

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

Current report filing

Filing Date: **1999-03-26** | Period of Report: **1999-03-26**
SEC Accession No. **0000950005-99-000295**

([HTML Version](#) on [secdatabase.com](#))

FILER

QUANTUM CORP /DE/

CIK: **709283** | IRS No.: **942665054** | State of Incorporation: **DE** | Fiscal Year End: **0331**
Type: **8-K** | Act: **34** | File No.: **002-80260** | Film No.: **99574775**
SIC: **3572** Computer storage devices

Business Address
500 MCCARTHY BLVD
MILPITAS CA 95035
4088944000

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) March 26, 1999

QUANTUM CORPORATION

(Exact name of registrant as specified in charter)

Delaware	0-12390	94-2665054
-----	-----	-----
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

500 McCarthy Boulevard, Milpitas, CA	95035
-----	-----
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (408) 894-4000

Not Applicable

(Former name or former address, if changed since last report.)

ITEM 5. OTHER

This current report is being filed to update the consolidated financial statements ("MKQC Financials") for MKE-Quantum Components LLC and Subsidiaries ("MKQC") included in Quantum Corporation's Annual Report on Form 10-K for the fiscal year ended March 31, 1998. This update is required to permit KPMG Peat Marwick LLP to reissue its opinion for the MKQC Financials. On October 28, 1998, Quantum and MKE entered into an agreement to dissolve MKQC. Footnote 13 to the MKQC Financials included with this report has been added to reflect this event.

-2-

QUANTUM CORPORATION

SEPARATE FINANCIAL STATEMENTS OF FIFTY-PERCENT-OR-LESS-OWNED PERSONS ACCOUNTED FOR BY THE EQUITY METHOD:

MKE-QUANTUM COMPONENTS LLC

Consolidated Financial Statements

March 31, 1998

(With Independent Auditors' Report Thereon)

1

Independent Auditors' Report

The Board of Directors and Members
MKE-Quantum Components LLC:

We have audited the accompanying consolidated balance sheet of MKE-Quantum Components LLC and subsidiaries as of March 31, 1998 and the related consolidated statements of operations, members' equity, and cash flows for the period from May 16, 1997 (Inception) through March 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MKE-Quantum Components LLC and subsidiaries as of March 31, 1998, and the results of their operations and their cash flows for the period from May 16, 1997 (Inception) through March 31, 1998 in conformity with generally accepted accounting principles.

Boston, Massachusetts
April 14, 1998, except for notes 6(b) and 12
which are as of June 5, 1998

KPMG Peat Marwick LLP

2

MKE-QUANTUM COMPONENTS LLC

Consolidated Balance Sheet

March 31, 1998
(in thousands)

Assets

Current assets:

Cash and cash equivalents	\$ 4,335
Investment securities	10,657
Accounts receivable	19,102
Inventories (note 2)	10,996
Prepaid expenses	2,716
Other current assets	1,714

Total current assets	49,520

Property, plant and equipment, net (note 3)	197,898
Intangible assets, net (note 1)	12,969
Other assets	2,363

	\$262,750
	=====

Liabilities and Members' Equity

Current liabilities:	
Note payable to bank (note 6)	\$ 27,000
Current portion of obligation under capital lease (note 11)	353
Accounts payable	19,471
Accrued expenses (note 4)	24,521
Due to members	23,362

Total current liabilities	94,707
	=====
Note payable to member (notes 6 and 12)	50,823
Obligation under capital lease, less current portion (note 11)	14,964

Total liabilities	160,494

Commitments (notes 6 and 11)	
Members' equity:	
Class A units	57,436
Class B units	44,820

Total members' equity	102,256

	\$262,750
	=====

See accompanying notes to consolidated financial statements.

3

MKE-QUANTUM COMPONENTS LLC

Statement of Operations

Period from May 16, 1997 (Inception) through March 31, 1998
(in thousands)

Net sales	\$ 165,775
Cost of sales	209,452

Gross margin (loss)	(43,677)

Operating expenses:	
Research and development	42,215
General and administrative	35,763
Restructuring	10,038

	88,016
Loss from operations	(131,693)
Interest and other income, net	2,342
Interest expense	(4,434)

Loss before income taxes	(133,785)
Income taxes	1,031

Net loss	\$ (134,816)
	=====

See accompanying notes to consolidated financial statements.

