QUANTUM CORP /DE/
Form 10-Q
August 07, 2009

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

Form 10-Q

x	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the quarterly period ended June 30, 2009
	OR
o	**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 1-13449

QUANTUM CORPORATION

Incorporated Pursuant to the Laws of the State of Delaware

IRS Employer Identification Number 94-2665054

1650 Technology Drive, Suite 800, San Jose, California 95110

(408) 944-4000

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

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o NO o

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o   Accelerated filer x   Non-accelerated filer o   Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of the close of business on July 31, 2009, approximately 211.9 million shares of Quantum Corporations common stock were issued and outstanding.

QUANTUM CORPORATION

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PART I—FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

QUANTUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per-share data)
(Unaudited)

	Three Months Ended	
	June 30, 2009	**June 30, 2008**
Product revenue	$ 105,224	$ 157,584
Service revenue	38,902	42,257
Royalty revenue	16,214	21,950
Total revenue	160,340	221,791
Cost of product revenue	72,086	115,003
Cost of service revenue	26,611	31,949
Total cost of revenue	98,697	146,952
Gross margin	61,643	74,839
Operating expenses:		
Research and development	16,532	18,990
Sales and marketing	27,293	40,037
General and administrative	14,505	22,025
Restructuring charges (benefit)	3,110	(50)
	61,440	81,002
Income (loss) from operations	203	(6,163)
Interest income and other, net	4	1,482
Interest expense	(5,651)	(8,775)
Gain on debt extinguishment, net of costs	11,290	—
Income (loss) before income taxes	5,846	(13,456)
Income tax provision	838	882
Net income (loss)	$ 5,008	$ (14,338)
Net income (loss) per share:		
Basic	$ 0.02	$ (0.07)
Diluted	(0.02)	(0.07)
Income (loss) for purposes of computing net income (loss) per share:		
Basic	$ 5,008	$ (14,338)
Diluted	(5,592)	(14,338)
Weighted average common and common equivalent shares:		
Basic	210,257	206,915
Diluted	226,522	206,915

See accompanying notes to Condensed Consolidated Financial Statements.

QUANTUM CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)
(Unaudited)

		June 30, 2
Assets		
Current assets:		
Cash and cash equivalents	$	77
Accounts receivable, net of allowance for doubtful accounts of $986 and $1,999, respectively		88
Manufacturing inventories		55
Service parts inventories		59
Deferred income taxes		9
Other current assets		28
Total current assets		320
Long-term assets:		
Property and equipment, less accumulated depreciation		27
Purchased technology, less accumulated amortization		43
Other intangible assets, less accumulated amortization		56
Goodwill		46
Other long-term assets		11
Total long-term assets		185
	$	505,
Liabilities and Stockholders’ Deficit		
Current liabilities:		
Accounts payable	$	50
Accrued warranty		10
Deferred revenue, current		90
Current portion of long-term debt		2
Accrued restructuring charges		4
Accrued compensation		23
Income taxes payable		3
Other accrued liabilities		29
Total current liabilities		215
Long-term liabilities:		
Deferred revenue, long-term		30
Deferred income taxes		10
Long-term debt		280
Convertible subordinated debt		72
Other long-term liabilities		7
Total long-term liabilities		401
Commitments and contingencies		
Stockholders’ deficit:		
Common stock, $0.01 par value; 1,000,000 shares authorized; 210,353 and 210,231 shares issued and outstanding at June 30, 2009 and March 31, 2009, respectively		2
Capital in excess of par		351
Accumulated deficit		(472
Accumulated other comprehensive income		6
Total stockholders’ deficit		(112
	$	505

See accompanying notes to Condensed Consolidated Financial Statements.

QUANTUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Endec	
	June 30, 2009	**June 30,**
Cash flows from operating activities:		
Net income (loss)	$ 5,008	$ (14
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	3,288	4
Amortization	9,840	11
Service parts lower of cost or market adjustment	3,026	4
Gain on debt extinguishment	(13,077)	
Deferred income taxes	(153)	
Share-based compensation	2,138	2
Changes in assets and liabilities:		
Accounts receivable	19,342	33
Manufacturing inventories	4,183	(4
Service parts inventories	1,845	
Accounts payable	5,705	(10
Accrued warranty	(544)	(1
Deferred revenue	5,079	(1
Accrued restructuring charges	(14)	
Accrued compensation	(3,540)	(1
Income taxes payable	(1,580)	
Other assets and liabilities	(7,210)	3
Net cash provided by operating activities	33,336	25
Cash flows from investing activities:		
Purchases of property and equipment	(1,916)	(1
Net cash used in investing activities	(1,916)	(1
Cash flows from financing activities:		
Borrowings of long-term debt, net	73,872	
Repayments of long-term debt	(40,521)	(50
Repayments of convertible subordinated debt	(74,104)	
Payment of taxes due upon vesting of restricted stock	(57)	
Proceeds from issuance of common stock, net	—	
Net cash used in financing activities	(40,810)	(49
Net decrease in cash and cash equivalents	(9,390)	(26
Cash and cash equivalents at beginning of period	87,305	93
Cash and cash equivalents at end of period	$ 77,915	$ 67

See accompanying notes to Condensed Consolidated Financial Statements.

QUANTUM CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1: DESCRIPTION OF BUSINESS

Quantum Corporation (“Quantum”, the “Company”, “us” or “we”) (NYSE: QTM), founded in 1980, is a leading global storage company specializing in backup, recovery and archive solutions. Combining focused expertise, customer-driven innovation, and platform independence, we provide a comprehensive, integrated range of disk, tape and software solutions supported by our sales and service organization. We work closely with a broad network of value-added resellers (VARs), original equipment manufacturers (OEMs) and other suppliers to meet customers evolving data protection needs.

Note 2: BASIS OF PRESENTATION

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of Quantum and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated. The interim financial statements reflect all adjustments, consisting of normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the results for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for the full fiscal year. The Condensed Consolidated Balance Sheet as of March 31, 2009 has been derived from the audited financial statements at that date. However, it does not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. The accompanying financial statements should be read in conjunction with the audited Consolidated Financial Statements for the fiscal year ended March 31, 2009 included in our Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on June 30, 2009. We have presented service parts lower of cost or market adjustment separately from amortization in the prior year Condensed Consolidated Statement of Cash Flows to conform to current period presentation. This reclassification has no effect on total assets, stockholders deficit, net loss or cash flows as previously presented.

Note 3: SIGNIFICANT ACCOUNTING POLICIES; NEW ACCOUNTING STANDARDS

The significant accounting policies used in the preparation of our Condensed Consolidated Financial Statements are disclosed in our Annual Report on Form 10-K for the year ended March 31, 2009, as filed with the Securities and Exchange Commission on June 30, 2009.

On April 1, 2009, we adopted a number of accounting pronouncements, none of which had a material impact to our Condensed Consolidated Financial Statements. These pronouncements include: Business Combinations, Non-controlling Interests in Consolidated Financial Statements, Determinations of the Useful Life of Intangible Assets, Accounting for Convertible Debt Instruments that may be Settled in Cash Upon Conversion, Interim Disclosure about Fair Value of Financial Instruments, Nonfinancial Asset and Liability Fair Value Measurements, Equity Method Investment Accounting Considerations and Subsequent Events.

There have not been any accounting pronouncements issued during the first quarter of fiscal 2010 that we expect will materially impact our results of operations or financial condition.

Note 4: OTHER INVESTMENTS AND FAIR VALUE

Other Investments

Other investments consist of private technology venture limited partnerships that are recorded in other long-term assets on the Condensed Consolidated Balance Sheets. At both June 30, 2009 and March 31, 2009, we held $1.6 million of investments in private technology venture limited partnerships that are accounted for under the equity method. We recorded negligible losses for the three months ended June 30, 2009 related to these limited partnership investments as compared to a $0.1 million gain for the period ending June 30, 2008. These gains and losses are primarily based on the general partners estimates of the fair value of nonmarketable securities held by the partnerships and realized gains and losses from the partnerships disposal of securities.

We held $1.1 million and $0.9 million in deferred compensation investments at June 30, 2009 and March 31, 2009, respectively, which are recorded in other current assets on the Condensed Consolidated Balance Sheet. We realized a $0.1 million gain in the first quarter of fiscal 2010 compared to negligible losses in the first quarter of fiscal 2009. Gains and losses realized from these investments and the other investments are included in interest and other income, net, on the Condensed Consolidated Statements of Operations.

We review non-marketable equity investments on a regular basis to determine if there has been any impairment of value which is other than temporary by reviewing their financial information, gaining knowledge of any new financing or other business agreements and assessing their operating viability.

Fair Value

Following is a summary table of assets and liabilities measured and recorded at fair value on a recurring basis (in thousands):

	As of June 30, 2009	As of March 31, 2009
Assets:		
Money market funds	$ 67,990	$ 75,350
Deferred compensation investments	1,071	910
Liabilities:		
Deferred compensation liabilities	1,071	910
Derivatives	1,039	1,175

Following are the fair values of assets and liabilities measured and recorded at fair value on a recurring basis by input level as of June 30, 2009 (in thousands):

	Fair Value Measurements Using Input Levels:			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds	$ —	$ 67,990	$ —	$ 67,990
Deferred compensation investments	—	1,071	—	1,071
Liabilities:				
Deferred compensation liabilities	—	1,071	—	1,071
Derivatives	—	1,039	—	1,039

The above fair values are based on quoted market prices at the respective balance sheet dates.

