The table below summarizes our commitments:

(in thousands)	<u>< 1 year</u>	<u>1 year and < 2 years</u>	<u>2 years and <3 years</u>	<u>3 years and beyond</u>	<u>Total</u>
Convertible subordinated debt	\$ —	\$ 287,500	\$ —	\$ —	\$ 287,500
Portion payable by Maxtor (1)	—	(95,833)	—	—	(95,833)
Subtotal	—	191,667	—	—	191,667
Synthetic lease-Colorado facility - contingent obligation (2)	—	—	50,000	—	50,000
Other leases	14,821	9,434	6,508	15,778	46,541
Total Contractual Cash Obligations	\$ 14,821	\$ 201,101	\$ 56,508	\$ 15,778	\$ 288,208

(1) Refer to Note 4 to the Consolidated Financial Statements.

(2) Appraised value of the facility, the collateral that would be used to satisfy the contingent obligation, is \$50 million.

TRENDS AND UNCERTAINTIES

THE READER SHOULD CAREFULLY CONSIDER THE RISKS DESCRIBED BELOW, TOGETHER WITH ALL OF THE OTHER INFORMATION INCLUDED IN THIS ANNUAL REPORT ON FORM 10-K, BEFORE MAKING AN INVESTMENT DECISION. THE RISKS AND UNCERTAINTIES DESCRIBED BELOW ARE NOT THE ONLY ONES FACING QUANTUM. ADDITIONAL RISKS AND UNCERTAINTIES NOT PRESENTLY KNOWN TO US OR THAT ARE CURRENTLY DEEMED IMMATERIAL MAY ALSO IMPAIR OUR BUSINESS AND OPERATIONS. THIS ANNUAL REPORT ON FORM 10-K CONTAINS "FORWARD-LOOKING" STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. PLEASE SEE PAGE [3] OF THIS REPORT FOR ADDITIONAL DISCUSSION OF THESE FORWARD-LOOKING STATEMENTS.

Overview

Our financial performance is affected by a variety of trends and uncertainties. In analyzing our financial performance, we categorize these trends and uncertainties as relating to:

General economic factors

- General economic conditions including the amount of customer spending on information technology.

Financing and access to capital

- We have substantial maturing obligations and we may not have future access to capital in sufficient amounts, and on reasonable terms, to refinance these obligations or to provide new capital for the Company;
- We may not be able to generate sufficient amounts of cash from operations to maintain access to existing sources of capital or gain access to new sources of capital;
- Our current credit agreements restrict our discretion in certain aspects of operating our businesses; and
- We must be able to satisfy the guaranteed residual value in our synthetic lease for our Colorado facility.
- In previous quarters we violated certain financial covenants under our credit arrangements. If in the future we again violate financial covenants, we may not be able to use our credit arrangements.

Management of our operations

- Our SSG business operates at a loss and may continue to operate at a loss;
- Our sales are concentrated with a small number of customers who have no commitments to purchase from us;
- We do not control the sales activities of the licensees who sell our tape media cartridges;
- Our royalty and media revenue is dependent on changes in the size of the installed base of tape drives that use our tape cartridges, media suppliers' pricing actions, performance of our strategic licensing partners, and the relative growth in the installed base of Super DL Tape drives, the media cartridges for which sell at a higher price than DL Tape cartridges;
- Our operating results depend heavily on our ability to successfully introduce new products;
- We rely on a limited number of third party suppliers, in particular Jabil Circuit, which may restrict the amount of products available for us to sell and increase the price we must pay these suppliers to acquire the products;
- We rely heavily on third party distributors and resellers to sell our products;
- We must successfully integrate the acquisition of companies, technologies and products that we have acquired, or may acquire in the future; and
- We must maintain adequate levels of service inventories to satisfy our customers' service needs.

Competition

- Competition has increased and may increasingly intensify in the tape drive market;
- Competition has increased and may increasingly intensify in the tape automation market; and
- Competition with our products from alternative storage solutions may increase further.

Intellectual property

- Our competitive position would suffer if we failed to protect our intellectual property; and
- Third party infringement claims could result in significant incremental costs and substantial liability to us.

The sale of the HDD group to Maxtor

- There is a dispute between us and Maxtor regarding the terms of a tax sharing and indemnity agreement, which could result in significant incremental costs to us;
- If Maxtor is unable to perform its obligations under the tax sharing and indemnity agreement, or the agreements in connection with our convertible debt, we may incur significant incremental costs; and
- If the disposition of HDD is determined not to be tax-free, we and our stockholders may incur a substantial tax liability. Our insurance policy may not cover any or even a significant portion of the amount of liability.

Other general business factors

- Our stock price could become more volatile due to a variety of factors;
- Our future quarterly results could fluctuate significantly and be materially different from historical quarterly results;
- Our outsourcing arrangement with Jabil Circuit may alter our tax status in Malaysia and we may incur a substantial tax liability;
- As a result of our disposition of the NAS business, we hold investments which may decline in value;
- Our historical financial information may not be indicative of our future results of operations;
- We must continue to generate sufficient amounts of future U. S. taxable income or we will have to write off certain tax assets and may in the future have an unfavorable effective tax rate;
- A significant portion of our business is conducted internationally and is exposed to international business risks, including currency fluctuations; and
- Many of our facilities and our suppliers' and customers' facilities are located in earthquake zones or are exposed to other natural disasters.

Trends and Uncertainties

We are exposed to general economic conditions that have continued to result in significantly reduced sales levels and significant operating losses and, if such adverse economic conditions were to continue or worsen, our business, financial condition and operating results could be further adversely and materially impacted.

If the adverse economic conditions in the United States and throughout the world economy continue or worsen, we may experience a further material adverse impact on our business, operating results, and financial condition. We took actions in fiscal year 2002 and in fiscal year 2003 to reduce our cost of sales and operating expenses in order to address these adverse conditions. A prolonged continuation or worsening of sales trends would require us to take additional actions to further reduce our cost of sales and operating expenses in subsequent quarters in order to align these costs with reduced revenue. We may be unable to reduce our cost of sales and operating expenses at a rate and to a level consistent with such a future adverse sales environment. If we are required to undertake further expense reductions, we may incur significant additional incremental special charges associated with such expense reductions that are disproportionate to sales, thereby materially and adversely affecting our business, financial condition and operating results.

Quantum is currently not profitable. If we are unable to generate positive cash flow from operating activities, our ability to obtain additional capital in the future could be jeopardized, and our business could suffer.

We must devote substantial resources to new product development, manufacturing, and sales and marketing activities to be competitive in our markets. Historically, cash flow from operating activities has provided us with a significant portion of the cash and liquidity that we have required in order to invest in product development, manufacturing and sales and marketing activities. Until or unless we return to profitable operations, we will have significantly less liquidity to invest in our business. In turn, reduced cash flow from operations may jeopardize our ability to maintain access to our current sources of capital or to gain access to new sources of capital, which could have a material adverse impact on our business, results of operations, liquidity, and financial condition.

To service our debt and fund our other capital requirements, we will require a significant amount of cash, and our ability to generate cash will depend on many factors beyond our control.

Our ability to meet our debt service obligations and to fund working capital, capital expenditures, acquisitions, research and development and other general corporate purposes, will depend upon our future performance, which will be subject to financial, business and other factors affecting our operations, many of which are beyond our control. If our losses from operations were to persist at current levels or worsen, or if Maxtor were unable or unwilling to reimburse us for its portion of our debt, or we were unable to refinance our outstanding debt on commercially reasonable terms, we would not have sufficient cash resources to pay off this maturing debt. We cannot provide assurance that we will generate sufficient cash flow from operations, or that future borrowings will be available on commercially reasonable terms or at all, or available in an amount sufficient to enable us to pay our debt or fund other liquidity needs.

If we are unable to generate sufficient cash flow and/or are unable to refinance or extend outstanding borrowings on commercially reasonable terms or at all, we may have to:

- Reduce or delay capital expenditures planned for replacements, improvements and expansions;
- Sell assets;
- Restructure these notes; and/or
- Obtain additional debt or equity financing, if available at all, in order to meet these maturing obligations.

We cannot provide assurance that we could effect or implement any of these alternatives on satisfactory terms, if at all.

The agreements for our credit facilities and our synthetic lease commitment contain various covenants that limit our discretion in the operation of our business.

The agreements for our secured credit facilities and our synthetic lease commitment contain numerous restrictive covenants that require us to comply with and maintain certain financial tests and ratios, thereby restricting our ability to:

- Incur debt;
- Incur liens;
- Redeem or prepay subordinated debt;
- Make acquisitions of businesses or entities or sell certain assets;
- Make investments, including loans, guarantees and advances;
- Make capital expenditures beyond a certain threshold;
- Engage in transactions with affiliates;
- Pay dividends or engage in stock repurchases; and

- Enter into certain restrictive agreements.

Our ability to comply with covenants contained in our secured credit facility or our synthetic lease commitment agreements may be affected by events beyond our control, including prevailing economic, financial and industry conditions. Our failure to comply with our debt-related covenants in one agreement could result in an acceleration of our indebtedness and cross-defaults under other agreements, which may have a material adverse effect on our liquidity and financial condition. Even if we are able to comply with all covenants, the restrictions on our ability to operate our business could harm our business by, among other things, limiting our ability to take advantage of financings, mergers, acquisitions and other corporate opportunities.

Our senior secured credit facility is secured by a pledge of all of our assets. If we were to default under our senior secured credit facility and were unable to obtain a waiver for such a default, the lenders would have a right to foreclose on our assets in order to satisfy our obligations under the credit facility. Any such action on the part of the lenders against us could have a materially adverse impact on our business, financial condition and results of operations.

SSG currently operates at a loss and may continue to operate at a loss. If we are unable to make our Storage Solutions business profitable, the losses from this group could materially and adversely affect our business, financial condition and results of operations.

We have invested, and will continue to invest, in the development, promotion and sale of storage solutions, such as our recent acquisition of SANlight. Operating expenses associated with our Storage Solutions revenue are comparatively high, resulting in losses and cash consumption out of proportion to the revenue generated by the group, when compared to our tape business. Therefore, we will need to generate significant storage solutions revenues or significantly reduce our related operating expenses for the group in order to make the Storage Solutions business profitable. We cannot provide assurance that the Storage Solutions group will ever produce operating income or will ever generate positive cash flow, and, if we are unable to do so, these losses could negatively impact our business, financial condition and operating results.

Goodwill and intangible assets used in SSG were reviewed for possible impairment upon the adoption on April 1, 2002 of SFAS No. 142, *Goodwill and Other Intangible Assets*, and SFAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*. The impairment test conducted relative to goodwill resulted in a \$94.3 million accounting adjustment in the first quarter of fiscal year 2003 and a \$58.7 million impairment charge in the second quarter of fiscal year 2003. The goodwill and other intangible assets were determined not to be impaired, based on projections of undiscounted and discounted net cash flows from SSG compared to the carrying value of the goodwill and other intangible assets. However, both tests use financial projections involving significant estimates and uncertainties regarding future revenues, expenses and cash flows. We cannot provide assurance that future net cash flows will be sufficient to avoid further impairment charges. As a result, in the future, we may incur additional impairment charges related to our Storage Solutions business, which would adversely affect the group's operating income, which could have a materially adverse impact on the results of our operations or our financial condition.

A majority of our sales come from a few customers, and these customers have no minimum or long-term purchase commitments. The loss of, or a significant change in demand from, one or more key customers could materially and adversely affect our business, financial condition and operating results.

Our sales are concentrated among a few customers. Sales to our top five customers in fiscal year 2003 represented 39% of total revenue. These sales concentrations do not include revenues from sales of our media that were sold directly to our top five customers by our licensees, for which we earn royalty revenue, or revenues from sales of tape libraries sold directly to our top five customers by our other OEM tape drive customers. Furthermore, customers are not obligated to purchase any minimum product volume and our relationships with our customers are terminable at will.

The merger of Hewlett-Packard and Compaq during calendar year 2002 significantly increased the concentration of our sales and dependency on a single customer. Approximately 22% of our revenue derives from this merged entity, and, therefore, could be materially and adversely affected if Hewlett-Packard were to experience a significant decline in storage revenue whether due to customer loss or integration issues or otherwise. There is an additional risk since the combined entity owns a competing LTO brand of tape drive and media. Hewlett-Packard markets both the LTO and Super DLTape platforms, whereas Compaq had exclusively marketed Super DLTape for tape backup and archiving. To the extent that the combined Hewlett-Packard and Compaq entity significantly reduces its purchases of DLTape and Super DLTape products in favor of LTO products, our tape drive and media revenues, operating results and financial condition would be materially and adversely affected.

If any of our other top five customers were to significantly reduce, cancel or delay their orders from us, our results of operations could be materially adversely affected.

Competition has increased, and may increasingly intensify, in the tape drive market as a result of competitors introducing tape drive products based on new technology standards and on DLTape technology, which could materially and adversely

affect our business, financial condition and results of operations.

We compete with companies that develop, manufacture, market and sell tape drive products. Our principal competitors include Exabyte, Hewlett-Packard, IBM, Seagate, Sony and StorageTek. These competitors are aggressively trying to advance and develop new tape drive technologies to compete more successfully with products based on DLTtape technology. Hewlett-Packard, IBM and Seagate formed a consortium to develop and have developed new linear tape drive products (LTO). These products target the high-capacity data backup market and compete with our products based on Super DLTtape technology. This competition has resulted in a trend, which is expected to continue, toward lower prices and lower margins earned on our DLTtape and Super DLTtape drives and media. In addition, the merger between Hewlett-Packard and Compaq has resulted in a larger competitor in the tape drive market with greater resources and a potentially greater market reach with a product that competes directly with our Super DLTtape drives and Super DLTtape media. These factors, when combined with the current economic environment, which has resulted in reduced shipments of our own tape drives, and tape drives in general, could result in a further reduction in our prices, volumes and margins, which could materially and adversely impact our business, financial condition and results of operations.

Competition has increased, and may increasingly intensify, and sales have trended lower in the tape automation market as a result of current economic conditions, and, if these adverse trends continue or worsen, our business, financial condition and operating results may be materially and adversely affected.

Our tape automation products compete with product offerings of Advanced Digital Information Corporation, Exabyte, Hewlett-Packard, Overland Data Inc. and StorageTek, which offer tape automation systems incorporating DLTtape and Super DLTtape technology as well as new linear tape technology. In addition, the merger between Hewlett-Packard and Compaq has resulted in a larger competitor in the tape automation market with greater resources and a potentially greater market reach. Current economic conditions are characterized by lower information technology investment, particularly for higher priced products, such as high-end tape automation systems. However, more recently, even competitors that derive a significant percentage of their sales from lower priced tape automation products, have seen economic conditions adversely impact their quarterly sequential sales. The lower demand has also resulted in increased price competition. If this trend continues or worsens and/or if competition further intensifies, our sales and gross margins could decline further, which could materially and adversely affect our business, financial condition and results of operations.

46

We derive almost all of our revenue from products incorporating tape technology; if competition from alternative storage technologies continues or increases, our business, financial condition and operating results would be materially and adversely harmed.

We derive almost all of our revenue from products that incorporate some form of tape technology and we expect to continue to derive a substantial majority of our revenue from these products for the foreseeable future. As a result, our future operating results depend on the continued market acceptance of products employing tape drive technology. Our tape products, including tape drives and automation systems, also compete with other storage technologies, such as hard disk drives. Hard disk drives have experienced a trend toward lower prices while capacity and performance have increased. If products incorporating other technologies gain comparable or superior market acceptance, or their costs decline far more rapidly than tape drive and media costs, the competition resulting from these alternative technologies would increase as customers turn toward those alternative technologies with an acceptable price/performance offering relative to tape drives and automation systems. As a result, our business, financial condition and operating results would be materially and adversely affected.

We do not control licensee pricing or licensee sales of tape media cartridges and, as a result, our royalty revenue may decline, which could materially and adversely affect our business, financial condition and operating results.

We receive a royalty fee based on sales of tape media cartridges by Fuji, Maxell, Sony and Imation. Under our license agreements with these companies, each of the licensees determines the pricing and number of units of tape media cartridges that it sells. As a result, our royalty revenue varies depending on the level of sales and prices set by the licensees. In addition, lower prices set by licensees could require us to lower our prices on direct sales of tape media cartridges, which would reduce our revenue and margins on this product. As a result, our business, financial condition and operating results may be materially and adversely affected.

Our royalty and media revenue is dependent on an installed base of tape drives that utilize Super DLTtape and DLTtape media cartridges, and, if the installed base declines, or if competing media products gain market share from us, media and royalty revenue would decline, and, as a result, our business, financial condition and operating results may be materially and adversely affected.

Our royalty and media revenue is dependent on the following factors:

- The size of the installed base of tape drives that use our tape cartridges;

- The pricing actions of other media suppliers;
- The performance of our strategic licensing partners, which sell our tape media cartridges and
- The relative growth in units of Super DLTtape drives, the media cartridges for which sell at a higher price than DLTtape cartridges.

Competition from other tape or storage technologies that use their own media could result in reduced sales of Super DLTtape and DLTtape drives and such competition could also lower the installed base of tape drives that utilize DLTtape media. Since we earn a royalty from media consumed by the installed base of tape drives, a reduced installed tape drive base would result in a reduction in our media and royalty revenue. This could materially and adversely affect our business, financial condition and results of operations.

Our operating results depend on new product introductions, which may not be successful, in which case, our business, financial condition and operating results may be materially and adversely affected.

To compete effectively, we must continually improve existing products and introduce new ones, such as the DX30, our first disk based backup system. We have devoted and expect to continue to devote considerable management and financial resources to these efforts. We cannot provide assurance that:

- We will introduce any of these new products in the time-frame we are forecasting;
- We will not experience technical, quality, performance-related or other difficulties that could prevent or delay the introduction of, and market acceptance of, these new products;
- Our new products will achieve market acceptance and significant market share, or that the markets for these products will grow as we have anticipated;
- Our new products will be successfully or timely qualified with our customers by meeting customer performance and quality specifications because a successful and timely customer qualification must occur before customers will place large product orders; or
- We will achieve high volume production of these new products in a timely manner, if at all.

If we are unable to generate sufficient amounts of future taxable income in the U.S., we may incur higher income tax expenses to write off the deferred tax assets and we may recognize lower tax benefits or no tax benefits associated with future losses.

We have approximately \$21 million of deferred tax assets in excess of deferred tax liabilities as of March 31, 2003. This net amount represents future U.S. tax deductions that will reduce future U.S. tax liabilities only if we are able to generate sufficient amounts of future U.S. taxable income to realize the benefit of those tax deductions. If we are unable to generate sufficient future taxable income, we may incur a tax expense to write-off the balance of this deferred tax asset. The accounting guidance stipulates that cumulative losses in recent years make it difficult to rely on future income to realize deferred tax assets. Therefore, we will closely monitor the realizability of our deferred tax asset during fiscal 2004. In addition, the inability to generate sufficient amounts of future taxable income may prevent us from continuing to recognize tax benefits associated with any losses that we may incur in the future. This would have a material and adverse impact on our results of operations and financial condition.

Our reliance on a limited number of third-party suppliers could result in significantly increased costs and delays in the event these suppliers experience shortages or quality problems, and, as a result, our business, financial condition and operating results may be materially and adversely affected.

We depend 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 tape drives and tape automation systems.

We currently purchase the DLTtape and Super DLTtape media cartridges that we sell primarily from Imation, Fuji and Maxell. We cannot provide assurance that Imation, Fuji or Maxell will continue to supply an adequate number of high quality media cartridges in the future. If component shortages occur, or if we experience quality problems with component suppliers, shipments of products could be significantly delayed and/or costs significantly increased, and as a result, our business, financial condition and operating results could be materially and adversely affected. In addition, we qualify only a single source for many components and sub-assemblies, which magnifies the risk of future shortages.

Furthermore, the main supplier of tape heads for our products is located in China. Political instability, trade restrictions, health threats such as the SARS virus, changes in tariff or freight rates, or currency fluctuations in China could result in increased costs and delays in shipment of our products and could materially and adversely impact our business, financial condition and operating results.

We rely heavily on distributors and other resellers to market and sell our products. If one or more distributors were to experience a significant deterioration in its financial condition or its business relationship with us, this could disrupt the distribution of our products, which could materially and adversely affect our business, financial condition and operating

results.

In certain product and geographic segments we heavily utilize distributors and value added resellers to perform the functions necessary to market and sell our products. To fulfill this role, the distributor must maintain an acceptable level of financial stability and creditworthiness. If the distributor is unable to do so, we may be required to reduce the amount of sales of our product to the distributor or terminate the relationship with this distributor. We may also incur financial losses for product returns from distributors or for the failure or refusal of distributors to pay obligations owed to us. For instance, on May 7, 2003, Digital Storage, Inc., one of our media distributors, filed for Chapter 11 bankruptcy protection. As a result of this bankruptcy, we recorded a net bad debt charge of \$1.4 million. Either scenario could result in fewer of our products being available to the affected market segments reduced levels of customer satisfaction and/or increased expenses, which could in turn have a material and adverse impact on our business, results of operations and financial condition.

If we fail to protect our intellectual property or if others use our proprietary technology without authorization, our competitive position may suffer.

Our future success and ability to compete depends in part on our proprietary technology. We rely on a combination of copyright, patent, trademark and trade secrets laws and nondisclosure agreements to establish and protect our proprietary technology. We currently hold 140 United States patents and have 84 United States patent applications pending. However, we cannot provide assurance that patents will be issued with respect to pending or future patent applications that we have filed or plan to file or that our patents will be upheld as valid or will prevent the development of competitive products or that any actions we have taken will adequately protect our intellectual property rights. We generally enter into confidentiality agreements with our employees, consultants, resellers, customers and potential customers, in which we strictly limit access to, and distribution of, our software, and further limit the disclosure and use of our proprietary information. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain or use our products or technology. Our competitors may also independently develop technologies that are substantially equivalent or superior to our technology. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the United States.

Third party infringement claims could result in substantial liability and significant costs, and, as a result, our business, financial condition and operating results may be materially and adversely affected.

From time to time, third parties allege our infringement of and need for a license under their patented or other proprietary technology. For instance, see Note 21 to the Consolidated Financial Statements for a description of StorageTek's patent infringement suit against us. While we currently believe the amount of ultimate liability, if any, with respect to these actions will not materially affect our financial position, results of operations, or liquidity, the ultimate outcome of any litigation is uncertain. Adverse resolution of any third party infringement claim could subject us to substantial liabilities and require us to refrain from manufacturing and selling certain products. In addition, the costs incurred in intellectual property litigation can be substantial, regardless of the outcome. As a result, our business, financial condition and operating results may be materially and adversely affected.

Pursuant to our synthetic lease, we have an obligation for a guaranteed value to the lessor at the end of the lease term, which could result in our being required to make a significant cash payment to the lessor, and if we are required to do so, our business, financial condition and results of operations could be materially and adversely impacted.

We have a synthetic lease for our Colorado Springs facility, which is accounted for as an operating lease in accordance with SFAS No. 13, *Accounting for Leases*. At the end of the lease term, we may renew the lease, purchase the facility, or cause the facility to be sold to a third party, subject to our obligation to the lessor for the guaranteed value. The proceeds of a sale to a third party would be used to satisfy the \$50.0 million obligation to the lessor at the end of the lease term. In the event of sale to a third party, we would be liable for any shortfall between the net proceeds resulting from the sale of the facility and our \$50.0 million obligation to the lessor, up to a maximum of \$43.9 million. In the event of a default on our obligation to the lessor, we would be liable for the entire \$50.0 million. These obligations that would arise from either a sale to a third party or a default could have a material adverse impact on our financial condition and liquidity.

In the past we incurred a charge because of a decline in the appraised value of this facility. We have the facility independently appraised on a periodic basis. Any future declines in the appraised value of the facility would result in a charge, which could be material and adverse to our financial condition.

Our lease commitment requires us to maintain specified financial covenants. If we fail to comply with these financial covenants and are unable to obtain a waiver, or amend the lease, for such future non-compliance, it would cause us to default under our credit facilities and the lessor could terminate the lease, resulting in either the acceleration of our obligation to purchase the leased facility at the guaranteed value, which could have an adverse affect on our financial condition and liquidity.

In previous quarters we violated certain financial covenants under our credit facility; if in the future we again violate financial

covenants, we may not be able to use this credit facility, which could materially and adversely impact our financial condition and liquidity.

In April 2000, we entered into an unsecured senior credit facility with a group of nine banks, providing a \$187.5 million revolving credit line that would have expired in April 2003. In previous quarters we violated certain financial covenants under this credit facility. In December 2002, we terminated this facility and entered into a secured senior credit facility with a group of five banks, providing a \$100 million revolving credit line that expires in June 2004. As of March 31, 2003, \$89 million is committed to standby letters of credit. If in future quarters we are in violation of any financial or reporting covenant and receive a notice of default letter from the bank group, the credit line could become unavailable, and any amounts outstanding could become immediately due and payable. In addition, if we were unsuccessful in securing a waiver in subsequent quarters, we would also lose access to the \$89 million standby letters of credit contained within our credit line facility and have to restrict \$89 million of our cash to cover these existing letters of credit. This would have a material and adverse impact on our liquidity.

Without the availability of this credit facility, we will have to rely on operating cash flows and debt or equity arrangements other than the unsecured senior credit facility (if such alternative funding arrangements are available to us at all) in order to maintain sufficient liquidity. If we are not able to obtain sufficient cash from our operations or from these alternative funding sources, our operations, financial condition and liquidity may be materially and adversely affected.

We have engaged in and may in the future engage in acquisitions of companies, technologies or products, and the failure to integrate any such acquisitions could harm our business, financial condition and operating results.

As a part of our business strategy, we have in the past and expect in the future to make additional acquisitions of, or significant investments in, complementary companies, products or technologies. For instance, as part of this acquisition strategy, during the third quarter of fiscal year 2002, we acquired Benchmark, whose business is complementary to many of DLTG's products and technologies. Any future acquisitions, as well as the success of our Benchmark acquisition, would be accompanied by the risks commonly encountered in acquisitions of companies. These risks include, among others:

- Difficulties in assimilating the operations and personnel of the acquired companies;
- Diversion of management's attention from ongoing business concerns;
- The potential inability to maximize our financial and strategic position through the successful incorporation of acquired technology and rights into our products and services;
- Insufficient revenues to offset increased expenses associated with acquisitions;
- Maintenance of uniform standards, controls, procedures and policies; and
- Impairment of existing relationships with employees, suppliers and customers as a result of the integration of new personnel;
- Difficulties in entering markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions;
- The possibility that we may not receive a favorable return on our investment, the original investment may become impaired, and/or incur losses from these investments;
- Dissatisfaction or performance problems with an acquired company;
- The cost associated with acquisitions; and
- Assumption of known or unknown liabilities or other unanticipated events or circumstances.

We cannot provide assurance that we will be able to successfully integrate any business, products, technologies or personnel that we may acquire in the future, and our failure to do so could harm our business, financial condition and operating results.

We outsourced DLT and Super DLTtape drive manufacturing to Jabil during the third quarter of fiscal year 2003. SSG has increased its use of contract manufacturers for certain manufacturing functions as well. Our ability to meet customer demand depends on our ability to obtain timely deliveries of products and parts from our suppliers; as a result, if we cannot obtain these products and parts in such a manner, such a delay could materially and adversely impact our business, financial condition and results of operations.

We face the following risks as a result of our decision to outsource manufacturing to Jabil:

- Sole source of product supply. Jabil is our sole source of supply for most of our DLTtape and Super DLTtape drives and certain tape automation products. Because we are relying on one supplier, we are at greater risk of experiencing component shortages or other delays in customer deliveries that could result in customer dissatisfaction and lost sales, which could materially damage customer relationships and result in lost revenue.

- **Cost and purchase commitments.** We may not be able to control the costs we would be required to pay Jabil for the products they manufacture for us. Jabil procures inventory to build our products based upon a forecast of customer demand that we provide. We would be responsible for the financial impact on Jabil of any reduction or product mix shift in the forecast relative to materials that Jabil had already purchased under a prior forecast. Such a variance in forecasted demand could require us to pay Jabil for finished goods in excess of current customer demand or for excess or obsolete inventory. As a result, we could experience reduced gross margins and larger operating losses based on these purchase commitments.
- **Quality.** We will have limited control over the quality of products produced by Jabil. Therefore, the quality of the products may not be acceptable to our customers and could result in customer dissatisfaction, lost revenue, and increased warranty costs.

In addition to Jabil, we have outsourced a significant portion of our manufacturing to other contract manufacturers. We face similar risks in relation to these products as those set forth above, in particular the risks of component shortages or other delays in customer deliveries that could result in customer dissatisfaction and lost sales, increased costs for products manufactured for us and the risk that the quality of the products may not be acceptable to us or to our customers, any or all of which could have a material adverse effect on our business.

Our manufacturing outsourcing arrangement in Malaysia with Jabil, a third party contract manufacturer, has the potential to affect our tax status in Malaysia and could therefore materially and adversely affect our business, financial condition and results of operations.

We were granted strategic pioneer tax status beginning in December 2000 contingent on us meeting five separate conditions linked to investments in the Malaysian economy. While we have actively worked to meet each of these conditions, changes in the business environment and the outsource of manufacturing to Jabil have meant that we have not yet fully met these conditions as these conditions assumed a five-year profile of investment. Were the Malaysian government to revoke Quantum's strategic pioneer tax status in its entirety, then the maximum potential tax liability that could be assessed would be \$15 million, which could materially and adversely affect our business, financial condition and results of operations.

A significant portion of the consideration for the disposition of the material assets of our NAS business was restricted stock issued by the buyer, a privately held company.

A portion of the consideration for the sale of the material operating assets of our NAS business was equity securities recorded with a \$3.9 million carrying value. The equity securities are "restricted securities", as defined in Rule 144 under the Securities Act of 1933, as amended, and, therefore, are subject to substantial restrictions on the sale or disposition of such shares, many of which restrictions are contingent on or governed by matters solely within the control of the privately held company. Because of the nature of the privately held issuer as well as the restrictions on our ability to transfer these equity securities, there is no public market for these securities.

We generally record our investment in equity securities of early development stage companies on a cost basis, adjusted for other than temporary impairment. The restricted stock we received as a result of the NAS disposition could lose value and become worthless if the buyer fails to profitably achieve its business plans or is not able to obtain adequate funding to do so. Because there is no market in these equity securities, we would not be able to hedge or otherwise mitigate any losses on these securities. If the buyer is not successful in achieving its business plan, we could be required to write down some or all of the value of these assets, which could have a material and adverse impact on our financial condition and results of operations.

Tax allocations under a tax sharing and indemnity agreement with Maxtor are the subject of a dispute between us and Maxtor. In the event this dispute is not resolved favorably, we could incur significant costs that could have a material adverse effect on our business, financial condition and operating results.

The tax sharing and indemnity agreement between us and Maxtor entered into in connection with the disposition of HDD provided for the allocation of certain liabilities related to taxes. Maxtor and we presently disagree about the amounts owed by each party under this Agreement. The parties are in negotiations to resolve this matter, and no litigation has been initiated to date. However, there can be no assurance that we will be successful in asserting our position. If disputes regarding contested amounts cannot be resolved favorably, we may incur costs, including both litigation as well as the payment of the disputed amounts, which could have a material adverse effect on our business, financial condition and operating results.

Maxtor's failure to perform under the indemnification provisions of a tax sharing and indemnity agreement entered into with us providing for payments to us that relate to tax liabilities, penalties, and interest resulting from the conduct of our business prior to the HDD disposition date could have a material adverse effect on our business, financial condition and operating results.

Under a tax sharing and indemnity agreement between us and Maxtor entered into in connection with the disposition of HDD, Maxtor has agreed to assume responsibility for payments related to certain taxes, penalties, and interest resulting from the conduct of business by the Quantum DSS group for all periods before our issuance of tracking stock and the conduct of the Quantum HDD group for all periods before the disposition of HDD to Maxtor. If audit adjustments are successfully asserted with respect to such conduct, and if Maxtor fails to indemnify us under this obligation or is not able to pay the reimbursement in full, we would nevertheless be obligated, as the taxpayer, to pay the tax. As a result, we could experience a material adverse effect on our business, financial condition and operating results.