4

<TABLE>

MKE-QUANTUM COMPONENTS LLC

Statement of Members' Equity

Period from May 16, 1997 (Inception) through March 31, 1998
(in thousands)

<CAPTION>

	Class A Units	Class B Units	Total
	-----	-----	-----
<S>	<C>	<C>	<C>
Initial capital contribution at May 16, 1997	\$ 125,732	120,801	246,533
Distribution to member	--	(10,363)	(10,363)
Unrealized gain on investment securities	460	442	902
Net loss	(68,756)	(66,060)	(134,816)
	-----	-----	-----
Members' equity at March 31, 1998	\$ 57,436	44,820	102,256
	=====	=====	=====

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

5

</TABLE>

<TABLE>

MKE-QUANTUM COMPONENTS LLC

Statement of Cash Flows

<CAPTION>
Period from May 16, 1997 (Inception) through March 31, 1998
(in thousands)

<S>	<C>
Cash flows from operating activities:	
Net loss	\$(134,816)
Adjustments to reconcile net loss to net cash used in operating activities:	
Restructuring	1,295
Depreciation and amortization	48,426
Loss on the disposal of property, plant and equipment	7,550
Effect of foreign currency exchange on property, plant and equipment	1,924
Changes in assets and liabilities:	
Accounts receivable	(18,875)
Inventories	12,166
Prepaid expenses	(1,003)
Other assets	(3,403)
Accounts payable	3,999
Accrued expenses and other liabilities	14,888
Due to members	45,757

Net cash used in operating activities	(22,092)

Cash flows from investing activities:	
Purchases of investment securities	(9,754)
Investment in property, plant and equipment	(96,681)
Proceeds from disposition of property, plant and equipment	3,462

Net cash used in investing activities	(102,973)

Cash flows from financing activities:	
Borrowings on note payable to bank	27,000
Distribution to member	(10,363)
Principal payments under capital lease obligations	(283)

Net cash provided by financing activities	16,354

Decrease in cash and cash equivalents	(108,711)

Cash and cash equivalents at beginning of period	113,046 -----
Cash and cash equivalents at end of period	\$ 4,335 =====
Supplemental disclosure of cash flow information:	
Cash paid during the period for:	
Interest	\$ 4,434 =====

(Continued)

6

</TABLE>

<TABLE>

MKE-QUANTUM COMPONENTS LLC

Statement of Cash Flows, Continued

<CAPTION>

Period from May 16, 1997 (Inception) through March 31, 1998
(in thousands)

<S>

Supplemental disclosure of noncash financing and investing activities:
 Increase in capital lease obligations

<C>

\$ 15,600
=====

Assets and liabilities contributed at May 16, 1997:

Assets:

Cash	\$113,046
Accounts receivable	227
Due from member	22,395
Inventories	23,162
Prepaid expenses	1,713
Property, plant and equipment	130,971
Intangible assets	28,977
Other assets	674

	\$321,165 =====

Liabilities:

Accounts payable	\$ 15,472
Accrued expenses and other liabilities	6,724
Note payable to member	50,823
Other liabilities	1,613

	\$ 74,632 =====

<FN>

See accompanying notes to consolidated financial statements.

</FN>

7

</TABLE>

MKE-QUANTUM COMPONENTS LLC

Notes to Consolidated Financial Statements

March 31, 1998

(1) Nature of Business and Summary of Significant Accounting Policies

(a) Nature of Business

MKE-Quantum Components LLC ("MKQC" or "the Company") commenced operations on May 16, 1997, and was formed as a joint venture between Matsushita-Kotubuki Electronics, Inc. ("MKE"), a Japanese corporation, through its wholly-owned subsidiary, Matsushita-Kotubuki Peripherals Corporation ("MKPC"), a Delaware corporation, and Quantum Corporation

("Quantum"). MKQC manufactures magnetic recording heads for computer disk drives at its facilities in Shrewsbury, Massachusetts, and Batam, Indonesia, and performs research and development activities at its Louisville, Colorado facilities. Substantially all of its products are sold to MKE and its affiliated entities.