We have certain non-financial assets that are measured at fair value on a non-recurring basis when there is an indicator of impairment and they are recorded at fair value only when an impairment is recognized. These assets include property and equipment, intangible assets and goodwill. We did not have any non-recurring assets measured at fair value in the first quarter of fiscal 2010 or 2009. We do not have any non-financial liabilities measured and recorded at fair value on a non-recurring basis.

We have financial liabilities for which we are obligated to repay the carrying value, unless the holder agrees to a lesser amount. The carrying value and fair value of these financial liabilities at June 30, 2009 and March 31, 2009 were as follows (in thousands):

	As of June 30, 2009		As of March 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Credit Suisse term loan(1)	$ 207,478	$ 169,095	$ 248,000	$ 155,000
Initial EMC term loan(2)	75,418	75,418	—	—
Convertible subordinated notes(3)	72,819	69,178	160,000	108,051

(1) Fair value based on broker quotes.

(2) Fair value is estimated at carrying value due to recent completion of this loan agreement and unchanged prime interest rate.

(3) Fair value at June 30, 2009 was based on pricing from a private transaction on June 26, 2009. There were not public, market trades either shortly before or after June 30, 2009. Fair value at March 31, 2009 was based on quoted market prices.

Note 5: MANUFACTURING INVENTORIES AND SERVICE PARTS INVENTORIES

Manufacturing inventories and service parts inventories consisted of the following (in thousands):

	June 30, 2009	March 31, 2009
Manufacturing inventories:		
Raw materials and purchased parts	$ 25,943	$ 28,100
Work in process	3,370	3,669
Finished goods	26,479	29,468
	$ 55,792	$ 61,237
Service parts inventories:		
Component parts	$ 24,531	$ 26,607
Finished goods	34,889	36,422
	$ 59,420	$ 63,029

Note 6: GOODWILL AND INTANGIBLE ASSETS

As of June 30, 2009 and March 31, 2009, goodwill and intangible assets, net of amortization, were $147.0 million and $156.0 million, respectively, and represented approximately 29% and 28% of total assets, respectively. We evaluate goodwill for impairment annually during the fourth quarter of our fiscal year, or more frequently when indicators of impairment are present. Intangible assets are evaluated for impairment whenever indicators of impairment are present. During the first quarter of fiscal 2010 we considered whether there were any indicators of impairment for both our goodwill and our long-lived assets, including amortizable intangible assets, and determined there were no indicators of impairment. Our conclusion considered both quantitative and qualitative factors. Qualitative factors supporting our conclusion included our assessment that there have been no material adverse changes to the overall business climate, current events or the long-term economic outlook since completion of our impairment assessments during the fourth quarter of fiscal 2009.

The following provides a summary of the carrying value of amortizable intangible assets (in thousands):

	As of June 30, 2009			As of March 31, 2009		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Purchased technology	$ 188,167	$ (144,594)	$ 43,573	$ 188,167	$ (139,019)	$ 49,148
Trademarks	27,260	(24,899)	2,361	27,260	(24,696)	2,564
Non-compete agreements	500	(293)	207	500	(268)	232
Customer lists	108,219	(54,118)	54,101	108,219	(50,927)	57,292
	$ 324,146	$ (223,904)	$ 100,242	$ 324,146	$ (214,910)	$ 109,236

Total intangible amortization expense was $9.0 million and $11.2 million for the first quarter of fiscal 2010 and 2009, respectively.

Note 7: ACCRUED WARRANTY AND INDEMNIFICATIONS

The following table details the change in the accrued warranty balance (in thousands):

	Three Months Ended	
	June 30, 2009	June 30, 2008
Beginning balance	$ 11,152	$ 19,862
Additional warranties issued	1,678	4,605
Adjustments for warranties issued in prior fiscal years	915	560
Settlements	(3,137)	(6,508)
Ending balance	$ 10,608	$ 18,519

Warranties

We generally warrant our products against defects from three to 36 months. A provision for estimated future costs and estimated returns for credit relating to warranty is recorded when products are shipped and revenue recognized. Our estimate of future costs to satisfy warranty obligations is primarily based on historical trends and, if believed to be significantly different from historical trends, estimates of future failure rates and future costs of repair including materials consumed in the repair, labor and overhead amounts necessary to perform the repair.

If future actual failure rates differ from our estimates, we record the impact in subsequent periods. If future actual costs to repair were to differ significantly from our estimates, we would record the impact of these unforeseen cost differences in subsequent periods.

Indemnifications

We have certain financial guarantees, both express and implied, related to product liability and potential infringement of intellectual property. Other than certain product liabilities recorded as of June 30, 2009 and March 31, 2009, we did not record a liability associated with these guarantees, as we have little or no history of costs associated with such indemnification requirements. Contingent liabilities associated with product liability may be mitigated by insurance coverage that we maintain.

In the normal course of business to facilitate transactions of our services and products, we indemnify certain parties with respect to certain matters. We have agreed to hold certain parties harmless against losses arising from a breach of representations or covenants, or out of intellectual property infringement or other claims made against certain parties. These agreements may limit the time within which an indemnification claim can be made and the amount of the claim. In addition, we have entered into indemnification agreements with our officers and directors, and our bylaws contain similar indemnification obligations to our agents.

It is not possible to determine the maximum potential amount under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Historically, payments made by us under these agreements have not had a material impact on our operating results, financial position or cash flows.

Note 8: CONVERTIBLE SUBORDINATED DEBT AND LONG-TERM DEBT

Debt balances consist of the following (in thousands):

	June 30, 2009	March 31, 2009
Convertible subordinated debt	$ 72,819	$ 160,000
Credit Suisse term loan	207,478	248,000
Initial EMC term loan	75,418	—
	$ 355,715	$ 408,000

Convertible Subordinated Debt

On July 30, 2003, we issued 4.375% convertible subordinated notes (“the notes”) in the aggregate principal amount of $160 million in a private placement transaction. The notes are unsecured obligations subordinated in right of payment to all of our existing and future senior indebtedness. The notes mature on August 1, 2010, and are convertible at the option of the holders at any time prior to maturity into an aggregate of 36.8 million shares of Quantum common stock at a conversion price of $4.35 per share.

<u>Tender Offer for Convertible Subordinated Notes</u>

On June 3, 2009, $87.2 million of aggregate principal of the notes were tendered in exchange for $850 per $1,000 principal amount, or $74.1 million. We also paid $1.3 million of accrued and unpaid interest on the notes tendered. As of June 30, 2009 we had $72.8 million in aggregate principal amount of convertible subordinated notes outstanding.

Gain on Debt Extinguishment, Net of Costs

In connection with settlement of the notes tendered during the first quarter of fiscal 2010, we recorded an $11.3 million gain on debt extinguishment, net of costs. This gain is comprised of the gross gain of $13.1 million from the notes tendered, reduced by $1.4 million in expenses and $0.4 million of unamortized debt costs related to the tendered notes. The $0.4 million of unamortized debt costs that were written off are included as a component of amortization in the Condensed Consolidated Statements of Cash Flows.

Private Transaction to Purchase Additional Convertible Subordinated Notes

On June 26, 2009, we entered into a private transaction with a noteholder to purchase $50.7 million of aggregate principal amount of notes for $48.2 million, which will increase the total notes refinanced to $137.9 million of aggregate principal amount. This transaction was completed on July 1, 2009 decreasing the aggregate principal amount of notes outstanding to $22.1 million.

Long-Term Debt

Credit Suisse Credit Agreement

On July 12, 2007, we refinanced a prior credit facility by entering into a senior secured credit agreement with Credit Suisse (CS credit agreement) providing a $50 million revolving credit facility and a $400 million term loan. We borrowed $400 million on the term loan to repay all borrowings under a prior credit facility. We incurred and capitalized $8.1 million of loan fees related to the CS credit agreement which are included in other long-term assets in our Condensed Consolidated Balance Sheets. These fees are being amortized to interest expense over the respective loan terms.

Under the CS credit agreement, the $400 million term loan matures on July 12, 2014, but is subject to accelerated maturity on February 1, 2010 if we do not repay, refinance to extend the maturity date, or convert into equity at least $125 million of the $160 million convertible subordinated debt prior to February 1, 2010. The private transaction described above was completed on July 1, 2009; therefore, we are no longer at risk of acceleration of the maturity date related to this refinancing requirement. Interest accrues on the term loan at our option based on either, a prime rate plus a margin of 2.5%, or a LIBOR rate plus a margin of 3.5%. The interest rate on the term loan was 4.10% at June 30, 2009.

Commencing September 30, 2007, we began to make required quarterly principal payments on the term loan based on a formula in the CS credit agreement and we will make a final payment of all outstanding principal and interest at maturity. The term loan may be prepaid at any time; however, for any prepayments made before July 12, 2008 a prepayment fee of 1% of the principal amount being prepaid was assessed on such prepayments. During the first quarter of fiscal 2010 and 2009, we made principal payments of $40.5 million and $50.0 million, respectively. We incurred $0.5 million in prepayment fees in the first quarter of fiscal 2009.