Maxtor is a publicly traded company (NYSE symbol: MXO) that has been incurring financial operating losses. If Maxtor were unable to pay its share of any obligations, we would be required to pay and that would have a material adverse impact on our results of operations and financial position.

Maxtor's failure to perform under the agreements in connection with our convertible debt and contingent liabilities would harm our business, financial condition and operating results.

Maxtor has agreed to assume responsibility for payments of up to \$95.8 million of aggregate principal amount of our convertible debt. If Maxtor fails to repay its portion of the convertible debt, we would have to deplete our existing cash resources or borrow cash to make the payments. As a result, our business, financial condition and operating results could be materially and adversely affected.

We may have contingent liabilities for some obligations assumed by Maxtor, including real estate and litigation, and Maxtor's failure to perform under these obligations could result in significant costs to us that could have a materially adverse impact on our business, financial condition and operating results.

The disposition of HDD may be determined not to be tax-free, which would result in us or our stockholders, or both, incurring a substantial tax liability, which could materially and adversely affect our business, financial condition and results of operations.

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

If the disposition of HDD is determined not to be tax-free and the tax opinion insurance policy does not fully cover the resulting tax liability, we or our stockholders or both could incur substantial tax liability, which could materially and adversely affect our business, financial condition and results of operations.

The tax opinion insurance policy issued in conjunction with the disposition of HDD does not cover all circumstances under which the disposition could become taxable to us, and as a result, we could incur an uninsured tax liability, which could materially and adversely affect our business, financial condition and results of operations.

In addition to customary exclusions from its coverage, the tax opinion insurance policy does not cover any federal or state tax payable by us if the disposition becomes taxable to us as a result of:

- A change in relevant tax law;
- An acquisition representing a 50% or greater interest in Quantum which began during the one-year period before and six-month period following the disposition, whether or not approved by our board of directors; or
- An acquisition representing a 50% or greater interest in Maxtor which began during the one-year period before and six-month period following the disposition, whether or not approved by Maxtor's board of directors.

If any of these events occur, we could incur uninsured tax liability, which could materially and adversely affect our business, financial condition and results of operations.

If we incur an uninsured tax liability as a result of the disposition of HDD, our financial condition and operating results could be negatively affected.

If the disposition of HDD were determined to be taxable to Quantum, we would not be able to recover an amount to cover the tax liability either from Maxtor or under the insurance policy in the following circumstances:

- If the tax loss were not covered by the policy because it fell under one of the exclusions from the coverage under the tax opinion insurance policy described above, insurance proceeds would not be available to cover the loss.

- If the tax loss were caused by our own acts or those of a third party that made the disposition taxable (for instance, an acquisition of control of Quantum which began during the one-year period before and six-month period following the closing), Maxtor would not be obligated to indemnify us for the amount of the tax liability.
- If Maxtor were required to reimburse us for the amount of the tax liability according to its indemnification obligations under the HDD disposition, but was not able to pay the reimbursement in full, we would nevertheless be obligated, as the taxpayer, to pay the tax.

In any of these circumstances, the tax payments due from us could be substantial. In order to pay the tax, we would have to either deplete our existing cash resources or borrow cash to cover our tax obligation. Our payment of a significant tax prior to payment from Maxtor under Maxtor's indemnification obligations, or in circumstances where Maxtor has no payment obligation, could harm our business, financial condition and operating results.

Our stock price could become more volatile if certain institutional investors were to increase or decrease the number of shares they own. In addition, there are other factors and events that could affect the trading prices of our common stock.

Three institutional investors owned approximately 43% of our common stock as of March 31, 2003. If any or all of these investors were to decide to purchase additional shares or to sell some or all of the Quantum DSS shares they currently own, that may cause our stock price to be more volatile.

Trading prices of our common stock may fluctuate in response to a number of other events and factors, such as:

- General economic conditions;
- Changes in interest rates;
- Fluctuations in the stock market in general and market prices for high technology companies in particular;
- Quarterly variations in our operating results;
- New products, services, innovations and strategic developments by our competitors or us, or business combinations and investments by our competitors or us;
- Changes in financial estimates by us or securities analysts and recommendations by securities analysts; and
- Changes in our capital structure, including issuance of additional debt or equity to the public.

Any of these events and factors may cause our stock price to rise or fall and may adversely affect our business and financing opportunities.

Historical financial information regarding Quantum may not be representative of our future results solely as a tape drive and storage solutions business.

The historical financial information regarding Quantum does not necessarily reflect what our financial position, operating results, and cash flows would have been had we existed solely as a tape drive and storage solutions business during the periods presented. In addition, the historical information is not necessarily indicative of what our operating results, financial position and cash flows will be in the future.

Our quarterly operating results could fluctuate significantly, and past quarterly operating results should not be used to predict future performance.

Our quarterly operating results have fluctuated significantly in the past and could fluctuate significantly in the future. As a result, our past quarterly operating results should not be used to predict future performance. Quarterly operating results could be materially and adversely affected by a number of factors, including, but not limited to:

- An inadequate supply of tape media cartridges;
- Customers canceling, reducing, deferring or rescheduling significant orders as a result of excess inventory levels, weak economic conditions or other factors;
- Declines in network server demand;
- Failure to complete shipments in the last month of a quarter during which a substantial portion of our products are typically shipped;
- or
- Increased competition.

If we fail to meet our projected quarterly results, our business, financial condition and results of operations may be materially and adversely harmed.

A significant portion of our manufacturing and sales operations occurs in foreign locations; we are increasingly exposed to risks associated with conducting our business internationally.

We manufacture and sell our products in a number of different markets throughout the world. As a result of our global manufacturing and sales operations, we are subject to a variety of risks that are unique to businesses with international operations of a similar scope, including the following:

- Adverse movement of foreign currencies against the U.S. dollar (in which our results are reported);
- Import and export duties and value-added taxes;
- Import and export regulation changes that could erode our profit margins or restrict our exports;
- Potential restrictions on the transfer of funds between countries;
- Inflexible employee contracts in the event of business downturns; and
- The burden and cost of complying with foreign laws.

In addition, our suppliers have operations in several emerging or developing economies that have a potential for higher risk than in the developed markets. The risks associated with these economies include, but are not limited to, political risks and natural disasters. In particular, with one of our outsourced manufacturers located in Malaysia, a significant portion of our product manufacturing may be subject to such political and climactic risks. Political instability, including the threat of terrorism, or a natural disaster in Malaysia or any other foreign market in which we operate could materially and adversely affect our business, financial condition and results of operations.

We are exposed to fluctuations in foreign currency exchange rates and an adverse change in foreign currency exchange rates relative to our position in such currencies could have a materially adverse impact on our business, financial condition and results of operations.

We do not use derivative financial instruments for speculative purposes. Our goal is to hedge our foreign currency-denominated transactions in a manner that substantially offsets the effects of changes in foreign currency exchange rates. Presently, we use foreign currency obligations to match and offset net currency exposures associated with certain assets and liabilities denominated in non-functional currencies. Corresponding gains and losses on the underlying transaction generally offset the gains and losses on these foreign currency obligations. We have used in the past, and may use in the future, foreign currency forward contracts to hedge our exposure to foreign currency exchange rates. To the extent that we have assets or liabilities denominated in a foreign currency that are inadequately hedged or not hedged at all, we may be subject to foreign currency losses, which could be significant.

Our international operations can act as a natural hedge when both operating expenses and sales are denominated in local currencies. In these instances, although an unfavorable change in the exchange rate of a foreign currency against the U.S. dollar would result in lower sales when translated to U.S. dollars, operating expenses would also be lower in these circumstances. Also, since an insignificant amount of our net sales for fiscal year 2003 are denominated in currencies other than the U.S. dollar, we do not believe that our total foreign exchange rate exposure is significant. Nevertheless, an increase in the rate at which a foreign currency is exchanged for U.S. dollars would require more of that particular foreign currency to equal a specified amount of U.S. dollars than before such rate increase. In such cases, and if we were to price our products and services in that particular foreign currency, we would receive fewer U.S. dollars than we would have received prior to such rate increase for the foreign currency. Likewise, if we were to price our products and services in U.S. dollars while competitors priced their products in a local currency, an increase in the relative strength of the U.S. dollar would result in our prices being uncompetitive in those markets. Such fluctuations in currency exchange rates could materially and adversely affect our business, financial condition and results of operations.

We must maintain appropriate levels of service inventories. If we have too little service inventory, we may experience increased levels of customer dissatisfaction. If we have too much service inventory, we may incur financial losses.

We maintain levels of service inventories to satisfy future warranty obligations and also to earn service revenue to repair products for which the warranty has expired. We estimate the required amount of service inventories based on historical usage and forecasts of future warranty requirements, including estimates of failure rates and costs to repair, and out of warranty revenue. Given the significant levels of judgment inherently involved in the process, we cannot provide assurance that we will be able to maintain appropriate levels of service inventories to satisfy customer needs and to avoid financial losses from excess inventory charges. If we are unable to maintain appropriate levels of service inventories, our business, financial condition and results of operations maybe materially and adversely impacted.

Many of our facilities are located near known earthquake fault zones, and the occurrence of an earthquake or other disasters

Many of our facilities are located in Northern and Southern California, near known earthquake fault zones and are, therefore, vulnerable to damage from earthquakes. In October 1989, a major earthquake that caused significant property damage and a number of fatalities struck Northern California. In addition, in 1994, a major earthquake that caused significant property damage and a number of fatalities struck Southern California. We and our suppliers are also vulnerable to damage from other types of disasters, including fire, floods, power loss, communications failures, terrorism and similar events. If any disaster were to occur, our ability to operate our business at our facilities could be seriously, or completely, impaired. The insurance we maintain may not be adequate to cover our losses resulting from disasters or other business interruptions.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to a variety of risks, including changes in interest rates, foreign currency fluctuations and impairment in equity security values.

Market Interest Rate Risk

Changes in interest rates affect interest income earned on our cash equivalents and short-term investments, and interest expense on short-term and long-term borrowings.

Our cash equivalents and short-term investments consist primarily of certificates of deposit and money market funds. The main objective of these investments is to maintain principal while maximizing return, without significantly increasing risk. A hypothetical 100 basis point parallel decrease in the interest rate curve would result in an approximate \$3.2 million decrease in interest income.

In April 2000, we entered into an unsecured senior credit facility with a group of banks providing a \$187.5 million revolving credit line that would have expired in April 2003. In December 2002, we terminated this facility and entered into a secured senior credit facility with a group of five banks, providing us with a \$100 million revolving credit line that expires in June 2004. Our credit facilities are comprised of a \$100 million revolving line of credit expiring in June 2004 and \$287.5 million of 7% convertible subordinated notes. The borrowings under the revolving credit line bear interest at either the London interbank offered rate or a base rate, plus a margin determined by a leverage ratio with option periods of one to six months.

We do not enter into derivative transactions related to our cash equivalents or short-term investments, nor our existing or anticipated liabilities.

Foreign Currency Exchange Rate Risk

As a multinational corporation, we are exposed to changes in foreign exchange rates. These exposures may change over time and could have a material adverse impact on our financial results. Currently, we do not utilize foreign currency forward contracts to manage the risk of exchange rate fluctuations because we believe that we have a natural hedge through our worldwide operating structure. We do not anticipate any material effect on our consolidated financial position utilizing our current hedging strategy.

Equity Security Risk

We hold equity investments in companies in the high-technology industry sector that are not currently publicly traded. These investments are recorded at cost, adjusted for other than temporary impairment and are included in other long-term assets. We do not attempt to reduce or eliminate exposure on these securities. At March 31, 2003, the carrying value of these investments was \$4.0 million and the impairment charges recorded in fiscal year 2003 were \$17.1 million.

A further 20 percent impairment charge would result in an approximate \$0.8 million decrease in the fair value of our equity investments.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Quantum Corporation—Financial Statements	
Consolidated Statements of Operations for the years ended March 31, 2003, 2002 and 2001	58
Consolidated Balance Sheets as of March 31, 2003 and 2002	59
Consolidated Statements of Cash Flows for the years ended March 31, 2003, 2002, and 2001	60
Consolidated Statements of Stockholders' Equity for the years ended March 31, 2003, 2002, and 2001	62
Notes to Consolidated Financial Statements	64
Report of Ernst & Young LLP, Independent Auditors	103
Schedule II—Consolidated Valuation and Qualifying Accounts	104

QUANTUM CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	For the year ended March 31,		
	2003	2002	2001
Product revenue	\$ 684,156	\$ 820,359	\$ 1,124,142
Royalty revenue	186,653	209,316	221,973
Total revenue	870,809	1,029,675	1,346,115
Cost of revenue	603,646	652,070	733,575
Gross margin	267,163	377,605	612,540
Operating expenses:			
Research and development	111,926	111,451	116,836
Sales and marketing	100,454	110,733	118,290
General and administrative	71,266	113,541	68,043
Goodwill impairment	58,689	—	—
Special charges	24,200	72,856	—
Purchased in-process research and development	7,802	13,200	—
	374,337	421,781	303,169
Income (loss) from operations	(107,174)	(44,176)	309,371
Equity investment write-downs	(17,061)	(7,364)	—
Interest income and other, net	11,481	15,904	17,962
Interest expense	(24,419)	(22,976)	(17,658)
Income (loss) before income taxes	(137,173)	(58,612)	309,675
Income tax provision (benefit)	(5,085)	(9,612)	111,847
Income (loss) from continuing operations	(132,088)	(49,000)	197,828
Discontinued operations:			
Loss from NAS discontinued operations, net of income taxes	(37,909)	(33,470)	(30,382)
Gain on disposition of HDD group, net of income taxes	—	124,972	—
Loss from HDD discontinued operations, net of income taxes	—	—	(6,760)
Income (loss) from discontinued operations	(37,909)	91,502	(37,142)
Income (loss) before cumulative effect of an accounting change	(169,997)	42,502	160,686
Cumulative effect of an accounting change	(94,298)	—	—
Net income (loss)	\$ (264,295)	\$ 42,502	\$ 160,686
Income (loss) per share from continuing operations			
Basic	\$ (0.81)	\$ (0.32)	\$ 1.34
Diluted	\$ (0.81)	\$ (0.32)	\$ 1.27

Weighted average common shares -- continuing operations

Basic	162,208	155,169	148,150
Diluted	162,208	155,169	155,645
Income (loss) per share from discontinued operations (1)			
Basic	\$ (0.23)	\$ 0.59	
Diluted	\$ (0.23)	\$ 0.59	
Weighted average common shares -- discontinued operations			
Basic	162,208	155,169	
Diluted	162,208	155,169	
Cumulative effect per share of an accounting change			
Basic	\$ (0.58)	\$ —	\$ —
Diluted	\$ (0.58)	\$ —	\$ —
Net income (loss) per share (2)			
Basic	\$ (1.63)	\$ 0.27	
Diluted	\$ (1.63)	\$ 0.27	
Weighted average common shares			
Basic	162,208	155,169	
Diluted	162,208	155,169	

(1) Income (loss) per share from discontinued operations for fiscal year 2001 is not presented, as there was no single class of stock that represented discontinued operations in this period.

(2) Net income (loss) per share for fiscal year 2001 is not presented, as there was no single class of stock that represented the consolidated Company for this period subsequent to the recapitalization that occurred on August 3, 1999 (as discussed in Note 1 to the Consolidated Financial Statements).

See accompanying Notes to the Consolidated Financial Statements.

QUANTUM CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	March 31, 2003	March 31, 2002
Assets		
Current assets:		
Cash and cash equivalents	\$ 221,734	\$ 343,878
Short-term investments	97,055	555
Accounts receivable, net of allowance for doubtful accounts of \$8,927 and \$6,233	133,760	149,424
Inventories	66,305	98,801
Deferred income taxes	46,370	42,038
Service inventories	49,104	48,287
Other current assets	26,080	36,842
Current assets of discontinued operations	—	59,220
Total current assets	640,408	779,045
Long-term assets:		
Property and equipment, less accumulated depreciation	54,522	76,405
Goodwill, less accumulated amortization	40,916	135,817
Purchased technology, less accumulated amortization	57,485	41,220
Other intangible assets, less accumulated amortization	21,959	23,085
Other long-term assets	10,606	42,367
Receivable from Maxtor Corporation	95,833	95,833
Total long-term assets	281,321	414,727
	\$ 921,729	\$ 1,193,772
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 104,495	\$ 65,503
Accrued warranty	49,582	42,176
Short-term debt	—	41,363

Accrued compensation	21,854	28,581
Income taxes payable	14,695	29,638
Accrued special charges	6,255	24,227
Deferred revenue	16,627	15,539
Other accrued liabilities	40,468	49,074
Current liabilities of discontinued operations	—	9,615
Total current liabilities	253,976	305,716
Long-term liabilities:		
Deferred income taxes	25,091	40,055
Convertible subordinated debt	287,500	287,500
Total long-term liabilities	312,591	327,555
Commitments and contingencies		
Stockholders' equity:		
Preferred Stock:		
Preferred stock, no shares issued at March 31, 2003 and March 31, 2002	—	—
Common stock:		
Common stock, \$0.01 par value; 1,000,000,000 shares authorized; 175,451,761 and 156,967,854 shares issued and outstanding at March 31, 2003 and 2002, respectively	1,755	1,570
Capital in excess of par value	241,671	188,907
Retained earnings	110,619	374,914
Accumulated other comprehensive income (loss)	1,117	(4,890)
Stockholders' equity	355,162	560,501
	\$ 921,729	\$1,193,772

See accompanying Notes to the Consolidated Financial Statements.

QUANTUM CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	For the year ended March 31,		
	2003	2002	2001
Cash flows from operating activities:			
Loss from continuing operations including cumulative effect of an accounting change	\$ (226,386)	\$ (49,000)	\$ 197,828
Adjustments to reconcile loss from continuing operations to net cash provided by operating activities:			
Cumulative effect of an accounting change (SFAS No. 142 adjustment)	94,298	—	—
Purchased in-process research and development	7,802	13,200	—
Depreciation	36,791	39,298	42,263
Amortization	15,530	28,170	19,108
Goodwill write-down	58,689	—	—
Deferred income taxes	(19,124)	(23,161)	26,203
Compensation related to stock incentive plans	1,544	18,283	12,747
Equity investment write-down	17,061	7,364	—
Changes in assets and liabilities:			
Accounts receivable	17,351	52,229	13,466
Inventories	41,800	25,569	(20,359)
Accounts payable	34,467	(23,025)	(9,014)
Income taxes payable	(15,687)	7,214	30,534
Accrued warranty	1,067	(12,026)	2,194
Other assets and liabilities	(31,220)	(27,486)	(15,710)
Net cash provided by operating activities of continuing operations	33,983	56,629	299,260
Net cash used in operating activities of discontinued operations	(16,358)	(17,790)	(120,798)
Net cash provided by operating activities	17,625	38,839	178,462
Cash flow from investing activities:			
Purchases of short-term investments	(724,925)	—	—
Sales of short-term investments	627,925	—	—
Maturities of marketable securities	—	—	2,032
Proceeds from sale of equity securities	11,000	—	—
Purchases of equity securities	—	(27,550)	(14,568)
Acquisition of SANlight Inc. (net of cash acquired)	(1,945)	—	—

Acquisition of Benchmark Storage Innovations Inc. (net of cash acquired)	(3,020)	—	—
Acquisition of M4 Data (Holdings) Ltd	—	(15,210)	—
Proceeds from disposition of property and equipment	801	2,669	—
Purchases of property and equipment	(18,525)	(41,302)	(58,566)
Net cash used in investing activities of continuing operations	(108,689)	(81,393)	(71,102)
Net cash provided by (used in) investing activities of discontinued operations	4,709	(12,218)	(46,942)
Net cash used in investing activities	(103,980)	(93,611)	(117,594)
Cash flows from financing activities:			
Repurchases of common stock	—	(46,630)	(146,251)
Principal payments of short-term debt	(41,363)	—	—
Principal payments of long-term credit facilities	—	—	(754)
Proceeds from issuance of common stock, net	5,477	45,465	35,496
Net cash used in financing activities of continuing operations	(35,886)	(1,165)	(111,509)
Net cash provided by (used in) financing activities of discontinued operations	97	2,278	(66,431)
Net cash provided by (used in) financing activities	(35,789)	1,113	(177,940)
Increase (decrease) in cash and cash equivalents from continuing operations	(110,592)	(25,929)	116,649
Decrease in cash and cash equivalents from discontinued operations	(11,552)	(27,730)	(233,721)
Net decrease in cash	(122,144)	(53,659)	(117,072)
Cash and cash equivalents at beginning of period	343,878	397,537	918,262
Cash and cash equivalents at end of period	\$ 221,734	\$ 343,878	\$ 801,190
Reconciliation of cash and cash equivalents at end of period:			
Cash and cash equivalents at end of period	\$ 221,734	\$ 343,878	\$ 801,190
Less: Cash and cash equivalents of discontinued operations at end of period	—	—	(403,653)
Cash and cash equivalents of continuing operations at end of period	\$ 221,734	\$ 343,878	\$ 397,537

60

	For the year ended March 31,		
	2003	2002	2001
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	\$ 15,885	\$ 15,723	\$ 15,505
Income taxes, net of refunds	\$ (28,131)	\$ (29)	\$ 32,912
Notes payable issued in respect of M4 Data (Holdings) Ltd. acquisition	\$ —	\$ 41,363	\$ —
Non-cash gain on the disposition of the HDD group	\$ —	\$ 124,972	\$ —

See accompanying Notes to the Consolidated Financial Statements.

61

QUANTUM CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	DLT & Storage Systems Group		Hard Disk Drive Group		Capital in Excess of Par Value
	Common Stock		Common Stock		
	Shares	Amount	Shares	Amount	
Balances at March 31, 2000	157,423	\$ 1,574	83,784	\$ 838	\$ 734,608
Comprehensive income:					
Income from continuing operations	—	—	—	—	—
Loss from discontinued operations, net	—	—	—	—	—
Net income	—	—	—	—	—
Other comprehensive loss:					
Foreign currency translation adjustments	—	—	—	—	—

Unrealized loss on investments, net of tax of \$10,218	—	—	—	—	—
Other comprehensive loss	—	—	—	—	—
Comprehensive income	—	—	—	—	—
Shares issued under employee stock purchase plan	2,119	21	1,058	11	23,795
Shares issued under employee stock option plans, net	6,000	61	5,240	52	40,297
Treasury shares repurchased and retired common stock	(13,480)	(105)	(9,997)	(100)	(84,886)
Stock compensation expense	—	—	—	—	19,357
Tax benefits related to stock option plans	—	—	—	—	15,895
Balances at March 31, 2001	152,062	1,551	80,085	801	749,066
Comprehensive income:					
Loss from continuing operations	—	—	—	—	—
Income from discontinued operations, net	—	—	—	—	—
Net income	—	—	—	—	—
Other comprehensive loss:					
Foreign currency translation adjustments	—	—	—	—	—
Other comprehensive loss	—	—	—	—	—
Comprehensive income	—	—	—	—	—
Shares issued under employee stock purchase plan	798	8	—	—	6,588
Shares issued under employee stock option plans, net	8,825	88	—	—	27,844
Treasury shares repurchased and retired common stock	(4,717)	(77)	—	—	(9,300)
Stock compensation expense	—	—	—	—	84,640
Tax benefits related to stock option plans	—	—	—	—	1,256
Disposition of HDD group	—	—	(80,085)	(801)	(671,187)
Balances at March 31, 2002	156,968	1,570	—	—	188,907
Comprehensive loss:					
Loss from continuing operations	—	—	—	—	—
Loss from discontinued operations, net	—	—	—	—	—
Cumulative effect of an accounting change	—	—	—	—	—
Net loss	—	—	—	—	—
Other comprehensive income:					
Foreign currency translation adjustments and other	—	—	—	—	—
Other comprehensive income:	—	—	—	—	—
Comprehensive loss	—	—	—	—	—
Shares issued under employee stock purchase plan	2,218	22	—	—	3,972
Shares issued under employee stock option plans, net	208	2	—	—	(3,319)
Shares issued in connection with business acquisitions	16,058	161	—	—	50,058
Stock compensation expense	—	—	—	—	2,053
Balances at March 31, 2003	175,452	\$ 1,755	—	\$ —	\$ 241,671

See accompanying Notes to the Consolidated Financial Statements.

QUANTUM CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY – (Continued) (In thousands)

	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balances at March 31, 2000	\$ 545,050	\$ 16,961	\$ —	\$ 1,299,031
Comprehensive income:				
Income from continuing operations	167,446	—	—	167,446
Loss from discontinued operations, net	(6,760)	—	—	(6,760)
Net income				160,686
Other comprehensive loss:				
Foreign currency translation adjustments	—	(6,487)	—	
Unrealized loss on investments, net of tax of \$10,218	—	(15,328)	—	
Other comprehensive loss	—	(21,815)	—	(21,815)
Comprehensive income	—	—	—	138,871
Shares issued under employee stock purchase plan	—	—	—	23,827
Shares issued under employee stock option plans, net	—	—	—	40,410
Treasury shares repurchased and retired common stock	(121,040)	—	(34,920)	(241,051)
Stock compensation expense	—	—	—	19,357
Tax benefits related to stock option plans	—	—	—	15,895
Balances at March 31, 2001	\$ 584,696	\$ (4,854)	\$ (34,920)	\$ 1,296,340
Comprehensive income:				
Loss from continuing operations	(82,470)	—	—	(82,470)

Income from discontinued operations, net	124,972	—	—	124,972
Net income				42,502
Other comprehensive loss:				—
Foreign currency translation adjustments	—	(36)		
Other comprehensive loss:	—	(36)		(36)
Comprehensive income	—	—		42,466
Shares issued under employee stock purchase plan	—	—		6,596
Shares issued under employee stock option plans, net	—	—		27,932
Treasury shares repurchased and retired common stock	(72,172)	—	34,920	(46,629)
Stock compensation expense	—	—	—	84,640
Tax benefits related to stock option plans	—	—	—	1,256
Disposition of HDD group	(180,112)	—	—	(852,100)
Balances at March 31, 2002	\$ 374,914	\$ (4,890)	\$ —	\$ 560,501
Comprehensive loss:				
Loss from continuing operations	(132,088)	—	—	(132,088)
Loss from discontinued operations, net	(37,909)	—	—	(37,909)
Cumulative effect of an accounting change	(94,298)	—	—	(94,298)
Net loss				(264,295)
Other comprehensive income:				
Foreign currency translation adjustments and other	—	6,007		
Other comprehensive income	—	6,007		6,007
Comprehensive loss	—	—		(258,288)
Shares issued under employee stock purchase plan	—	—		3,994
Shares issued under employee stock option plans, net	—	—		(3,317)
Shares issued in connection with business acquisitions	—	—	—	50,219
Stock compensation expense	—	—	—	2,053
Balances at March 31, 2003	\$ 110,619	\$ 1,117	\$ —	\$ 355,162

See accompanying Notes to the Consolidated Financial Statements.

QUANTUM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Description of Business

Until the beginning of fiscal year 2002, Quantum operated its business through two separate business groups: the DLT & Storage Systems group (“DSS”) and the Hard Disk Drive group (“HDD”). On March 30, 2001, Quantum’s stockholders approved the disposition of HDD to Maxtor Corporation (“Maxtor”). On April 2, 2001, each authorized share of HDD common stock was exchanged for 1.52 shares of Maxtor common stock.

Since the sale of HDD, Quantum’s business has been divided into two segments: the DLT group (“DLTG”) and the Storage Solutions group (“SSG”). DLTG designs, develops, manufactures, licenses, services, and markets DLTape and Super DLTape drives, and DLTape and Super DLTape media cartridges. The SSG business consists of tape automation systems and service and includes disk-based backup products.

HDD designed, developed and marketed a diversified product portfolio of hard disk drives to meet the storage requirements of entry-level to high-end desktop PCs in home and business environments, and high-end hard disk drives for the storage needs of network servers, workstations and storage sub-systems.

Note 2: Summary of Significant Accounting Policies

The preparation of the Consolidated Financial Statements of Quantum 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. Quantum bases estimates on historical experience and on various assumptions about the future that are believed to be reasonable based on available information. Quantum’s reported financial position or results of operations may be materially different under different conditions or when using different estimates and assumptions, particularly with respect to critical accounting policies, which are discussed below. In the event that estimates or assumptions prove to differ from actual results, adjustments are made in subsequent periods to reflect more current information.

As a result of the disposition of the HDD group on April 2, 2001, the Consolidated Financial Statements and related notes have been restated to present the results of the HDD business as discontinued operations (refer to Note 4). Accordingly in the consolidated statements of operations, the gain on the disposition of the HDD group in fiscal year 2002 has been classified as "Gain on disposition of HDD group, net of income taxes" and the results of the HDD group for fiscal year 2001 have been classified as "Loss from HDD discontinued operations, net of income taxes".

The Network Attached Storage ("NAS") business was sold on October 28, 2002. As a result of this disposition, the Consolidated Financial Statements and related notes have been restated to present the results of the NAS business as discontinued operations. Accordingly, in the consolidated statements of operations, the operating results of the NAS business have been classified as "Loss from NAS discontinued operations, net of income taxes", for all years presented and in the consolidated balance sheet, the assets and liabilities of the NAS business have been classified as "Current assets of discontinued operations" and "Current liabilities of discontinued operations" as of March 31, 2002.

The accompanying Consolidated Financial Statements include the accounts of Quantum 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 the current presentation.

Revenue Recognition

Revenue from sales of products to original equipment manufacturers ("OEMs") and distributors is recognized when passage of title and risk of ownership is transferred to customers, when persuasive evidence of an arrangement exists, the price to the buyer is fixed or determinable and collection is reasonably assured. In the period when the revenue is recognized, allowances are provided for estimated future price adjustments, such as volume rebates and price protection, and future product returns. Since Quantum has historically been able to reliably estimate the amount of allowances required for future price adjustments and product returns, Quantum recognizes revenue, net of projected allowances, upon shipment to its customers.

Royalty revenue is recognized based on the licensee's sales that incorporate technology licensed from Quantum. Revenue from separately priced extended warranty and product service contracts is deferred and recognized as revenue ratably over the contract period.

Warranty expense and liability

Quantum warrants its products against defects for periods ranging from one to three years. A provision for estimated future costs and estimated returns for credit relating to warranty is recorded when products are shipped and revenue recognized.

Inventory Valuation

Quantum values its inventories that are held for resale to customers at lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method, and includes direct material, direct labor, factory overhead and other direct costs. Market is "net realizable value", which for finished goods and goods in process, is the estimated selling price, less costs to complete and dispose of the inventory. For raw materials, it is replacement cost or the cost of acquiring similar products from vendors.

Service Inventories

Quantum values its service inventories at the lower of cost or market. Service inventories consists of both component parts, which are primarily used to repair defective units, and finished units, which are provided for customer use on a temporary or permanent basis, while the defective unit is being repaired. Cost is determined by the FIFO method, and includes direct material, direct labor, factory overhead and other direct costs. Market is "net realizable value", which for components is replacement cost or the cost of acquiring similar products from vendors. For finished goods, market value is the estimated selling price less costs to complete and dispose of the inventories.

Quantum carries service inventories because Quantum provides product warranty for one to three years and earns revenue by providing repair service outside this warranty period. Quantum initially records its service inventories at cost and each quarter evaluates the difference, if any, between cost and market.

Intangible Assets

At March 31, 2003 the net amount of goodwill and intangible assets was \$120.4 million. Goodwill and intangible assets are carried and

reported at acquisition cost, net of accumulated amortization subsequent to acquisition. The acquisition cost is amortized over estimated useful lives, which range from three to ten years. Goodwill and intangible assets are reviewed for impairment whenever events or circumstances indicate impairment might exist, or at least annually, in accordance with SFAS No. 121, *Accounting for the Impairment of Long-lived assets to be Disposed of*, by comparing projected undiscounted net cash flows expected to be derived from the use of those assets against their respective net carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets. SFAS No. 121 was applicable to fiscal years ended March 31, 2002 and earlier.

In June 2001, the Financial Accounting Standards Board ("FASB") released SFAS No. 141, *Business Combinations* and SFAS No. 142, *Goodwill and Other Intangible Assets*, which became effective for Quantum on April 1, 2002. As a result, goodwill is no longer amortized but tested for impairment at least annually, or more often if circumstances dictate. The new rules also require business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting, with no amortization of goodwill acquired after June 30, 2001. In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*, which supersedes SFAS No. 121, *Accounting for the Impairment of Long-lived Assets and Assets to be Disposed of*. SFAS No. 144 retains many of the provisions of SFAS No. 121 regarding the testing for impairment of acquired intangibles that are to be amortized.