Quantum contributed to MKQC its Recording Heads Group operations in exchange for 4,900,000 Class B member units and 2,350,000 Class A units and MKPC contributed \$110.0 million in exchange for 2,750,000 Class A units. In addition, Quantum received \$94.0 million from the sale of 2,350,000 Class A units to MKPC. Quantum contributed assets of \$211.1 million and liabilities of \$74.6 million, which were recorded at their historical cost. Contributed assets and liabilities consisted of the following (in thousands):

Assets:	
Cash	\$ 3,046
Accounts receivable	22,622
Inventory	23,162
Property, plant and equipment	130,971
Intangible assets	28,977
Other assets	2,387

	211,165
	=====
Liabilities:	
Accounts payable	15,472
Accrued expenses and other liabilities	6,724
Note payable to Quantum	50,823
Other liabilities	1,613

	\$ 74,632
	=====

The Company is operated under a Restated Operating Agreement (the "Agreement") whereby management and control of the Company is vested in the members acting by consent, which is defined as a supermajority. The Agreement provides that earnings and profits be allocated to each member based on their respective ownership interest and that liability for losses, debt and obligations are limited to each members' original capital contribution.

8

2

MKE-QUANTUM COMPONENTS LLC

Notes to Consolidated Financial Statements, Continued

(1) Continued

(b) Financial Statement Presentation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated.

The preparation of these consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. These estimates are based on information available as of the date of the financial statements. Actual results may differ from these estimates.

(c) Cash Equivalents

The Company considers all highly liquid debt instruments with original or remaining maturities of three months or less to be cash equivalents.

(d) Inventories

Inventories are carried at the lower of cost or market. Cost is

determined on a first-in, first-out basis.

(e) Investment Securities

Investment securities consist of 500,000 shares of Quantum common stock, which is being held for use in the Company's Time Accelerated Restricted Stock Award Plan (note 8). Investment securities are classified as available-for-sale and have a cost basis of \$9.8 million, determined based on specific identification, and a fair value of \$10.7 million at March 31, 1998.

Unrealized holding gains and losses on available-for-sale securities are excluded from earnings and are reported as a separate component of members' equity until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis.

(f) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Property, plant and equipment under capital leases are initially stated at the present value of the future minimum lease payments. Depreciation on property, plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets. Property, plant and equipment held under capital leases and leasehold improvements are amortized using the straight line method over the shorter of the lease term or estimated useful life of the asset.

9

3

MKE-QUANTUM COMPONENTS LLC

Notes to Consolidated Financial Statements, Continued

(1) Continued

(g) Intangible Assets

Intangible assets, which include acquired completed technology and work force in place, are being amortized over their remaining estimated useful lives, generally one to three years. Accumulated amortization at March 31, 1998 totaled \$59.3 million.

(h) Income Taxes

The Company, a Limited Liability Company ("LLC"), is treated as a partnership for US and state income tax purposes and therefore is not subject to US or state income taxes. The Company shall distribute to the members amounts sufficient to pay the tax liability generated by their ownership interests. The provision for income taxes in the financial statements relates solely to the Company's wholly-owned foreign subsidiaries. The current provision for income taxes attributable to the foreign subsidiaries is \$1,031,000.

(i) Revenue Recognition

Revenue from sales of products is recognized upon shipment to customers, with provision made for estimated returns.

(j) Foreign Currency Translation and Transactions

Assets, liabilities, and operations of foreign subsidiaries are recorded based on the functional currency of the entity. For the Company's foreign operations, the functional currency is the U.S. Dollar. Accordingly, the application of Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation," to the Company's historical financial statements has resulted in transaction gains or losses that are immaterial to the Company's consolidated financial statements. The effect of foreign currency exchange rate fluctuations on cash flows was also immaterial for the period 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.

(k) Stock-Based Compensation

The Company has adopted Statement of Financial Accounting Standards No.

123, "Accounting for Stock-Based Compensation" (SFAS No. 123). SFAS No. 123 establishes financial accounting and reporting standards for stock-based compensation plans. The Company elected to continue accounting for stock-based employee compensation plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations, as SFAS No. 123 permits, and to follow the pro forma net loss and stock-based compensation plan disclosure requirements set forth in SFAS No 123.

10

4

MKE-QUANTUM COMPONENTS LLC

Notes to Consolidated Financial Statements, Continued

(1) Continued

(l) Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of

The Company has adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Company has reviewed the recoverability of its long-lived assets at March 31, 1998 and determined that no impairment is present as of March 31, 1998.