Under the CS credit agreement we have the ability to borrow up to $50 million under a senior secured revolving credit facility which expires July 12, 2012. As of June 30, 2009, we have letters of credit totaling $1.5 million, reducing the amounts available to borrow on the revolver to $48.5 million. Interest accrues on the revolving credit facility at our option based on either, a prime rate plus a margin of 2.5%, or a LIBOR rate plus a margin of 3.5%. Quarterly, we are required to pay a 0.5% commitment fee on undrawn amounts under the revolving credit facility.

The revolving credit facility and term loan are secured by a blanket lien on all of our assets and contain certain financial and reporting covenants which we are required to satisfy as a condition of the credit line and term loan including a limitation on issuing dividends or repurchasing our stock. As of June 30, 2009, we were in compliance with the debt covenants. We did not borrow from the revolving credit facility during the first quarter of fiscal 2010 or 2009. Our outstanding term debt under the CS credit agreement was $207.5 million at June 30, 2009 and $248.0 million at March 31, 2009.

Amendment to Credit Suisse Credit Agreement

We amended our CS credit agreement on April 15, 2009 (the “Amendment”). The Amendment permits us to refinance through issuance of equity or repurchase with our or any other funds the final $25.0 million outstanding convertible debt. The Amendment also eliminated certain requirements to make mandatory prepayments with excess cash flow. As a condition of the Amendment, once we have refinanced a total of $135.0 million aggregate principal amount of the notes under the Amendment, we agreed to prepay another $20.0 million of principal on the CS credit agreement term loan.

EMC Credit Agreements

On June 3, 2009, we entered into an initial term loan agreement with EMC International Company (“initial EMC loan agreement”) and on June 5, 2009 we borrowed $75.4 million, of which $74.1 million was used to purchase the notes tendered and $1.3 million was used for payment of accrued interest on the notes tendered. We incurred and capitalized $1.5 million of loan fees related to the initial EMC loan agreement which are included in other long-term assets in our Condensed Consolidated Balance Sheets. These fees are being amortized to interest expense over the loan term.

The initial EMC loan agreement requires quarterly interest payments and bears a 12.0% fixed interest rate. Borrowings under the initial EMC loan agreement are junior to borrowings under our CS credit agreement and senior to all other indebtedness. There are no financial covenants and it is not secured by any collateral. Under the initial EMC loan agreement, the $75.4 million term loan matures on September 30, 2014 and allows prepayments to the extent not prohibited under our CS credit agreement. In the event we replace or refinance our CS credit agreement, the term loan matures the later of August 1, 2010 or one day after such replacement or refinancing. In the event that we use cash on hand to repay all amounts outstanding under the CS credit agreement, we will have the option to exchange the initial EMC term loan for a senior secured term loan with terms substantially the same as the initial EMC loan agreement but with security, covenants and events of default similar to those contained in the CS credit agreement.

On June 29, 2009, we entered into a subsequent term loan agreement with EMC International Company (“subsequent EMC loan agreement”) that provides up to $49.6 million to fund the purchase of additional notes in the private transaction described above. Borrowings under the subsequent EMC loan agreement have terms substantially similar to borrowings under the initial EMC loan agreement, including quarterly interest payments at a 12.0% fixed interest rate. The subsequent EMC loan agreement provides for two tranches of borrowings, with Tranche A having a scheduled maturity date of September 30, 2014 and Tranche B having a scheduled maturity date of December 31, 2011. Tranche A allows borrowings of up to $24.6 million and Tranche B allows borrowings of up to $25.0 million. Borrowings under the two tranches must be made concurrent with each other in a single draw. We did not draw on the subsequent EMC loan agreement during the first quarter of fiscal 2010.

Note 9: DERIVATIVES

We do not engage in hedging activity for speculative or trading purposes. Under the terms of the CS credit agreement, we are required to hedge floating interest rate exposure on 50% of our funded debt balance through December 31, 2009. We had an interest rate collar instrument with a financial institution that fixed the interest rate on $87.5 million of our variable rate term loan between a three month LIBOR rate floor of 4.64% and a cap of 5.49% commencing the third quarter of fiscal 2007 through December 31, 2008 (“Collar 1”). We entered into a separate interest rate collar instrument effective as of December 31, 2007 with another financial institution that fixed the interest rate on an additional $12.5 million of our variable rate term loan between a three month LIBOR rate floor of 2.68% and a cap of 5.25% through December 2008 and fixes the interest rate on $100 million of our variable rate term loan between the same floor and cap from December 31, 2008 through December 2009 (“Collar 2”). Whenever the three month LIBOR rate is greater than the cap, we receive from the financial institution the difference between the cap and the current three month LIBOR rate on the notional amount. Conversely, whenever the three month LIBOR rate is lower than the floor, we remit to the financial institution the difference between the floor and the current three month LIBOR rate on the notional amount.

During the first quarter of fiscal 2010, the three month LIBOR rate was below the floor of Collar 2 and we incurred $0.4 million in additional interest expense. During the first quarter of fiscal 2009, the three month LIBOR rate was within the floor and cap of Collar 2, but was below the floor of Collar 1 and we incurred $0.4 million in additional interest expense.

Our interest rate collars did not meet all of the criteria necessary for hedge accounting and we record the change in fair market value in interest income and other, net in the Condensed Consolidated Statements of Operations and in other accrued liabilities in the Condensed Consolidated Balance Sheets. We recognized a gain of $0.1 million in the first quarter of fiscal 2010 and a gain of $1.3 million in the first quarter of fiscal 2009. As of June 30, 2009 and March 31, 2009, the cumulative loss on the interest rate collar was $1.0 million and $1.2 million, respectively.

	As of June 30, 2009			
	Derivative Assets Location in the Consolidated Statement of Financial Position	Fair Value	Derivative Liabilities Location in the Consolidated Statement of Financial Position	Fair Value
Interest rate collar derivatives	—	$ —	Other accrued liabilities	$ 1,039

	For the three months ended June 30, 2009			
	Location of Gain Recognized in Income on Derivative	Amount of Gain Recognized in Income on Derivatives	Location of Gain on Hedged Item	Amoun of Gain Recogniz in Income Attributa to Risk Being Hedged
Interest rate collar derivatives	Interest income and other, net	$ 136	—	$

Note 10: RESTRUCTURING CHARGES

In fiscal 2009 and continuing in fiscal 2010, restructuring actions that consolidated operations supporting the business were undertaken to improve operational efficiencies and to adapt our operations in recognition of economic conditions. The types of restructuring expense (benefit) for the three months ended June 30, 2009 and 2008 were (in thousands):

	Three Months Ended	
	June 30, 2009	June 30, 2008
Severance and benefits	$ 327	$ (50)
Facilities	2,982	—
Other	(199)	—
Total	$ 3,110	$ (50)

Fiscal 2010

During the first quarter of fiscal 2010, severance and benefits restructuring expenses were primarily due to eliminating additional positions in the U.S. and to a lesser extent receiving new information related to on-going settlement negotiations with various local authorities in Europe.

We vacated a facility in Irvine, California during the first quarter of fiscal 2010 and accrued $2.7 million for the remaining contractual lease payments of this facility. We incurred $0.2 million in facility restructuring expenses to consolidate operations from the vacated facility into other locations during the first quarter of fiscal 2010.

Other restructuring benefits were due to negotiating a $0.2 million reduction in our liability with a vendor related to a research and development program cancelled in a prior year.

Fiscal 2009

During the first quarter of fiscal 2009, we did not initiate any new restructuring actions. Restructuring benefits during the first quarter of fiscal 2009 were primarily the result of changes in estimates of severance and benefits payable to impacted employees.

Accrued Restructuring

The following tables show the activity and the estimated timing of future payouts for accrued restructuring (in thousands):

	For the three months ended June 30, 2009			
	Severance and Benefits	**Facilities**	**Other**	**Total**
Balance as of March 31, 2009	$ 3,454	$ 628	$ 599	$ 4,681
Restructuring charges	429	2,982	—	3,411
Reversals	(102)	—	(199)	(301)
Cash payments	(2,506)	(649)	—	(3,155)
Non-cash charges	31	—	—	31
Balance as of June 30, 2009	$ 1,306	$ 2,961	$ 400	$ 4,667

	Severance and Benefits	**Facilities**	**Other**	**Total**
Estimated timing of future payouts:				
Fiscal 2010	$ 1,306	$ 1,099	$ 400	$ 2,805
Fiscal 2011 to 2012	—	1,862	—	1,862
	$ 1,306	$ 2,961	$ 400	$ 4,667

The $4.7 million restructuring accrual as of June 30, 2009 is comprised of obligations for severance and benefits and vacant facilities in addition to noncancellable purchase obligations for research and development programs. We expect both the severance and benefits liability and the noncancellable purchase obligations to be paid in fiscal 2010. The facilities charges relating to vacant facilities in the U.S. will be paid over their respective lease terms, which continue through fiscal 2012.

Note 11: STOCK INCENTIVE PLANS AND SHARE-BASED COMPENSATION

Overview

Our stock incentive plans ("Plans") are broad-based, long-term retention programs that are intended to attract and retain talented employees and align stockholder and employee interests. The Plans provide for the issuance of stock options, stock appreciation rights, stock purchase rights and long-term performance awards to our employees, officers and affiliates. The Plans have 110.6 million shares of stock authorized of which 23.2 million shares of stock were available for grant as of June 30, 2009.