Special Charges

In the fourth quarter of fiscal year 2003, Quantum became subject to SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, which superseded EITF Issue No. 94-3. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred rather than at the date of an entity's commitment to an exit plan. The statement further establishes fair value as the objective for initial measurement of the liability and that employee benefit arrangements requiring future service beyond a "minimum retention period" be recognized over the future service period. No special charges were recorded in the fourth quarter of fiscal year 2003.

During fiscal year 2000 through the first three quarters of fiscal year 2003, Quantum recorded significant charges related to non-recurring events and the realignment and restructuring of its business operations. These charges represent expenses incurred in connection with certain cost reduction programs that Quantum has undertaken, and consist primarily of the cost of involuntary termination benefits, stock compensation charges, facilities charges and other costs of exiting activities. Up through the third quarter of fiscal year 2003, Quantum recorded a liability in the period management approved a restructuring plan if:

- Management having the appropriate level of authority approved and committed Quantum to the specific plan involving involuntary terminations and / or the exit from certain activities;
- The period of time to complete the plan indicated that significant changes to the plan of termination were not likely; and
- The plan involving terminations identified the number of employees and positions to be terminated, and the benefit arrangement was communicated to affected employees.

Only costs resulting from an exit plan that are not associated with, or that do not benefit activities that will be continued, are eligible for recognition as liabilities at the commitment date.

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 Quantum'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 over one third of Quantum's sales are made to customers in non-U.S. locations, a majority of Quantum's material transactions are denominated in U.S. dollars. Accordingly, transaction gains or losses have been immaterial to Quantum'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. The effect of this remeasurement has been immaterial to Quantum's Consolidated Financial Statements for all years presented.

Shipping and Handling Fees

Shipping and handling fees are included in cost of revenue and were \$22.6 million, \$21.2 million and \$17.8 million in fiscal years 2003, 2002 and 2001, respectively.

Income Taxes

Quantum accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*, which requires that deferred tax assets and liabilities be recognized for the effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. SFAS No. 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

Cash Equivalents and Short-Term Investments

Quantum 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. Quantum's short-term investments have maturities of more than 90 days at the time of purchase.

Quantum has classified all cash equivalents and short-term investments as available-for-sale. Securities classified as available-for-sale are carried at fair value with unrealized gains and losses reported as a component of accumulated other comprehensive income (loss) 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 and Allowances for Doubtful Accounts

Quantum performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from its customers. These evaluations require significant judgment and are based on multiple sources of information and analyze such factors as Quantum's historical bad debt experiences, industry and geographic concentrations of credit risk, current economic trends and changes in customer payment terms.

Quantum records allowances for estimated losses resulting from the inability of its customers to make required payments. When Quantum becomes aware that a specific customer is unable to meet its financial obligations, Quantum records a specific allowance to reflect the level of credit risk in the customer's outstanding receivable balance. In addition, Quantum records additional allowances based on certain percentages of its aged receivable balances. Quantum records its bad debt expenses as general and administrative expenses.

Sales to Quantum's top five customers in fiscal year 2003 represented 39% of revenue, compared to 45% of revenue in fiscal year 2002 and 48% of revenue in fiscal year 2001. Sales to Hewlett-Packard were 22% of revenue in fiscal year 2003, compared to combined sales to Hewlett-Packard and Compaq of 28% of revenue in fiscal year 2002 and 30% of revenue in fiscal year 2001. These sales concentrations do not include revenues from sales of Quantum's media that was sold directly to these customers by Quantum's licensees, for which Quantum earns royalty revenue, or revenues from sales of tape libraries sold directly to these customers by Quantum's other OEM tape drive customers.

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 these investments and limits the amount of credit exposure to any one issuer and to any one type of investment.

Investments in Other Entities

Investments in other entities are recorded in other long-term assets. Investments in other entities (generally 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. Dividends, if any, are recorded in other income when received.

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 estimated useful lives of the assets (generally three to 10 years for machinery, equipment, furniture, and leasehold improvements, and 25 years for buildings).

Advertising Expense

Quantum expenses advertising costs as incurred. Advertising expense from continuing operations for the years ended March 31, 2003, 2002, and 2001, was \$8.6 million, \$6.4 million, and \$4.3 million, respectively.

Stock-Based Compensation

As permitted by SFAS No. 123, *Accounting for Stock-Based Compensation*, Quantum accounts for employee stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), and related interpretations. Under APB 25, when the exercise price of its employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. Any deferred stock compensation calculated according to APB 25 is amortized over the vesting period of the individual stock awards. Stock awards granted to nonemployees are accounted for at fair value in accordance with the provisions of SFAS No. 123, with the associated value recognized over the vesting period of the award.

67

In December 2002, the Financial Accounting Standards Board issued SFAS No. 148, *Accounting for Stock-Based Compensation, Transition and Disclosure*. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. Additionally, SFAS No. 148 requires disclosure of the pro forma effect in interim financial statements. The additional disclosure requirements of SFAS No. 148 are effective for fiscal years ended after December 15, 2002. Quantum does not intend to adopt the fair value based method of accounting for stock-based employee compensation, but will provide the additional disclosures required by SFAS No. 148.

For purposes of pro forma disclosures, the estimated fair value of Quantum's employee stock options is amortized to expense over the vesting period of the option. Quantum's pro forma net income (loss) and net income (loss) per share follows:

(in thousands, except per-share data)

	For the year ended March 31,		
	2003	2002	2001
Quantum Corporation			
Reported net income (loss)	\$ (264,295)	\$ 42,502	
Add back employee stock option expense	1,141	21,747	
Option fair value amortization	(19,420)	(23,575)	
Pro forma net income (loss)	\$ (282,574)	\$ 40,674	
Pro forma net income (loss) per share:			
Basic	\$ (1.74)	\$ 0.26	
Diluted	\$ (1.74)	\$ 0.26	
DLT and Storage Systems Group			
Reported net income			\$ 197,828
Option fair value amortization			(54,325)
Pro forma net income			\$ 143,503
Pro forma net income per share:			
Basic			\$ 0.97
Diluted			\$ 0.92

Risks and Uncertainties

As is typical in the information storage industry, a significant portion of Quantum's customer base is concentrated among a small number of OEMs. The loss of any one of Quantum's more significant customers, or a significant decrease in the sales volume with one of these significant customers, could have a material adverse effect on Quantum's results of operations and financial condition. Furthermore, if adverse general economic conditions were to continue or worsen, the resulting effect on Information Technology ("IT") spending could also have a material adverse effect on Quantum's results of operations and financial condition.

The merger of Hewlett-Packard and Compaq has significantly increased the concentration of Quantum's sales and dependency on a single customer. Quantum could be materially affected if Hewlett-Packard, which accounted for 22% of Quantum's revenue in fiscal year 2003, experiences a significant drop in its storage business revenue due to customer loss or integration issues following its merger

with Compaq, or if Hewlett-Packard decided to significantly reduce or cancel its orders from Quantum. Quantum also faces future uncertainties since the combined Hewlett-Packard and Compaq owns a competing LTO brand of tape drive and media. This sales concentration does not include revenues from sales of Quantum's media that was sold directly to Hewlett-Packard by Quantum's licensees, for which Quantum earns royalty revenue, or revenues from sales of tape libraries sold directly to Hewlett-Packard by Quantum's other OEM tape drive customers.

A limited number of tape drive storage products make up a significant majority of Quantum's sales, and due to increasingly rapid technological change in the industry, Quantum's future operating results depend on its ability to develop and successfully introduce new products.

Quantum's main supplier of tape heads is located in China. Political instability, trade restrictions, the SARS health problem, changes in tariff or freight rates or currency fluctuations in China could result in increased costs and delays in shipment of Quantum's products and could materially and adversely impact its operating results.

Quantum has outsourced a significant portion of its manufacturing to contract manufacturers. This concentration presents risks of component shortages or other delays in customer deliveries, increased costs for products manufactured for Quantum and risks associated with unacceptable quality of the products.

Derivative Instruments and Hedging Activities

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, which establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. The adoption of SFAS No. 133 by Quantum in fiscal year 2002 did not have a material effect on Quantum's financial position or results of operations. Quantum did not have any derivative instruments outstanding during fiscal 2003.

Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) are presented in the following table:

(in thousands)

	As of March 31,	
	2003	2002
Foreign currency translation and other	\$ 1,117	\$ (7,585)
Unrealized gain on available-for-sale investments	–	2,695
Total accumulated other comprehensive income (loss)	\$ 1,117	\$ (4,890)

Note 3: Recapitalization

On July 23, 1999, Quantum's stockholders approved the implementation of tracking stocks. As a result, Quantum's Certificate of Incorporation was amended and restated, effective as of the close of business on August 3, 1999, designating two new classes of Quantum Corporation common stock, DSS common stock, \$0.01 par value per share, and HDD common stock, \$0.01 par value per share. On August 3, 1999, each authorized share of Quantum common stock, \$0.01 par value per share, was exchanged for one share of DSS stock and one-half share of HDD stock. These two securities were intended to track separately the performance of the DSS group and the HDD group.

On March 30, 2001, Quantum's stockholders approved the disposition of the HDD group to Maxtor Corporation. On April 2, 2001, each authorized share of HDD common stock was exchanged for 1.52 shares of Maxtor common stock.

Note 4: Discontinued Operations

Disposition of the NAS Business

Quantum was previously engaged in the business of developing, manufacturing, and selling network attached storage solutions for the desktop and workgroups. These NAS products consist primarily of server appliances that incorporate hard disk drives and an operating system designed to meet the requirements of entry, workgroup, and enterprise computing environments, where multiple computer users access shared data files over a local area network.

On October 7, 2002, Quantum entered into an agreement with a privately held third party to sell certain assets and assign certain contract rights related to its NAS business. The NAS assets that were sold included inventories for resale to customers, service inventories, fixed assets and intellectual property. The proceeds from the sale included approximately \$4.7 million in cash, \$3.9 million in restricted equity securities of the buyer with an option to acquire additional equity securities, a secured promissory note for \$2.4 million issued by the buyer and the assumption by the buyer of \$1.6 million of warranty liability in connection with the prior installed base of NAS products. The sale was completed on October 28, 2002.

The following table summarizes the results of the NAS business:

(in thousands)

	For the year ended March 31,		
	2003	2002	2001
Revenue	\$ 19,899	\$ 58,117	\$ 59,703
Gross margin	(3,075)	8,285	10,496
Operating expenses	45,707	59,415	58,621
Loss from operations	(48,782)	(51,130)	(48,125)
Loss before income taxes	(48,633)	(51,189)	(48,040)
Income tax benefit	(10,724)	(17,719)	(17,658)
Loss from NAS discontinued operations	(37,909)	(33,470)	(30,382)

The loss from operations in fiscal year 2003 includes an impairment charge of \$16.4 million and special charges of \$11.7 million. In the second quarter of fiscal year 2003, Quantum determined that the sale of the NAS business was probable and wrote down the assets held for sale to fair value less cost to sell. The fair value of the assets held for sale was determined to be the proceeds from the sale. The resulting impairment charge related mainly to completed technology arising from the acquisitions of Meridian Data Inc. and certain assets of Connex. In the fiscal year 2003, Quantum recorded \$11.7 million of special charges related to the consolidation of sales and marketing activities, including severance charges and vacant facilities charges associated with the sale of the NAS business.

In fiscal year 2002, the loss from operations included \$3.3 million of purchased in-process research and development related to the acquisition of Connex in August 2001. The loss also included \$4.5 million of special charges associated mainly with writing off deferred costs related to the abandonment of the planned initial public offering for the subsidiary that operated Quantum's NAS business, as well as severance charges related to restructurings.

The following table summarizes the current assets and current liabilities of discontinued operations (there were no balances at March 31, 2003 as a result of the disposition):

(in thousands)

	March 31, 2002	
Current assets of discontinued operations:		
Inventories	\$	2,837
Service inventories		2,016
Property and equipment, net		2,123
Goodwill, net		25,340
Intangible assets, net		26,904
	\$	59,220
Current liabilities of discontinued operations:		
Accrued warranty	\$	1,034
Deferred income taxes		8,581
	\$	9,615

Disposition of the HDD group

On March 30, 2001, Quantum's stockholders approved the disposition of the HDD group to Maxtor. On April 2, 2001, each authorized share of HDD common stock was exchanged for 1.52 shares of Maxtor common stock.

The HDD group produced two primary product lines, desktop hard disk drives and high-end hard disk drives. HDD had two separate business units that supported these two product lines. The desktop business unit designed, developed and marketed 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 designed, developed and marketed high-end hard disk drives designed to meet the storage requirements of network servers, workstations and storage subsystems.

In fiscal year 2002, Quantum recorded a non-cash gain of \$125.0 million on the disposition of the HDD group to Maxtor. This gain, net of tax, is comprised of the proceeds recorded for the exchange of HDD shares for Maxtor shares, less the disposal of the assets and liabilities in conjunction with the disposition of the HDD group to Maxtor, and stock compensation charges for the conversion of unvested DSS options to DSS restricted stock for employees who transferred to Maxtor.

The following table sets forth the components of the gain on disposition of the HDD group (in thousands except exchange ratio and closing price):

Outstanding HDD shares at March 30, 2001		80,085
Exchange ratio of Maxtor shares for HDD shares		1.52
		121,729
Maxtor shares received		121,729
Maxtor closing price on March 30, 2001	\$	7.00
		852,100
Proceeds from the disposition of the HDD group		852,100
Net assets disposed		(619,757)
Stock compensation		(47,371)
Deferred income taxes		(60,000)
		124,972
Gain on disposition of HDD group, net of income taxes	\$	124,972

The following table summarizes the results of the HDD group's operations for fiscal year 2001:

(in thousands)	For the year ended March 31, 2001
Revenue	\$ 3,046,489
Gross margin	410,867
Operating expenses	434,418
Loss from operations	(23,551)
Loss before income taxes	(9,660)
Income tax benefit	2,900
Loss from discontinued operations	(6,760)

Quantum has recorded a receivable of \$95.8 million of aggregate principal amount from Maxtor for the principal portion of the convertible subordinated debt principal amount previously attributed to the HDD group and for which Maxtor has agreed to reimburse Quantum for both principal and associated interest payments.

Tax allocations under a tax sharing and indemnity agreement with Maxtor are the subject of a dispute. This agreement between Quantum and Maxtor entered into in connection with the disposition of the HDD group to Maxtor provided for the allocation of certain liabilities related to taxes between Quantum and Maxtor and the indemnification by Maxtor of Quantum with respect to certain liabilities relating to taxes and attributable to the HDD group's conduct of business prior to the disposition of the HDD group. Maxtor and Quantum presently disagree as to the amounts owed under this agreement. The parties are in negotiations to resolve this matter, and no litigation has been initiated to date. However, there can be no assurance that Quantum will be successful in asserting its position. If disputes under this agreement cannot be resolved favorably, Quantum may incur significant liabilities and costs to litigate or settle these disputes, which could have a material adverse effect on its results of operations and financial condition.

Note 5: Cumulative Effect of an Accounting Change

SFAS No. 142, *Goodwill and Other Intangible Assets*, which required companies to discontinue the amortization of goodwill and certain intangible assets with an indefinite useful life, became effective for Quantum on April 1, 2002. Instead, goodwill and intangible assets deemed to have an indefinite useful life must be reviewed for impairment upon adoption of SFAS No. 142 and annually thereafter, or more frequently when indicators of impairment exist.

The assessment of impairment conducted in the first quarter of fiscal year 2003, the quarter in which Quantum adopted SFAS No. 142, required Quantum to identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units. At the time of adoption, the Storage Solutions group was the only business unit with goodwill. The fair values of the reporting units underlying the Storage Solutions group were estimated using both a discounted cash flow and market approach methodology. The reporting units' carrying amounts exceeded their fair values, indicating that the reporting units' goodwill was impaired, therefore requiring Quantum to perform the second step of the transitional impairment test. In the second step, Quantum compared the implied fair values of the reporting units' goodwill, determined by allocating the reporting units' fair values to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with SFAS No. 141, *Business Combinations*.

Upon adoption of SFAS No. 142 in the first quarter of fiscal year 2003, Quantum recorded a non-cash accounting change adjustment of \$94.3 million, reflecting a reduction to the carrying value of its goodwill, as a cumulative effect of an accounting change in the accompanying consolidated statements of operations.

Note 6, *Goodwill and Intangible Assets*, provides additional discussion on the impact to Quantum's financial statements as a result of applying SFAS No. 141 and SFAS No. 142.

Note 6: Goodwill and Intangible Assets

As a result of adopting SFAS No. 142, *Goodwill and Other Intangible Assets*, on April 1, 2002, Quantum recorded an accounting change adjustment of \$94.3 million in the first quarter of fiscal year 2003 and a goodwill impairment charge of \$58.7 million in the second quarter of fiscal year 2003 related to the Storage Solutions group. The impairment charge recorded in the second quarter of fiscal year 2003 was attributable to the Storage Solutions group and was primarily caused by the deterioration in the market values of comparable companies, and to a lesser extent, by a reduction in anticipated future cash flows. The fair value of the Storage Solutions group was calculated using a combination of a discounted cash flow analysis involving projected data, and a comparable market approach, which involved a comparison with companies also in the tape automation business.

As required by SFAS No. 142, intangible assets that do not meet the criteria for recognition apart from goodwill must be reclassified. In applying these criteria, Quantum transferred \$2.9 million of assembled workforce from intangible assets to goodwill in the first quarter of fiscal year 2003. Also in accordance with SFAS No. 142, Quantum discontinued the amortization of goodwill effective April 1, 2002 and instead will test it for impairment annually or whenever events or changes in circumstances suggest that the carrying amount may not be recoverable, such as what occurred in the second quarter of fiscal year 2003.

On November 13, 2002, Quantum acquired Benchmark Storage Innovations Inc. (refer to Note 7 *Business Combinations*), resulting in an additional \$28.2 million of intangible assets and \$26.8 million of goodwill upon acquisition, with a further goodwill amount of \$3.2 million resulting from the distribution of Quantum shares due to quarterly earn out objectives being achieved. On February 4, 2003, Quantum acquired SANlight Inc. (refer to Note 7 *Business Combinations*), resulting in an additional \$2.7 million of intangible assets.

72

The following financial information reflects consolidated results adjusted as though the accounting for goodwill and intangible assets was consistent for all periods presented:

(in thousands, except per-share data)

	For the year ended March 31,		
	2003	2002	2001
Reported net income (loss) before cumulative effect of an accounting change	\$ (264,295)	\$ 42,502	\$ 160,686
Add back goodwill (including assembled workforce) amortization, net of tax	-	16,053	10,812
Adjusted net income (loss)	\$ (264,295)	\$ 58,555	\$ 171,498
Adjusted basic net income per share:			
Reported basic net income (loss) per share before cumulative effect of an accounting change	\$ (1.63)	\$ 0.27	\$ 1.08
Add back goodwill (including assembled workforce) amortization, net of tax	-	0.10	0.07
Adjusted basic net income (loss) per share	\$ (1.63)	\$ 0.37	\$ 1.15
Adjusted diluted net income per share:			
Reported diluted net income (loss) before cumulative effect of an accounting change	\$ (1.63)	\$ 0.27	\$ 1.03
Add back goodwill (including assembled workforce) amortization, net of tax	-	0.10	0.07
Adjusted diluted net income (loss) per share	\$ (1.63)	\$ 0.37	\$ 1.10

The following table provides a summary of the carrying amount of goodwill and includes amounts originally allocated to an intangible asset representing the value of the assembled workforce:

(in thousands)	Goodwill
Balance as of March 31, 2002	\$ 135,817
Assembled workforce reclassified to goodwill, net (1)	1,320
Cumulative effect of an accounting change (2)	(68,497)
Goodwill impairment	(58,689)
Benchmark acquisition	26,762
Additional goodwill for M4 earn out	983
Additional goodwill for Benchmark earn out	3,220

(1) Excludes \$1.6 million related to the NAS business, which has been classified as discontinued operations.

(2) Excludes \$25.8 million related to the NAS business, which has been classified as discontinued operations

The following tables provide a summary of the carrying amount of intangible assets that will continue to be amortized:

(in thousands)

	As of March 31, 2003		
	Gross Amount	Accumulated Amortization	Net Amount
Purchased technology	\$ 84,600	\$ (27,115)	\$ 57,485
Trademarks	22,560	(6,914)	15,646
Non-compete agreements	2,556	(1,566)	990
Customer lists	14,100	(10,308)	3,792
Other	4,133	(2,602)	1,531
	<u>\$ 127,949</u>	<u>\$ (48,505)</u>	<u>\$ 79,444</u>

	As of March 31, 2002		
	Gross Amount	Accumulated Amortization	Net Amount
Purchased technology	\$ 59,000	\$ (17,780)	\$ 41,220
Trademarks	20,000	(4,667)	15,333
Non-compete agreements	1,500	(1,500)	–
Customer lists	14,100	(8,015)	6,085
Assembled workforce	4,400	(3,080)	1,320
Other	2,500	(2,153)	347
	<u>\$ 101,500</u>	<u>\$ (37,195)</u>	<u>\$ 64,305</u>

The total amortization expense related to goodwill and intangible assets is provided in the table below:

(in thousands)

	For the year ended March 31,		
	2003	2002	2001
Goodwill	\$ –	\$ 15,170	\$ 9,192
Purchased technology	9,335	7,279	4,200
Trademarks	2,247	1,336	1,332
Assembled workforce	102	880	880
Customer lists	2,292	2,287	2,292
Other	66	–	372
	<u>\$ 14,042</u>	<u>\$ 26,952</u>	<u>\$ 18,268</u>

The total expected future amortization related to intangible assets is provided in the table below:

(in thousands)

	Amortization
Fiscal year 2004	\$ 18,477
Fiscal year 2005	17,429
Fiscal year 2006	16,253
Fiscal year 2007	14,025
Fiscal year 2008	9,699
Fiscal year 2009	3,561
Total as of March 31, 2003	<u>\$ 79,444</u>

Note 7: Business Combinations

On February 4, 2003, Quantum completed the acquisition of SANlight, Inc. ("SANlight") pursuant to which SANlight became a wholly owned subsidiary of Quantum. SANlight was a privately held development stage enterprise in storage solution technology in which Quantum previously owned stock. Under the terms of the agreement, Quantum acquired the remaining outstanding shares of SANlight that it did not already own. The purchase price was approximately \$9.2 million, consisting of 2.2 million shares of Quantum common stock and acquisition costs of approximately \$2.1 million. The agreement requires Quantum to issue up to an additional 0.6 million shares of common stock under the purchase agreement if certain milestones are achieved in the first three years after the completion of the acquisition. In the first quarter of fiscal year 2004, 0.2 million shares were issued as a result of the achievement of milestones.

The acquisition will provide Quantum with software technology and expertise it can leverage in its enhanced backup solutions, such as the Quantum DX30. The acquisition will also help augment Quantum's enhanced data backup offerings by enabling solutions that incorporate its own technologies and those of its software partners.

SANlight's results of operations are included in Quantum's financial statements from the date of acquisition, and the assets and liabilities were recorded based on their fair values as of the date of acquisition. Quantum assigned SANlight's assets and liabilities into the SSG operating segment. There were no employee stock options or warrants assumed as a result of the acquisition. Pro forma results of operations have not been presented because the effect of the acquisition was not material to Quantum's financial position or results of operations.

The purchase price has been allocated based on the estimated fair value of net tangible and intangible assets acquired, and liabilities assumed, to the following assets and liabilities:

(in thousands)	Purchase Price Allocation	
Net liabilities assumed	\$	(247)
Deferred tax liabilities		(1,022)
Purchased in-process research and development		7,802
Intangible assets:		
Assembled workforce		1,632
Non-compete covenants		1,056
	\$	9,221

The intangible assets are being amortized on a straight-line basis over estimated useful lives of two years.

The purchase price was allocated based on the estimated fair value of net tangible and intangible assets acquired and assumed liabilities as well as in-process research and development costs. As of the acquisition date, technological feasibility of the in-process technology had not been established and the technology had no alternative future use. Therefore, Quantum expensed approximately \$7.8 million of the purchase price as in-process research and development in the fourth quarter of fiscal year 2003.

The amount of the purchase price allocated to purchased 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 45% discount rate, which represented a premium to Quantum's cost of capital. Expected revenue from the purchase of in-process projects is projected to grow from zero in fiscal year 2003 to approximately \$29 million in fiscal year 2005, and then, as other new products and technologies are expected to enter the market, increase to \$233 million in fiscal year 2008. 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.

Benchmark Storage Innovations Inc.

On November 13, 2002, Quantum completed the acquisition of Benchmark Storage Innovations, Inc. ("Benchmark"), a privately held company. The acquisition was accounted for as a purchase business combination at a total cost of approximately \$67.5 million. The acquisition enables Quantum to expand its tape business by adding Benchmark's complementary products to serve the data protection needs of both new and existing customers in the value segment of the market, which was not part of Quantum's existing offerings. Goodwill from the acquisition of \$26.8 million resulted from Quantum's belief that it was economically beneficial to acquire the technology rather than develop it internally.

Under the terms of the agreement, Quantum, which held a minority interest in Benchmark, acquired all the outstanding Benchmark common stock, preferred stock, options and warrants in consideration for approximately \$67.5 million. The consideration consisted of \$11.0 million in cash and 13.1 million shares of common stock given to the former shareholders of Benchmark. The agreement requires Quantum to issue up to an additional 1.9 million shares of common stock under the purchase agreement if certain performance milestones are achieved in the first year after the completion of the acquisition. As of March 31, 2003, 0.4 million shares were issued and during the first quarter of fiscal year 2004 an additional 0.5 million shares were issued as a result of the achievement of quarterly milestones. There were no employee stock options or warrants assumed

as a result of the acquisition.

Benchmark's results of operations are included in Quantum's financial statements from the date of acquisition, and the assets and liabilities were recorded based on their fair values as of the date of acquisition. Quantum assigned Benchmark's tape drive and media products into the DLTG operating segment and Benchmark's autoloader product into the SSG operating segment.

The purchase price has been allocated based on the estimated fair value of net tangible and intangible assets acquired, and liabilities assumed, to the following assets and liabilities:

(in thousands)	Purchase Price Allocation	
Deferred tax assets	\$	4,599
Other current assets		33,698
Fixed assets		3,505
Current liabilities		(24,159)
Deferred tax liabilities		(5,082)
Intangible assets:		
Completed technology		25,600
Trademarks		2,560
Goodwill		26,762
	\$	67,483

The intangible assets are being amortized on a straight-line basis over estimated useful lives ranging from four to five years.

76

The following unaudited pro forma information presents the results of operations of Quantum as if the Benchmark acquisition had occurred on April 1, 2001.

(in thousands, except per-share data)

	For the year ended	
	March 31, 2003	March 31, 2002
Revenue	\$ 931,941	\$ 1,101,986
Income (loss) from continuing operations	(139,377)	(57,113)
Cumulative effect of an accounting change	(94,298)	-
Net income (loss)	(271,584)	34,389
Net income (loss) per share from - basic	\$ (1.61)	\$ 0.20
Net income (loss) per share from - diluted	\$ (1.61)	\$ 0.20

The unaudited pro forma information is presented for illustrative purposes only and is not necessarily indicative of the operating results that would have occurred had the transaction been completed at the beginning of the period indicated, nor is it necessarily indicative of future operating results.

Connex Inc.

On August 8, 2001, Quantum completed the acquisition of certain assets of Connex Inc., a wholly owned subsidiary of Western Digital Corporation. Connex was a provider of network attached storage products. The acquisition was accounted for as a purchase of assets at a total cost of approximately \$11.9 million.

Under the terms of the agreement, Quantum acquired complementary technology, intellectual property and other assets of Connex for approximately \$11.9 million in cash.

Connex's results of operations are included in the financial statements from the date of acquisition, and the assets and liabilities acquired were recorded based on their fair values as of the date of acquisition. Pro forma results of operations have not been presented because the effect of the acquisition was not material to Quantum's financial position or results of operations.

The purchase price was allocated based on the estimated fair value of net tangible and intangible assets acquired and assumed liabilities as well as in-process research and development costs. As of the acquisition date, technological feasibility of the in-process technology had not been established and the technology had no alternative future use. Therefore, Quantum expensed approximately \$3.3 million of the purchase price as in-process research and development in the second quarter of fiscal year 2002. This amount is included in 'Loss from NAS discontinued operations, net of income taxes' in the consolidated statements of operations.

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 25% discount rate, which represented a premium to Quantum's cost of capital. The expected revenue assumed a six-year compound annual growth rate of 59.8% during fiscal years 2003 through 2008. Expected revenue from the purchased in-process projects was projected to grow from approximately \$18 million in 2003 to \$24 million in 2005, and then, as other new products and technologies were expected to enter the market, declined to \$5 million in 2008. 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.

Connex's results of operations from the date of acquisition and the assets and liabilities acquired were part of Quantum's NAS business, which was sold on October 28, 2002 and were accounted for in discontinued operations.

77

M4 Data (Holdings) Ltd

On April 12, 2001, Quantum completed the acquisition of M4 Data (Holdings) Ltd. ("M4 Data"), a privately held data storage company based in the United Kingdom. M4 Data provides high performance and scalable tape automation products for the data storage market. The acquisition was accounted for as a purchase business combination at a total cost of approximately \$58.0 million.

Under the terms of the agreement, Quantum acquired all the outstanding stock of M4 Data in consideration for approximately \$58.0 million, which consisted of \$15.2 million in cash proceeds, the assumption by Quantum of \$41.4 million in debentures and \$1.4 million in acquisition-related costs. In the first quarter of fiscal year 2003, the holders called and received payment from Quantum for \$38.7 million of the debentures, and an additional \$2.7 million of the debentures in the third quarter of fiscal year 2003. The purchase agreement also includes additional contingent consideration to be paid annually by Quantum from 2002 through 2005 based on future revenues, which may result in additional debentures being issued. Additional debentures of \$0.4 million were issued in the second quarter of fiscal year 2003 based on fiscal year 2002 revenues.

M4 Data's results of operations are included in the financial statements from the date of acquisition, and the assets and liabilities acquired were recorded based on their fair values as of the date of acquisition. Pro forma results of operations have not been presented because the effect of the acquisition was not material to Quantum's financial position or results of operations.

The purchase price has been allocated based on the estimated fair value of net tangible and intangible assets acquired, assumed liabilities, and in-process research and development. As of the acquisition date, the in-process technology was deemed to have no alternative future use. Therefore, Quantum expensed \$13.2 million of the purchase price as in-process research and development in fiscal year 2002. The intangible assets are being amortized on a straight-line basis over periods ranging from three to six years.

The amount of the purchase price allocated to in-process research and development was determined based on the estimated stage of development of each in-process research and development project at the date of acquisition and estimated cash flows resulting from the expected revenue generated from such projects, with the net cash flows discounted to present value at a discount rate of 34%, which represented a premium to Quantum's cost of capital.

Note 8: Special Charges

The major cost reduction project involving the strategic realignment of Quantum resulting from the disposition of HDD was completed at March 31, 2002. The disposition of the HDD group to Maxtor on April 2, 2001, changed Quantum from a company with operations supporting over \$4 billion in revenue to a company with operations supporting less than \$1 billion in revenue. The special charges of \$27.2 million recorded in fiscal year 2002 for this cost reduction project were related to the disposition of the HDD group and actions taken to reduce Quantum's cost structure to a more appropriate level subsequent to the disposition. The cash portion of this charge was \$7.2 million.