(m) Year 2000

The Year 2000 problem is the result of computer programs being written using two digits rather than four to define the applicable year. The Company has developed a plan to deal with the Year 2000 problem and has begun converting its computer systems to be Year 2000 compliant. The plan provides for conversion efforts to be completed by the end of calendar 1999. The Company expenses all costs associated with these systems changes as costs are incurred. Costs related to these systems changes are not considered to be material.

(n) Recent Accounting Standards

In June 1997, the Financial Accounting Standards Board (the "FASB") issued Statement No. 130 ("SFAS 130"), "Reporting Comprehensive Income," which establishes standards for reporting and display of comprehensive income and its components (revenue, expense, gains and losses) in a full set of general purpose financial statements. SFAS 130 requires that an enterprise classify items of other comprehensive income by their nature in a financial statement, and display the accumulated balance of other comprehensive income separately from members' equity in the statement of members' equity. SFAS 130 is effective for fiscal years beginning after December 15, 1997. SFAS 130 requires comparative financial statements for earlier years to be restated and is not expected to have a material impact to the Company's statement of operations or financial position.

11

5

MKE-QUANTUM COMPONENTS LLC

Notes to Consolidated Financial Statements, Continued

(2) Inventories

Inventories consisted of the following at March 31, 1998 (in thousands):

Raw materials	\$ 5,263
Work in process	4,541
Finished goods	1,192

	\$10,996
	=====

(3) Property, Plant, and Equipment

<TABLE>

Property, plant, and equipment consisted of the following at March 31, 1998 (in thousands):

<CAPTION>

	Depreciable Life ----	
<S>	<C>	<C>
Machinery and equipment	3-5 years	\$ 111,025
Furniture and fixtures	5 years	1,620
Buildings and leasehold improvements	10-25 years	37,846
Construction in progress	--	54,076
Land	--	2,340

		206,907
Less accumulated depreciation and amortization		(9,009)

		\$ 197,898
		=====

</TABLE>

Included in property, plant and equipment is \$15.6 million of assets under a capital lease (see note 11) and \$69.7 million of net assets held outside the United States, primarily in Batam, Indonesia.

(4) Accrued Expenses

Accrued expenses consist of the following at March 31, 1998 (in thousands):

Accrued compensation	\$10,617
Restructuring	5,173
Other	8,731

	\$24,521
	=====

12

6

MKE-QUANTUM COMPONENTS LLC

Notes to Consolidated Financial Statements, Continued

(5) Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, other current assets, other assets, note payable to bank, accounts payable, and accrued expenses approximate their fair values because of the short-term nature of these instruments. The carrying amount of note payable to member approximates its fair value because the note bears interest at a variable interest rate, changes to which are derived from market rate changes.

(6) Notes Payable

(a) Note Payable to Member

At March 31, 1998, the Company has a note payable in the amount of \$50.8 million due to Quantum. The note is payable in quarterly

installments of principal and interest, with interest payments commencing September 30, 1997 and principal payments commencing April 30, 1998, subject to Available Cash, as defined (maximum of 33 1/3% of net operating cash flow less any interest payment on the subordinated note). The note bears interest at the Applicable Federal Rate plus 1.5% (6.8% at March 31, 1998). Any unpaid amounts under this note are due in their entirety on May 15, 2022. The note is subordinated to any senior indebtedness, including note payable to bank, and is subject to certain operating covenants. All interest was paid through March 31, 1998.

(b) Note Payable to Bank

In March 1998 as part of the Company's financing agreement (see note 12), the Company entered into a bridge note financing facility with a bank for up to \$50.0 million which was subsequently increased to \$65.0 million on March 26, 1998. Interest on outstanding borrowings accrues at either the London Inter-Bank Offering Rate ("LIBOR"), Reserve Adjusted LIBOR, Federal Funds Rate or the bank's prime rate. The interest rate at March 31, 1998 was 7.05%. Borrowings under the bridge note financing facility are secured by substantially all assets of the Company. At March 31, 1998, there was \$27.0 million of outstanding borrowings under this note. The bridge note was due to expire on April 30, 1998, however the expiration date was subsequently extended to May 29, 1998 and was repaid in full upon the closing of the Company's financing agreement (see note 12).