We also have an employee stock purchase plan ("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. There were 9.2 million shares available for issuance as of June 30, 2009. The Board of Directors suspended the Purchase Plan in the fourth quarter of fiscal 2009 until our stock price is sufficiently above $1.00 per share. Our stock price has not increased to a level sufficient to reinstate the Purchase Plan.

The Black-Scholes option pricing model is used to estimate the fair value of options granted under our Plans and rights to acquire stock granted under our Purchase Plan.

Share-Based Compensation

The following table summarizes share-based compensation (in thousands):

	Three Months Ended	
	June 30, 2009	June 30, 2008
Share-based compensation:		
Cost of revenue	$ 300	$ 355
Research and development	638	765
Sales and marketing	458	741
General and administrative	742	833
	$ 2,138	$ 2,694
Share-based compensation (by type of award):		
Stock options	$ 403	$ 1,013
Restricted stock	1,735	1,145
Stock purchase plan	—	536
	$ 2,138	$ 2,694

Stock Options

The weighted-average grant date fair values of employee stock option grants, as well as the weighted-average assumptions used in calculating these values for the first quarter of fiscal 2010 and 2009 were based on estimates at the date of grant as follows:

	Three Months Ended	
	June 30, 2009	June 30, 2008
Option life (in years)	3.9	4.0
Risk-free interest rate	1.61%	2.53%
Stock price volatility	105.95%	46.03%
Dividend yield	—	—
Weighted-average grant date fair value	$ 0.70	$ 0.82

Restricted Stock

The fair value of the restricted stock units granted is the intrinsic value as of the respective grant date since the restricted stock units are granted at no cost to the employees. The weighted-average grant date fair values of restricted stock units granted during the first quarter of fiscal 2010 and 2009 were $1.17 and $2.16, respectively.

Stock Purchase Plan

Under the Purchase Plan, rights to purchase shares are typically granted during the second and fourth quarter of each fiscal year. No rights to purchase shares were granted during the first quarter of fiscal 2010 or 2009.

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Stock Activity

Stock Options

A summary of activity relating to our stock options follows (options and aggregate intrinsic value in thousands):

	Options	Weighted-Average Exercise	Weighted-Average Remaining	Aggregate Intrinsic

		Price	Contractual Term	Value
Outstanding as of March 31, 2009	25,626	$ 3.02		
Granted	127	0.98		
Forfeited	(789)	3.13		
Expired	(125)	13.54		
Outstanding as of June 30, 2009	24,839	$ 2.95	3.79	$ 95
Vested and expected to vest at June 30, 2009	24,461	$ 2.97	3.76	$ 77
Exercisable as of June 30, 2009	19,610	$ 3.12	3.54	$ —

<u>Restricted Stock</u>

A summary of activity relating to our restricted stock follows (shares in thousands):

	Shares	Weighted-Average Grant Date Fair Value
Nonvested at March 31, 2009	6,258	$ 1.78
Granted	853	1.17
Vested	(173)	1.76
Forfeited	(168)	1.81
Nonvested at June 30, 2009	6,770	$ 1.70

Note 12: INCOME TAXES

Income tax provision for the first quarter of fiscal 2010 and 2009 was $0.8 million and $0.9 million, respectively. The tax provision for both the first quarter of fiscal 2010 and fiscal 2009 reflects expenses for foreign income taxes and state taxes.

Note 13: NET INCOME (LOSS) PER SHARE

Equity Instruments Outstanding

We have granted stock options and restricted stock units under our Plans that, upon exercise and vesting, respectively, would increase shares outstanding. We issued 4.375% convertible subordinated notes which are convertible at the option of the holders at any time prior to maturity into shares of Quantum common stock at a conversion price of $4.35 per share. These notes, if converted, would increase shares outstanding.

On June 17, 2009, we entered into an agreement with EMC Corporation ("EMC”) which provides for the issuance of certain warrants. On June 23, 2009 we issued a warrant to EMC to purchase 10 million shares of our common stock at a $0.38 per share exercise price. This warrant will vest and be exercised only in the event of a change of control of Quantum and expires either seven years from the date of issuance or three years after a change of control, whichever occurs first. Due to these terms, no share-based compensation expense related to this warrant has been recorded to date.

In addition, under the June 17, 2009 agreement we will grant additional warrants to EMC based on a formula as described in our software license agreement with EMC, which are issuable to EMC within 30 days following August 31, 2010 and August 31, 2011 with the same vesting and exercise conditions as the warrant issued June 23, 2009. In no event shall warrants be issued or exercisable to the extent that issuance or exercise would result in EMC holding, or being deemed to hold, more than 15% of our issued and outstanding capital stock. Upon exercise, warrants would increase shares outstanding.

Net Income (Loss) per Share

The following is our computation of basic and diluted net income (loss) per share (in thousands, except per-share data):

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008
Net income (loss)	$ 5,008	$ (14,338)
Interest on dilutive notes	690	—
Gain on debt extinguishment, net of costs	(11,290)	—
Net loss for purposes of computing net loss per diluted share	$ (5,592)	$ (14,338)
Weighted average shares and common share equivalents (“CSE”):		
Basic	210,257	206,915
Dilutive CSE from stock plans	1,253	—
Dilutive CSE from warrants	476	—
Dilutive CSE from convertible notes	14,536	—
Diluted	226,522	206,915

The computations of diluted net income (loss) per share for the periods presented exclude the following because the effect would have been anti-dilutive:

- 4.375% convertible subordinated notes issued in July 2003, which are convertible into shares of Quantum common stock (229.885 shares per $1,000 note) at a conversion price of $4.35 per share. At June 30, 2009 and 2008, weighted equivalent shares of 16.7 million and 36.8 million, respectively, were excluded.
- Options to purchase 24.6 million shares and 27.9 million shares of Quantum common stock, which were outstanding as of June 30, 2009 and 2008, respectively.
- Unvested restricted stock units for 4.9 million shares at June 30, 2008.

Note 14: COMPREHENSIVE INCOME (LOSS)

Total comprehensive income (loss), net of tax, if any, for the three months ended June 30, 2009 and 2008 was (in thousands):

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008
Net income (loss)	$ 5,008	$ (14,338)
Net unrealized gains on revaluation of long-term intercompany balance, net of tax	875	258
Foreign currency translation adjustment, net of tax	(71)	(106)
Total comprehensive income (loss)	$ 5,812	$ (14,186)

Note 15: COMMITMENTS AND CONTINGENCIES

We use contract manufacturers for certain manufacturing functions. Under these arrangements, the contract manufacturer procures manufacturing inventory to manufacture products based upon our forecast of customer demand. We are responsible for the financial impact to the contract manufacturer for 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 manufacturing inventory. As of June 30, 2009 and March 31, 2009, we had issued non-cancelable purchase commitments for $44.0 million and $48.4 million, respectively, to purchase finished goods from our contract manufacturers and had accrued $0.4 million and $0.5 million as of June 30, 2009 and March 31, 2009, respectively, for finished goods in excess of current customer demand or for the costs of excess or obsolete manufacturing inventory.

Note 16: SUBSEQUENT EVENTS

We have evaluated subsequent events through August 7, 2009, the issuance date of our June 30, 2009 financial statements.

Private Transaction to Purchase Additional Convertible Subordinated Notes

As described in Note 8 "Convertible Subordinated Debt and Long-term Debt," on June 26, 2009 we entered into a private transaction with a noteholder to purchase additional convertible subordinated notes. On July 1, 2009, we paid $48.2 million to purchase $50.7 million of aggregate principal amount of notes for $950 per $1,000 principal amount. We also paid $0.9 million in accrued and unpaid interest on the notes on July 1, 2009. We funded the $49.1 million with $2.8 million of our own funds and the remaining $46.3 million from loans described below.

Subsequent EMC Loan Agreement

As described in Note 8 "Convertible Subordinated Debt and Long-term Debt," we entered into a subsequent EMC loan agreement for up to $49.6 million to fund the private refinancing transaction. On July 1, 2009, we drew $24.6 million on the Tranche A Term Loan and $21.7 million on the Tranche B Term Loan under the subsequent EMC loan agreement to fund the majority of the private transaction described above.

Credit Suisse Credit Agreement Amendment

Under the April 15, 2009 amendment to our CS credit agreement, we agreed to prepay $20.0 million of principal on the CS credit agreement term loan within five days of refinancing at least $135.0 million aggregate principal amount of the notes. On July 6, 2009, we made this $20.0 million principal prepayment.

Item 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENT

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 such forward-looking statements including, but not limited to, (1) our goals for future operating performance, including our expectations regarding our performance for the second quarter of fiscal 2010; (2) our expectations regarding our ongoing efforts to reduce our cost structure; (3) our expectations regarding the amounts and timing of any future restructuring charges, including cost-savings resulting therefrom; (4) our expectation that we will continue to derive a substantial majority of our revenue from products based on tape technology; (5) our expectations relating to growing our disk-based backup, software and services businesses; (6) our research and development plans and focuses; (7) our belief that our existing cash and capital resources will be sufficient to meet all currently planned expenditures, debt repayments and sustain our operations for the next 12 months; (8) our expectations about the timing and maximum amounts of our future contractual payment obligations; (9) our belief that our ultimate liability in any infringement claims made by any third parties against us will not be material to us; and (10) our business objectives, key focuses, opportunities and prospects are inherently uncertain as they are 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) the consequences of the continued U.S. and global financial crisis and the accompanying worldwide recession; (4) uncertainty regarding information technology spending and the corresponding uncertainty in the demand for tape drives, devices, media, tape automation systems, disk-based backup systems and software solutions; (5) our ability to achieve anticipated gross margin levels; (6) our ability to maintain supplier relationships; (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 capitalize on changes in market demand; (10) the availability of credit on terms that are beneficial to us, particularly in light of the continuing global credit crisis and worldwide recession; (11) our ability to comply with the New York Stock Exchange ("NYSE") continued listing requirements to the satisfaction of the NYSE; and (12) those factors discussed under "Risk Factors" in Part II, Item 1A. Our forward-looking statements are not guarantees of future performance. We disclaim any obligation to update information in any forward-looking statement.