78

The following two tables detail Quantum's other special charge activity:

Table 1: Discontinuation of Manufacturing in Colorado Springs

(in thousands)	Severance and Benefits	Facilities	Investments	Fixed Assets	Other	Total
Special Charge Provision	\$ 7,646	\$ 13,500	\$ 13,908	\$ 3,163	\$ 1,866	\$ 40,083
Cash payments	(956)	-	-	-	(1,102)	\$ (2,058)
Non-cash charges	-	-	(13,908)	(3,163)	-	\$ (17,071)
Balance March 31, 2000	6,690	13,500	-	-	764	\$ 20,954
Cash payments	(5,181)	(748)	-	-	(68)	\$ (5,997)

Non-cash charges	-	(5,219)	-	-	-	\$ (5,219)
Special charge reversal	-	(7,000)	-	-	-	\$ (7,000)
Balance March 31, 2001	1,509	533	-	-	696	\$ 2,738
Provision associated with the transfer of the remainder of the tape drive manufacturing	8,376	5,005	-	3,247	-	\$ 16,628
Lease impairment provision	-	11,235	-	-	-	\$ 11,235
Cash payments	(7,675)	(533)	-	-	(696)	\$ (8,904)
Non-cash charges	-	-	-	(3,247)	-	\$ (3,247)
Balance March 31, 2002	2,210	16,240	-	-	-	\$ 18,450
Outsourcing of manufacturing	3,770	-	-	-	-	\$ 3,770
Lease provision	-	1,334	-	-	-	\$ 1,334
Cash payments	(5,980)	(15,190)	-	-	-	\$ (21,170)
Balance March 31, 2003	\$ -	\$ 2,384	\$ -	\$ -	\$ -	\$ 2,384
Estimated timing of future payouts:						
Fiscal Year 2004	\$ -	\$ 440	\$ -	\$ -	\$ -	\$ 440
Fiscal Year 2005 to 2008	-	1,944	-	-	-	\$ 1,944
	\$ -	\$ 2,384	\$ -	\$ -	\$ -	\$ 2,384

Fiscal year 2000 provision - Discontinuation of manufacturing in Colorado Springs:

During the fourth quarter of fiscal year 2000, Quantum recorded a special charge of \$40.1 million. This charge was primarily related to Quantum's DLTG operating segment and reflected Quantum's strategy to align its DLTape drive operations with market conditions at that time. These conditions included slower growth in the mid-range server market and increased centralization of server backup through automation solutions, both of which resulted in declining DLTape drive shipments. The charge included a reduction of infrastructure expenses throughout DLTG and an acceleration of Quantum's low cost manufacturing strategy, which included moving volume production of certain DLTape drives from Colorado Springs, Colorado, to Penang, Malaysia.

The charge consisted of \$13.5 million in leased facility vacant space costs, \$13.9 million for the write-off of investments in optical technology, \$7.6 million for severance and benefits for terminated employees, \$3.2 million for fixed asset write-offs, primarily related to discontinuing manufacturing in Colorado Springs, and \$1.9 million in other costs associated with the plan.

Fiscal year 2001 provision - Discontinuation of manufacturing in Colorado Springs:

In the third quarter of fiscal year 2001, Quantum reversed \$7.0 million as a special charge benefit on the statement of operations, which was reflected net of the \$7.0 million special charge described below under "Other Restructuring Programs". This reversal was primarily due to a revised estimate of the vacancy period related to a facility in Colorado Springs, Colorado.

In connection with this special charge, Quantum reduced its workforce by 782 employees. The reduction in workforce primarily affected employees at Quantum's manufacturing operations in Colorado Springs, Colorado, as well as administrative employees within the DLT group.

Fiscal year 2002 provisions - Discontinuation of manufacturing in Colorado Springs:

In July 2001, Quantum announced an additional restructuring of its DLTape group. This restructuring resulted in the closure of the remaining tape drive production in Colorado Springs, Colorado. A charge of \$16.6 million was recorded related to the discontinuation of tape drive production in Colorado Springs, Colorado, and consisted of the following:

- Severance and benefits costs of \$8.4 million representing severance for 350 employees;
- Additional vacant facilities costs of \$5.0 million in Colorado Springs, Colorado; and
- Write-off of fixed assets and leasehold improvements of \$3.2 million.

Quantum recorded an additional vacant facility charge of \$11.2 million in the fourth quarter of fiscal year 2002, related to the synthetic lease for its Colorado Springs facility, which had been the center of DLTG's operations that were subsequently transferred to Penang, Malaysia. Quantum periodically reviews the valuation of the leased facilities, and in the fourth quarter of fiscal year 2002, a third party valuation appraisal resulted in Quantum recording this charge of \$11.2 million, which reflected the difference between the current estimated market value of vacant facilities in Colorado Springs and the residual value guarantee to the lessor. Please refer to Note 23, "Commitments and Contingencies", for further discussion of this synthetic lease.

Fiscal year 2003 provisions - Discontinuation of manufacturing in Colorado Springs

In the third quarter of fiscal year 2003, the following special charges were recorded by DLTG:

- A charge of \$3.8 million related to severance for the 870 employees who were terminated as a result of Quantum outsourcing its tape drive manufacturing and certain tape automation manufacturing to Jabil Circuit Inc. ("Jabil"); and
- A charge of \$1.3 million reflecting vacant facilities' costs associated with the renegotiation of Quantum's synthetic lease (refer to Note 23, "Commitments and Contingencies").

Remaining special charge accrual - Discontinuation of manufacturing in Colorado Springs

The remaining special charge accrual reflects a vacant space accrual of \$2.4 million, which will be paid over the respective lease term through the third quarter of fiscal year 2008.

Table 2: Other Restructuring Programs

(in thousands)	Severance and Benefits	Fixed assets	Facilities	Demo equipment	Other	Total
Relocation of engineering provision	\$ 7,000	\$ -	\$ -	\$ -	\$ -	\$ 7,000
Cash payments	(1,657)	-	-	-	-	(1,657)
Balance March 31, 2001	5,343	-	-	-	-	5,343
SSG provision	2,353	-	3,903	6,315	1,145	13,716
European DLTG operations provision	1,718	401	530	-	-	2,649
Corporate provision	1,965	-	412	-	196	2,573
Cash payments	(8,152)	-	(1,435)	-	-	(9,587)
Non-cash charges	-	(401)	(1,015)	(6,315)	(86)	(7,817)
Special charge reversal	(1,100)	-	-	-	-	(1,100)
Balance March 31, 2002	2,127	-	2,395	-	1,255	5,777
SSG provision	8,446	930	1,418	-	-	10,794
DLTG provision	5,556	-	-	-	-	5,556
Corporate provision	3,955	-	-	-	-	3,955
Cash payments	(19,020)	-	(448)	-	(495)	(19,963)
Non-cash charges	(109)	(930)	-	-	-	(1,039)
Special charge reversal	(85)	-	(1,124)	-	-	(1,209)
Balance March 31, 2003	\$ 870	\$ -	\$ 2,241	\$ -	\$ 760	\$ 3,871
Estimated timing of future payouts:						
Fiscal Year 2004	\$ 870	\$ -	\$ 1,046	\$ -	\$ 760	\$ 2,676
Fiscal Year 2005 to 2006	-	-	1,195	-	-	1,195
	\$ 870	\$ -	\$ 2,241	\$ -	\$ 760	\$ 3,871

Fiscal year 2001 provision - Other Restructuring Programs:

Quantum recorded a charge of \$7.0 million in the third quarter of fiscal year 2001 related to DLTG's decision to consolidate DLTape engineering activities. This impacted engineering, marketing and administrative employees in Shrewsbury, Massachusetts, as these positions were eliminated or transitioned to Boulder, Colorado. The charge is related to severance and benefit costs associated with employees terminated as part of this plan.

Quantum has reduced its workforce in this area by 200 employees. During the second quarter of fiscal year 2002, the severance program was completed, representing \$5.9 million in cash expenditures. Quantum reversed a charge of \$1.1 million on its income statement in the third quarter of fiscal year 2002, as a result of lower than expected severance costs.

Fiscal year 2002 provisions - Other Restructuring Programs:

SSG overhead reductions

Quantum recorded a charge of approximately \$13.7 million in the first quarter of fiscal year 2002 related to staff reductions and other costs associated with cost saving actions in tape automation system activities. These costs were comprised of severance costs of \$2.4 million; vacant facilities costs of \$3.9 million for facilities in Irvine, California; sales and marketing demonstration equipment disposals of \$6.3 million; and contract cancellation fees of \$1.1 million.

European operations reorganization

A charge of \$2.6 million was recorded over the second and third quarters of fiscal year 2002 related to the closure of Quantum's Geneva, Switzerland sales office, and associated European distributor operations. These costs reflected vacant facilities costs, severance costs and the write-off of fixed assets.

Corporate overhead reductions

A special charge of \$2.6 million was recorded in the fourth quarter of fiscal year 2002 for employee reductions in Quantum's corporate headquarters in Milpitas, California. These costs reflected severance costs for 18 employees, facilities and fixed asset costs, and legal fees.

Fiscal year 2003 provisions - Other Restructuring Programs:*DLTG cost reductions*

In the second quarter of fiscal year 2003, a charge of \$3.3 million was recorded to reflect a reduction in DLTG's costs resulting from a headcount reduction. The charge relates to severance benefits for approximately 75 employees.

In the third quarter of fiscal year 2003, DLTG recorded a charge of \$2.3 million in order to reduce future DLTG operating costs through a headcount reduction. The charge related to severance benefits for approximately 44 employees.

SSG cost reductions

In the first quarter of fiscal year 2003, a charge of \$1.1 million was recorded to reduce SSG's costs with the integration of sales and marketing activities within SSG. The charge primarily relates to severance benefits for approximately 30 employees who were terminated as a result of this restructuring plan.

In the second quarter of fiscal year 2003, a charge of \$7.2 million was recorded to reduce SSG's costs and the actions include outsourcing sub-assembly manufacturing of Quantum's enterprise tape libraries, consolidating the number of research and development sites for disk-based backup and tape automation, and centralizing sales and marketing support functions. The charge reflects severance benefits for approximately 140 employees, as well as fixed asset write-offs and vacant facility charges.

In the third quarter of fiscal year 2003, the following amounts were recorded by SSG:

- A special charge of \$2.5 million related to severance costs for 41 employees; and
- A special charge of \$0.7 million was reversed on Quantum's statement of operations related to special charges recorded in the second quarter of fiscal year 2003 for vacant facilities due to a renegotiation of the terms with the lessor.

Corporate severance

In the second quarter of fiscal year 2003, a charge of \$3.7 million was recorded primarily for separation costs related to Quantum's former Chief Executive Officer, who remains Quantum's Chairman of the Board of Directors.

Over the third and fourth quarters of fiscal year 2003, charges of \$0.3 million were recorded for additional costs relating to severance for three corporate employees.

European operations reorganization

In the first quarter of fiscal year 2003, Quantum reversed a charge of \$0.5 million on its statement of operations related to special charges recorded in the second quarter of fiscal year 2002 for the closure of its Geneva, Switzerland sales office. Quantum reversed the special charge because the landlord was able to sublease the space to a new tenant on terms more favorable than originally anticipated.

Remaining special charge accrual - Other Restructuring Programs

The \$3.9 million remaining special charge accrual at March 31, 2003 was comprised mainly of obligations for severance, vacant facilities and contract cancellation fees. The severance charges will be paid during the first two quarters of fiscal year 2004. The facilities charges relating to vacant facilities in Irvine, California, will be paid over the respective lease term through the third quarter of fiscal year 2006. The contract cancellation fees are expected to be paid during fiscal year 2004.

Note 9: Financial InstrumentsAvailable-for-Sale Securities

The following is a summary of Quantum's available-for-sale securities, all of which are classified as cash equivalents or short-term investments:

(in thousands)

As of March 31,

	2003	2002
Certificates of deposit	\$ 142,000	\$ 188,025
Money market funds	61,972	102,280
Corporate commercial paper and bank notes	104,146	47,498
U.S. Treasury securities	3,050	-
Other	7,621	6,630
	<u>\$ 318,789</u>	<u>344,433</u>
Included in cash and cash equivalents	\$ 221,734	\$ 343,878
Included in short-term investments	97,055	555
	<u>\$ 318,789</u>	<u>344,433</u>

The difference between the amortized cost of available-for-sale securities and fair value was immaterial at March 31, 2003 and March 31, 2002. Unrealized gains on available-for-sale securities in fiscal years 2002 and 2001 were recorded, net of tax, as a component of accumulated other comprehensive income within Quantum's stockholders' equity. There were no unrealized gains on available-for-sale securities in fiscal year 2003. The estimated fair value of available-for-sale securities is based on market quotations. There were sales of available-for-sale securities of \$627.9 million in fiscal year 2003, but no sales of available-for-sale securities in fiscal years 2002 or 2001. At March 31, 2003, the average available-for-sale portfolio duration was approximately 45 days for debt securities, and \$2.9 million of securities had maturities longer than one year.

Derivative Financial Instruments

During fiscal year 2001 and fiscal year 2002, 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, were recorded monthly in other income. Quantum did not utilize foreign currency forward exchange contracts in fiscal year 2003 and there were no foreign currency forward contracts to be purchased or sold outstanding at March 31, 2003 or March 31, 2002.

Carrying Amount and Fair Values of Financial Instruments

The estimated fair value of Quantum's borrowings are summarized as follows:

(in thousands)

	As of March 31,			
	2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Short-term debt	\$ -	\$ -	\$ 41,363	\$ 41,363
Convertible subordinated debt	287,500	274,634	287,500	267,400
	<u>\$ 287,500</u>	<u>\$ 274,634</u>	<u>\$ 328,863</u>	<u>\$ 308,763</u>

The fair values for the convertible subordinated debt were based on the quoted market price at the balance sheet dates. The fair value of short-term debt at March 31, 2002 has been stated at the par value since the holders called and received payment from Quantum for \$38.7 million in the first quarter of fiscal year 2003. The remaining \$2.7 million of debentures were paid to the holders in the third quarter of fiscal year 2003.

Note 10: Inventories

Inventories consisted of:

(in thousands)

	As of March 31,	
	2003	2002
Materials and purchased parts	\$ 32,415	\$ 55,745

Work in process	4,264	19,374
Finished goods	29,626	23,682
	\$ 66,305	\$ 98,801

Note 11: Service Inventories

Service inventories consisted of:

(in thousands)	As of March 31,	
	2003	2002
Component parts	\$ 13,688	\$ 16,330
Finished units	35,416	31,957
	\$ 49,104	\$ 48,287

84

Note 12: Accrued Warranty and Indemnifications

The following table details the quarterly change in the accrued warranty balance:

(in thousands)	Fiscal Year	
	2003	2002
Balance at April 1	\$ 42,176	\$ 54,202
Additional warranties issued in fiscal year 2003	32,104	21,692
Adjustments for warranties issued in prior fiscal years	9,395	-
Settlements made in cash	(41,952)	(33,718)
Benchmark balance acquired	7,859	-
Balance at March 31	\$ 49,582	\$ 42,176

Quantum warrants its products against defects for periods ranging from one to three years. A provision for estimated future costs and estimated returns for credit relating to warranty is recorded when products are shipped and revenue recognized. Quantum's estimate of future costs to satisfy warranty obligations is primarily based on estimates of future failure rates and its estimates of future costs of repair including materials consumed in the repair, and labor and overhead amounts necessary to perform the repair.

The estimates of future product failure rates are based on both historical product failure data and anticipated future failure rates. If future actual failure rates differ from its estimates, Quantum records the impact in subsequent periods. Similarly, the estimates of future costs of repair are based on both historical data and anticipated future costs. If future actual costs to repair were to differ significantly from its estimates, Quantum would record the impact of these unforeseen cost differences in subsequent periods.

Indemnifications

Quantum has off-balance sheet transactions consisting of certain financial guarantees, both express and implied, related to product liability and potential infringement of intellectual property. Other than certain product liabilities recorded at March 31, 2003, Quantum did not record a liability associated with these guarantees, as Quantum has little or no history of costs associated with such indemnification requirements. Contingent liabilities associated with product liability may be mitigated by insurance coverage that Quantum maintains.

Note 13: Property, Plant and Equipment

Property, plant and equipment consisted of:

(in thousands)	As of March 31,	
	2003	2002
Machinery and equipment	\$ 143,044	\$ 146,504

Furniture and fixtures	5,724	5,900
Buildings and leasehold improvements	40,973	39,601
Land	1,556	1,529
	\$ 191,297	\$ 193,534
Less accumulated depreciation and amortization	(136,775)	(117,129)
	\$ 54,522	\$ 76,405

Note 14: Common Stock Repurchase

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

There were no repurchases of Quantum common stock during fiscal year 2003. Since the beginning of the stock repurchase authorization through March 31, 2003, Quantum has repurchased a total of 8.6 million shares of Quantum common stock (including 3.9 million that was outstanding prior to the issuance of the DSS and HDD common stocks), 29.2 million shares of DSS common stock and 13.5 million shares of HDD common stock for an aggregate total of \$612.1 million. At March 31, 2003, there was approximately \$87.9 million remaining on Quantum's authorization to repurchase Quantum common stock, although Quantum's ability to repurchase is restricted under its credit facility.

During the fourth quarter of fiscal year 2002, Quantum retired 7.7 million shares of common stock that had been repurchased over the 2002 and 2001 fiscal years. This balance represented the total quantity of repurchased shares that remained issued. The retirement of these shares resulted in a reduction to retained earnings of approximately \$72.2 million, representing the difference between the average price at which these shares were issued and the average price at which these shares were repurchased.

Note 15: Credit Agreements, Short-Term Debt and Convertible Subordinated Debt

Quantum's debt includes the following:

(in thousands)

	As of March 31,	
	2003	2002
Short-term debt (M4 Data (Holdings) Ltd. debentures)	\$ —	\$ 41,363
Convertible subordinated debt	287,500	287,500
	\$ 287,500	\$ 328,863
Weighted average interest rate	7.00%	6.75%

Short-term debt (M4 Data debentures)

Quantum acquired all the outstanding stock of M4 Data on April 12, 2001, for approximately \$58.0 million in consideration, including \$41.4 million in 5% debentures. The debenture holders called and received payment from Quantum for \$38.7 million in the first quarter of fiscal year 2003 and \$2.7 million in the third quarter of fiscal year 2003. The purchase agreement also included additional contingent consideration to be paid annually from 2002 through 2005 based on future revenues, which may result in additional debentures being issued. Additional debentures of \$0.4 million were issued in the second quarter of fiscal year 2003 based on fiscal year 2002 revenues. The debenture holders called and received payment from Quantum for these debentures in the fourth quarter of fiscal year 2003.

The notes are unsecured obligations subordinated in right of payment to all of Quantum's existing and future senior indebtedness. The debentures do not contain financial covenants, reporting covenants or cross default provisions.

Convertible subordinated debt

In July 1997, Quantum issued \$287.5 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 and Maxtor common stock. The notes are classified as long-term. The notes are convertible into 6,206,152 shares of Quantum common stock (or 21.587 shares per \$1,000 note), and 4,716,676 shares of Maxtor common stock (or 16.405 shares per \$1,000 note).

Quantum recorded a receivable from Maxtor of \$95.8 million of aggregate principal amount for the portion of the debt previously attributed to the HDD group and for which Maxtor has agreed to reimburse Quantum for both principal and associated interest payments. In the event of certain changes involving all or substantially all of Quantum's common stock, the holder would have the option to require Quantum to redeem the notes. Redemption prices range from a current premium of 102% 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. The notes do not contain financial covenants or cross default provisions.

Credit line

In April 2000, Quantum entered into an unsecured senior credit facility with a group of nine banks, providing a \$187.5 million revolving credit line that would have expired in April 2003. In December 2002, Quantum terminated this facility and entered into a secured senior credit facility with a group of five banks, providing a \$100 million revolving credit line that expires in June 2004. As of March 31, 2003, \$89 million is committed to standby letters of credit and there were no borrowings from the remaining \$11 million available under this credit facility. Borrowings under the revolving credit line bear interest at either the London interbank offering rate or a base rate, plus a margin determined by a leverage ratio with option periods of one to six months. The credit facility is secured by a blanket lien on substantially all of the assets of Quantum and contains certain financial and reporting covenants, which Quantum is required to satisfy as a condition of the credit line. There is also a cross default provision between this facility and the synthetic lease facility (see Note 23, "Commitments and Contingencies") such that a default on one facility constitutes a default on the other facility. If in future quarters Quantum is in violation of any financial or reporting covenant and receives a notice of default letter from the bank group, the credit line could become unavailable, and any amounts outstanding could become immediately due and payable and any default under the credit facility would cause Quantum to be in default under its synthetic lease commitment. Quantum's compliance with the covenants depends upon its ability to return to profitable operations. If the trends of declining revenue and gross margin were to worsen in the future, that could delay or prevent Quantum's return to profitable operations and cause it to violate certain or all of the covenants in future periods. In addition, if Quantum was unsuccessful in securing a waiver for any violation in subsequent quarters, it would also lose access to the \$89 million standby letters of credit contained within its credit line facility and have to restrict \$89 million of its cash to cover these existing letters of credit.

Note 16: Stock Incentive Plans

As a result of the recapitalization on August 3, 1999, each outstanding stock option under Quantum's stock option plans was converted into separately exercisable options to acquire one share of DSS stock and one-half of a share of HDD stock. The exercise price for the resulting DSS stock options and HDD stock options was calculated by multiplying the exercise price under the original options by a fraction, the numerator of which was the opening price of DSS stock or HDD stock on August 4, 1999 (the date such stocks were first traded on the New York Stock Exchange) and the denominator of which was the sum of these DSS and HDD stock prices. However, the aggregate intrinsic value of the options was not increased, and the ratio of the exercise price per option to the market value per share was not reduced. In addition, the vesting provisions and option periods of the original grants remained the same upon conversion.

On March 30, 2001, Quantum's stockholders approved the disposition of the HDD group to Maxtor Corporation. On April 2, 2001, each authorized outstanding share of HDD common stock was exchanged for 1.52 shares of Maxtor common stock. The treatment of HDD employee equity holdings that were outstanding on March 30, 2001, was dependent on the employees' employment scenario subsequent to the disposition of the HDD group to Maxtor and was as follows:

- Employees remaining with Quantum: HDD stock options and HDD restricted stock were converted into DSS stock options and restricted stock, respectively.
- Employees severed on April 2, 2001, or who remained employed on a transitional arrangement: Unvested HDD stock options and HDD restricted stock were converted into shares of DSS restricted stock. Vested HDD stock options were converted into vested Maxtor options.
- Employees transferred to Maxtor: HDD stock options and HDD restricted stock were converted into Maxtor stock options and restricted stock, respectively.

(i) Stock Compensation Expenses

The following table details stock compensation charges and the classifications within the consolidated statements of operations:

(in thousands)

For the year ended March 31,

Stock compensation related to the disposition of the HDD group:

Cost of revenue or Operating expenses	\$ 306	\$ 15,288	\$ —
Special charges	—	17,108	—
	<u>306</u>	<u>32,396</u>	<u>—</u>

Stock compensation related to the disposition of the HDD group:

Cost of revenue or Operating expenses	1,238	2,995	12,747
	<u>\$ 1,544</u>	<u>\$ 35,391</u>	<u>\$ 12,747</u>

Stock compensation expense decreased by \$33.8 million to \$1.5 million in fiscal year 2003, compared to \$35.4 million in fiscal year 2002. This decrease was mainly due to HDD disposition-related stock compensation expense of \$32.4 million recorded in fiscal year 2002 for the conversion and/or acceleration of stock equity awards for employees remaining with Quantum after the disposition of HDD. The classification of the \$32.4 million of stock compensation expense between “Cost of revenue or Operating expenses” and “Special charges” was dependent on two factors: the unusual and non-recurring nature of the event (i.e., the disposition of the HDD business) that gave rise to stock awards and stock award modifications; and whether the vesting had already occurred or was accelerated to full vesting at the time of the award or modification. If vesting had already occurred or was accelerated to full vesting then there was no future benefit to Quantum and the related stock compensation expense for the vested portion of the award was treated as “Special charges”. When the unvested portion of an award was to be earned and vest over a future service period providing future value to Quantum, the related stock charge was recognized ratably as compensation expense over the vesting period in the appropriate category of “Cost of revenue or Operating expense”.

Stock compensation expense recorded in fiscal year 2003 that related to the disposition of HDD reflects the vesting of DSS option and DSS restricted stock grants that were converted from HDD option and HDD restricted stock grants, respectively, on April 2, 2001, the date of disposition of HDD to Maxtor.

Stock compensation expense not related to the disposition of HDD consists mainly of the vesting of DSS restricted stock grants and decreased by \$1.8 million, to \$1.2 million in fiscal year 2003 from \$3.0 million in fiscal year 2002, which had decreased by \$9.8 million from fiscal year 2001. These decreases reflect the lower number and value of restricted stock grants that are outstanding.

(ii) Voluntary Employee Stock Option Exchange Program

On June 4, 2001, Quantum announced that the Quantum Board of Directors had approved a Voluntary Stock Option Exchange program in which eligible employees had the opportunity to exchange certain options that have an exercise price of \$14.00 per share or more for promise to grant new options on January 7, 2002, under the Quantum Corporation Supplemental Stock Option Plan. The offer for the Exchange Program began June 4, 2001, and ended July 3, 2001. There were approximately 2.6 million Quantum stock options eligible under this program of which 0.9 million stock options were tendered by a total of 130 employees and exchanged for options that have an exercise price of \$10.93 per share.

(iii) 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 reserved for future issuance 31.6 million shares of stock 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, 2003, were 8.1 million shares of stock. Options under the Plan generally 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 2003 and 2002, Quantum granted 11 thousand and 4.8 million shares, respectively, of Quantum Corporation restricted stock under the Plan at an exercise price of \$0.01 per share.

Supplemental Stock Plan

Quantum has a Supplemental Stock Plan (the “SSOP”), which is not approved by its stockholders, that provides for the issuance of stock options and stock purchase rights (collectively referred to as “options”) to employees and consultants of Quantum. The SSOP has available and reserved for future issuance 7.1 million shares of stock. Options under the SSOP generally vest over two to four years

and expire ten years after the grant date. Restricted stock granted under the SSOP generally vests over two to three years.

The SSOP was terminated effective April 1, 2003, from which time no new stock options or stock purchase rights will be granted under this Plan. Outstanding stock options or stock purchase rights granted under the SSOP prior to April 1, 2003, shall remain outstanding and continue to be governed by the terms and conditions of the SSOP, which will remain in effect with respect to these outstanding stock options or stock purchase rights.

In fiscal years 2003 and 2002, Quantum granted nil shares and 0.1 million shares, respectively, of Quantum Corporation restricted stock under the Plan at an exercise price of \$0.01 per share. In fiscal year 2001, 0.1 million shares of DSS restricted stock and HDD restricted stock, respectively, were granted under the Plan at an exercise price of \$0.01 per share.

Stock Option Plans

Quantum has Stock Option Plans (the "Plans") under which 4.4 million shares of DSS stock were reserved for future issuance at March 31, 2003 to employees, officers and directors of Quantum. Options under the Plans are granted at prices determined by the Board of Directors, but at not less than the fair market value. Options currently expire no later than ten years from the grant date and generally vest ratably over one to four years. At March 31, 2003, options with respect to 1.9 million shares of stock were available for grant.

89

A summary of activity relating to Quantum's stock option plans follows:

For the year ended March 31, 2001				
DLT & Storage Systems Group			Hard Disk Drive Group	
	<u>Options</u> <u>(000s)</u>	<u>Weighted-</u> <u>Avg. Exercise</u> <u>Price</u>	<u>Options</u> <u>(000s)</u>	<u>Weighted-</u> <u>Avg. Exercise</u> <u>Price</u>
Outstanding at beginning of period	31,440	\$ 11.14	16,886	\$ 5.37
Granted	12,358	\$ 10.18	5,906	\$ 11.01
Canceled	(4,413)	\$ 13.60	(1,744)	\$ 8.13
Exercised	(6,716)	\$ 3.90	(5,636)	\$ 3.80
Outstanding at end of period	32,669	\$ 11.91	15,412	\$ 7.76
Exercisable at end of period	17,291	\$ 11.93	7,685	\$ 6.31
For the year ended March 31, 2002				
Quantum Corporation				
	<u>Options</u> <u>(000s)</u>	<u>Weighted-</u> <u>Avg. Exercise</u> <u>Price</u>		
Outstanding at beginning of period	32,669	\$ 11.91		
Granted	20,574	\$ 6.67		
Canceled	(14,134)	\$ 11.80		
Exercised	(11,519)	\$ 6.04		
Outstanding at end of period	27,590	\$ 10.51		
Exercisable at end of period	16,482	\$ 10.58		
For the year ended March 31, 2003				
Quantum Corporation				
	<u>Options</u> <u>(000s)</u>	<u>Weighted-</u> <u>Avg. Exercise</u> <u>Price</u>		
Outstanding at beginning of period	27,590	\$ 10.51		
Granted	17,767	\$ 4.32		
Canceled	(11,467)	\$ 10.20		

Exercised	(716)	\$	2.20
Outstanding at end of period	33,174	\$	7.46
Exercisable at end of period	16,522	\$	9.55

The exercise prices for stock options outstanding at March 31, 2003, range from \$0.96 to \$24.11.

The following tables summarize information about options outstanding and exercisable at March 31, 2003:

<u>Range of Exercise Prices</u>	<u>Outstanding at March 31, 2003</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life</u>
\$0.96–\$2.91	5,735	\$ 2.18	9.07
\$2.93–\$6.43	4,877	\$ 3.52	8.61
\$6.43–\$8.34	8,089	\$ 6.93	7.89
\$8.38–\$9.70	7,829	\$ 9.26	6.55
\$9.75–\$24.11	6,644	\$ 13.45	6.30
	<u>33,174</u>	\$ 7.46	7.57

<u>Range of Exercise Prices</u>	<u>Exercisable at March 31, 2003</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life</u>
\$0.96–\$2.91	1,114	\$ 2.15	9.07
\$2.93–\$6.43	891	\$ 4.99	8.61
\$6.43–\$8.34	3,277	\$ 7.05	7.89
\$8.38–\$9.70	6,067	\$ 9.16	6.55
\$9.75–\$24.11	5,173	\$ 13.97	6.30
	<u>16,522</u>	\$ 9.55	7.57

Expiration dates ranged from July 13, 2003 to July 31, 2013 for options outstanding at March 31, 2003. Employee stock options issued by Quantum generally have contractual lives of 10 years. However, in accordance with Swiss laws, employee stock options issued to Quantum's Swiss employees have contractual lives of 11 years. Prices for options exercised during the three-year period ended March 31, 2003, are as follows:

	<u>Period</u>	<u>Price Range</u>
Quantum Corporation	3/31/01–3/31/03	\$0.01–\$12.02
DLT & Storage Systems Group	3/31/00–3/31/01	\$0.01–\$15.00
Hard Disk Drive Group	3/31/00–3/31/01	\$0.01–\$11.63

Proceeds received by Quantum from exercises are credited to common stock and capital in excess of par value.

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 34.6 million shares authorized for issuance under the plan, 6.0 million were available for issuance at March 31, 2003. Employees purchased 2.2 million shares and 0.8 million shares of Quantum Corporation common stock under the Purchase Plan in fiscal years 2003 and 2002, respectively. Additionally, employees purchased 2.1 million shares DSS stock and 1.1 million shares HDD stock in fiscal year 2001.

The weighted average exercise price of Quantum Corporation stock purchased under the Purchase Plan was \$1.79 and \$8.27, in fiscal years 2003 and 2002, respectively. The weighted average exercise price of DSS stock purchased under the Purchase Plan was \$8.29 in fiscal year 2001. The weighted average exercise price of HDD stock purchased under the Purchase Plan was \$5.93 in fiscal year 2001.

(iv) Pro forma information

Quantum follows SFAS No. 123, *Accounting for Stock-Based Compensation*, and as permitted, elected to continue to account for its stock-based compensation plans under APB Opinion No. 25 and disclose the pro forma effects of the plans on net income and earnings per share. With the exception of option conversions that were related to the disposition of the HDD group as discussed above under "Stock Compensation Expenses", all options have been issued at fair market value and therefore no compensation expense has been recognized for the stock option plans and the employee stock purchase plans.

Pro forma net income and earnings per share information, as required by SFAS No. 123, have been determined as if Quantum had accounted for its employee stock options (including shares issued under the Long-Term Incentive Plan, Supplemental 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.

The effect on reported net income (loss) and net income (loss) per share of accounting for employee stock options under the fair value method is disclosed under "Stock Compensation" in Note 2 of the Consolidated Financial Statements.