13

7

MKE-QUANTUM COMPONENTS LLC

Notes to Consolidated Financial Statements, Continued

(7) Restructuring

During the period from May 16, 1997 (Inception) through March 31, 1998, the Company recorded a restructuring charge of \$10.0 million associated with the transition of its manufacturing operations in Colorado to a research and development operation. As part of the transition, production at the Colorado facility was moved to Massachusetts. The restructuring charge provided for \$5.2 million associated with employee termination benefits for more than 400 employees who were associated with the manufacturing process, non-cash charges of \$1.5 million associated with the disposal of manufacturing property and equipment, \$0.4 million related to a writedown in the carrying value of certain intangible and other assets, and \$2.8 million related to the remaining lease term of certain Colorado facilities. At March 31, 1998, \$5.2 million of accrued restructuring costs are included in accrued expenses.

(8) Stock Compensation Plans

(a) Restricted Stock Award Plan

During the period from May 16, 1997 (Inception) to March 31, 1998, the Company adopted a Time Accelerated Restricted Stock Award Plan (the "Plan") pursuant to which the Company's Board of Directors may grant up to 500,000 shares of Quantum common stock to officers and key employees. All stock awards vest over 4 years from the date of grant and may accelerate to a two-year vesting schedule if the Company meets certain performance criteria. The performance criteria are based on obtaining predetermined yield, operating income and net income goals. At March 31, 1998, there were 92,700 shares available for grant under the Plan. Total compensation expense recognized for the period from May 16, 1997, (Inception) to March 31, 1998 amounted to \$2.0 million.

(b) Quantum Stock Incentive Plans

As affiliates, certain of the Company's employees are eligible to participate in Quantum's stock incentive plans, which include stock options and restricted stock. All stock incentive awards outstanding at May 16, 1997, which have been issued while the respective employees were employed by Quantum, were effectively assumed by the Company. During the period from May 16, 1997 (Inception) to March 31, 1998, 25,000 stock incentive awards were granted to the Company's employees. The Company has no specific rights to have stock incentive awards granted under the Quantum plans to its employees in the future. Restricted stock previously granted generally vests over two to three

years. Stock options were granted with exercise prices determined by Quantum's Board of Directors, but not less than the grant date fair market value of Quantum's common stock. Stock options currently expire no later than ten years from the grant date and generally vest ratably over one to four years.

MKE-QUANTUM COMPONENTS LLC

Notes to Consolidated Financial Statements, Continued

(8) Continued

(c) Stock Option Summary Information

A summary of activity related to Company employees' involvement in Quantum's stock incentive plans follows:

	Period from May 16, 1997 (Inception) to March 31, 1998	
	Options (in thousands)	Weighted-Average Exercise Price
Outstanding at May 16, 1997	780	\$ 7.29
Granted	25	21.00
Canceled	(28)	7.54
Exercised	(229)	6.47
	----	-----
Outstanding at March 31, 1998	548	\$ 8.24
	====	=====
Exercisable at March 31, 1998	303	\$ 7.70
	====	=====

<TABLE>

The range of exercise prices for options held by Company employees and outstanding at March 31, 1998 was \$6.44 to \$21.00. The following tables summarize information about options held by Company employees that were outstanding at March 31, 1998:

<CAPTION>

Range of Exercise Prices	Outstanding Options		
	Options Outstanding at March 31, 1998 (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life
\$6.44 - \$ 7.13	84	\$ 7.06	6.77
\$7.22	253	7.22	8.25
\$7.81 - \$21.00	211	9.94	7.63
	---	-----	-----
	548	\$ 8.24	7.78
	===	=====	=====

</TABLE>

Range of Exercise Prices	Exercisable Options	
	Shares Exercisable at March 31, 1998 (in thousands)	Weighted-Average Exercise Price
\$6.44 - \$ 7.13	66	\$ 7.05
\$7.22	114	7.22
\$7.81 - \$21.00	123	8.49
	---	-----
	303	\$ 7.70
	===	=====

MKE-QUANTUM COMPONENTS LLC

Notes to Consolidated Financial Statements, Continued

(8) Continued

Expiration dates range from May 16, 2004 to January 26, 2008 for Company employee options outstanding at March 31, 1998. Prices for options exercised by Company employees during the period from May 16, 1997 (Inception) to March 31, 1998 ranged from \$0.01 to \$11.44. Proceeds received from exercises are paid directly to Quantum.

(d) Pro Forma Information

Certain pro forma information is required by SFAS No. 123. This information is required to be determined as if the Company had accounted for stock incentives granted to its employees subsequent to March 31, 1995, under the fair value method.