OVERVIEW

Quantum Corporation ("Quantum", the "Company", "us" or "we"), founded in 1980, is a leading global storage company specializing in backup, recovery and archive solutions. Combining focused expertise, customer-driven innovation and platform independence, we provide a comprehensive, integrated range of disk, tape and software solutions supported by our sales and service organization. We work closely with a broad network of value-added resellers ("VARs"), original equipment manufacturers ("OEMs") and other suppliers to meet customers' evolving data protection needs. Our stock is traded on the NYSE under the symbol "QTM."

We offer a comprehensive range of solutions in the data storage market providing performance and value to organizations of all sizes. We believe our combination of expertise, innovation and platform independence allows us to solve customers' data protection and retention issues more easily, effectively and securely. In addition, we have the global scale and scope to support our worldwide customer base. As a pioneer in disk-based data protection, we have a broad portfolio of disk-based backup solutions featuring deduplication and replication technology. We have products spanning from entry-level autoloaders to enterprise libraries, and are a major supplier of tape drives and media. Our data management software provides technology for shared workflow applications and multi-tiered archiving in high-performance, large-scale storage environments. We offer a full range of service with support available in more than 100 countries.

We earn our revenue from the sale of products, systems and services through our sales force and an array of channel partners to reach end-user customers, which range in size from small businesses and satellite offices to government agencies and large, multinational corporations. Our products are sold under both the Quantum brand name and the names of various OEM customers. We face a variety of challenges and opportunities in responding to the competitive dynamics of the technology market which is characterized by rapid change, evolving customer demands and strong competition, including competition with several companies who are also significant customers.

For fiscal 2010 we identified the following key objectives to enable us to improve our operating results:

- Building out our edge-to-core product and solutions portfolio;
- Articulating and communicating our edge-to-core vision to customers and end-users;
- Executing our go-to-market model to improve our alignment with our channel partners and
- Completing a capital structure solution to address our convertible debt refinancing requirement.

We have embarked on a broad-based, new product cycle to expand our growth platform for disk-based backup and software solutions centered on deduplication and replication. Industry data suggests the market for target based deduplication systems is growing substantially despite the challenging economic environment and we believe we are well positioned to capitalize on this opportunity. In the past two months, we have introduced new products and enhancements to build out our edge-to-core product and solutions portfolio including the DXi2500-D, Quantum Vision 3.0, the esXpress™ backup software module and qualified the DXi7500 with Symantec OpenStorage direct-to-tape capability.

The DXi2500-D is a high-performance, low-cost deduplication appliance for remote and branch offices, or the edge, optimized for replication back to a central data center, or the core. We believe it offers significantly increased capacity at a similar price as competitor products. Quantum Vision 3.0 is an improved version of our backup management and reporting software that works across sites and our disk-based backup and tape automation systems. The esXpress backup software module provides a scalable and easy-to-use data protection solution for VMware environments using DXi-Series disk-based backup systems.

The recent acquisition of Data Domain, Inc. by EMC Corporation ("EMC") and the bidding surrounding its acquisition has emphasized the significance of the deduplication market and competitive strengths and weaknesses of the various storage companies. This market consolidation changes portions of our strategy. The emphasis on building out our product and solutions portfolio is unchanged. However, we anticipate quarterly EMC software license revenue will begin to decline in the first quarter of fiscal 2011. In addition, we have shifted our go-to-market focus to emphasize building our branded disk-based backup business in the areas where we have particular strength, such as VTL environments where our scalability, tape integration and consultative approach are valued by customers has become a higher priority. We are also in discussions with new, potential go-to-market partners and believe we will engage with one or more of these potential partners in the future.

Our forward momentum of becoming a more systems focused company, improving and optimizing our core tape business and building a growth platform in data deduplication and replication continued to advance during the quarter. We believe the backup redesign, disaster recovery and compliance and archive segments of the storage industry will be the top storage spending priorities in the market according to several external surveys. We view our tape automation systems business as a mature segment of these solutions and have worked to improve our branded sales productivity and decrease our manufacturing cost structure for these products. Our investments in tape automation systems are intended to improve margins. We are selectively innovating and extending our platform, including the recent introduction of a new tape encryption solution. We plan to introduce a new platform in the midrange product family to improve our competitive position and provide incremental margin in this mature market segment. We are also working with our channel partners to take advantage of opportunities to reach end customers that have historically chosen competitor products, but due to consolidation in the market, we believe are more likely to select our products and solutions.

As of July 1, 2009, we have completed a capital structure solution which addresses the requirement that at least $135.0 million of our convertible subordinated debt must be refinanced by February 2010 under our senior secured credit agreement with Credit Suisse (CS credit agreement). We are no longer at risk of accelerated maturity of our CS credit agreement term debt related to this convertible debt refinancing requirement. Between March 31, 2009 and July 1, 2009, we successfully reduced our overall debt level by $16.2 million related to this capital structure solution. In addition, we made principal payments of $40.5 million on our CS credit agreement term loan during the first quarter of fiscal 2010 and made another principal payment of $20.0 million on July 6, 2009. Over the course of 14 weeks, we have reduced our outstanding debt by 19%, or $76.7 million, from these principal payments and refinancing our convertible debt.

Although the deduplication and replication market is growing in this challenging economic environment, there remains a significant risk that demand for backup, storage and archive solutions will soften further as our customers carefully manage their IT investments. We believe in this constrained environment, customers will be implementing tiered storage solutions more aggressively as part of their efforts to reduce their overall storage costs. This represents a key opportunity for our branded DXi-Series products, our deduplication software and our StorNext products.

Results

During the first quarter of fiscal 2010, we operated in a very challenging economic environment, which impacted our revenue results, yet our business model progress enabled us to show improvements in our gross margin and operating income compared to the prior year. Total revenue for the first quarter of fiscal 2010 decreased 28% to $160.3 million from $221.8 million in the first quarter of fiscal 2009 primarily reflecting a significantly weaker economy, a continued sales mix shift toward higher margin opportunities and lower-than-expected branded tape automation system volumes outside North America. Disk-based backup systems and software solutions increased to 11% of total revenue and 16% of product revenue in the first quarter of fiscal 2010 from 8% of total revenue and 12% of product revenue in the first quarter of fiscal 2009. We increased the proportion of branded tape automation systems revenue relative to OEM tape automation systems revenue and also increased the proportion of enterprise and mid-range tape automation product revenues in the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009.

Gross margin and product gross margin increased 470 basis points and 450 basis points, respectively, for the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009 largely due to this shift in our revenue mix and cost reductions. Branded sales comprised 71% of non-royalty revenue for the first quarter of fiscal 2010 compared to 66% for the first quarter of fiscal 2009. Sales of branded products typically generate higher gross margins than sales to our OEM customers; however, OEM software license revenue provides one of our highest product margins. Decreased demand in the global IT market has increased competition for sales resulting in pricing pressure on the majority of our products. We continue to address this price-competitive environment by managing our costs and continuing to shift our revenue mix toward higher margin opportunities. Service gross margin increased 720 basis points in the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009 due to efficiencies in our service delivery model.

Operating expenses decreased 24% to $61.4 million for the first quarter of fiscal 2010 from $81.0 million in the prior year. A 32% decrease in sales and marketing expenses comprised the majority of the $19.6 million operating expense reduction. We have reduced our overall sales and marketing expenditures to reflect our product portfolio and go-to-market partners through a variety of cost-reduction initiatives. These sales and marketing expense decreases were primarily due to reduced salaries and benefits from decreased headcount as a result of restructuring actions. In addition, general and administrative expenses decreased $7.5 million, or 34%, while research and development expenses decreased $2.5 million, or 13%, compared to the first quarter of fiscal 2009. Partially offsetting these decreases were increased restructuring charges primarily due to consolidating facilities. We have focused on improving our profitability by exiting certain lower margin OEM and entry-level markets, reducing both the associated cost of sales and operating expenses to support the business while investing strategically to advance our disk-based backup systems, software solutions and enterprise and midrange tape automation platforms.

Interest expense decreased $3.1 million in the first quarter of fiscal 2010 compared to the first quarter of the prior year primarily due to principal payments on our CS credit agreement term loan over the past year. During the first quarter of fiscal 2010, we refinanced $87.2 million of aggregate principal of our convertible subordinated debt (the notes) through a tender offer in exchange for $850 per $1,000 principal amount, or $74.1 million. In connection with settlement of the notes tendered, we recorded a gain on debt extinguishment, net of costs, of $11.3 million during the first quarter of fiscal 2010.