The fair value of options granted in fiscal years 2003, 2002 and 2001 reported below have been estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

	Long -Term Incentive Plan, Supplemental Plan and Stock Option Plans			Stock Purchase Plan		
	For the year ended March 31,			For the year ended March 31,		
	2003	2002	2001	2003	2002	2001
Quantum Corporation						
Option life (in years)	3.01	1.5		1.33	1.5	
Risk-free interest rate	1.48%	3.32%		2.19%	5.55%	
Stock price volatility	0.68	0.63		0.69	0.70	
Dividend yield	—	—		—	—	

DLT & Storage Systems Group**(Continuing Operations)**

Option life (in years)			3.0		1.1
Risk-free interest rate			5.32%		5.87%
Stock price volatility			0.79		0.69
Dividend yield			—		—

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 Quantum'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:

	Weighted Average Grant Date Fair Value		
	For the year ended March 31,		
	2003	2002	2001
Quantum Corporation			
Options granted under the Long-Term Incentive Plan, Supplemental Plan and Stock Option Plans	\$ 1.94	\$ 5.05	
Restricted stock granted under the Long-Term Incentive Plan	\$ 7.52	\$ 11.80	
Shares granted under the Stock Purchase Plan	\$ 2.13	\$ 6.29	

DLT & Storage Systems Group (Continuing Operations)

Options granted under the Long-Term Incentive Plan, Supplemental Plan and Stock Option Plans	\$ 5.01
Restricted stock granted under the Long-Term Incentive Plan	\$ 12.70
Shares granted under the Stock Purchase Plan	\$ 5.22

Note 17: Common Stock and Stockholder Rights Agreement

The number of authorized shares of common stock is 1,000,000,000. The number of authorized shares of preferred stock is 20,000,000.

Quantum has a stockholder rights agreement (the "Rights Plan") that provides existing stockholders with the right to purchase preferred stock in the event of certain changes in Quantum's ownership. Specifically, existing stockholders will have the right to purchase one one-thousandth of a share of Series B Junior Participating Preferred Stock for each share of common stock held, or, under certain circumstances, shares of common stock with a market value twice the exercise price of such right. The purchase price in either case is determined by the Board of Directors, subject to adjustment.

Subject to certain exceptions, including the amendment discussed below with respect to Private Capital Management, these rights may be exercised the tenth day after any person or group becomes the beneficial owner (or makes an offer that would result in such beneficial ownership) of 20% or more of the outstanding common stock. If such change in beneficial ownership is combined with a merger of Quantum or a sale of more than 50% of the assets of Quantum, then the existing stockholders have the right to purchase, for the exercise price, a number of shares of common stock in the surviving entity having a market value of twice the exercise price of such 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.

On October 28, 2002, Quantum amended its Rights Agreement to allow Private Capital Management to acquire up to 25% of the outstanding common stock of Quantum without triggering the issuance of the preferred shares in exchange for its entering into a Stockholder Agreement with Quantum that places certain restrictions on Private Capital Management with respect to its ownership and control of its shares of Quantum's common stock. The effect of this amendment to the Rights Agreement on holders of Quantum's common stock is that it is less likely that the preferred shares under the Rights Agreement will be issued to the holders of Quantum's common stock.

93

Note 18: Net Income (Loss) Per Share

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

(in thousands, except per-share data)

	For the year ended March 31,							
	2003				2002			
	Cont. Ops.	Disc. Ops.	Cumulative effect of an accounting change	Quantum	Cont. Ops.	Disc. Ops.	Quantum	Cont. Ops.
Numerator:								
Numerator for basic and diluted net income (loss) per share—income (loss) available to common stockholders	\$ (132,088)	\$ (37,909)	\$ (94,298)	\$ (264,295)	\$ (49,000)	\$ 91,502	\$ 42,502	\$ 197,828
Denominator:								
Denominator for basic net income (loss) per share—weighted average shares	162,208	162,208	162,208	162,208	155,169	155,169	155,169	148,150
Effect of dilutive securities:								
Outstanding options	—	—	—	—	—	—	—	7,495
Denominator for diluted net income (loss) per share—adjusted weighted average shares	162,208	162,208	162,208	162,208	155,169	155,169	155,169	155,645
Basic net income (loss) per share	\$ (0.81)	\$ (0.23)	\$ (0.58)	\$ (1.63)	\$ (0.32)	\$ 0.59	\$ 0.27	\$ 1.34
Diluted net income (loss) per share	\$ (0.81)	\$ (0.23)	\$ (0.58)	\$ (1.63)	\$ (0.32)	\$ 0.59	\$ 0.27	\$ 1.27

The computation of basic and diluted net loss per share for the fiscal year ended March 31, 2003 includes 14.8 million shares and 2.4 million shares issued in connection with the acquisitions of Benchmark and SANlight, respectively.

Loss per share from discontinued operations and net income per share for fiscal year 2001 are not presented, as there was no single class of stock that represented discontinued operations or the consolidated Company, respectively, in this period.

The computation of diluted net income (loss) per share for DSS, HDD and Quantum for all periods presented, excluded the effect of the 7% convertible subordinated notes issued in July 1997, because the effect would have been antidilutive. These notes are convertible into 6,206,152 shares of Quantum common stock (or 21.587 shares per \$1,000 note), and into 4,716,676 shares of Maxtor common stock (or 16.405 shares per \$1,000 note).

Options to purchase 33.2 million shares of Quantum common stock were outstanding for the fiscal year ended March 31, 2003, but were not included in the computation of diluted net income per share due to reporting a loss from continuing operations.

Options to purchase 27.6 million shares of Quantum common stock were outstanding for the fiscal year ended March 31, 2002, but were not included in the computation of diluted net income per share due to reporting a loss from continuing operations.

Options to purchase 32.7 million shares of DSS common stock were outstanding for the fiscal year ended March 31, 2001, of which 13.2 million shares were not included in the computation of diluted net income per share because the options' exercise price was greater than the average market price of the common stock and, therefore, the effect would have been antidilutive. Options to purchase 15.4 million shares of HDD common stock were outstanding for the fiscal year ended March 31, 2001. However, the corresponding weighted average outstanding options were not included in the computation of diluted net loss per share because the effect would have been antidilutive.

Note 19: 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. Employer contributions were \$9.2 million, 11.0 million, and \$8.0 million, in fiscal years 2003, 2002, and 2001 respectively.

Note 20: Income Taxes

The income tax provision (benefit) for continuing operations consists of the following:

(in thousands)

	As of March 31,		
	2003	2002	2001
Federal:			
Current	\$ —	\$ —	\$ 34,900
Deferred	(11,571)	(25,281)	40,743
	(11,571)	(25,281)	75,643
State:			
Current	479	—	9,673
Deferred	(3,644)	(692)	2,731
	(3,165)	(692)	12,404
Foreign:			
Current	13,169	17,808	22,519
Deferred	(3,518)	(1,447)	1,281
	9,651	16,361	23,800
Income tax provision (benefit)	\$ (5,085)	\$ (9,612)	\$ 111,847

The income tax provision (benefit) for continuing operations differs from the amount computed by applying the federal statutory rate of 35% to income before income taxes as follows:

(in thousands)

	As of March 31,		
	2003	2002	2001
Tax (benefit) at federal statutory rate	\$ (48,010)	\$ (20,464)	\$ 108,778

State income tax, net of federal benefit and related valuation allowance	(2,151)	(813)	8,566
Non-deductible stock compensation	–	7,284	–
Research and development credit	(2,460)	(4,000)	(3,933)
Acquired in-process development research and development	2,730	4,620	–
Goodwill amortization	–	5,317	3,217
US tax provided (not provided) on foreign earnings	22,583	(4,408)	(8,898)
Non-deductible write-downs of equity investments	–	2,811	–
Non-deductible goodwill write-off	20,541	–	–
Other	1,682	41	4,117
	<u>\$ (5,085)</u>	<u>\$ (9,612)</u>	<u>\$ 111,847</u>

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:

(in thousands)

	As of March 31,	
	2003	2002
Deferred tax assets:		
Inventory valuation methods	\$ 9,196	\$ 9,452
Accrued warranty expense	15,705	8,850
Distribution reserves	6,584	3,955
Loss carryforwards	61,420	54,360
Foreign tax and research and development credit carryforwards	66,062	47,336
Special charge accruals	7,364	5,922
Other accruals and reserves not currently deductible for tax purposes	18,769	16,132
Depreciation and amortization methods	19,419	12,386
	<u>\$ 204,519</u>	<u>\$ 158,393</u>
Less valuation allowance	(28,645)	–
Deferred tax asset	<u>\$ 175,874</u>	<u>\$ 158,393</u>
Deferred tax liabilities:		
Acquired intangibles	(24,514)	(22,912)
Tax on unremitted foreign earnings	(124,972)	(131,888)
Other	(5,109)	(1,610)
Deferred tax liability	<u>\$ (154,595)</u>	<u>\$ (156,410)</u>
Net deferred tax asset	<u>\$ 21,279</u>	<u>\$ 1,983</u>

The tax benefits associated with nonqualified stock options, disqualifying dispositions of incentive stock options and employee stock purchase plan shares, reduced taxes currently payable or increased the deferred tax assets as shown above by nil, \$1.3 million and \$8.1 million in fiscal years 2003, 2002 and 2001, respectively. Such benefits are credited to equity when realized. Of the \$28.6 million valuation allowance, \$6.7 million relates to the tax benefits of employee stock plans, the benefit of which will be credited to stockholders' equity if realized.

Pretax losses from foreign operations were \$0.5 million fiscal year 2003, compared to income of \$74.4 million and \$136.4 million for fiscal years ended March 31, 2002 and 2001 respectively.

As of March 31, 2003, Quantum had federal net operating loss and tax credit carryforwards of approximately \$172.5 million and \$7.2 million, respectively. These carryforwards expire in varying amounts between fiscal years 2004 and 2022 if not previously utilized. Ownership change provisions of tax law result in approximately \$6.5 million of these carryforwards being available ratably over the next five years.

The utilization of the deferred tax assets is dependent upon the amount, character and timing of future taxable income. If we are unable to make accurate estimates, we may incur additional future income tax expense to write-off the balance of this deferred tax asset. In addition, the inability to generate sufficient amounts of future taxable income may prevent us from recognizing tax benefits associated with any losses that we might incur in the future.

Note 21: Litigation

On April 14, 2003, Quantum filed a patent infringement complaint in the U.S. District Court in the Northern District of California against Storage Technologies, Inc. ("StorageTek"). The suit alleges that StorageTek has engaged in the unlawful manufacture and sale within the United States of tape and tape drive products that infringe two separate Quantum patents. The suit seeks a permanent injunction against StorageTek as well as the recovery of monetary damages, including treble damages for willful infringement.

On April 15, 2003, StorageTek filed suit against Quantum in the U.S. District Court in Colorado, alleging that Quantum infringes two patents relating to the use of an optical servo system in a tape drive. The suit seeks a preliminary and permanent injunction against Quantum as well as the recovery of monetary damages, including treble damages for willful infringement. Quantum believes that it does not infringe StorageTek's patents and believes that those patents are invalid. On May 6, 2003, Quantum answered the complaint. In addition, Quantum counterclaimed that the patents are invalid. On May 15, 2003, the District Court issued a Scheduling Order tentatively setting a schedule for a hearing in December 2003, on StorageTek's request for a preliminary injunction. Quantum disputes StorageTek's claims and intends to defend the lawsuit vigorously. Quantum currently cannot estimate the extent of the potential damages in the StorageTek dispute against it because the complaint by StorageTek asserts an unspecified amount of damages.

On August 7, 1998, Quantum was named as one of several defendants in a patent infringement lawsuit filed in the U.S. District Court for the Northern District of Illinois, Eastern Division. The plaintiff, Papst Licensing GmbH, owns numerous United States patents, which Papst alleges are infringed by hard disk drive products that were sold by HDD. In October 1999 the case was transferred to a federal district court in New Orleans, Louisiana, where it has been joined with other lawsuits involving Papst for purposes of coordinated discovery under multi-district litigation rules. The other lawsuits have Maxtor, Minebea Limited, and IBM as parties.

The outcome of this patent infringement lawsuit is uncertain. Quantum currently cannot estimate the extent of the potential damages in the Papst dispute against it because the complaint by Papst asserts an unspecified amount of damages. As part of Quantum's disposition of HDD to Maxtor, Maxtor has agreed to assume the defense of the Papst claims against HDD and has also agreed to indemnify Quantum with respect to litigation relating to this dispute. Nevertheless, if Papst prevails and Maxtor were unable for any reason to indemnify Quantum in accordance with the merger agreement, Quantum's resulting liability could have a materially adverse impact on Quantum's results of operations and financial position.

Note 22: Investments in Other Entities

Investments in equity securities of other entities are recorded in other long-term assets. Investments in those entities in which Quantum owns less than 20%, and is unable to exert significant influence, are carried at cost less write-downs for declines in value that are judged to be other-than-temporary. Investments in entities in which Quantum owns more than 20%, and/or is able to exert significant influence, are accounted for under the equity method. Due to the economic downturn, Quantum recorded impairment losses of \$17.1 million and \$7.4 million in fiscal years 2003 and 2002, respectively, on certain of these investments. As at March 31, 2003, Quantum had total investments in other entities of \$4.0 million.

Note 23: Commitments and Contingencies**Lease Commitments**

Quantum leases certain facilities under non-cancelable lease agreements for periods of up to 17 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 \$18.2 million, \$18.1 million, and \$15.2 million for the fiscal years ended March 31, 2003, 2002, and 2001, respectively.

Future minimum lease payments under operating leases are as follows:

For the year ended March 31,	(in thousands)	
2004	\$	14,821
2005		9,434
2006		6,508
2007		5,201
2008		4,699
Thereafter		5,878
Total future minimum lease payments	\$	46,541

In August 1997, Quantum entered into a five-year synthetic lease agreement with a group of financial institutions (the "lessor") for the

construction and lease of a campus facility in Colorado Springs, Colorado, comprised of three buildings. The campus was the center of the DLT group's operations until the transfer in fiscal year 2002 of tape drive production to Penang, Malaysia. The Colorado Springs facility now houses only administrative and procurement resources and testing operations within one of the three buildings. The lease has been accounted for as an operating lease in accordance with SFAS No. 13, *Accounting for Leases*.

In December 2002, Quantum renegotiated this lease, which now expires in December 2007. The total minimum lease payments from the fourth quarter of fiscal year 2003 until the scheduled expiration date in December 2007 are estimated to be approximately \$6.2 million and approximate the lessor's debt interest service costs. The minimum lease payments will fluctuate depending on short-term interest rates.

The lease is secured by a standby letter of credit issued under Quantum's revolving line of credit and a blanket lien on all of the assets of Quantum. The revolving line of credit expires in June 2004 and at that time Quantum will be required to post cash collateral to secure the lease, unless other financial arrangements are made that are acceptable to the lessor.

The lease commitment requires Quantum to maintain specified financial covenants. If in future quarters Quantum were to fail to comply with these financial covenants and was unable to obtain a waiver, or amend the lease, for such non-compliance, the lessor could terminate the lease. This could result in Quantum having to purchase and/or cause a third party to purchase the facilities promptly and potentially at a substantial discount to their current appraised value. There is a cross default provision between this facility and the credit line facility (refer to Note 15, "*Credit Agreements, Short-Term Debt and Convertible Subordinated Debt*") such that a default on one facility constitutes a default on the other facility.

At the end of the lease term, Quantum has the following options and obligations:

- Quantum may renew the lease if the lessor accepts a renewal at its discretion;
- Quantum may purchase the facility for approximately \$50 million (the "stipulated sales price"); or
- If Quantum has paid all sums owing under the lease and is not otherwise in default under the lease or the credit line facility at the end of the stated lease term, Quantum may find a third party to purchase the facility. In such event, Quantum has guaranteed any shortfall between the net proceeds from the sale of the property to the third party and the stipulated sales price, up to a maximum amount payable equal to 87.7% of the stipulated sales price, or \$43.9 million.

At any time during the lease term, Quantum may purchase (or cause a third party to purchase) the facility for the stipulated sales price. If Quantum defaults under the lease, its only option is to purchase the facility for the stipulated sales price.

Quantum shares contingently issuable in connection with the acquisition of SANlight and Benchmark

Under the agreements to acquire SANlight and Benchmark, Quantum may be required to issue additional shares of common stock up to a maximum of 0.4 million and 1.0 million shares, respectively. The issuance of these additional shares is contingent upon the achievement of certain milestones.

Commitments to purchase inventory

Quantum outsourced tape drive manufacturing to a contract manufacturer, Jabil, during the third quarter of fiscal year 2003. The Storage Solutions Group has increased its use of contract manufacturers for certain manufacturing functions during the same period. Under these arrangements, the contract manufacturer procures inventory to manufacture products based upon a forecast of customer demand provided by Quantum. Quantum is responsible for the financial impact on the contract manufacturer of any reduction or product mix shift in the forecast relative to materials that the contract manufacturer had already purchased under a prior forecast. Such a variance in forecasted demand could require a cash payment for finished goods in excess of current customer demand or for costs of excess or obsolete inventory.

At March 31, 2003, Quantum had issued non-cancelable purchase orders for \$11.3 million to purchase finished goods from its contract manufacturers, and had not incurred any significant liability for finished goods in excess of current customer demand or for the costs of excess or obsolete inventory.

Contingencies

Tax allocations under a tax sharing and indemnity agreement with Maxtor are the subject of a dispute. This agreement between Quantum and Maxtor entered into in connection with the disposition of HDD, provided for the allocation of certain liabilities related to taxes and the indemnification by Maxtor of Quantum with respect to certain liabilities relating to taxes and attributable to the conduct of business prior to the disposition of HDD. Maxtor and Quantum presently disagree as to the amounts owed under this agreement. The parties are in negotiations to resolve this matter, and no litigation has been initiated to date. However, there can be no assurance that

Quantum will be successful in asserting its position. If disputes over this agreement are resolved favorably, Quantum may incur significant liabilities and costs to litigate and/or settle these disputes, which could have a material and adverse effect on its results of operations and financial condition.

Quantum has recorded a receivable of \$98.5 million from Maxtor for the portion of the convertible subordinated debt previously attributed to HDD and for which Maxtor has agreed to reimburse Quantum for both principal and associated interest payments under the agreement. If Maxtor were for any reason unable or unwilling to pay such amount, Quantum is obligated to pay this amount and would record a loss with respect to this amount in a future period, which would have a material adverse effect on its results of operations and financial condition.

The agreement Quantum signed to outsource its manufacturing operations in Malaysia to Jabil, has the potential to affect Quantum's tax status in Malaysia. Quantum was granted strategic pioneer tax status beginning in December 2000 contingent on Quantum meeting five separate conditions linked to investments in the Malaysian economy. While Quantum has actively worked to meet each of these conditions, changes in the business environment have meant that Quantum has not yet fully met these conditions, as these conditions assumed a five-year profile of investment. Were the Malaysian government to revoke Quantum's strategic pioneer tax status in its entirety, then the maximum potential tax liability that could be assessed would be \$15 million.

Note 24: Business Segment and Geographic Information

Quantum's reportable segments are DLTG and SSG. These reportable segments are each managed separately as they distribute and, in the case of SSG, manufacture distinct products with different production processes. DLTG consists of tape drives and media. SSG consists of tape automation systems and service, and includes disk based backup products. Quantum directly markets its products to computer manufacturers and through a broad range of distributors, resellers and systems integrators.

The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Quantum evaluates segment performance based on operating income (loss) excluding infrequent or unusual items.

Quantum does not allocate interest and other income, interest expense, or taxes to operating segments. Additionally, Quantum does not allocate all assets by operating segment, only those assets included in the table below:

(in thousands)

	For the year ended March 31,								
	2003			2002			2001		
	DLTG	SSG	Total	DLTG	SSG	Total	DLTG	SSG	Total
Total revenue	\$680,032	\$227,112	\$ 907,144	\$837,548	\$233,298	\$1,070,846	\$1,090,444	\$353,097	\$1,443,541
Inter-segment revenue	(36,335)		(36,335)	(41,171)		(41,171)	(97,426)		(97,426)
Revenue from external customers	643,697	227,112	870,809	796,377	233,298	1,029,675	993,018	353,097	1,346,115
Cost of revenue	437,481	166,165	603,646	497,426	154,644	652,070	505,723	227,852	733,575
Gross margin	206,216	60,947	267,163	298,951	78,654	377,605	487,295	125,245	612,540
Research and development	75,309	36,617	111,926	83,080	28,371	111,451	83,826	33,010	116,836
Sales and marketing,	45,295	55,159	100,454	61,966	48,767	110,733	65,390	52,900	118,290
General and administrative	44,756	26,510	71,266	66,421	47,120	113,541	38,382	29,661	68,043
Total operating expenses	165,360	118,286	283,646	211,467	124,258	335,725	187,598	115,571	303,169
Operating income (loss)	\$ 40,856	\$ (57,339)	\$ (16,483)	\$ 87,484	\$ (45,604)	\$ 41,880	\$ 299,697	\$ 9,674	\$ 309,371
Goodwill impairment			58,689			-			-
Special charges			24,200			72,856			-
Purchased in-process research and development			7,802			13,200			-
Reported loss from operations			\$(107,174)			\$ (44,176)			\$ 309,371

(in thousands)

	As of								
	March 31, 2003			March 31, 2002			March 31, 2001		
	DLTG	SSG	Total	DLTG	SSG	Total	DLTG	SSG	Total

Accounts receivable, net	\$ 91,415	\$ 42,345	\$ 133,760	\$ 94,351	\$ 55,073	\$ 149,424	\$ 139,150	\$ 69,252	\$ 208,402
Inventories	22,131	44,174	66,305	71,410	27,391	98,801	94,410	29,960	124,370
Service inventories	35,760	13,344	49,104	37,096	11,191	48,287	27,383	9,166	36,549
Property, plant and equipment, net	42,010	12,512	54,522	57,942	18,463	76,405	65,404	26,418	91,822
Goodwill and intangibles, net	39,861	80,499	120,360	–	200,122	200,122	–	174,833	174,833

99

Product Information

Revenue for reportable segments is comprised of the following:

(in thousands)

	For the year ended March 31,		
	2003	2002	2001
Tape drives	\$ 336,005	\$ 445,381	\$ 754,404
Tape media	157,374	182,851	114,067
Tape royalties	186,653	209,316	221,973
DLT group	680,032	837,548	1,090,444
Storage Solutions Group	227,112	233,298	353,097
Inter-group elimination*	(36,335)	(41,171)	(97,426)
	\$ 870,809	\$ 1,029,675	\$ 1,346,115

*Represents inter-group sales of tape drives for incorporation into tape automation systems, for which the sales are included in storage solutions revenue.

Geographic and Customer Information

Revenue and long-lived assets (property, plant and equipment and goodwill and intangible assets) by region was as follows (revenue is attributed to regions based on the location of customers):

(in thousands)

	For the year ended March 31,					
	2003		2002		2001	
	Revenue	Long-Lived Assets	Revenue	Long-Lived Assets	Revenue	Long-Lived Assets
United States	\$ 527,523	\$ 157,648	\$ 608,188	\$ 212,158	\$ 871,535	\$ 231,750
Europe	202,758	9,348	260,083	52,218	311,254	1,572
Asia Pacific	139,124	7,886	160,039	12,151	160,225	1,932
Latin America	1,404	–	1,365	–	3,101	–
	\$ 870,809	\$ 174,882	\$ 1,029,675	\$ 276,527	\$ 1,346,115	\$ 235,254

One customer accounted for 10% or more of Quantum's revenue in all of the fiscal years presented. Revenue from this customer represented \$193.0 million, \$292.5 million and \$408.8 million of Quantum's revenue in fiscal years 2003, 2002, and 2001, respectively.

100

Note 25: Unaudited Quarterly Financial Data

(in thousands, except per-share data)

	For the year ended March 31, 2003			
	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
Revenue	\$ 202,450	\$ 204,453	\$ 228,770	\$ 235,136
Gross margin	62,589	59,610	72,163	72,801
Loss from continuing operations	(27,332)	(92,069)	(5,922)	(6,765)
Net loss	(130,883)	(111,444)	(15,529)	(6,439)

Loss per share from continuing operations:								
Basic	\$	(0.17)	\$	(0.59)	\$	(0.04)	\$	(0.04)
Diluted	\$	(0.17)	\$	(0.59)	\$	(0.04)	\$	(0.04)

For the year ended March 31, 2002

	1 st Quarter		2 nd Quarter		3 rd Quarter		4 th Quarter	
Revenue	\$	264,456	\$	266,339	\$	268,951	\$	229,929
Gross margin		110,432		89,274		100,619		77,280
Loss from continuing operations		(31,214)		(9,125)		6,573		(15,234)
Net loss		77,934		(14,869)		592		(21,155)
Loss per share from continuing operations:								
Basic	\$	(0.20)	\$	(0.06)	\$	0.04	\$	(0.10)
Diluted	\$	(0.20)	\$	(0.06)	\$	0.04	\$	(0.10)

The results of continuing operations for the first quarter of fiscal year 2003 include a \$17.1 million charge for equity investment write-downs. The net loss for the first quarter of fiscal year 2003 includes a charge of \$94.3 million due to the adoption of SFAS No. 142, *Goodwill and Other Intangible Assets*. In the second quarter of fiscal year 2003, Quantum recorded a goodwill impairment charge of \$58.7 million due to a re-evaluation of SSG in light of deterioration in the market values of comparable companies, and to a lesser extent, a reduction in anticipated future cash flows. The results of continuing operations for the second and third quarters of fiscal year 2003 included special charges of \$14.1 million and \$9.4 million, respectively, mainly for severance and facility charges associated with employee reductions. The amounts in the fourth quarter of fiscal year 2003 reflect \$1.8 million additional cost of revenue due to immaterial inventory adjustments related to prior periods.

The results of continuing operations for first quarter of fiscal year 2002 include a \$45.0 million special charge associated with the disposition of the HDD group and other restructurings and a \$13.2 million charge for purchased in-process research and development in connection with the acquisition of M4 Data. The results of continuing operations for the second and fourth quarters of fiscal year 2002 include special charges of \$17.0 million and \$13.5 million, respectively, related to the closure of tape drive manufacturing in Colorado Springs, Colorado, and to employee reductions and a property value impairment, respectively. In addition, the results of continuing operations in the second and fourth quarter of fiscal year 2002 include equity investment write-downs of \$4.7 million and \$2.7 million, respectively.

Note 26: Related-Party Transactions

Quantum has loans receivable from officers of \$0.6 million as of March 31, 2003. The loans are classified in other current assets or other long-term assets, depending on repayment terms, and bear interest at rates ranging from 6% to 8% per annum.

The loans have provisions for forgiveness based on continued employment and are generally forgiven on a straight-line basis over two years. The loan forgiveness is being recorded as compensation expense over the forgiveness period. In fiscal years 2003, 2002 and 2001, \$0.5 million, \$0.8 million and \$0.4 million was forgiven, respectively.

Note 27: Recent Accounting Pronouncements

Accounting for Costs Associated with Exit or Disposal Activities

In June 2002, the Financial Accounting Standards Board issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. This statement supersedes EITF Issue No. 94-3 and requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred rather than at the date of an entity's commitment to an exit plan. The statement further establishes fair value as the objective for initial measurement of the liability and that employee benefit arrangements requiring future service beyond a "minimum retention period" be recognized over the future service period. This statement is effective prospectively for exit or disposal activities initiated after December 31, 2002. Quantum did not record any special charges in the fourth quarter of fiscal year 2003.

Guarantor's Disclosure Requirements for Guarantees

In November 2002, the Financial Accounting Standards Board issued FASB Interpretation (FIN) No. 45, *Guarantor's Disclosure*

Requirements for Guarantees, including Indirect Guarantees of Others. FIN No. 45 clarifies the guarantor's requirements relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees and requires the guarantor to recognize at the inception of a guarantee a liability for the fair value of the lease obligation. The provisions for the initial recognition and measurement of guarantees are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002 and Quantum does not believe these provisions will have a material impact on its results of operations or financial position. The disclosures required for product warranties are included in Note 12, "*Accrued Warranty and Indemnifications*". The disclosures required for the synthetic lease guaranteed value and for shares contingently issuable in connection with business combinations are included in Note 23, "*Commitments and Contingencies*".

Accounting for Stock-Based Compensation

In December 2002, the Financial Accounting Standards Board issued SFAS No. 148, *Accounting for Stock-Based Compensation, Transition and Disclosure*. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. Additionally, SFAS No. 148 requires disclosure of the pro forma effect in interim financial statements. The additional disclosure requirements of SFAS No. 148 are effective for fiscal years ended after December 15, 2002. Quantum does not intend to adopt the fair value based method of accounting for stock-based employee compensation, but will provide the additional disclosures required by SFAS No. 148.

Consolidation of Variable Interest Entities

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation (FIN) No. 46, *Consolidation of Variable Interest Entities*. FIN No. 46 requires that if a business enterprise has a controlling interest in a variable interest entity (also known as a special purpose entity), the assets, liabilities and results of operations of the variable interest entity should be included in the Consolidated Financial Statements of the business enterprise. FIN No. 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. Quantum believes that the synthetic lease disclosed in Note 23, "*Commitments and Contingencies*" might be subject to FIN 46. Quantum is in the process of evaluating the financial statement impact, if any, of adoption of FIN No. 46.

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Quantum Corporation

We have audited the accompanying consolidated balance sheets of Quantum Corporation (the "Company") as of March 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended March 31, 2003. Our audits also included the financial statement schedule listed in the index at Item 15a. These financial statements and schedule are the responsibility of Quantum's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 consolidated financial position of Quantum Corporation at March 31, 2003 and 2002, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 2003, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Notes 2, 5 and 6 to the Consolidated Financial Statements, in fiscal year 2003 Quantum Corporation changed its

Palo Alto, California
April 25, 2003

103

QUANTUM CORPORATION
SCHEDULE II
CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS

(in thousands)	<u>Balance at beginning of period</u>	<u>Additions charged to expense</u>	<u>Deductions (i)</u>	<u>Balance at end of period</u>
Allowance for doubtful accounts				
Year ended:				
March 31, 2001	\$ 3,492	\$ 824	\$ (1,089)	\$ 3,227
March 31, 2002	3,227	4,788	(1,782)	6,233
March 31, 2003	6,233	4,406	(1,702)	8,927

(i) Uncollectible accounts written off, net of recoveries.

104

GAAP to Non-GAAP Reconciliation of Consolidated Statements of Operations

The following six pages present reconciliations of the consolidated statements of operations between GAAP and Non-GAAP for each quarter of fiscal year 2003 and for the full fiscal year.

Use of Non-GAAP Financial Measures

The non-GAAP financial measures that we use exclude the impact of acquisition-related intangible asset amortization, special charges, goodwill write-down and adjustment, discontinued activities and operations, certain non-operating gains and losses, and related adjustments to provision for income taxes on Quantum's operating results. These non-GAAP financial measures are not prepared in accordance with generally accepted accounting principles and may be different from non-GAAP financial measures used by other companies. Non-GAAP financial measures should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP. Quantum's management refers to these non-GAAP financial measures in making operating decisions because they provide meaningful supplemental information regarding the company's operational performance. For instance, management believes these non-GAAP financial measures are helpful in assessing Quantum's core operating results. In addition, these non-GAAP financial measures facilitate management's internal comparisons to Quantum's historical operating results and comparisons to competitors' operating results. Quantum uses these non-GAAP financial measures because the company believes they are useful to investors in allowing for greater transparency related to supplemental information used by management in its financial and operational decision-making. In addition, Quantum has historically reported similar non-GAAP financial measures to its investors and believes that the inclusion of comparative numbers provides consistency in the company's financial reporting at this time. Investors are encouraged to review the reconciliation of the non-GAAP financial measures to their most directly comparable GAAP financial measures as provided with the financial statements.