<TABLE>

The fair value of options granted to the Company's employees by Quantum subsequent to March 31, 1995, reported below, were estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

<CAPTION>

	Stock Options		Stock Purchase Plan	
	Fiscal 1998	Fiscal 1997	Fiscal 1998	Fiscal 1997
<S>	<S>	<C>	<C>	<C>
Option life (in years)	2.94	2.78	0.98	1.40
Risk-free interest rate	6.30%	6.25%	5.90%	6.14%
Stock price volatility	.56	.53	.53	.52
Dividend yield	--	--	--	--

</TABLE>

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of the options.

The following is a summary of weighted-average grant date fair values:

	Weighted Average Grant Date Fair Value	
	Fiscal 1998	Fiscal 1997
Options granted under stock incentive plans	\$ 8.78	\$ 2.93
Restricted stock granted under stock incentive plan	--	14.86

16

10

MKE-QUANTUM COMPONENTS LLC

Notes to Consolidated Financial Statements, Continued

(8) Continued

For purposes of pro forma disclosures, the estimated fair value of the options is assumed to be amortized to expense ratably over the options' vesting period. Had the Company determined stock compensation expense in

accordance with SFAS 123, the pro forma net loss would have been \$(135.8) million for the period from May 16, 1997 (Inception) to March 31, 1998.

(9) Savings and Investment Plan

Substantially all of the Company's domestic employees are eligible to make contributions to the Company's 401(k) savings and investment plan. The Company matches a percentage of the employees' contributions and may also make additional discretionary contributions to the plan. Company contributions were \$0.9 million during the period from May 16, 1997 (Inception) to March 31, 1998.

(10) Related Party Transactions

During the period from May 16, 1997 (Inception) to March 31, 1998, the Company had revenues of \$152 million from the sale of product to MKE and its affiliates. At March 31, 1998, there was a net receivable balance of \$15.9 million due from MKE and its affiliates. The Company purchased \$4.1 million in fixed assets and \$0.4 million in services from MKE and its affiliates during the period from May 16, 1997 (Inception) to March 31, 1998. A balance of \$3.8 million was due to MKE and its affiliates at March 31, 1998 related to these purchases.

During the period from May 16, 1997 (Inception) to March 31, 1998, the Company had the following transactions with Quantum (in millions):

Product sales	\$	12.5
Sales of equipment		3.5
Purchases of property, plant and equipment		17.0
Purchase of support services		16.0
Reimbursement for accounts payable disbursements		14.4
Rent of Shrewsbury, Massachusetts facilities		4.7
Interest on note		3.1
Amounts paid for employee health insurance coverage		2.5
Interest on capital lease (see note 11)		1.2
Amounts reimbursed for employee payroll		17.3

17

MKE-QUANTUM COMPONENTS LLC

Notes to Consolidated Financial Statements, Continued

(10) Continued

The support services provided by Quantum to the Company were mainly comprised of finance, human resources, and computer support services. Quantum charges the Company for these services on a basis which reflects the costs directly attributable to the Company. Management believes these methods are reasonable based upon the Company's use of such services. At March 31, 1998, the Company owed \$19.5 million to Quantum, representing \$14.1 million in capital improvements at the Shrewsbury facility and \$5.4 million for services. See also notes 6 and 11.

(11) Leases

The Company is obligated under a capital lease with Quantum for its research and development facility in Louisville, Colorado. At March 31, 1998, the gross amount of building, land and related accumulated amortization recorded under the capital lease was as follows (in thousands):

Building	\$	13,260
Land		2,340

		15,600
Less accumulated amortization		(576)

	\$	15,024
		=====

Amortization of assets held under capital leases is included with depreciation expense.

The Company also has a non-cancelable operating lease with Quantum

Corporation for its manufacturing and office space in Shrewsbury, Massachusetts. The lease expires in May 2002 and contains renewal options for three five-year periods, and requires the Company to pay all executory costs such as maintenance and insurance. In addition, the Company leases manufacturing space for its Batam, Indonesia operations. Rental expense amounted to \$6.4 million for the period from May 16, 1997 (Inception) through March 31, 1998.