The combination of increased gross margin percentage, decreased operating expenses, decreased interest expense and the net gain on debt extinguishment resulted in net income of $5.0 million for the first quarter of fiscal 2010 compared to a net loss of $14.3 million for the first quarter of fiscal 2009. In addition, we generated $33.3 million of cash flow from operations in the first quarter of fiscal 2010 compared to $25.5 million of cash flow from operations in the first quarter of fiscal 2009.

For the second quarter of fiscal 2010, we anticipate total revenue between $160 million and $170 million, a small improvement in gross margin and slightly higher operating expenses than the first quarter of fiscal 2010. We expect this combination to result in similar to slightly increased operating income in the second quarter of fiscal 2010 compared to the first quarter of fiscal 2010.

RESULTS OF OPERATIONS

Revenue

(In thousands)	Three Months Ended June 30, 2009	% of revenue	June 30, 2008	% of revenue	Change	% Change
Product revenue	$ 105,224	65.6%	$ 157,584	71.1%	$ (52,360)	(33.2)%
Service revenue	38,902	24.3%	42,257	19.0%	(3,355)	(7.9)%
Royalty revenue	16,214	10.1%	21,950	9.9%	(5,736)	(26.1)%
Total revenue	$ 160,340	100.0%	$ 221,791	100.0%	$ (61,451)	(27.7)%

Total revenue decreased in the first quarter of fiscal 2010 primarily reflecting a significantly weaker economy reducing demand for products and a continued sales mix shift decreasing revenues from certain lower margin OEM and entry-level products compared to the first quarter of fiscal 2009. Although North America branded revenue showed sequential improvement this quarter, we expect economic conditions to remain slow in the second quarter of fiscal 2010 and anticipate total revenue for the upcoming quarter to be relatively similar to, or slightly higher than, the first quarter of fiscal 2010. We believe our greatest opportunities for revenue growth in the second quarter of fiscal 2010 will be in disk-based backup systems and software solutions as our new products and features gain traction in the market.

<u>Product Revenue</u>

Our product revenue, which includes sales of our hardware and software products sold through both our Quantum branded and OEM channels, decreased $52.4 million for the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009, primarily due to decreased sales of our branded products. Sales of products to our OEM customers also decreased as expected in the first quarter of fiscal 2010 compared to the prior year.

(In thousands)	Three Months Ended June 30, 2009	% of revenue	June 30, 2008	% of revenue	Change	% Change
Disk-based backup systems and software solutions	$ 16,840	10.5%	$ 18,208	8.2%	$ (1,368)	(7.5)%
Tape automation systems	61,144	38.1%	85,684	38.6%	(24,540)	(28.6)%
Devices and non-royalty media	27,240	17.0%	53,692	24.2%	(26,452)	(49.3)%
Total revenue	$ 105,224	65.6%	$ 157,584	71.1%	$ (52,360)	(33.2)%

Percentage columns may not add due to rounding.

We have focused on growing the higher margin areas of our business. In response to the challenging economic environment, shifting our revenue mix to higher margin areas of our business, such as disk-based backup systems and software solutions, is a high priority. Revenue from disk-based backup systems and software solutions decreased $1.4 million in the first quarter of fiscal 2010 to $16.8 million compared to the first quarter of fiscal 2009. This decrease was primarily due to reduced sales of our DXi-series disk-based products, mostly offset by increased OEM software license revenue. Although revenue decreased in the first quarter of fiscal 2010 compared to fiscal 2009, disk-based backup systems and software solutions comprised a greater proportion of both product revenue and total revenue. We expect increases in our disk-based backup systems and software solutions revenue in the future from several newly released disk-based backup systems and upgrades as they gain traction in the market.

Although North America had approximately the same branded tape automation revenue in the first quarter of fiscal 2010 as the first quarter of fiscal 2009, tape automation systems revenue decreased largely due to weakness in the worldwide economy, especially in Europe. We increased the proportion of branded tape automation systems revenue to OEM tape automation systems revenue and also increased the proportion of enterprise and mid-range tape automation product revenues in the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009. Tape automation systems revenue for the quarter decreased $24.5 million to $61.1 million, with over half of the decline due to reduced sales of OEM products, especially our entry-level products. Branded tape automation systems revenue declines were also primarily from decreased sales of entry-level products.

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Product revenue from devices, which includes tape drives and removable hard drives, and non-royalty media sales declined $26.5 million to $27.2 million compared to the first quarter of fiscal 2009, primarily due to anticipated decreases in sales of older technology devices that are nearing end of life in both the branded channels and with our OEM customers. We continue to be strategic in media sales opportunities and have not pursued media revenues that do not provide sufficient margins. Media revenue decreases were consistent with our expectations and were 40% lower than the first quarter of fiscal 2009.

<u>Service Revenue</u>

Service revenue includes revenue from sales of hardware service contracts, product repair, installation and professional services. Sales of hardware service contracts are typically purchased by our customers to extend the warranty or to provide faster service response time, or both. Service revenue decreased $3.4 million compared to the first quarter of the prior year, largely due to decreased OEM product repair services and to a lesser extent reduced hardware service contract revenues from our OEM customers. Service revenue from our branded products increased slightly in the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009.

We have noticed several recent changes in customer trends in the first quarter of fiscal 2010 that are reducing service revenues, including customers renewing their service contracts for shorter periods than the typical annual period, choosing lower cost and less stringent response time service levels and waiting longer periods after a contract lapses to renew. It appears these trends are in response to the slow economy and reduced IT budgets. We expect service revenue to be slightly lower in the second quarter of fiscal 2010 due to these trends.

Royalty Revenue

Tape media royalties decreased $5.7 million in the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009 primarily due to lower media unit sales sold by media licensees. Royalties from maturing DLT media decreased more than royalties related to LTO media compared to the first quarter of fiscal 2009. For the first quarter in several periods, LTO media royalties showed sequential growth. In the second quarter of fiscal 2010, we expect LTO royalties will continue to increase modestly and DLT royalties will further decline resulting in similar to slightly higher media royalties than the first quarter of fiscal 2010.

Gross Margin

	Three Months Ended					
(In thousands)	**June 30, 2009**	**Gross margin %**	**June 30, 2008**	**Gross margin %**	**Change**	**% Change**
Product gross margin	$ 33,138	31.5%	$ 42,581	27.0%	(9,443)	(22.2)%
Service gross margin	12,291	31.6%	10,308	24.4%	1,983	19.2%
Royalty gross margin	16,214	100.0%	21,950	100.0%	(5,736)	(26.1)%
Gross margin	$ 61,643	38.4%	$ 74,839	33.7%	$ (13,196)	(17.6)%

The 470 basis point increase in gross margin percentage during the three months ended June 30, 2009 compared to the prior year was largely due to a shift in our revenue mix toward higher margin revenues and cost reductions. We emphasized sales of our disk-based backup systems and software solutions as well as enterprise and mid-range branded products. Gross margins were also favorably impacted by cost-saving initiatives implemented in the current quarter and prior periods. We had a higher proportion of our product sales through branded channels compared to the first quarter of fiscal 2009. Branded sales comprised 71% of non-royalty revenue for the first quarter of fiscal 2010 compared to 66% for the first quarter of fiscal 2009. Sales of branded products typically generate higher gross margins than sales to our OEM customers. In the second quarter of fiscal 2010, we expect gross margin to be approximately the same to slightly higher than the first quarter of fiscal 2010.

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Product Margin

Our product gross margin dollars decreased $9.4 million, or 22%, primarily due to decreased product revenue in the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009. The product gross margin rate increased 450 basis points largely due to the combination of a shift in our revenue mix and improvements in our manufacturing cost structure. Product gross margin rate was favorably impacted by our shift in sales mix toward higher margin disk-based systems and software solutions as well as an increased proportion of enterprise and mid-range branded products. Cost cutting measures and manufacturing efficiencies implemented during the quarter and in the prior fiscal year also contributed to improved product gross margins compared to the first quarter of fiscal 2009.

Service Margin

Service gross margin dollars increased $2.0 million, or 19%, primarily due to cost reductions in our service delivery model compared to the prior year. Service gross margin percentage increased 720 basis points in the first quarter of fiscal 2010 despite decreased service revenues. Efficiencies in our service delivery model that contributed to the increased service gross margin percentage included streamlining processes, consolidating service inventory locations, reducing headcount, decreasing third party external service providers and freight vendors.

Research and Development Expenses

	Three Months Ended					
(In thousands)	**June 30, 2009**	**% of revenue**	**June 30, 2008**	**% of revenue**	**Change**	**% Change**
Research and development	$ 16,532	10.3%	$ 18,990	8.6%	$ (2,458)	(12.9)%

Research and development expenses decreased $2.5 million in the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009 primarily due to $1.5 million in reduced salaries and benefits from decreased headcount as a result of restructuring actions in the prior year. We also had a $0.4 million a decrease in depreciation due to research and development assets becoming fully depreciated during the prior fiscal year.

Sales and Marketing Expenses

	Three Months Ended					
(In thousands)	**June 30, 2009**	**% of revenue**	**June 30, 2008**	**% of revenue**	**Change**	**% Change**
Sales and marketing	$ 27,293	17.0%	$ 40,037	18.1%	$ (12,744)	(31.8)%

The $12.7 million decrease in sales and marketing expense for the three months ended June 30, 2009 was primarily due to a $6.8 million decrease in salaries and benefits as a result of reduction in force initiated in fiscal 2009. Cost-savings initiatives implemented company-wide also led to other sales and marketing expense decreases. The largest of these decreases were reduced travel expenses of $1.6 million and $0.9 million in trade show expenses. We also had a $0.7 million decrease in intangible amortization due to certain sales and marketing intangible assets becoming fully amortized in the prior year.