105

GAAP TO NON-GAAP RECONCILIATION OF CONSOLIDATED STATEMENT OF OPERATIONS

Three Months Ended

	GAAP	Adjustments	Notes	Non-GAAP
Product revenue	\$ 156,887			\$ 156,887
Royalty revenue	45,563			45,563
Total revenue	202,450			202,450
Cost of revenue	139,861	(1,695)	A	138,166
Gross margin	62,589	1,695		64,284
Operating expenses:				
Research and development	25,626			25,626
Sales and marketing	26,090	(906)	A	25,184
General and administrative	22,062	(126)	A	21,936
Special charges	624	(624)		--
	74,402	(1,656)		72,746
Income (loss) from operations	(11,813)	3,351		(8,462)
Equity investment write-downs	(17,061)	17,061		--
Interest income and other, net	2,597			2,597
Interest expense	(5,840)			(5,840)
Income (loss) before income taxes	(32,117)	20,412		(11,705)
Income tax provision (benefit)	(4,785)	1,273	B	(3,512)
Income (loss) from continuing operations	(27,332)	19,139		(8,193)
Discontinued operations:				
Results from NASD discontinued operations, net of income taxes	(9,253)	9,253		--
Loss from discontinued operations	(9,253)	9,253		--
Income (loss) before cumulative effect of an accounting change	(36,585)	28,392		(8,193)
Cumulative effect of an accounting change	(94,298)	94,298		--
Net loss	\$ (130,883)	\$ 122,690		\$ (8,193)
Net loss per share-diluted	\$ (0.84)	\$ 0.79		\$ (0.05)

GAAP TO NON-GAAP RECONCILIATION OF CONSOLIDATED STATEMENT OF OPERATIONS

	Three Months Ended			
	September 29, 2002			September 29, 2002
	GAAP	Adjustments	Notes	Non-GAAP
Product revenue	\$ 159,850			\$ 159,850
Royalty revenue	44,603			44,603
Total revenue	204,453			204,453
Cost of revenue	144,843	(1,695)	A	143,148
Gross margin	59,610	1,695		61,305
Operating expenses:				
Research and development	29,385			29,385
Sales and marketing	27,045	(1,073)	A	25,972
General and administrative	17,652	(126)	A	17,526
Goodwill impairment	58,689	(58,689)		--
Special charges	14,096	(14,096)		--
	146,867	(73,984)		72,883
Income (loss) from operations	(87,257)	75,679		(11,578)
Interest income and other, net	2,429			2,429
Interest expense	(6,422)			(6,422)
Income (loss) before income taxes	(91,250)	75,679		(15,571)
Income tax provision (benefit)	819	(5,490)	C	(4,671)
Income (loss) from continuing operations	(92,069)	81,169		(10,900)
Discontinued operations:				
Results from NASD discontinued operations, net of income taxes	(19,375)	19,375		--

Loss from discontinued operations		(19,375)	19,375	--
Net loss	\$	(111,444)	\$ 100,544	\$ (10,900)
Net loss per share-diluted	\$	(0.71)	\$ 0.64	\$ (0.07)

107

GAAP TO NON-GAAP RECONCILIATION OF CONSOLIDATED STATEMENT OF OPERATIONS

	Three Months Ended			
	December 29, 2002		December 29, 2002	
	GAAP	Adjustments	Notes	Non-GAAP
Product revenue	\$ 180,388			\$ 180,388
Royalty revenue	48,382			48,382
Total revenue	228,770			228,770
Cost of revenue	156,607	(2,335)	A	154,272
Gross margin	72,163	2,335		74,498
Operating expenses:				
Research and development	27,683	(44)	A	27,639
Sales and marketing	24,400	(1,246)	A	23,154
General and administrative	15,684	(126)	A	15,558
Special charges	9,401	(9,401)		--
	77,168	(10,817)		66,351
Income (loss) from operations	(5,005)	13,152		8,147
Interest income and other, net	3,878			3,878
Interest expense	(5,988)			(5,988)
Income (loss) before income taxes	(7,115)	13,152		6,037
Income tax provision (benefit)	(1,193)	3,004	D	1,811
Income (loss) from continuing operations	(5,922)	10,148		4,226
Discontinued operations:				
Results from NASD discontinued operations, net of income taxes	(9,607)	9,607		--
Loss from discontinued operations	(9,607)	9,607		--
Net income (loss)	\$ (15,529)	\$ 19,755		\$ 4,226
Net income (loss) per share-diluted	\$ (0.09)	\$ 0.12		\$ 0.03

108

GAAP TO NON-GAAP RECONCILIATION OF CONSOLIDATED STATEMENT OF OPERATIONS

	Three Months Ended			
	March 31, 2003		March 31, 2003	
	GAAP	Adjustments	Notes	Non-GAAP
Product revenue	\$ 187,031			\$ 187,031
Royalty revenue	48,105			48,105
Total revenue	235,136			235,136
Cost of revenue	162,335	(2,974)	A	159,361
Gross margin	72,801	2,974		75,775
Operating expenses:				
Research and development	29,232	(257)	A	28,975
Sales and marketing	22,919	(1,314)	A	21,605
General and administrative	15,868	(126)	A	15,742
Special charges	79	(79)		--
Purchased in-process research and development	7,802	(7,802)		--
	75,900	(9,578)		66,322

Income (loss) from operations	(3,099)	12,552		9,453
Interest income and other, net	2,577			2,577
Interest expense	(6,169)			(6,169)
Income (loss) before income taxes	(6,691)	12,552		5,861
Income tax provision (benefit)	74	1,685	B	1,759
Income (loss) from continuing operations	(6,765)	10,867		4,102
Discontinued operations:				
Results from NASD discontinued operations, net of income taxes	326	(326)		--
Loss from discontinued operations	326	(326)		--
Net income (loss)	\$ (6,439)	\$ 10,541		\$ 4,102
Net income (loss) per share-diluted	\$ (0.04)	\$ 0.06		\$ 0.02

109

GAAP TO NON-GAAP RECONCILIATION OF CONSOLIDATED STATEMENT OF OPERATIONS

	Twelve Months Ended			
	March 31, 2003		March 31, 2003	
	GAAP	Adjustments	Notes	Non-GAAP
Product revenue	\$ 684,156			\$ 684,156
Royalty revenue	186,653			186,653
Total revenue	870,809			870,809
Cost of revenue	603,646	(8,699)	A	594,947
Gross margin	267,163	8,699		275,862
Operating expenses:				
Research and development	111,926	(301)	A	111,625
Sales and marketing	100,454	(4,539)	A	95,915
General and administrative	71,266	(504)	A	70,762
Goodwill impairment	58,689	(58,689)		--
Special charges	24,200	(24,200)		--
Purchased in-process research and development	7,802	(7,802)		--
	374,337	(96,035)		278,302
Income (loss) from operations	(107,174)	104,734		(2,440)
Equity investment write-downs	(17,061)	17,061		--
Interest income and other, net	11,481			11,481
Interest expense	(24,419)			(24,419)
Income (loss) before income taxes	(137,173)	121,795		(15,378)
Income tax provision (benefit)	(5,085)	472	B,C,D	(4,613)
Income (loss) from continuing operations	(132,088)	121,323		(10,765)
Discontinued operations:				
Results of NAS discontinued operations, net of income taxes	(37,909)	37,909		--
Loss from discontinued operations	(37,909)	37,909		--
Income (loss) before cumulative effect of an accounting change	(169,997)	159,232		(10,765)
Cumulative effect of an accounting change	(94,298)	94,298		--
Net income (loss)	\$ (264,295)	\$ 253,530		\$ (10,765)
Net income (loss) per share-diluted	\$ (1.63)	\$ 1.56		\$ (0.07)

110

GAAP TO NON-GAAP RECONCILIATION OF CONSOLIDATED STATEMENT OF OPERATIONS

Notes

A. Amortization of intangible assets		
B. Tax benefit on certain non-GAAP adjustments		
C. Income tax expense related to outsourced manufacturing	\$	10,293
Tax benefit on certain non-GAAP adjustments		(4,803)
	\$	5,490
D. Income tax expense related to purchase of IP technology	\$	1,850
Income tax effect related to all other charges		(4,854)
	\$	(3,004)

111

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

112

PART III

ITEM 10. Directors and Executive Officers of the Registrant

The information required by this item with respect to Quantum's directors is incorporated by reference to the information set forth in Quantum's proxy statement for the 2003 Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of Quantum's fiscal year ended March 31, 2003. For information pertaining to executive officers of Quantum, refer to the "Executive Officers of Quantum Corporation" section of Part I, Item 1 of this Annual Report on Form 10-K.

ITEM 11. Executive Compensation

The information required by this item is incorporated by reference to the information set forth in Quantum's proxy statement for the 2003 Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of Quantum's fiscal year ended March 31, 2003.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management

The following is a disclosure of Quantum's equity compensation plan information as required by SEC Release 33-8048:

(quantities in thousands)

	Year ended March 31, 2003		
	Number of shares to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options (2)	Number of shares remaining available for future issuance (2)
Stock Plans approved by stockholders (1)	23,491	\$ 7.57	31,570
Stock Plans not approved by stockholders (3)	9,683	\$ 7.21	12,621
	33,174		44,191

(1) The Long-Term Incentive Plan has an evergreen provision that provides for an annual increase to the quantity of stocks available

in the Plan equal to 4% of the total shares of Quantum Corporation common stock outstanding as at the end of the respective fiscal year.

(2) Does not include purchase rights accruing under the Purchase Plan for offerings beginning after January 24, 2003, the number and exercise price of which are not determinable until the expiration of such offering periods.

(3) The Supplemental Stock Plan ("SSOP") was terminated effective April 1, 2003, from which time no new stock options or stock purchase rights will be granted under this Plan. Outstanding stock options or stock purchase rights granted under the SSOP prior to April 1, 2003, shall remain outstanding and continue to be governed by the terms and conditions of the SSOP, which will remain in effect with respect to these outstanding stock options or stock purchase rights.

The remaining information required by this item is incorporated by reference from Quantum's proxy statement for the 2003 Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of Quantum's fiscal year ended March 31, 2003.

ITEM 13. Certain Relationships and Related Transactions

The information required by this item is incorporated by reference to the information set forth in Quantum's proxy statement for the 2003 Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of Quantum's fiscal year ended March 31, 2003.

With the exception of the information incorporated in Items 10, 11, 12 and 13 of this Annual Report on Form 10-K, Quantum's definitive Proxy Statement for Quantum's 2003 Annual Meeting of Stockholders is not deemed "filed" as part of this Annual Report on Form 10-K.

113

PART IV

ITEM 14. CONTROLS AND PROCEDURES

- (a) *Evaluation of disclosure controls and procedures* Based on their evaluation as of a date within 90 days of the filing date of this Annual Report on Form 10-K, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.
- (b) *Changes in internal controls* There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation. There were no significant deficiencies or material weaknesses, and therefore there were no corrective actions taken.

Non-Audit Services of Independent Auditors

Sections 201 and 202 of the Sarbanes-Oxley Act of 2002, signed into law on July 30, 2002, require that all audit services and non-audit services by Quantum's independent auditors, Ernst & Young LLP, must be pre-approved by the Company's Audit Committee. Furthermore, the Act prohibits an auditor from performing certain non-audit services for an audit client regardless of the Audit Committee's approval, subject to exceptions issued by the Public Company Accounting Oversight Board.

On April 25, 2003, the Audit Committee of the Company approved certain permissible non-audit services to be performed by Ernst & Young LLP. The approved non-audit services were tax services and certain audit-related services as defined by the Sarbanes-Oxley Act of 2002.

ITEM 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

Upon written request, Quantum will provide, without charge, a copy of Quantum's Annual Report on Form 10-K, including the Consolidated Financial Statements, financial statement schedules and any exhibits for Quantum's most recent fiscal year. All requests should be sent to:

Investor Relations
Quantum Corporation

The Company's corporate headquarters will be relocated to the above address effective July 3, 2003.

- (a) The following documents are filed as a part of this Report:
1. **Financial Statements**—The Consolidated Financials Statements of Quantum Corporation are listed in the Index to Consolidated Financial Statements.
 2. **Financial Statement Schedules**— The consolidated valuation and qualifying accounts (Schedule II) financial statement schedule of Quantum Corporation is listed in the Index to Consolidated Financial Statements. All other schedules have been omitted because the information required to be set forth therein is not applicable or is shown in the Consolidated Financial Statements or the notes hereto.
 3. **Exhibits**

Exhibit
Number **Exhibit**

- 3.1(1) Amended and Restated Certificate of Incorporation of Registrant
- 3.2(2) Amended and Restated By-laws of Registrant, as amended
- 3.3 Amendment to Amended and Restated By-laws of Registrant, effective April 23, 2003
- 4.1(3) Amended and Restated Preferred Shares Rights Agreement between the Registrant and Harris Trust and Savings Bank
- 4.2(5) First Amendment to the Amended and Restated Preferred Shares Rights Agreement and Certification Of Compliance With Section 27 Thereof, dated as of October 28, 2002
- 4.3(5) Stockholder Agreement, dated as of October 28, 2002, by and between Registrant and Private Capital Management
- 10.1 Form of Indemnification Agreement between Registrant and the Named Executive Officers and Directors

- 10.2 Form of Executive Change of Control Agreement between Registrant and the Named Executive Officers (other than the Chief Executive Officer)
- 10.3 Form of Chief Executive Officer Change of Control Agreement between Registrant and the Chief Executive Officer
- 10.4 Form of Director Change of Control Agreement between Registrant and the Directors
- 10.5(4) 1993 Long-Term Incentive Plan (as amended May 29, 2001)
- 10.6(5) Amendment No. 1 to 1993 Long-Term Incentive Plan (as amended May 29, 2001)
- 10.7(4) 1993 Long-Term Incentive Plan Form of Stock Option Agreement
- 10.8(4) Supplemental Stock Option Plan (as amended May 29, 2001)
- 10.9 Amendment No. 1 to Supplemental Stock Option Plan (as amended May 29, 2001)
- 10.10(4) Supplemental Stock Option Plan Form of Stock Option Agreement
- 10.11(1) 1996 Board of Directors Stock Option Plan (as amended May 29, 2001)

- 10.12(1) 1996 Board of Directors Stock Option Plan Form of Stock Option Agreement
- 10.13(1) Employee Stock Purchase Plan (as amended May 29, 2001)
- 10.14(9) Amendment No. 1 to the Employee Stock Purchase Plan, dated May 1, 2002
- 10.15(6) Patent Assignment and License Agreement, dated as of October 3, 1994, by and between Digital Equipment Corporation and Registrant
- 10.16(7) Indenture, dated August 1, 1997, between the Registrant and La Salle National Bank as trustee, related to the Registrant's subordinated debt securities
- 10.17(7) Supplemental Indenture, dated August 1, 1997, between the Registrant and Trustee, relating to the Notes, including the form of Note
- 10.18(1) Second Supplemental Indenture, dated as of August 4, 1999, between the Registrant and Trustee, relating to the Notes, including the form of Note
- 10.19(1) Third Supplemental Indenture, dated as of April 2, 2001, between the Registrant and Trustee, relating to the Notes, including the form of Note
- 10.20(8) Master Lease, Deed of Trust with Absolute Assignment of Leases and Rents, Security Agreement and Fixture Filing, dated as of December 17, 2002, between Selco Service Corporation, as Lessor, and Registrant, as Lessee
- 10.21(8) Participation Agreement, dated as of December 17, 2002, by and among Registrant, as Lessee, Selco Service Corporation, as Lessor, Comerica Bank-California, Fleet National Bank and Keybank National Association, as Participants, and Keybank National Association, as Agent for the Participants
- 10.22(10) Industrial Lease, dated as of July 17, 1998, between The Irvine Company as lessor, and ATL Products, Inc. as lessee
- 10.23(11) Amended and Restated Agreement and Plan of Merger and Reorganization dated as of October 3, 2000 by and among Registrant, Maxtor Corporation, Insula Corporation and Hawaii Corporation (excluding exhibits)
- 10.24(8) Credit Agreement, dated as of December 17, 2002, by and among Registrant, each lender, and Keybank National Association, as Administrative Agent and Issuing Lender

- 10.25(5) Asset Purchase Agreement, dated as of August 29, 2002, by and between Quantum Peripherals (M) Sdn. Bhd. and Jabil Circuit Sdn. Bhd
- 10.26(8) Master Supply Agreement, dated as of December 10, 2002, between Registrant and Jabil Circuit, Inc.
- 10.27(8) Repair Services Agreement, dated as of December 10, 2002, between Registrant and Jabil Circuit, Inc.
- 10.28(8) Transition Services Agreement, dated as of December 10, 2002, between Registrant and Jabil Circuit, Inc.
- 10.29(5) Agreement and Plan of Merger, dated as of September 5, 2002, by and among Registrant, Benchmark Storage Innovations, Inc. and Jesse Aweida, as Stockholders' Agent
- 10.30(5) First Amendment to Agreement and Plan of Merger, dated as of November 1, 2002, by and among Registrant, Benchmark Storage Innovations, Inc. and Jesse Aweida, as Stockholders' Agent
- 10.31(5) Separation Agreement, dated as of September 3, 2002, between Registrant and Michael A. Brown
- 10.32(5) Employment Agreement, dated as of September 3, 2002, between Registrant and Michael A. Brown
- 10.33(12) Asset Purchase Agreement, by and between Registrant and Broadband Storage, Inc., dated as of October 7, 2002, as amended on October 28, 2002
- 10.34(13) Agreement and Plan of Merger dated February 4, 2003 by and among the Registrant, the Registrant's wholly-owned subsidiary QSL Acquisition Corporation, SANlight, Inc., Mark Kaleem and Lloyd Alan Poston

- 23.1 Consent of Ernst & Young LLP, Independent auditors.
- 24 Power of Attorney (see signature page)
- 99.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley act of 2002
- 99.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley act of 2002

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- 1. Incorporated by reference to Registrant's Annual Report on Form 10-K for fiscal year ended March 31, 2001 filed with the Securities and Exchange Commission on June 29, 2001.
 - 2. Incorporated by reference to Registrant's Annual Report on Form 10-K for fiscal year ended March 31, 2000 filed with the Securities and Exchange Commission on June 28, 2000.
 - 3. Incorporated by reference to Registrant's Registration Statement on Form S-4, Amendment No.2, filed with the Securities and Exchange Commission on June 10, 1999.
 - 4. Incorporated by reference to Registrant's Schedule TO filed with the Securities and Exchange Commission on June 4, 2001.
 - 5. Incorporated by reference to Registrant's Form 10-Q for the quarterly period ended September 29, 2002 filed with the Securities and Exchange Commission on November 13, 2003.
 - 6. Incorporated by reference to Registrant's Form 8-K filed with the Securities and Exchange Commission on October 17, 1994.
 - 7. Incorporated by reference to Registrant's Form 8-K filed with the Securities and Exchange Commission on August 6, 1997.
 - 8. Incorporated by reference to Registrant's Form 10-Q for the quarterly period ended December 29, 2002 filed with the Securities and Exchange Commission on February 12, 2003.
 - 9. Incorporated by reference to Registrant's Annual Report on Form 10-K for fiscal year ended March 31, 2002 filed with the Securities and Exchange Commission on July 1, 2002.
 - 10. Incorporated by reference to Registrant's Form 10-Q for the quarterly period ended December 27, 1998 filed with the Securities and Exchange Commission on February 9, 1999.

116

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- 11. Incorporated by reference to Registrant's Form 10-Q for the quarterly period ended December 31, 2000 filed with the Securities and Exchange Commission on February 14, 2001.
 - 12. Incorporated by reference to Registrant's Form 8-K filed with the Securities and Exchange Commission on November 12, 2002.
 - 13. Incorporated by reference to Registrant's Registration Statement on Form S-3 filed with the Securities and Exchange Commission on March 7, 2003.

(b) Reports on Form 8-K

Registrant filed the following Current Report on Form 8-K during the three months ended March 31, 2003:

On April 28, 2003, Registrant filed a Current Report on Form 8-K, reporting its earnings results for the quarter ended March 31, 2003.

On May 20, 2003, Registrant filed a Current Report on Form 8-K, reporting a charge related to customer bankruptcy.

(c) Exhibits: See Item 15(a) above.

(d) Financial Statement Schedules: See Item 15(a) above.

117

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this

QUANTUM CORPORATION

/s/ MICHAEL J. LAMBERT

Michael J. Lambert
Chief Financial Officer

118

Dated: June 27, 2003

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Richard E. Belluzzo and Michael J. Lambert, jointly and severally, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons in the capacities and on June 27, 2003.

Signature

Title

/s/ RICHARD E. BELLUZZO

Richard E. Belluzzo

Chief Executive Officer (Principal Executive Officer)

/s/ MICHAEL J. LAMBERT

Michael J. Lambert

Executive Vice President, Finance and Chief Financial Officer
(Principal Financial and Accounting Officer)

/s/ MICHAEL A.
BROWN

Michael A. Brown

Chairman of the Board

/s/ STEPHEN M. BERKLEY

Stephen M. Berkley

Director

/s/ DAVID A. BROWN

David A. Brown

Director

/s/ ALAN L. EARHART

Alan L. Earhart

Director

/s/ EDWARD M. ESBER, JR

Edward M. Esber, Jr

Director

/s/ KEVIN J. KENNEDY

Kevin J. Kennedy

Director

/s/ GREGORY W. SLAYTON

Gregory W. Slayton

Director

/s/ EDWARD J. SANDERSON

Edward J. Sanderson

Director

119

**CERTIFICATION PURSUANT TO SECTION 302(a)
OF THE SARBANES-OXLEY ACT OF 2002**

I, Richard Belluzzo, certify that:

- 1) I have reviewed this annual report on Form 10-K of Quantum Corporation;
- 2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
- 4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- 5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
- 6) The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 27, 2003

/s/ RICHARD E. BELLUZZO

**CERTIFICATION PURSUANT TO SECTION 302(a)
OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael J. Lambert, certify that:

- 1) I have reviewed this annual report on Form 10-K of Quantum Corporation;
- 2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
- 4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- 5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
- 6) The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 27, 2003

/s/ MICHAEL J. LAMBERT

Michael J. Lambert
Executive Vice President, Finance and
Chief Financial Officer

**CERTIFICATE OF AMENDMENT
OF AMENDED AND RESTATED BYLAWS
OF
QUANTUM CORPORATION**

The undersigned hereby certifies that he is the duly elected, qualified, and acting Secretary of Quantum Corporation, a Delaware corporation (the "Company"), and that, effective April 23, 2003, Section 3.2 of the Bylaws of the Company was amended, by a duly adopted resolution of a majority of the Board of Directors, to read as follows:

"The Board of Directors shall consist of nine (9) persons. This 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."

IN WITNESS WHEREOF, the undersigned has hereunto set his hand this 23rd day of April, 2003.

/s/ Shawn D. Hall
Shawn D. Hall
Secretary

QUANTUM CORPORATION
INDEMNIFICATION AGREEMENT

This Indemnification Agreement ("Agreement") is made as of this ____ day of _____, 2003, by and between Quantum Corporation, a Delaware corporation (the "Company") and _____ ("Indemnitee"), an officer or Director of the Company.

WHEREAS, the Company and Indemnitee recognize the increasing difficulty in obtaining directors' and officers' liability insurance, the significant increases in the cost of such insurance and the general reductions in the coverage of such insurance; and

WHEREAS, the Company and Indemnitee further recognize the substantial increase in corporate litigation subjecting officers and directors to expensive litigation risks at the same time that liability insurance has been severely limited; and

WHEREAS, Indemnitee does not regard the current protection available as adequate given the present circumstances, and Indemnitee and other officers and directors of the Company may not be willing to serve as officers and directors without adequate protections; and

WHEREAS, the Company desires to attract and retain the services of highly qualified individuals, such as Indemnitee, to serve as officers and directors of the Company and to indemnify its officers and directors as to provide them with the maximum protection permitted by law.

NOW, THEREFORE, the Company and Indemnitee hereby agree as follows:

1. Indemnification.

- (a) Third Party Proceedings. The Company shall indemnify Indemnitee to the fullest extent permitted by law if Indemnitee is or was a party to or witness or other participant in, or is threatened to be made a party to or witness or other participant in, any threatened, pending or completed action, suit, proceeding or alternative dispute mechanism, whether civil, criminal, administrative or investigative (each a "Claim") (other than an action by or in the right of the Company) by reason of the fact that Indemnitee is or was a director, officer, employee, fiduciary or agent of the Company or any subsidiary of the Company, by reason of any action or inaction on the part of Indemnitee while an officer or director or by reason of the fact that Indemnitee is or was serving at the request of the Company as a director, officer, employee, fiduciary or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorney's fees), losses, claims, damages, liabilities, judgments, fines, penalties and amounts paid in settlement (if such settlement is approved in advance by the Company, which approval shall not be unreasonably withheld) actually and reasonably incurred by Indemnitee in connection with such Claim, as well as any federal, state, local or foreign taxes imposed on Indemnitee as a result of the actual or deemed receipt of payments under this Agreement, including all interest, assessments and other charges paid or payable in connection with or in respect of such expenses (collectively, hereinafter "Expenses") if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company and, with respect to any criminal action, suit or proceeding, Indemnitee had no reasonable cause to believe Indemnitee's conduct was unlawful. The termination of any Claim by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that Indemnitee did not act in good faith and in a manner which Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action, suit or proceeding, Indemnitee had reasonable cause to believe that Indemnitee's conduct was unlawful.
- (b) Proceedings by or in the Right of the Company. The Company shall indemnify Indemnitee to the fullest extent permitted by law if Indemnitee is or was a party to or witness or other participant in, or is threatened to be made a party to or witness or other participant in, any threatened, pending or completed Claim by or in the right for the Company or any subsidiary of the Company to procure a judgment in its favor by reason of the fact that Indemnitee is or was a director, officer, employee, fiduciary or agent of the Company or any subsidiary of the Company by reason of any action or inaction on the part of Indemnitee while an officer or director or by reason of the fact that Indemnitee is or was serving at the request of the Company as a director, officer, employee, fiduciary or agent of another corporation, partnership, joint venture, trust or other enterprise, against Expenses incurred by Indemnitee in connection with the defense or settlement of such Claim if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company and except that no indemnification shall be made in respect of any Claim under this Section 1(b) as to which Indemnitee shall have been adjudged to be liable to the Company unless and only to the extent that the Court of Chancery of the State of Delaware or the court in which such Claim was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity for such Expenses which the Court of Chancery of the State of Delaware or such other court shall deem proper.

- (c) Mandatory Payment of Expenses. To the extent that Indemnitee has been successful on the merits or otherwise in defense of any Claim referred to in Subsections (a) and (b) of the Section 1 or the defense of any Claim therein, Indemnitee shall be indemnified against Expenses actually and reasonably incurred by Indemnitee in connection therewith.
- (d) Change of Control. The Company agrees that, if there is a Change of Control of the Company (as defined in Section 9(c) hereof) (other than a Change of Control which has been approved by a majority of the Company's Board of Directors who were directors immediately prior to such Change of Control), then, with respect to all matters thereafter arising concerning the rights of Indemnitee to payments of Expenses under this Agreement or any other agreement or under the Company's Certificate of Incorporation or Bylaws as now or hereafter in effect, Independent Legal Counsel (as defined in Section 9(d) hereof) shall be selected by Indemnitee and approved by the Company (which approval shall not be unreasonably withheld). Such counsel, among other things, shall render its written opinion to the Company and Indemnitee as to whether and to what extent Indemnitee would be permitted to be indemnified under applicable law, and the Company agrees to abide by such opinion. The Company agrees to pay the reasonable fees of the Independent Legal Counsel referred to above and to fully indemnify such counsel against any and all Expenses arising out of or relating to this Agreement or its engagement pursuant hereto.

2. Expenses: Indemnification Procedure.

- (a) Advancement of Expenses. The Company shall pay all Expenses incurred by Indemnitee in connection with the investigation, defense, settlement or appeal of any civil or criminal Claim referenced in Section 1(a) or (b) hereof in advance of the final disposition of such Claim. Indemnitee hereby undertakes to repay such amounts advanced only if, and to the extent that, it shall ultimately be determined that Indemnitee is not entitled to be indemnified by the Company as authorized hereby. The advances to be made hereunder shall be paid by the Company to Indemnitee within twenty (20) days following delivery of a written request therefor, together with evidence of such Expenses incurred, by Indemnitee to the Company.
- (b) Notice/Cooperation by Indemnitee. Indemnitee shall, as a condition precedent to his right to be indemnified under this Agreement, give the Company notice in writing as soon as reasonably practicable of any Claim made against Indemnitee for which indemnification will or could be sought under this Agreement. Notice to the Company shall be directed to Quantum Corporation, 501 Sycamore Drive, Milpitas, California 95035 (Attn: Chief Executive Officer) (or such address as the Company shall designate in writing to Indemnitee). Notice shall be deemed received on the third business day after the date postmarked if sent by domestic certified or registered mail, properly addressed; otherwise notice shall be deemed received when such notice shall actually be received by the Company. In addition, Indemnitee shall give the Company such information and cooperation as it may reasonably require and as shall be within Indemnitee's power.
- (c) Procedure. Any indemnification and advances provided for in Section (a) of this Section 2 shall be made no later than forty-five (45) days after receipt of the written request of Indemnitee. If a Claim under this Agreement, under any statute, or under any provision of the Company's Certificate of Incorporation or Bylaws providing for indemnification is not paid in full by the Company within forty-five (45) days after a written request for payment thereof has first been received by the Company, Indemnitee may, but need not, at any time thereafter bring an action against the Company to recover the unpaid amount of the Claim and, subject to Section 12 of this Agreement, Indemnitee shall also be entitled to be paid for the Expenses of bringing such Claim. It shall be a defense to any such Claim (other than an action brought to enforce a Claim for Expenses incurred in connection with any Claim in advance of its final disposition) that Indemnitee has not met the standard of conduct which makes it permissible under applicable law for the Company to indemnify Indemnitee for the amount claimed, but the burden of proving such defense shall be on the Company, and Indemnitee shall be entitled to receive interim payments and Expenses pursuant to Subsection 2(a) unless and until such defense may be finally adjudicated by court order or judgment from which no further right of appeal either exists or is pursued within six months from the date of such court order of judgment. It is the parties' intention that, if the Company contests Indemnitee's right to indemnification, the question of Indemnitee's right to indemnification shall be for the court to decide, and neither the failure of the Company (including its Board of Directors, any committee or subgroup of the Board of Directors, independent legal counsel, or its stockholders) to have made a determination that indemnification of Indemnitee is proper in the circumstances because Indemnitee has met the applicable standard of conduct required by applicable law, nor an actual determination by the Company (including its Board of Directors, any committee or subgroup of the Board of Directors, independent legal counsel, or its stockholders) that Indemnitee has not met such applicable standard of conduct, shall create a presumption that Indemnitee has or has not met the applicable standard of conduct.
- (d) Notice to Insurers. If, at the time of the receipt of a notice of a Claim pursuant to Section 2(b) hereof, the Company has director and officer liability insurance in effect, the Company shall give prompt notice of the commencement of such proceeding to the insurers in accordance with the procedure set forth in the applicable policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such proceeding in accordance with the terms of such policies and this Agreement.

(e) Selection of Counsel. In the event that the Company shall be obligated under Section 2(a) hereof to pay the Expenses of any Claim against Indemnitee, the Company shall be entitled to assume the defense of such Claim, with counsel approved by Indemnitee, upon the delivery to Indemnitee of written notice of its election to do so. After delivery of such notice, approval of such counsel by Indemnitee and the retention of such counsel by the Company, the Company will not be liable to Indemnitee under this Agreement for any fees of counsel subsequently incurred by Indemnitee with respect to the same proceeding; provided that (i) Indemnitee shall have the right to employ his counsel in any such proceedings at Indemnitee's expense and (ii) if (A) the employment of counsel by Indemnitee has been previously authorized by the Company, (B) Indemnitee and its counsel shall have reasonably concluded that there may be a conflict of interest between the Company and Indemnitee in the conduct of any such defense or (C) the Company shall not, in fact, have employed counsel to assume the defense of such proceeding, then the fees and expenses of Indemnitee's counsel shall be at the expense of the Company.

3. Additional Indemnification Rights: Non-Exclusivity.

(a) Scope. Notwithstanding any other provision of the Agreement, the Company hereby agrees to indemnify Indemnitee to the fullest extent permitted by law, notwithstanding that such indemnification is not specifically authorized by the other provisions of this Agreement, the Company's Certificate of Incorporation, the Company's Bylaws or by statute. In the event of any changes, after the date of the Agreement, in any applicable law, statute, or rule which expands the right of a Delaware corporation to indemnify a member of its board of directors or any officer, such changes shall be, ipso facto, within the purview of the Indemnitee's rights and the Company obligations under this Agreement. In the event of any change in any applicable law, statute or rule which narrows the right of a Delaware corporation to indemnify a member of its board of directors or any officer, such changes, to the extent not otherwise required by such law, statute or rule to be applied to the Agreement shall have no effect on this Agreement or the parties' rights and obligations hereunder.