Future minimum lease payments under operating leases (with initial or remaining lease terms in excess of one year) as of March 31, 1998 are (in thousands):

1999	\$ 8,625
2000	9,655
2001	7,460
2002	7,460
2003	1,912

Total future minimum lease payments	\$35,112
	=====

18

12

MKE-QUANTUM COMPONENTS LLC

Notes to Consolidated Financial Statements, Continued

(11) Continued

Future minimum capital lease payments as of March 31, 1998 are (in thousands):

1999	\$ 2,074
2000	2,074
2001	2,074
2002	2,074
2003	2,074
Thereafter	18,210

Total minimum lease payments	28,580
Less: executory costs (such as taxes, maintenance and insurance, included in minimum lease payments)	2,752

Net minimum lease payments	25,828
Less: interest	10,511
Less: current portion of obligation under capital lease	353

Obligation under capital lease, less current portion	\$ 14,964
	=====

(12) Subsequent Events

(a) Financing Agreement

On May 26, 1998, the Company entered into a financing agreement with a bank to permit the Company to borrow up to \$80.0 million. The agreement provides for a \$30.0 million revolving credit facility and a \$50.0 million long term credit facility to be used for equipment purchases. Certain assets located in the United States collateralize the credit facility. The Company's ownership interest in its foreign subsidiaries is also pledged. Under the terms of the agreement, the Company is required to meet certain financial ratios and other financial covenants. The borrowings under the revolving credit facility and long term facility bear a variable interest rate based on the bank's available funds, as defined. The revolving credit facility has a term of one year. The long-term credit facility is available for borrowing until January 28, 1999. The principal amount of the long-term facility will be repaid in sixteen quarterly installments beginning on June 30, 1999, with a maturity date of March 31, 2003. The note payable to Quantum for \$50.8 million (see note 6) is subordinated to this credit facility.

On June 5, 1998, the Company executed a \$40.0 million lease agreement with a bank. Under the terms of this agreement, the \$40.0 million will be used by the Company to obtain manufacturing equipment through leasing arrangements with the bank. The Company will make semi-annual rental payments for the equipment.

19

13

MKE-QUANTUM COMPONENTS LLC

Notes to Consolidated Financial Statements, Continued

(12) Continued

(b) Restructuring

On June 4, 1998, the Company recorded a restructuring charge of approximately \$1.7 million associated with a strategic plan designed to improve manufacturing technology and efficiency. The restructuring charge primarily provided for costs associated with employee termination benefits for more than 150 employees located primarily in Shrewsbury, Massachusetts.

(13) Events (Unaudited) Subsequent to the Date of the Report of the Independent Auditor.

On October 28, 1998, MKE and Quantum announced an agreement to dissolve the Company. In accordance with the plan of dissolution, substantially all domestic operations were discontinued on or about December 27, 1998 and the Indonesian manufacturing subsidiary was distributed to MKE. Domestic assets are in liquidation and the Company recorded all assets and liabilities at their estimated net realizable value, resulting in a \$136.4 million charge to operations in December 1998 based on management estimates. As of December 27, 1998, the Company was in violation of covenants related to its financing relationship with a bank under which approximately \$30 million and \$30 million were outstanding under long-term and revolving debt agreements, respectively. Subsequent to December 27, 1998, the Company repaid the outstanding balance of long-term debt and \$10 million of the outstanding balance of the revolving debt agreement. The Company was also in default of its bank lease financing arrangement as of December 27, 1998. The Company recorded the related assets under operating leases at their estimated net realizable values and recorded a liability of \$33.5 million to reflect the expected settlement of the lease arrangement, which was repaid on January 4, 1999.

MKE and Quantum have announced their intentions to fund the Company pro rata to their interests for repayment of MKQC's obligations, consisting primarily of bank debt, lease obligations, accounts payable, severance, continuation and other liabilities through June 1999 when the liquidation of MKQC is expected to be completed.

20

SIGNATURES

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

Date: March 26, 1999

QUANTUM CORPORATION

/s/ Richard L. Clemmer

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

ITEM 7. EXHIBITS.

Exhibit
Number

Description

99.1

Independent Accountants' Consent

INDEPENDENT ACCOUNTANT'S REPORT

The Board of Directors
MKE Quantum Components LLC

We consent to the inclusion in Form 8-K of Quantum Corporation of our report dated April 14, 1998, except for notes 6(b) and 12, which are as of June 5, 1998, with respect to the consolidated balance sheet of MKE Quantum Components LLC and subsidiaries as of March 31, 1998, and the related consolidated statements of operations, members' equity, and cash flows for the period from May 16, 1997 (Inception) through March 31, 1998.

Boston, Massachusetts
March 26, 1999

/s/ KPMG Peat Marwick LLP