General and Administrative Expenses

	Three Months Ended					
(In thousands)	**June 30, 2009**	**% of revenue**	**June 30, 2008**	**% of revenue**	**Change**	**% Change**
General and administrative	$ 14,505	9.0%	$ 22,025	9.9%	$ (7,520)	(34.1)%

The $7.5 million decrease in general and administrative expenses for the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009 was partially due to a $2.7 million reduction in legal expenses. In fiscal 2009 we had significant legal expenses associated with patent infringement lawsuits that were not repeated in fiscal 2010. Cost savings initiatives commencing in fiscal 2009 and continuing through the first quarter of fiscal 2010 were drivers of decreases across all general and administrative activities, the most significant included a $1.4 million decrease in salaries and benefits as a result of a reduction in force initiated in fiscal 2009 and a $0.7 million decrease for external service providers.

Restructuring Charges (Benefit)

	Three Months Ended					
(In thousands)	**June 30, 2009**	**% of revenue**	**June 30, 2008**	**% of revenue**	**Change**	**% Change**
Restructuring charges (benefit)	$ 3,110	1.9%	(50)	—%	3,160	n/m

During the first quarter of fiscal 2010, we vacated a facility in Irvine, California and accrued $2.7 million for the remaining contractual lease payments of this facility. We incurred $0.2 million in facility restructuring expenses to consolidate operations from the vacated facility into other locations during the first quarter of fiscal 2010. For additional information, refer to Note 10 “Restructuring Charges.” Until we achieve sustained profitability, we may incur additional charges in the future related to further cost reduction steps.

Interest Income and Other, Net

	Three Months Ended					
(In thousands)	**June 30, 2009**	**% of revenue**	**June 30, 2008**	**% of revenue**	**Change**	**% Change**
Interest income and other, net	$ 4	—%	$ 1,482	0.7%	$ (1,478)	(99.7)%

The $1.5 million decrease in interest income and other, net for the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009 was primarily due to the change in market value of our interest rate hedge compared to the prior year and to a lesser extent decreased interest income. Interest income decreased largely due to lower average balances of interest-earning assets and lower market interest rates in the first quarter of fiscal 2010 than the first quarter of fiscal 2009.

Interest Expense

(In thousands)	Three Months Ended					
	June 30, 2009	% of revenue	June 30, 2008	% of revenue	Change	% Change
Interest expense	$ 5,651	3.5%	$ 8,775	4.0%	$ (3,124)	(35.6)%

Interest expense decreased $3.1 million compared to the first quarter of fiscal 2009 primarily due to reducing our outstanding term debt balance under the CS credit agreement and to a lesser extent decreased market interest rates. During the first quarter of fiscal 2010, the weighted average balance outstanding on the CS credit agreement term loan was $217.3 million compared to $339.5 million for the first quarter of fiscal 2009, a 36% decrease. Although we reduced total debt by refinancing $87.2 million of our convertible subordinated debt during the current quarter, the impact to interest expense compared to the first quarter of fiscal 2009 was not significant since the transaction occurred late in this quarter and the replacement debt is at a higher interest rate.

Interest expense includes the amortization of debt issuance costs for debt facilities and prepayment fees. We also incurred $0.5 million in prepayment fees in the first quarter of fiscal 2009. For further information, refer to Note 8 Convertible Subordinated Debt and Long-Term Debt and Note 9 Derivatives.

Gain on Debt Extinguishment, Net of Costs

(In thousands)	Three Months Ended					
	June 30, 2009	% of revenue	June 30, 2008	% of revenue	Change	% Change
Gain on debt extinguishment, net of costs	$ 11,290	7.0%	$	%	$ 11,290	n/m

During the first quarter of fiscal 2010, we refinanced $87.2 million aggregate principal amount of our convertible subordinated debt at $850 per $1,000 through a tender offer. In connection with this transaction, we recorded a gain on debt extinguishment, net of costs, of $11.3 million comprised of the gross gain of $13.1 million from the notes tendered, reduced by $1.4 million in expenses and $0.4 million of unamortized debt costs related to the tendered notes.

Income Taxes

(In thousands)	Three Months Ended					
	June 30, 2009	% of pre-tax income	June 30, 2008	% of pre-tax loss	Change	% Change
Income tax provision	$ 838	14.3%	$ 882	(6.6)%	$ (44)	(5.0)%

Income tax provision for the first quarter of fiscal 2010 and 2009 was $0.8 million and $0.9 million, respectively. Tax expense for both the first quarter of fiscal 2010 and 2009 reflects expenses for foreign income taxes and state taxes.

We have provided a full valuation allowance against our U.S. net deferred tax assets due to our history of net losses, difficulty in predicting future results and our conclusion that we cannot rely on projections of future taxable income to realize the deferred tax assets.

Significant management judgment is required in determining our deferred tax assets and liabilities and valuation allowances for purposes of assessing our ability to realize any future benefit from our net deferred tax assets. We intend to maintain this valuation allowance until sufficient positive evidence exists to support a reversal or decrease in this allowance. Future income tax expense will be reduced to the extent that we have sufficient positive evidence to support a reversal of, or decrease in, our valuation allowance.

Amortization of Intangible Assets

The following table details intangible asset amortization expense within our Condensed Consolidated Statements of Operations (in thousands):

	Three Months Ended		
	June 30, 2009	June 30, 2008	Change
Cost of revenue	$ 5,475	$ 6,918	$ (1,443)
Research and development	100	100	—
Sales and marketing	3,394	4,131	(737)
General and administrative	25	25	—
	$ 8,994	$ 11,174	$ (2,180)

The decrease in intangible asset amortization for the first quarter of fiscal 2010 was due to purchased technology, trademark and customer list intangible assets that became fully amortized after the first quarter of fiscal 2009 as well as a tax adjustment made in the fourth quarter of fiscal 2009. For further information regarding amortizable intangible assets, refer to Note 6 “Goodwill and Intangible Assets.”

Share-based Compensation

The following table summarizes share-based compensation within our Condensed Consolidated Statements of Operations (in thousands):

	Three Months Ended		
	June 30, 2009	June 30, 2008	Change
Share-based compensation:			
Cost of revenue	$ 300	$ 355	$ (55)
Research and development	638	765	(127)
Sales and marketing	458	741	(283)
General and administrative	742	833	(91)
	$ 2,138	$ 2,694	$ (556)

The decrease in share-based compensation for the first quarter of fiscal 2010 was primarily due to cancellation of rights to purchase shares under our Purchase Plan. The Board of Directors suspended the Purchase Plan in the fourth quarter of fiscal 2009 until our stock price is sufficiently above $1.00 per share. Our stock price has not increased to a level sufficient to reinstate the Purchase Plan.

LIQUIDITY AND CAPITAL RESOURCES

Following is a summary of cash flows from operating, investing and financing activities (in thousands):

	Three Months Ended	
	June 30, 2009	June 30, 2008
Net income (loss)	$ 5,008	$ (14,438)

Net cash provided by operating activities	$ 33,336	$ 25,514
Net cash used in investing activities	(1,916)	(1,704)
Net cash used in financing activities	(40,810)	(49,967)

Three Months Ended June 30, 2009

The $28.3 million difference between reported net income and cash provided by operating activities during the three months ended June 30, 2009 was primarily due a $19.3 million reduction in accounts receivable, a $5.7 million increase in accounts payable, a $5.1 million increase in deferred revenue and $5.1 million in non-cash items. The decrease in accounts receivable was primarily due to lower sales and strong collections during the first quarter of fiscal 2010. The increase in accounts payable was primarily due to timing of purchases and payments. Deferred revenue increases were attributable to prepaid license fees under an OEM agreement partially offset by lower service contract volumes. Non-cash items included amortization, depreciation, service parts lower of cost or market adjustment and share-based compensation partially offset by a gain on debt extinguishment.

Cash used in investing activities reflects $1.9 million of equipment purchases during the three months ended June 30, 2009. Equipment purchases were primarily for engineering and IT equipment to support product development activities and leasehold improvements for a facility.

Cash used in financing activities during the first three months of fiscal 2010 was primarily due to repaying $40.5 million of the CS credit agreement term debt. We refinanced a portion of our convertible subordinated notes during the quarter, and repayments of these notes were offset by borrowings of long-term debt, net, under the initial EMC loan agreement.

Three Months Ended June 30, 2008

The difference between reported net loss and cash provided by operating activities during the three months ended June 30, 2008 was primarily due a $33.5 million reduction in accounts receivable and $23.4 million in non-cash items such as depreciation, amortization, service parts lower of cost or market adjustment and share-based compensation. The decrease in accounts receivable was primarily due to lower sales and strong collections during the first quarter of fiscal 2009. Partially offsetting these items were uses of cash in operations from a $10.3 million decrease in accounts payable and a $5.0 million increase in manufacturing inventories. Accounts payable decreased due to timing of payments to vendors and lower expenses. Manufacturing inventories increased primarily due to ramping for production of the DXi7500 released during the quarter and lower than anticipated shipments in the last days of the quarter.