(b) Nonexclusivity. The indemnification provided by this Agreement shall not be deemed exclusive of any rights to which an Indemnitee may be entitled under the Company's Certificate of Incorporation, its Bylaws, any agreement, any vote of stockholders or disinterested Directors, the General Corporation Law of the State of Delaware, or otherwise, both as to action in Indemnitee's official capacity and as to action in another capacity while holding such office. The indemnification provided under this Agreement shall continue as to Indemnitee for any action taken or not taken while serving in an indemnified capacity even though he may have ceased to serve in such capacity at the time of any Claim.

4. Partial Indemnification. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of the Expenses actually or reasonably incurred by him in the investigation, defense, appeal or settlement of any civil or criminal Claim, but not, however, for the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion of such Expenses to which Indemnitee is entitled.

5. Mutual Acknowledgment. Both the Company and Indemnitee acknowledge that, in certain instances, Federal law or applicable public policy may prohibit the Company from indemnifying its directors and officers under this Agreement or otherwise. For example, the Company and Indemnitee acknowledge that the Securities and Exchange Commission (the "SEC") has taken the position that indemnification is not permissible for liabilities arising under certain federal securities laws, and federal legislation prohibits indemnification for certain ERISA violations. Indemnitee understands and acknowledges that the Company has undertaken or may be required in the future to undertake with the SEC to submit the question of indemnification to a court in certain circumstances for a determination of the Company's right under public policy to indemnify Indemnitee.

6. Directors' and Officers' Liability Insurance. The Company shall, from time to time, make the good faith determination whether or not it is practicable for the Company to obtain and maintain a policy or policies of insurance with reputable insurance companies providing the directors and officers with coverage for losses from wrongful acts, or to ensure the Company's performance of its indemnification obligations under this Agreement. Among other considerations, the Company will weigh the costs of obtaining such insurance coverage against the protection afforded by such coverage. In all policies of directors' and officers' liability insurance, Indemnitee shall be named as an insured in such a manner as to provide Indemnitee the same rights and benefits as are accorded to the most favorably insured of the Company's directors, if Indemnitee is a director; or of the Company's officers, if Indemnitee is not a director of the Company but is an officer. Notwithstanding the foregoing, the Company shall have no obligation to obtain or maintain such insurance if the Company determines in good faith that such insurance is not reasonably available, if the premium costs for such insurance are disproportionate to the amount of coverage provided, if the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit, or if Indemnitee is covered by similar insurance maintained by a parent or subsidiary of the Company.

7. Severability. Nothing in this Agreement is intended to require or shall be construed as requiring the Company to do or fail to do any act in violation of applicable law. The Company's inability, pursuant to court order, to perform its obligations under this Agreement shall not constitute a breach of this Agreement. The provisions of this Agreement shall be severable as provided in this Section 7. If this Agreement or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Company shall nevertheless indemnify Indemnitee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated, and the balance of this Agreement not so invalidated shall be enforceable in accordance with its terms.
8. Exceptions. Any other provision herein to the contrary notwithstanding, the Company shall not be obligated pursuant to the terms of this Agreement:
 - (a) Claims Initiated by Indemnitee. To indemnify or advance Expenses to Indemnitee with respect to Claims initiated or brought voluntarily by Indemnitee and not by way of defense, except with respect to Claims brought to establish or enforce a right to indemnification under this Agreement or any other statute or law or otherwise as required under Section 145 of the Delaware General Corporation Law, but such indemnification or advancement of Expenses may be provided by the Company in specific cases if the Board of Directors has approved the initiation of such Claim;
 - (b) Lack of Good Faith. To indemnify Indemnitee for any Expenses incurred by the Indemnitee with respect to any Claim instituted by Indemnitee to enforce or interpret this Agreement if a court of competent jurisdiction determines that each of the material assertions made by the Indemnitee in such Claim was not made in good faith or was frivolous;
 - (c) Prior Payments. To indemnify Indemnitee for Expenses (including, but not limited to, judgments, fines, ERISA excise taxes or penalties, and amounts paid in settlement) to the extent that Indemnitee has otherwise actually received payment (under any insurance policy, the Certificate of Incorporation, Bylaws or otherwise) of amounts otherwise indemnifiable hereunder;
 - (d) Claims Under Section 16(b). To indemnify Indemnitee for Expenses or the payment of profits arising from the purchase and sale by Indemnitee of securities in violation of Section 16(b) of the Securities Exchange Act of 1934, as amended, or any similar successor statute; or
 - (e) Excluded Action or Omissions. To indemnify Indemnitee for Indemnitee's acts, omissions or transactions from which Indemnitee may not be relieved of liability under applicable law.
9. Construction of Certain Phrases.
 - (a) For purposes of this Agreement, references to the "Company" 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 if Indemnitee is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, Indemnitee shall stand in the same position under the provisions of this Agreement with respect to the resulting or surviving corporation as Indemnitee would have with respect to such constituent corporation if its separate existence had continued.
 - (b) For purposes of this Agreement, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on Indemnitee with respect to an employee benefit plan; and references to "serving at the request of the Company" shall include any service as a director, officer, employee or agent of the Company which imposes duties on, or involved services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants, or beneficiaries; and that Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan, Indemnitee shall be deemed to have acted in a manner "not opposed to the best interests of the Company" as referred to in this Agreement.

- (c) For purposes of this Agreement, "Change of Control" shall mean the occurrence of any of the following events on or after the date of this Agreement, (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing forty percent (40%) or more of the total voting power represented by the Company's then outstanding voting securities, (ii) a change in the composition of the board of directors of the Company occurring within a six (6) month period, as a result of which fewer than a majority of the directors are Incumbent Directors. "Incumbent Directors" shall mean directors who either (A) are directors of the Company as of the date hereof, or (B) are elected, or nominated for election, to the board of directors of the Company with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company), or (iii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all the Company's assets.
- (d) For purposes of this Agreement, "Independent Legal Counsel" shall mean an attorney or firm of attorneys, selected in accordance with the provisions of Section 1(d) hereof, who shall not have otherwise performed services for the Company or Indemnitee within the last three years (other than with respect to matters concerning the rights of Indemnitee under this Agreement, or of other indemnitees under similar indemnity agreements).
10. Counterparts and Amendment. This Agreement may be executed in counterparts, each of which shall constitute an original. This Agreement may only be amended in writing signed by both parties.
11. Successors and Assigns; Binding Effect. This Agreement shall be binding upon the Company and its successors and assigns, and shall inure to the benefit of Indemnitee and Indemnitee's estate, heirs, legal representatives and assigns, including any direct or indirect successor pursuant to a Change of Control. The Company shall require and cause any such successor by written agreement, in form and substance reasonably satisfactory to Indemnitee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place. This Agreement shall continue in effect with respect to Claims relating to Expenses regardless of whether Indemnitee continues to serve as a director, officer, employee, fiduciary or agent of the Company or of any other enterprise at the Company's request.
12. Attorney's Fees. In the event that any Claim is instituted by Indemnitee under this Agreement to enforce or interpret any of the terms hereof, Indemnitee shall be entitled to be paid all Expenses (including court costs) incurred by Indemnitee with respect to such action, unless as a part of such action, the court of competent jurisdiction determines that each of the material assertions made by Indemnitee as a basis for such Claim were not made in good faith or were frivolous. In the event of a Claim instituted by or in the name of the Company under this Agreement or to enforce or interpret any of the terms of this Agreement, Indemnitee shall be entitled to be paid all expenses (including court costs) incurred by Indemnitee in defense of such Claim (including with respect to Indemnitee's counterclaims and cross-claims made in such action), unless as a part of such action the court determines that each of Indemnitee's material defenses to such action were made in bad faith or were frivolous.
13. Notice. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed duly given (i) if delivered by hand on the date of receipt, or (ii) if mailed by domestic certified or registered mail with postage prepaid, on the third business day after the date postmarked. Addresses for notice to either party are as shown on the signature page of this Agreement, or as subsequently modified by written notice.
14. Consent to Jurisdiction. The Company and Indemnitee each hereby irrevocably consent to the jurisdiction of the courts of the State of Delaware for all purposes in connection with any Claim that arises out of or relates to this Agreement and agree that any Claim instituted under this Agreement shall be brought only in the state courts of the State of Delaware.
15. Choice of Law. This Agreement shall be governed by and its provisions construed in accordance with the laws of the State of Delaware, as applied to contracts between Delaware residents entered into and to be performed entirely within Delaware.
16. Modification. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter contemplated herein. All prior negotiations, agreements and understandings concerning such subject matter are superseded hereby. This Agreement may not be modified or amended except by an instrument in writing signed by or on behalf of the parties hereto.
17. No Construction as Employment Agreement. Nothing contained in this Agreement shall be construed as giving Indemnitee any right to be retained in the employ of the Company or any of its subsidiaries.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

AGREED TO AND ACCEPTED:

QUANTUM CORPORATION

INDEMNITEE

/s/ _____

/s/ _____

Name: Shawn Hall

Name: _____

Title: Vice President, General Counsel

Title _____

QUANTUM CORPORATION
EXECUTIVE CHANGE OF CONTROL AGREEMENT

THIS EXECUTIVE CHANGE OF CONTROL AGREEMENT ("Agreement") is effective as of this 1st day of April, 2003, by and between **[insert employee]** (the "Employee") and QUANTUM CORPORATION, a Delaware corporation (the "Corporation").

Recitals

- A. Whereas, the Employee is an executive-staff level employee of the Corporation.
- B. The board of directors of the Corporation has determined that it is in the best interests of the Corporation and its stockholders to assure that the Corporation will have the continued dedication and objectivity of the Employee, notwithstanding the possibility, threat or occurrence of a Change of Control (as defined below) of the Corporation.
- C. The board of directors believes that it is important to provide the Employee with compensation arrangements and stock benefits upon a Change of Control, provided the Employee executes and does not revoke a release of claims in favor of the Corporation in the event of his or her Involuntary Termination (as defined below) following such Change of Control, which provide the Employee with enhanced financial security, are competitive with those of other corporations, and provide sufficient incentive to the Employee to remain with the Corporation following a Change of Control.
- D. In order to accomplish the foregoing objectives, the board of directors has directed the Corporation, upon execution of this Agreement by the Employee, to agree to amend and restate the terms of this Agreement as in effect since its original effective date and to extend the terms of this Agreement as set forth below.
- E. Certain capitalized terms used in the Agreement are defined in Section 3 below.

In consideration of the mutual covenants herein contained, and in consideration of the continuing employment of the Employee by the Corporation, the parties agree as follows:

- 1. Change of Control Severance Benefits. If the Employee's employment terminates at any time within eighteen (18) months after a Change of Control, then the following shall apply:
 - (a) Voluntary Resignation; Termination For Cause. If the Employee's employment terminates in a voluntary resignation (and not an Involuntary Termination), or if the Employee is terminated for Cause, or if the Employee voluntarily accepts a position within the Corporation below the level of vice president then the Employee shall not be entitled to receive severance or other benefits except for those (if any) as may be available under the Corporation's severance and benefits plans and policies existing at the time of such termination.
 - (b) Involuntary Termination. If the Employee suffers an Involuntary Termination, then the Employee shall be entitled to receive a lump-sum severance payment equal to:
 - (i) 200% of the Employee's then established Base Compensation;
 - (ii) 200% of the Employee's then established annualized All Inclusive Bonus Plan ("AIBP") target as in effect on the date of termination;
 - (iii) the pro rata share of the Employees then established annualized AIBP target, prorated up to the Employee's date of termination; and
 - (iv) monthly reimbursements from the Corporation for the same level of health coverage and benefits as in effect for the Employee on the day immediately preceding the day of the Employee's termination of employment; provided, however, that (i) the Employee constitutes a qualified beneficiary, as defined in Section 4980B(g)(1) of the Internal Revenue Code of 1986, as amended; and (ii) the Employee elects continuation coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), within the time period prescribed pursuant to COBRA. The Corporation shall continue to reimburse the Employee for continuation coverage until one year after the date of the Involuntary Termination. The Employee shall be responsible for the payment of COBRA premiums (including, without limitation, all administrative expenses) for the remaining COBRA period.
 - (c) Disability; Death. If the Employee's employment terminates due to the Employee's Disability or death, then such termination shall be treated as if it were an Involuntary Termination and severance and other benefits shall be provided in accordance with paragraph (b) above.

2. Option and Stock Acceleration.

(a) Acceleration Upon Change of Control. In the event of a Change of Control:

- (i) Fifty percent (50%) of the then unvested portion of any stock option held by the Employee under the Corporation's stock option plans and outstanding at the time of the Change of Control shall become vested and the Employee shall automatically have the right to exercise all or any portion of such stock option to the extent so vested in addition to any portion of the option exercisable prior to the Change of Control;
- (ii) Fifty percent (50%) of any unvested shares held by the Employee under any common stock purchase agreement with the Corporation and outstanding at the time of the Change of Control shall automatically become vested shares, and such shares shall automatically be free of any right of repurchase to the extent so vested in addition to any shares which were vested prior to the Change of Control.

Where the Change of Control results from a merger or consolidation of the Corporation with any other corporation, such vesting shall occur prior to consummation of such merger or consolidation, no less than ten (10) days prior to such merger or consolidation.

(b) Option Acceleration Following Change of Control. Subject to the continued employment of the Employee, after acceleration of vesting under paragraph (a)(i) the remaining unvested portion of any stock option shall become fully vested upon the first anniversary of the Change of Control (or the expiration date of such stock option, if earlier). If, however, the Employee's employment terminates within the twelve (12) month period following a Change of Control, then, subject to Section 4 below, the exercisability of any stock option held by the Employee shall be as follows:

- (i) Voluntary Resignation; Termination for Cause. If the Employee's employment terminates in a voluntary resignation (and not an Involuntary Termination), or if the Employee is terminated for Cause, the Employee is entitled to exercise any vested stock option (including an option vested under paragraph (a)(i) above).
- (ii) Involuntary Termination. If the Employee suffers an Involuntary Termination, then the portion of any stock option then held by the Employee that is not vested and exercisable shall automatically become vested and exercisable.
- (iii) Disability; Death. If the Employee's employment terminates due to the Employee's Disability or death, then such termination shall be treated as if it were an Involuntary Termination for purposes of this Section 2.

(c) Acceleration of Unvested Shares Following Change of Control. Subject to the continued employment of the Employee, any unvested shares following the acceleration provided in paragraph (a)(ii) above shall vest on the date of the first anniversary following the Change of Control. If, however, the Employee's employment is terminated within the twelve (12) month period following a Change of Control, then, subject to Section 4 of the Agreement, any shares held by the Employee under any common stock purchase agreement with the Corporation shall become vested shares as follows:

- (i) Voluntary Resignation; Termination for Cause. If the Employee's employment terminates in a voluntary resignation (and not an Involuntary Termination), or if the Employee is terminated for Cause, then the Employee shall receive only his or her vested shares (including the shares vested under paragraph (a)(ii) above).
- (ii) Involuntary Termination. If the Employee suffers an Involuntary Termination, then all of the Employee's shares shall vest.
- (iii) Disability; Death. If the Employee's employment terminates due to the Employee's Disability or death, then such termination shall be treated as if it were an Involuntary Termination for purposes of this Section 2.

3. Definition of Terms. The following terms referred to in this Agreement shall have the following meanings:

- (a) Base Compensation. "Base Compensation" shall mean the annual base salary the Corporation pays the Employee for his or her services immediately prior to an Involuntary Termination.
- (b) Change of Control. "Change of Control shall mean the occurrence of any of the following events:
 - (i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Corporation representing forty percent (40%) or more of the total voting power represented by the Corporation's then outstanding voting securities; or

- (ii) A change in the composition of the board of directors of the Corporation occurring within a six (6) month period, as a result of which fewer than a majority of the directors are Incumbent Directors. "Incumbent Directors" shall mean directors who either (A) are directors of the Corporation as of the date hereof, or (B) are elected, or nominated for election, to the board of directors of the Corporation with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Corporation); or
 - (iii) The stockholders of the Corporation approve a merger or consolidation of the Corporation with any other corporation, other than a merger or consolidation which would result in the voting securities of the Corporation outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty percent (50%) of the total voting power represented by the voting securities of the Corporation or such surviving entity outstanding immediately after such merger or consolidation, or the stockholders of the Corporation approve a plan of complete liquidation of the Corporation or an agreement for the sale or disposition by the Corporation of all or substantially all the Corporation's assets.
- (c) Involuntary Termination. "Involuntary Termination" shall mean (i) without the Employee's express written consent, the assignment to the Employee of any duties or the reduction of the Employee's duties, either of which results in a significant diminution in the Employee's position or responsibilities with the Corporation in effect immediately prior to such assignment, or the removal of the Employee from such position and responsibilities; (ii) without the Employee's express written consent, a substantial reduction of the facilities and perquisites (including office space and location) available to the Employee immediately prior to such reduction; (iii) a reduction by the Corporation in the Base Compensation of the Employee as in effect immediately prior to such reduction, other than a uniform reduction applicable to all executives generally; (iv) a material reduction by the Corporation in the kind or level of employee benefits to which the Employee is entitled immediately prior to such reduction with the result that the Employee's overall benefits package is significantly reduced; (v) the relocation of the Employee to a facility or a location more than 50 miles from the Employee's then present location, without the Employee's express written consent; (vi) any purported termination of the Employee by the Corporation which is not effected for Disability or for Cause; or (vii) the failure of the Corporation to obtain the assumption of this agreement by any successors contemplated in Section 7 below.
- (d) Cause. "Cause" shall mean (i) any act of personal dishonesty taken by the Employee in connection with his or her responsibilities as an employee that is intended to result in substantial personal enrichment of the Employee, (ii) the conviction of a felony, (iii) a willful act by the Employee which constitutes gross misconduct injurious to the Corporation, and (iv) continued violations by the Employee of the Employee's obligations to the Corporation under the Corporation's established personnel policies and procedures which are demonstrably willful and deliberate on the Employee's part after the Corporation has delivered a written demand for performance to the Employee that describes the basis for the Corporation's belief that the Employee has not substantially performed his or her duties.
- (e) Disability. "Disability" shall mean that the Employee has been unable to perform his or her duties under this Agreement as the result of his or her incapacity due to physical or mental illness with or without reasonable accommodation, and such inability, at least 26 weeks after its commencement, is determined to be total and permanent by a physician selected by the Corporation or its insurers and acceptable to the Employee or the Employee's legal representative (such statement as to acceptability not to be unreasonably withheld). Termination resulting from Disability may only be effected after at least thirty (30) days' written notice by the Corporation of its intention to terminate the Employee's employment. In the event that the Employee resumes the performance of substantially all of his or her duties hereunder before the termination of his or her employment becomes effective, the notice of intent to terminate shall automatically be deemed to have been revoked.
- (f) Disinterested Board. "Disinterested Board" shall mean the board of directors of the Corporation excluding those members of the board of directors, if any, who are parties to agreements or arrangements identical to or substantially similar to this Agreement.

4. Parachute Payments.

- (a) Excise Tax Gross-Up. In the event that any payment or benefit received or to be received pursuant to this Agreement (but determined without regard to any additional payment required under this Section 4) (the "Severance Payments"), would (i) constitute a "parachute payment" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), or any similar or successor provision to 280G, and (ii) be subject to the excise tax imposed by Section 4999 of the Code or any similar or successor provision to Section 4999 (the "Excise Tax"), or any interest or penalties payable with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Employee shall be entitled to receive from the Corporation an additional payment (the "Gross-Up Payment") in an amount such that after payment by the Employee of all taxes (including any Excise Tax) imposed upon the Gross-Up Payment, the Employee retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Severance Payments. For purposes of determining the amount of the Gross-Up Payment, the Employee shall be deemed to (i) pay federal income taxes at the highest marginal rates of federal income taxation for the calendar year in which the Gross-Up Payment is to be made, and (ii) pay applicable state and local income taxes at the highest marginal rate of taxation for the calendar year in which the Gross-Up Payment is to be made, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes.
- (b) Determination of Amount. Subject to the provisions of this Section 4(b), all determinations required to be made under Section 4(a), including whether and when a Gross-Up Payment is required, the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determinations, shall be made by the public accounting firm that is engaged by the Corporation for general audit purposes as of the date immediately prior to the Change of Control (the "Accounting Firm"). In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change of Control, the Corporation shall appoint another nationally recognized public accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). The Corporation shall bear all expenses with respect to the determinations by the Accounting Firm required to be made hereunder. Any good faith determinations of the Accounting Firm made hereunder shall be final, binding and conclusive upon the Corporation and the Employee. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the determination by the Accounting Firm, it is possible that Gross-Up Payments which will not have been made by the Corporation should have been made ("Underpayment") or Gross-Up Payments are made by the Corporation which should not have been made ("Overpayment"), consistent with the calculations required to be made hereunder. In the event that the Employee thereafter is required to make payment of any Excise Tax or additional Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment (together with interest, to the extent not already within the Excise Tax, at the rate provided in Section 1274(b)(2)(B) of the Code) shall be promptly paid by the Corporation to or for the benefit of the Employee. In the event the amount of the Gross-Up Payment exceeds the amount necessary to reimburse the Employee for his or her Excise Tax, the Accounting Firm shall determine the amount of the Overpayment that has been made and any such Overpayment (together with interest at the rate provided in Section 1274(b)(2) of the Code) shall be promptly paid by the Employee (to the extent he has received a refund if the applicable Excise Tax has been paid to the Internal Revenue Service) to or for the benefit of the Corporation. The Employee shall cooperate, to the extent his or her expenses are reimbursed by the Corporation, with any reasonable requests by the Corporation in connection with any contests or disputes with the Internal Revenue Service in connection with the Excise Tax.
5. At-Will Employment. The Corporation and the Employee acknowledge that the Employee's employment is at will and may be terminated at any time and for any reason, with or without notice. On termination of the Employee's employment, the Employee shall not be entitled to any payments, benefits, damages, awards or compensation other than as provided by this Agreement, or as may otherwise be available in accordance with the Corporation's established employee plans and policies at the time of termination.
6. Term, Amendment and Termination.
- (a) Term. Subject to subsection (b) below, the terms of this Agreement shall terminate upon the earlier of (i) the date that all obligations of the parties hereunder have been satisfied, (ii) April 1, 2005, or (iii) eighteen (18) months after a Change of Control. A termination of the terms of this Agreement pursuant to the preceding sentence shall be effective for all purposes, except that such termination shall not affect the payment or provision of compensation or benefits on account of a termination of employment occurring prior to the termination of the terms of this Agreement.
- (b) Amendment and Termination. This Agreement may be amended in any respect or terminated by the unanimous resolution of the Disinterested Board, unless a Change of Control has previously occurred. If a Change of Control occurs, this Agreement shall no longer be subject to amendment, change, substitution, deletion, revocation or termination in any respect whatsoever.

- (c) Form of Amendment. The Form of any proper amendment or termination of this Agreement shall be a written instrument signed by a duly authorized officer or officers of the Corporation, certifying that the amendment or termination has been approved by the Disinterested Board in accordance with Section 6(b).

7. Successors.

- (a) Corporation's Successors. Any successor to the Corporation (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise) to all or substantially all of the Corporation's business and/or assets shall assume the obligations under this Agreement and agree expressly to perform the obligations under this Agreement in the same manner and to the same extent as the Corporation would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term "Corporation" shall include any successor to the Corporation's business and/or assets which executes and delivers the assumption agreement described in this subsection (a) or which becomes bound by the terms of this Agreement by operation of law.
- (b) Employee's Successors. The terms of this Agreement and all rights of the Employee hereunder shall inure to the benefit of, and be enforceable by, the Employee's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.
- (c) Employment By Subsidiaries. If the Employee is employed by a wholly owned subsidiary of Quantum Corporation, then (i) "Corporation" as defined herein shall be deemed to include such subsidiary, and (ii) the effects intended to result from a Change of Control under this Agreement shall apply to such subsidiary, and the Employee shall be entitled to all the benefits and subject to all the obligations provided herein.

8. Notice.

- (a) General. Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by U.S. registered or certified mail, return receipt requested and postage prepaid. In the case of the Employee, mailed notices shall be addressed to him at the home address which he most recently communicated to the Corporation in writing. In the case of the Corporation, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its Secretary.
- (b) Notice of Termination. Any termination by the Corporation for Cause or by the Employee as a result of an Involuntary Termination shall be communicated by a notice of termination of the other party hereto given in accordance with this Section 8 of this Agreement. Such notice shall indicate the specific termination provision in this Agreement relied upon, shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provision so indicated, and shall specify the termination date (which shall be not more than fifteen (15) days after the giving of such notice). The failure by the Employee to include in the notice any fact or circumstance which contributes to a showing of Involuntary Termination shall not waive any right of the Employee hereunder or preclude the Employee from asserting such fact or circumstance in enforcing his or her rights hereunder.

9. Release of Claims. In order to receive any of the benefits provided for pursuant to this Agreement upon the Employee's Involuntary Termination, the Employee (or his or her legal representative in the event of death or disability as the case may be) shall be required to execute and not revoke a release of claims (in a form provided by the Corporation) in favor of the Corporation..

10. Timing of Benefits. Benefits provided for pursuant to this Agreement shall be made as soon as is administratively practicable.

11. Miscellaneous Provisions.

- (a) No Duty to Mitigate. The Employee shall not be required to mitigate the amount of any payment contemplated by this Agreement (whether by seeking new employment or in any other manner), nor shall any such payment be reduced by any earnings that the Employee may receive from any other source.
- (b) Waiver. No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by the Employee and by an authorized officer of the Corporation (other than the Employee). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.
- (c) Whole Agreement. No agreements, representations or understandings (whether oral or written and whether express or implied) which are not expressly set forth in this Agreement have been made or entered into by either party with respect to the subject matter hereof.

- (d) Choice of Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of California.
- (e) Severability. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.
- (f) Arbitration.
- (i) Employee and the Corporation agree that any dispute or controversy arising out of, relating to, or in connection with this Agreement, or the interpretation, validity, construction, performance, breach, or termination thereof, shall be finally settled by binding arbitration to be held in Milpitas, California under the National Rules for the Resolution of Employment Disputes supplemented by the Supplemental Procedures for Large Complex Disputes, of the American Arbitration Association as then in effect (the "Rules"). The parties shall be entitled to conduct discovery pursuant to the California Code of Civil Procedure. The arbitrator may regulate the timing and sequence of such discovery and shall decide any discovery disputes or controversies between the Corporation. The arbitrator may grant injunctions or other relief in such dispute or controversy. The decision of the arbitrator shall be final, conclusive and binding on the parties to the arbitration. Judgment may be entered on the arbitrator's decision in any court having jurisdiction.
- (ii) The arbitrator(s) shall apply California law to the merits of any dispute or claim, without reference to rules or conflicts of law.
- (iii) Unless otherwise provided for by law, the Corporation and the Employee shall each pay half of the costs and expenses of such arbitration.
- (iv) THE EMPLOYEE HAS READ AND UNDERSTANDS THIS SECTION, WHICH DISCUSSES ARBITRATION. THE EMPLOYEE UNDERSTANDS THAT BY SIGNING THIS AGREEMENT, THE EMPLOYEE AGREES TO SUBMIT ANY CLAIMS ARISING OUT OF, OR RELATING TO, OR IN CONNECTION WITH THIS AGREEMENT, OR THE INTERPRETATION, VALIDITY, CONSTRUCTION, PERFORMANCE, BREACH OR TERMINATION THEREOF TO BINDING ARBITRATION, AND THAT THIS ARBITRATION CLAUSE CONSTITUTES A WAIVER OF THE EMPLOYEE'S RIGHT TO A JURY TRIAL AND RELATES TO THE RESOLUTION OF ALL DISPUTES RELATING TO ALL ASPECTS OF THIS AGREEMENT.
- (g) No Assignment of Benefits. The rights of any person to payments or benefits under this Agreement shall not be made subject to option or assignment, either by voluntary or involuntary assignment or by operation of law, including (without limitation) bankruptcy, garnishment, attachment or other creditor's process, and any action in violation of this subsection (g) shall be void.
- (h) Withholding Taxes. All payments made pursuant to this Agreement will be subject to withholding of applicable taxes.
- (i) Assignment by Corporation. The Corporation may assign its rights under this Agreement to an affiliate, and an affiliate may assign its rights under this Agreement to another affiliate of the Corporation or to the Corporation provided, however, that no assignment shall be made if the net worth of the assignee is less than the net worth of the Corporation at the time of assignment. In the case of any such assignment, the term "Corporation" when used in a section of this Agreement shall mean the Corporation that actually employs the Employee.
- (j) Amendment of Option and Purchase Agreements. The Corporation and the Employee agree that the provisions of this Agreement shall supersede any conflicting provisions of any stock purchase or stock option agreement of the Employee, and the Corporation and the Employee agree to execute such further documents as may be necessary to amend any such agreement.
- (k) Headings. The headings of sections herein are included solely for convenience of reference and shall not control the meaning or interpretation of any provisions of this Agreement.
- (l) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Corporation by its duly authorized officer, as of the day and year first above written.

QUANTUM CORPORATION

EMPLOYEE

/s/ _____

Name: Shawn Hall

Title: Vice President, General Counsel

/s/ _____

Name: _____

Title _____

SIGNATURE PAGE OF EXECUTIVE CHANGE OF CONTROL AGREEMENT

QUANTUM CORPORATION

CHIEF EXECUTIVE CHANGE OF CONTROL AGREEMENT

THIS CHIEF EXECUTIVE CHANGE OF CONTROL AGREEMENT ("Agreement") is effective as of this 1st day of April, 2003, by and between **[insert employee]** (the "Employee") and QUANTUM CORPORATION, a Delaware corporation (the "Corporation").

Recitals

- A. Whereas, the Employee is the chief executive officer of the Corporation.
- B. The board of directors of the Corporation has determined that it is in the best interests of the Corporation and its stockholders to assure that the Corporation will have the continued dedication and objectivity of the Employee, notwithstanding the possibility, threat or occurrence of a Change of Control (as defined below) of the Corporation.
- C. The board of directors believes that it is important to provide the Employee with compensation arrangements and stock benefits upon a Change of Control, provided the Employee executes and does not revoke a release of claims in favor of the Corporation in the event of his or her Involuntary Termination (as defined below) following such Change of Control, which provide the Employee with enhanced financial security, are competitive with those of other corporations, and provide sufficient incentive to the Employee to remain with the Corporation following a Change of Control.
- D. In order to accomplish the foregoing objectives, the board of directors has directed the Corporation, upon execution of this Agreement by the Employee, to agree to amend and restate the terms of this Agreement as in effect since its original effective date and to extend the terms of this Agreement as set forth below.
- E. Certain capitalized terms used in the Agreement are defined in Section 3 below.

In consideration of the mutual covenants herein contained, and in consideration of the continuing employment of the Employee by the Corporation, the parties agree as follows:

1. Change of Control Severance Benefits. If the Employee's employment terminates at any time within eighteen (18) months after a Change of Control, then the following shall apply:
 - (a) Voluntary Resignation; Termination For Cause. If the Employee's employment terminates in a voluntary resignation (and not an Involuntary Termination), or if the Employee is terminated for Cause, or if the Employee voluntarily accepts a position within the Corporation below the level of vice president then the Employee shall not be entitled to receive severance or other benefits except for those (if any) as may be available under the Corporation's severance and benefits plans and policies existing at the time of such termination.
 - (b) Involuntary Termination. If the Employee suffers an Involuntary Termination, then the Employee shall be entitled to receive a lump-sum severance payment equal to:
 - (i) 300% of the Employee's then established Base Compensation;
 - (ii) 300% of the Employee's then established annualized All Inclusive Bonus Plan ("AIBP") target as in effect on the date of termination;
 - (iii) the pro rata share of the Employees then established annualized AIBP target, prorated up to the Employee's date of termination; and
 - (iv) monthly reimbursements from the Corporation for the same level of health coverage and benefits as in effect for the Employee on the day immediately preceding the day of the Employee's termination of employment; provided, however, that (i) the Employee constitutes a qualified beneficiary, as defined in Section 4980B(g)(1) of the Internal Revenue Code of 1986, as amended; and (ii) the Employee elects continuation coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), within the time period prescribed pursuant to COBRA. The Corporation shall continue to reimburse the Employee for continuation coverage until one year after the date of the Involuntary Termination. The Employee shall be responsible for the payment of COBRA premiums (including, without limitation, all administrative expenses) for the remaining COBRA period.
 - (c) Disability; Death. If the Employee's employment terminates due to the Employee's Disability or death, then such termination shall be treated as if it were an Involuntary Termination and severance and other benefits shall be provided in accordance with paragraph (b) above.

2. Option and Stock Acceleration.

(a) Acceleration Upon Change of Control. In the event of a Change of Control:

- (i) Fifty percent (50%) of the then unvested portion of any stock option held by the Employee under the Corporation's stock option plans and outstanding at the time of the Change of Control shall become vested and the Employee shall automatically have the right to exercise all or any portion of such stock option to the extent so vested in addition to any portion of the option exercisable prior to the Change of Control;
- (ii) Fifty percent (50%) of any unvested shares held by the Employee under any common stock purchase agreement with the Corporation and outstanding at the time of the Change of Control shall automatically become vested shares, and such shares shall automatically be free of any right of repurchase to the extent so vested in addition to any shares which were vested prior to the Change of Control.

Where the Change of Control results from a merger or consolidation of the Corporation with any other corporation, such vesting shall occur prior to consummation of such merger or consolidation, no less than ten (10) days prior to such merger or consolidation.

(b) Option Acceleration Following Change of Control. Subject to the continued employment of the Employee, after acceleration of vesting under paragraph (a)(i) the remaining unvested portion of any stock option shall become fully vested upon the first anniversary of the Change of Control (or the expiration date of such stock option, if earlier). If, however, the Employee's employment terminates within the twelve (12) month period following a Change of Control, then, subject to Section 4 below, the exercisability of any stock option held by the Employee shall be as follows:

- (i) Voluntary Resignation; Termination for Cause. If the Employee's employment terminates in a voluntary resignation (and not an Involuntary Termination), or if the Employee is terminated for Cause, the Employee is entitled to exercise any vested stock option (including an option vested under paragraph (a)(i) above).
- (ii) Involuntary Termination. If the Employee suffers an Involuntary Termination, then the portion of any stock option then held by the Employee that is not vested and exercisable shall automatically become vested and exercisable.
- (iii) Disability; Death. If the Employee's employment terminates due to the Employee's Disability or death, then such termination shall be treated as if it were an Involuntary Termination for purposes of this Section 2.

(c) Acceleration of Unvested Shares Following Change of Control. Subject to the continued employment of the Employee, any unvested shares following the acceleration provided in paragraph (a)(ii) above shall vest on the date of the first anniversary following the Change of Control. If, however, the Employee's employment is terminated within the twelve (12) month period following a Change of Control, then, subject to Section 4 of the Agreement, any shares held by the Employee under any common stock purchase agreement with the Corporation shall become vested shares as follows:

- (i) Voluntary Resignation; Termination for Cause. If the Employee's employment terminates in a voluntary resignation (and not an Involuntary Termination), or if the Employee is terminated for Cause, then the Employee shall receive only his or her vested shares (including the shares vested under paragraph (a)(ii) above).
- (ii) Involuntary Termination. If the Employee suffers an Involuntary Termination, then all of the Employee's shares shall vest.
- (iii) Disability; Death. If the Employee's employment terminates due to the Employee's Disability or death, then such termination shall be treated as if it were an Involuntary Termination for purposes of this Section 2.

3. Definition of Terms. The following terms referred to in this Agreement shall have the following meanings:

- (a) Base Compensation. "Base Compensation" shall mean the annual base salary the Corporation pays the Employee for his or her services immediately prior to an Involuntary Termination.
- (b) Change of Control. "Change of Control shall mean the occurrence of any of the following events:
 - (i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Corporation representing forty percent (40%) or more of the total voting power represented by the Corporation's then outstanding voting securities; or

- (ii) A change in the composition of the board of directors of the Corporation occurring within a six (6) month period, as a result of which fewer than a majority of the directors are Incumbent Directors. "Incumbent Directors" shall mean directors who either (A) are directors of the Corporation as of the date hereof, or (B) are elected, or nominated for election, to the board of directors of the Corporation with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Corporation); or
 - (iii) The stockholders of the Corporation approve a merger or consolidation of the Corporation with any other corporation, other than a merger or consolidation which would result in the voting securities of the Corporation outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty percent (50%) of the total voting power represented by the voting securities of the Corporation or such surviving entity outstanding immediately after such merger or consolidation, or the stockholders of the Corporation approve a plan of complete liquidation of the Corporation or an agreement for the sale or disposition by the Corporation of all or substantially all the Corporation's assets.
- (c) Involuntary Termination. "Involuntary Termination" shall mean (i) without the Employee's express written consent, the assignment to the Employee of any duties or the reduction of the Employee's duties, either of which results in a significant diminution in the Employee's position or responsibilities with the Corporation in effect immediately prior to such assignment, or the removal of the Employee from such position and responsibilities; (ii) without the Employee's express written consent, a substantial reduction of the facilities and perquisites (including office space and location) available to the Employee immediately prior to such reduction; (iii) a reduction by the Corporation in the Base Compensation of the Employee as in effect immediately prior to such reduction, other than a uniform reduction applicable to all executives generally; (iv) a material reduction by the Corporation in the kind or level of employee benefits to which the Employee is entitled immediately prior to such reduction with the result that the Employee's overall benefits package is significantly reduced; (v) the relocation of the Employee to a facility or a location more than 50 miles from the Employee's then present location, without the Employee's express written consent; (vi) any purported termination of the Employee by the Corporation which is not effected for Disability or for Cause; or (vii) the failure of the Corporation to obtain the assumption of this agreement by any successors contemplated in Section 7 below.
- (d) Cause. "Cause" shall mean (i) any act of personal dishonesty taken by the Employee in connection with his or her responsibilities as an employee that is intended to result in substantial personal enrichment of the Employee, (ii) the conviction of a felony, (iii) a willful act by the Employee which constitutes gross misconduct injurious to the Corporation, and (iv) continued violations by the Employee of the Employee's obligations to the Corporation under the Corporation's established personnel policies and procedures which are demonstrably willful and deliberate on the Employee's part after the Corporation has delivered a written demand for performance to the Employee that describes the basis for the Corporation's belief that the Employee has not substantially performed his or her duties.
- (e) Disability. "Disability" shall mean that the Employee has been unable to perform his or her duties under this Agreement as the result of his or her incapacity due to physical or mental illness with or without reasonable accommodation, and such inability, at least 26 weeks after its commencement, is determined to be total and permanent by a physician selected by the Corporation or its insurers and acceptable to the Employee or the Employee's legal representative (such statement as to acceptability not to be unreasonably withheld). Termination resulting from Disability may only be effected after at least thirty (30) days' written notice by the Corporation of its intention to terminate the Employee's employment. In the event that the Employee resumes the performance of substantially all of his or her duties hereunder before the termination of his or her employment becomes effective, the notice of intent to terminate shall automatically be deemed to have been revoked.
- (f) Disinterested Board. "Disinterested Board" shall mean the board of directors of the Corporation excluding those members of the board of directors, if any, who are parties to agreements or arrangements identical to or substantially similar to this Agreement.

4. Parachute Payments.

- (a) Excise Tax Gross-Up. In the event that any payment or benefit received or to be received pursuant to this Agreement (but determined without regard to any additional payment required under this Section 4) (the "Severance Payments"), would (i) constitute a "parachute payment" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), or any similar or successor provision to 280G, and (ii) be subject to the excise tax imposed by Section 4999 of the Code or any similar or successor provision to Section 4999 (the "Excise Tax"), or any interest or penalties payable with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Employee shall be entitled to receive from the Corporation an additional payment (the "Gross-Up Payment") in an amount such that after payment by the Employee of all taxes (including any Excise Tax) imposed upon the Gross-Up Payment, the Employee retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Severance Payments. For purposes of determining the amount of the Gross-Up Payment, the Employee shall be deemed to (i) pay federal income taxes at the highest marginal rates of federal income taxation for the calendar year in which the Gross-Up Payment is to be made, and (ii) pay applicable state and local income taxes at the highest marginal rate of taxation for the calendar year in which the Gross-Up Payment is to be made, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes.
- (b) Determination of Amount. Subject to the provisions of this Section 4(b), all determinations required to be made under Section 4(a), including whether and when a Gross-Up Payment is required, the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determinations, shall be made by the public accounting firm that is engaged by the Corporation for general audit purposes as of the date immediately prior to the Change of Control (the "Accounting Firm"). In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change of Control, the Corporation shall appoint another nationally recognized public accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). The Corporation shall bear all expenses with respect to the determinations by the Accounting Firm required to be made hereunder. Any good faith determinations of the Accounting Firm made hereunder shall be final, binding and conclusive upon the Corporation and the Employee. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the determination by the Accounting Firm, it is possible that Gross-Up Payments which will not have been made by the Corporation should have been made ("Underpayment") or Gross-Up Payments are made by the Corporation which should not have been made ("Overpayment"), consistent with the calculations required to be made hereunder. In the event that the Employee thereafter is required to make payment of any Excise Tax or additional Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment (together with interest, to the extent not already within the Excise Tax, at the rate provided in Section 1274(b)(2)(B) of the Code) shall be promptly paid by the Corporation to or for the benefit of the Employee. In the event the amount of the Gross-Up Payment exceeds the amount necessary to reimburse the Employee for his or her Excise Tax, the Accounting Firm shall determine the amount of the Overpayment that has been made and any such Overpayment (together with interest at the rate provided in Section 1274(b)(2) of the Code) shall be promptly paid by the Employee (to the extent he has received a refund if the applicable Excise Tax has been paid to the Internal Revenue Service) to or for the benefit of the Corporation. The Employee shall cooperate, to the extent his or her expenses are reimbursed by the Corporation, with any reasonable requests by the Corporation in connection with any contests or disputes with the Internal Revenue Service in connection with the Excise Tax.
5. At-Will Employment. The Corporation and the Employee acknowledge that the Employee's employment is at will and may be terminated at any time and for any reason, with or without notice. On termination of the Employee's employment, the Employee shall not be entitled to any payments, benefits, damages, awards or compensation other than as provided by this Agreement, or as may otherwise be available in accordance with the Corporation's established employee plans and policies at the time of termination.
6. Term, Amendment and Termination.
- (a) Term. Subject to subsection (b) below, the terms of this Agreement shall terminate upon the earlier of (i) the date that all obligations of the parties hereunder have been satisfied, (ii) April 1, 2005, or (iii) eighteen (18) months after a Change of Control. A termination of the terms of this Agreement pursuant to the preceding sentence shall be effective for all purposes, except that such termination shall not affect the payment or provision of compensation or benefits on account of a termination of employment occurring prior to the termination of the terms of this Agreement.
- (b) Amendment and Termination. This Agreement may be amended in any respect or terminated by the unanimous resolution of the Disinterested Board, unless a Change of Control has previously occurred. If a Change of Control occurs, this Agreement shall no longer be subject to amendment, change, substitution, deletion, revocation or termination in any respect whatsoever.

- (c) Form of Amendment. The Form of any proper amendment or termination of this Agreement shall be a written instrument signed by a duly authorized officer or officers of the Corporation, certifying that the amendment or termination has been approved by the Disinterested Board in accordance with Section 6(b).

7. Successors.

- (a) Corporation's Successors. Any successor to the Corporation (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise) to all or substantially all of the Corporation's business and/or assets shall assume the obligations under this Agreement and agree expressly to perform the obligations under this Agreement in the same manner and to the same extent as the Corporation would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term "Corporation" shall include any successor to the Corporation's business and/or assets which executes and delivers the assumption agreement described in this subsection (a) or which becomes bound by the terms of this Agreement by operation of law.
- (b) Employee's Successors. The terms of this Agreement and all rights of the Employee hereunder shall inure to the benefit of, and be enforceable by, the Employee's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.
- (c) Employment By Subsidiaries. If the Employee is employed by a wholly owned subsidiary of Quantum Corporation, then (i) "Corporation" as defined herein shall be deemed to include such subsidiary, and (ii) the effects intended to result from a Change of Control under this Agreement shall apply to such subsidiary, and the Employee shall be entitled to all the benefits and subject to all the obligations provided herein.

8. Notice.

- (a) General. Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by U.S. registered or certified mail, return receipt requested and postage prepaid. In the case of the Employee, mailed notices shall be addressed to him at the home address which he most recently communicated to the Corporation in writing. In the case of the Corporation, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its Secretary.
- (b) Notice of Termination. Any termination by the Corporation for Cause or by the Employee as a result of an Involuntary Termination shall be communicated by a notice of termination of the other party hereto given in accordance with this Section 8 of this Agreement. Such notice shall indicate the specific termination provision in this Agreement relied upon, shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provision so indicated, and shall specify the termination date (which shall be not more than fifteen (15) days after the giving of such notice). The failure by the Employee to include in the notice any fact or circumstance which contributes to a showing of Involuntary Termination shall not waive any right of the Employee hereunder or preclude the Employee from asserting such fact or circumstance in enforcing his or her rights hereunder.

9. Release of Claims. In order to receive any of the benefits provided for pursuant to this Agreement upon the Employee's Involuntary Termination, the Employee (or his or her legal representative in the event of death or disability as the case may be) shall be required to execute and not revoke a release of claims (in a form provided by the Corporation) in favor of the Corporation.

10. Timing of Benefits. Benefits provided for pursuant to this Agreement shall be made as soon as is administratively practicable.

11. Miscellaneous Provisions.

- (a) No Duty to Mitigate. The Employee shall not be required to mitigate the amount of any payment contemplated by this Agreement (whether by seeking new employment or in any other manner), nor shall any such payment be reduced by any earnings that the Employee may receive from any other source.
- (b) Waiver. No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by the Employee and by an authorized officer of the Corporation (other than the Employee). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.
- (c) Whole Agreement. No agreements, representations or understandings (whether oral or written and whether express or implied) which are not expressly set forth in this Agreement have been made or entered into by either party with respect to the subject matter hereof.

- (d) Choice of Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of California.
- (e) Severability. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.
- (f) Arbitration.
- (i) Employee and the Corporation agree that any dispute or controversy arising out of, relating to, or in connection with this Agreement, or the interpretation, validity, construction, performance, breach, or termination thereof, shall be finally settled by binding arbitration to be held in Milpitas, California under the National Rules for the Resolution of Employment Disputes supplemented by the Supplemental Procedures for Large Complex Disputes, of the American Arbitration Association as then in effect (the "Rules"). The parties shall be entitled to conduct discovery pursuant to the California Code of Civil Procedure. The arbitrator may regulate the timing and sequence of such discovery and shall decide any discovery disputes or controversies between the Corporation. The arbitrator may grant injunctions or other relief in such dispute or controversy. The decision of the arbitrator shall be final, conclusive and binding on the parties to the arbitration. Judgment may be entered on the arbitrator's decision in any court having jurisdiction.
- (ii) The arbitrator(s) shall apply California law to the merits of any dispute or claim, without reference to rules or conflicts of law.
- (iii) Unless otherwise provided for by law, the Corporation and the Employee shall each pay half of the costs and expenses of such arbitration.
- (iv) THE EMPLOYEE HAS READ AND UNDERSTANDS THIS SECTION, WHICH DISCUSSES ARBITRATION. THE EMPLOYEE UNDERSTANDS THAT BY SIGNING THIS AGREEMENT, THE EMPLOYEE AGREES TO SUBMIT ANY CLAIMS ARISING OUT OF, OR RELATING TO, OR IN CONNECTION WITH THIS AGREEMENT, OR THE INTERPRETATION, VALIDITY, CONSTRUCTION, PERFORMANCE, BREACH OR TERMINATION THEREOF TO BINDING ARBITRATION, AND THAT THIS ARBITRATION CLAUSE CONSTITUTES A WAIVER OF THE EMPLOYEE'S RIGHT TO A JURY TRIAL AND RELATES TO THE RESOLUTION OF ALL DISPUTES RELATING TO ALL ASPECTS OF THIS AGREEMENT.
- (g) No Assignment of Benefits. The rights of any person to payments or benefits under this Agreement shall not be made subject to option or assignment, either by voluntary or involuntary assignment or by operation of law, including (without limitation) bankruptcy, garnishment, attachment or other creditor's process, and any action in violation of this subsection (g) shall be void.
- (h) Withholding Taxes. All payments made pursuant to this Agreement will be subject to withholding of applicable taxes.
- (i) Assignment by Corporation. The Corporation may assign its rights under this Agreement to an affiliate, and an affiliate may assign its rights under this Agreement to another affiliate of the Corporation or to the Corporation provided, however, that no assignment shall be made if the net worth of the assignee is less than the net worth of the Corporation at the time of assignment. In the case of any such assignment, the term "Corporation" when used in a section of this Agreement shall mean the Corporation that actually employs the Employee.
- (j) Amendment of Option and Purchase Agreements. The Corporation and the Employee agree that the provisions of this Agreement shall supersede any conflicting provisions of any stock purchase or stock option agreement of the Employee, and the Corporation and the Employee agree to execute such further documents as may be necessary to amend any such agreement.
- (k) Headings. The headings of sections herein are included solely for convenience of reference and shall not control the meaning or interpretation of any provisions of this Agreement.
- (l) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Corporation by its duly authorized officer, as of the day and year first above written.

QUANTUM CORPORATION

EMPLOYEE

/s/ _____
Name: Shawn Hall
Title: Vice President, General Counsel

/s/ _____
Name: _____
Title _____

SIGNATURE PAGE OF CHIEF EXECUTIVE CHANGE OF CONTROL AGREEMENT

QUANTUM CORPORATION
DIRECTOR CHANGE OF CONTROL AGREEMENT

THIS DIRECTOR CHANGE OF CONTROL AGREEMENT ("Agreement") is effective as of this 1st day of April, 2003, by and between **[insert Director]** (the "Director") and QUANTUM CORPORATION, a Delaware corporation (the "Corporation").

Recitals

- A. The board of directors of the Corporation has determined that it is in the best interests of the Corporation and its stockholders to assure that the Corporation will have the continued dedication and objectivity of the Director, notwithstanding the possibility, threat or occurrence of a Change of Control (as defined below) of the Corporation., the Employee is the chief executive officer of the Corporation.
- B. The board of directors believes that it is important to provide the Director with stock benefits upon a Change of Control, which are competitive with those of other corporations, and provide sufficient incentive to the Director to continue his or her Association (as defined below) with the Corporation following a Change of Control.
- C. In order to accomplish the foregoing objectives, the board of directors has directed the Corporation, upon execution of this Agreement by the Director, to agree to amend and restate the terms of this Agreement as in effect since its original effective date and to extend the terms of this Agreement as set forth below.
- D. Certain capitalized terms used in the Agreement are defined in Section 3 below.

In consideration of the mutual covenants herein contained, and in consideration of the continuing association of the Director with the Corporation, the parties agree as follows:

1. Option and Stock Acceleration.

(a) Acceleration Upon Change of Control. In the event of a Change of Control:

- (i) Fifty percent (50%) of the then unvested portion of any stock option held by the Director under the Corporation's stock option plans and outstanding at the time of the Change of Control shall automatically be accelerated and the Director shall automatically have the right to exercise all or any portion of such stock option to the extent so accelerated in addition to any portion of the option exercisable prior to the Change of Control. Where the Change of Control results from a merger or consolidation of the Corporation with any other corporation, such acceleration shall occur prior to consummation of such merger or consolidation, at such time as shall be determined by the Board of Directors of the Corporation.
- (ii) Acceleration Following Change of Control. Subject to the continued, Association of the Director with the Corporation, any unvested shares following the acceleration provided in paragraph (a) above shall vest on the date of the first anniversary following the Change of Control.

2. Definition of Terms. The following terms referred to in this Agreement shall have the following meanings:

(a) Change of Control. "Change of Control shall mean the occurrence of any of the following events:

- (i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Corporation representing forty percent (40%) or more of the total voting power represented by the Corporation's then outstanding voting securities; or
- (ii) A change in the composition of the board of directors of the Corporation occurring within six (6) months period, as a result of which fewer than a majority of the directors are Incumbent Directors. "Incumbent Directors" shall mean directors who either (A) are directors of the Corporation as of the date hereof, or (B) are elected, or nominated for election, to the board of directors of the Corporation with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Corporation); or

- (iii) The stockholders of the Corporation approve a merger or consolidation of the Corporation with any other corporation, other than a merger or consolidation which would result in the voting securities of the Corporation outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty percent (50%) of the total voting power represented by the voting securities of the Corporation or such surviving entity outstanding immediately after such merger or consolidation, or the stockholders of the Corporation approve a plan of complete liquidation of the Corporation or an agreement for the sale or disposition by the Corporation of all or substantially all the Corporation's assets.
- (b) Disinterested Board. "Disinterested Board" shall mean the board of directors of the Corporation excluding those members of the board of directors, if any, who are parties to agreements or arrangements identical to or substantially similar to this Agreement.
- (c) Association. "Association" shall mean the performance of services by the Director on behalf of the Corporation in his/her capacity as a member of the board of directors.

3. Term, Amendment and Termination

- (a) Term. Subject to subsection (b) below, the terms of this Agreement shall terminate upon the earlier of (i) the date that all obligations of the parties hereunder have been satisfied, (ii) April 1, 2005, or (iii) eighteen (18) months after a Change of Control. A termination of the terms of this Agreement pursuant to the preceding sentence shall be effective for all purposes, except that such termination shall not affect the payment or provision of compensation or benefits on account of a termination of employment occurring prior to the termination of the terms of this Agreement.
- (b) Amendment and Termination. This Agreement may be amended in any respect or terminated by the unanimous resolution of the Disinterested Board, unless a Change of Control has previously occurred. If a Change of Control occurs, this Agreement shall no longer be subject to amendment, change, substitution, deletion, revocation or termination in any respect whatsoever.
- (c) Form of Amendment. The Form of any proper amendment or termination of this Agreement shall be a written instrument signed by a duly authorized officer or officers of the Corporation, certifying that the amendment or termination has been approved by the Disinterested Board in accordance with Section 2(b).

4. Successors

- (a) Corporation's Successors. Any successor to the Corporation (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise) to all or substantially all of the Corporation's business and/or assets shall assume the obligations under this Agreement and agree expressly to perform the obligations under this Agreement in the same manner and to the same extent as the Corporation would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term "Corporation" shall include any successor to the Corporation's business and/or assets which executes and delivers the assumption agreement described in this subsection (a) or which becomes bound by the terms of this Agreement by operation of law.
- (b) Director's Successors. The terms of this Agreement and all rights of the Director hereunder shall inure to the benefit of, and be enforceable by, the Director's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

5. Notice

- (a) General. Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by U.S. registered or certified mail, return receipt requested and postage prepaid. In the case of the Director, mailed notices shall be addressed to him/her at the home address that was most recently communicated to the Corporation in writing. In the case of the Corporation, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its Secretary.

6. Miscellaneous Provisions

- (a) Waiver. No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by the Director and by an authorized officer of the Corporation (other than the Director). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

- (b) Whole Agreement. No agreements, representations or understandings (whether oral or written and whether express or implied) which are not expressly set forth in this Agreement have been made or entered into by either party with respect to the subject matter hereof.
- (c) Choice of Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of California.
- (d) Severability. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.
- (e) Arbitration.
- (i) Director and the Corporation agree that any dispute or controversy arising out of, relating to, or in connection with this Agreement, or the interpretation, validity, construction, performance, breach, or termination thereof, shall be finally settled by binding arbitration to be held in Milpitas, California under the National Rules for the Resolution of Employment Disputes supplemented by the Supplemental Procedures for Large Complex Disputes, of the American Arbitration Association as then in effect (the "Rules"). The parties shall be entitled to conduct discovery pursuant to the California Code of Civil Procedure. The arbitrator may regulate the timing and sequence of such discovery and shall decide any discovery disputes or controversies between the Corporation. The arbitrator may grant injunctions or other relief in such dispute or controversy. The decision of the arbitrator shall be final, conclusive and binding on the parties to the arbitration. Judgment may be entered on the arbitrator's decision in any court having jurisdiction.
 - (ii) The arbitrator(s) shall apply California law to the merits of any dispute or claim, without reference to rules or conflicts of law.
 - (iii) Unless otherwise provided for by law, the Corporation and the Director shall each pay half of the costs and expenses of such arbitration.
 - (iv) THE DIRECTOR HAS READ AND UNDERSTANDS THIS SECTION, WHICH DISCUSSES ARBITRATION. THE DIRECTOR UNDERSTANDS THAT BY SIGNING THIS AGREEMENT, THE DIRECTOR AGREES TO SUBMIT ANY CLAIMS ARISING OUT OF, OR RELATING TO, OR IN CONNECTION WITH THIS AGREEMENT, OR THE INTERPRETATION, VALIDITY, CONSTRUCTION, PERFORMANCE, BREACH OR TERMINATION THEREOF TO BINDING ARBITRATION, AND THAT THIS ARBITRATION CLAUSE CONSTITUTES A WAIVER OF THE DIRECTOR'S RIGHT TO A JURY TRIAL AND RELATES TO THE RESOLUTION OF ALL DISPUTES RELATING TO ALL ASPECTS OF THIS AGREEMENT.
- (f) No Assignment of Benefits. The rights of any person to payments or benefits under this Agreement shall not be made subject to option or assignment, either by voluntary or involuntary assignment or by operation of law, including (without limitation) bankruptcy, garnishment, attachment or other creditor's process, and any action in violation of this subsection (f) shall be void.
- (g) Assignment by Corporation. The Corporation may assign its rights under this Agreement to an affiliate, and an affiliate may assign its rights under this Agreement to another affiliate of the Corporation or to the Corporation provided, however, that no assignment shall be made if the net worth of the assignee is less than the net worth of the Corporation at the time of assignment. In the case of any such assignment, the term "Corporation" when used in a section of this Agreement shall mean the Corporation that the Director is actually associated with.
- (h) Amendment of Option. The Corporation and the Director agree that the provisions of this Agreement shall supersede any conflicting provisions of any stock purchase or stock option agreement of the Director, and the Corporation and the Director agree to execute such further documents as may be necessary to amend any such agreement.
- (i) Headings. The headings of sections herein are included solely for convenience of reference and shall not control the meaning or interpretation of any provisions of this Agreement.
- (j) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Corporation by its duly authorized officer, as of the day and year first above written.

QUANTUM CORPORATION

DIRECTOR

/s/ _____

Name: Shawn Hall

Title: Vice President, General Counsel

/s/ _____

Name: _____

Title _____

SIGNATURE PAGE OF DIRECTOR CHANGE OF CONTROL AGREEMENT

AMENDMENT TO
THE QUANTUM CORPORATION
SUPPLEMENTAL STOCK OPTION PLAN

QUANTUM CORPORATION, having adopted the Quantum Corporation Supplemental Stock Option Plan (the "Plan"), and having amended the Plan as of May 29, 2001, hereby amends the Plan, effective as of April 1, 2003, by adding a new subsection 12(c) to read as follows:

(c) Termination of Plan. The Plan is terminated effective as of April 1, 2003 (the "Termination Date"), and no new Options or Stock Purchase Rights shall be granted under the Plan following the Termination Date; provided, however, that outstanding Options or Stock Purchase Rights granted under the Plan on or prior to the Termination Date shall remain outstanding and shall continue to be governed by the terms and conditions of the Plan, and the Plan shall remain in effect with respect to such outstanding Options or Stock Purchase Rights only.

and by ratifying the amendment of Section 2(l) of the Plan to read in its entirety as follows:

Fair Market Value" means the closing per share sales price for Shares (or the closing bid, if no sales were reported) as quoted on the stock exchange with the greatest volume of trading in such Shares on the day of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable."

IN WITNESS WHEREOF, Quantum Corporation, by its duly authorized officer, has executed this Amendment on the date indicated below.

QUANTUM CORPORATION

Dated: May 14, 2003

By: /s/ Shawn D Hall
Shawn Hall
Vice President, General Counsel

QUANTUM CORPORATION

EXHIBIT 12.1

STATEMENT OF COMPUTATION OF RATIOS
OF EARNINGS TO FIXED CHARGES

(in thousands)

	For the year ended March 31,				
	2003	2002	2001	2000	1999
Income (loss) from continuing operations before income taxes	\$ (137,173)	\$ (58,612)	\$ 309,675	\$ 321,546	\$ 264,318
Add fixed charges	30,486	29,009	22,725	22,645	21,655
Earnings (as defined)	\$ (106,687)	\$ (29,603)	\$ 333,514	\$ 344,191	\$ 285,973
Fixed charges					
Interest expense	\$ 24,419	\$ 22,976	\$ 17,658	\$ 18,978	\$ 18,322
Amortization of debt issuance costs	(i)	(i)	(i)	(i)	(i)
Estimated interest component of rent expenses	6,067	6,033	5,067	3,667	3,333
Total fixed charges	\$ 30,486	\$ 29,009	\$ 22,725	\$ 22,645	\$ 21,655
Ratio of earnings to fixed charges	Note (ii)	Note (ii)	14.6	15.2	13.2

(i) In all years presented, the amortization of debt issuance costs is included in interest expense.

(ii) Earnings, as defined, were insufficient to cover fixed charges by \$137.2 million and \$58.6 million for fiscal years 2003 and 2002, respectively.

QUANTUM CORPORATION
SUBSIDIARIES OF REGISTRANT

1. Quantum Data Storage B.V., a Netherlands corporation
2. Quantum Peripheral Products (Ireland) Ltd., an Ireland corporation
3. Quantum Peripherals (Europe) S.A., a Swiss corporation
4. Quantum Peripherals (Malaysia) Sdn. Bhd., a Malaysian corporation
5. Quantum Storage GmbH, a German corporation
6. Quantum Storage Australia PTY, Ltd., an Australian corporation
7. Quantum Storage Japan Corporation, a Japanese corporation
8. Quantum Storage Singapore Pte. Ltd., a Singapore private company
9. Quantum Storage UK Ltd., a United Kingdom corporation
10. Quantum Storage France, a France corporation
11. Benchmark Tape systems Ltd, a United Kingdom company
12. ATL Products Vertriebs GmbH., a German corporation
13. ATL Products UK Ltd., a United Kingdom corporation
14. ATL Products International Inc., a Delaware corporation
15. M4 Data (Holdings) Ltd., a United Kingdom corporation
16. SANlight Inc., a Delaware corporation.

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-3 Nos. 333-29525 and 333-103680) and the Registration Statements (Form S-8 Nos. 333-30623, 333-30627, 333-32691, 333-58193, 333-65043, 333-83219, 333-84851, 333-89249, 333-42358, 333-44706, 333-64350 and 333-98235) pertaining to the 1996 Board of Directors Stock Option Plan; 1993 Long-Term Incentive Plan; Employee Stock Purchase Plan; 1993 Long-term Incentive Plan; ATL Products, Inc. 1996 Stock Incentive Plan, ATL Products, Inc. 1997 Stock Incentive Plan; 1993 Long-Term Incentive Plan; 1986 Stock Option Plan, 1993 Long-Term Incentive Plan, 1996 Board of Directors Stock Option Plan, ATL Products, Inc. 1996 Stock Incentive Plan, ATL Products, Inc. 1997 Stock Incentive Plan, Employee Stock Purchase Plan; Meridian Data, Inc. 1987 Meridian Data Incentive Stock Option Plan, 1988 Incentive Stock Plan, 1995 Director Option Plan, 1997 Incentive Stock plan; 1993 Long-Term Incentive Plan, Employee Stock Purchase Plan; and Supplemental Stock Option Plan of Quantum Corporation of our report dated April 25, 2003, with respect to the consolidated financial statements and schedule of Quantum Corporation, included in this Annual Report (Form 10-K) for the year ended March 31, 2003.

Palo Alto, California
June 24, 2003

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Quantum Corporation (the "Company") on Form 10-K for the year ended March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard Belluzzo, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

June 27, 2003

/s/ Richard E. Belluzzo

Richard E. Belluzzo
Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Quantum Corporation (the "Company") on Form 10-K for the year ended March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael J. Lambert, Executive Vice President, Finance and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

June 27, 2003

/s/ Michael J. Lambert

Michael J. Lambert
Executive Vice President, Finance and
Chief Financial Officer