Cash used in investing activities reflects $1.7 million of equipment purchases during the three months ended June 30, 2008. Equipment purchases were primarily the result of maintaining our day to day business operations infrastructure and included voice communication system upgrades and hardware and software to equip our consolidated data center.

Cash used in financing activities during the first three months of fiscal 2009 was primarily due to a $50.0 million repayment of the CS credit agreement term debt.

Capital Resources and Financial Condition

We have made progress in reducing operating costs, and we will continue to focus on improving our operating performance, including increasing revenue in higher margin areas of the business and continuing to improve margins in an effort to return to consistent profitability and to generate positive cash flows from operating activities. We believe that our existing cash and capital resources will be sufficient to meet all currently planned expenditures, debt repayments, contractual obligations and sustain operations for at least the next 12 months. This belief is dependent upon our ability to maintain revenue and gross margin around current projections and to continue to control operating expenses in order to continue to provide positive cash flow from operating activities. This belief also assumes we will not be forced to make any additional significant cash payments or otherwise be impacted by limitations on available cash associated with our existing credit facilities. Should any of the above assumptions prove incorrect, either in combination or individually, it would likely have a material negative effect on our cash balances and capital resources.

Under the terms of our senior secured credit agreement (“CS credit agreement”), in order to avoid an acceleration of the maturity date of amounts borrowed under our CS credit agreement, we are required to refinance at least $135.0 million of our outstanding 4.375% convertible subordinated notes (the “notes”) by February 1, 2010. We initiated a tender offer on March 27, 2009 to refinance a majority of the outstanding notes. The tender offer closed June 3, 2009 with $87.2 million of aggregate principal amount of the notes tendered for a purchase price of $74.1 million, with $72.8 million outstanding following the tender offer.

We funded the payment of the notes tendered with proceeds from a term loan drawn on the June 3, 2009 term loan agreement with EMC International Company (“initial EMC loan agreement”). On June 5, 2009, we borrowed $75.4 million, of which $74.1 million was used to purchase the notes tendered and $1.3 million was used for payment of accrued and unpaid interest on the notes tendered.

On June 26, 2009, we entered into a private transaction with a noteholder to purchase $50.7 million of aggregate principal amount of notes for $48.2 million. On June 29, 2009, we entered into a separate term loan agreement with EMC International Company (“subsequent EMC loan agreement”) for up to $49.6 million to fund this refinancing transaction. On July 1, 2009 we borrowed $46.3 million under the subsequent loan agreement, with the Tranche A Term Loan comprising $24.6 million borrowed and the Tranche B Term Loan comprising $21.7 million borrowed. As of July 1, 2009, we have refinanced $137.9 million of aggregate principal of the notes and are no longer at risk of acceleration of the maturity date of the CS credit agreement term loan related to the refinancing requirement of the notes.

We made a principal prepayment of $40.0 million on the CS credit agreement term loan on April 22, 2009 in conjunction with an amendment to our CS credit agreement (the “Amendment”). We funded the $40.0 million in principal prepayments with $20.0 million of our cash on hand and $20.0 million from prepaid license fees under an OEM agreement. Once we have refinanced a total of $135.0 million aggregate principal amount of the notes, under the Amendment we are required to prepay another $20.0 million of principal on our CS agreement term loan. We made this $20.0 million principal prepayment on July 6, 2009, which was funded from additional prepaid license fees under an OEM agreement.

Under the CS credit agreement we have the ability to borrow up to $50 million under a senior secured revolving credit facility which expires July 12, 2012. As of June 30, 2009, we have letters of credit totaling $1.5 million, reducing the amounts available to borrow on the revolver to $48.5 million. Quarterly, we are required to pay a 0.5% commitment fee on undrawn amounts under the revolving credit facility.

Our outstanding term debt under the CS credit agreement was $207.5 million at June 30, 2009. This loan matures on July 12, 2014 and has a variable interest rate. The interest rate on the term loan was 4.10% at June 30, 2009. We are required to make quarterly interest and principal payments on the term loan. The revolving credit facility and term loan under the CS credit agreement are secured by a blanket lien on all of our assets.

Under the terms of the CS credit agreement, we are required to hedge floating interest rate exposure on 50% of our funded debt balance through December 31, 2009. We have an interest rate collar instrument that fixes the interest rate on $100.0 million of our variable rate term loan between a three month LIBOR rate floor of 2.68% and a cap of 5.25% through December 2009.

As noted above, we have term loans under the initial EMC credit agreement and the subsequent EMC credit agreement. These loans have similar terms, including a 12.0% fixed interest rate. We are required to make quarterly interest payments on these loans.

The convertible subordinated notes carry a 4.375% interest rate which is payable semi-annually. For additional information regarding the terms of our debt and derivative instruments, refer to Note 8 “Convertible Subordinated Debt and Long-term Debt” and Note 9 “Derivatives.”

Generation of positive cash flow from operating activities has historically been and will continue to be an important source of our cash to fund operating needs and meet our current and long-term obligations. In addition, we believe generation of positive cash flow from operating activities has provided us with improved financing capacity. We have taken many actions to offset the negative impact of the recent economic downturn and continued competition within the backup, archive and recovery market. We cannot provide assurance that the actions we have taken in the past or any actions we may take in the future will ensure a consistent, sustainable and sufficient level of net income and positive cash flow from operating activities to fund, sustain or grow our businesses. Certain events that are beyond our control, including prevailing economic, competitive and industry conditions, as well as various legal and other disputes, may prevent us from achieving these financial objectives. Any inability to achieve consistent and sustainable net income and cash flow could result in:

(i) Restrictions on our ability to manage or fund our existing operations, which could result in a material and adverse effect on our future results of operations and financial condition.

(ii) Unwillingness on the part of one or more of our lenders that provide our credit facilities to do any of the following:

- Provide a waiver or amendment for any covenant violations we may experience in future periods, thereby triggering a default under, or termination of, the revolving credit line and term loans, or
- Approve any other amendments to a credit facility we may seek to obtain in the future.

Any lack of renewal, waiver, or amendment, if needed, could result in the revolving credit line and term loans becoming unavailable to us and any amounts outstanding becoming immediately due and payable. In the case of our borrowings at July 6, 2009, this would mean $309.2 million could become immediately payable.

(iii) Further impairment of our financial flexibility, which could require us to raise additional funding in the capital markets sooner than we otherwise would, and on terms less favorable to us, if available at all.

Any of the above mentioned items, individually or in combination, would have a material and adverse effect on our results of operations, available cash and cash flows, financial condition, access to capital and liquidity.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

Our discussion and analysis of the financial condition and results of operations is based on the accompanying Condensed Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. 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. 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 accounting policies requiring our most difficult, subjective or complex judgments because of the need to make estimates about the effect of matters that are inherently uncertain are unchanged and have been disclosed in our Annual Report on Form 10-K for the year ended March 31, 2009 filed with the Securities and Exchange Commission on June 30, 2009.

RECENT ACCOUNTING PRONOUNCEMENTS

There have not been any recent accounting pronouncements issued that we expect will materially impact our results of operations or financial condition.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Market Interest Rate Risk

Our outstanding convertible subordinated notes and our initial EMC loan agreement have fixed interest rates, thus a hypothetical 100 basis point increase in interest rates would not impact interest expense on these borrowings. Changes in interest rates affect interest income earned on our cash equivalents and interest expense on our term debt under the CS credit agreement. Changes in interest rates also affect interest expense if interest rates are not within the floor and cap on our interest rate collar.

Our cash equivalents consisted solely of money market funds during the three months ended June 30, 2009. A hypothetical 100 basis point decrease in interest rates would have resulted in an approximate $0.1 million decrease in interest income for the three months ended June 30, 2009.

Interest accrues on our CS term loan at our option, based on either, a prime rate plus a margin of 2.5%, or a three month LIBOR rate plus a margin of 3.5%. Under the terms of our CS credit agreement, we are required to hedge floating interest rate exposure on 50% of our funded debt balance beginning December 31, 2007 through December 31, 2009. We have an interest rate collar that fixes the interest rate on $100.0 million of our variable rate term loan between a three month LIBOR rate floor of 2.68% and a cap of 5.25% through December 2009.

The following table shows the total impact to interest expense from a hypothetical 100 basis point increase and decrease in interest rates (in thousands):

	Three months ended June 30, 2009	
	Hypothetical 100 basis point increase in interest rates	**Hypothetical 100 basis point decrease in interest rates**
Interest expense increase (decrease) on CS term debt	$ 542	$ (542)
Interest expense increase (decrease) from collars	(254)	244
Net interest expense increase (decrease)	$ 288	$ (298)

Foreign Currency Exchange Rate Risk

As a multinational corporation, we are exposed to changes in foreign exchange rates. The assets and liabilities of many of our non-U.S. subsidiaries have functional currencies other than the U.S. dollar and are translated into U.S. dollars at exchange rates in effect at the balance sheet date. Income and expense items are translated at the average exchange rates prevailing during the period. A 10% depreciation of the U.S. dollar would have resulted in an approximately $0.2 million decrease in income before income taxes for the three months ended June 30, 2009. Such a change would have resulted from applying a different exchange rate to translate and revalue the financial statements of our subsidiaries with a functional currency other than the U.S. dollar**.**

ITEM 4. CONTROLS AND PROCEDURES

(a) *Evaluation of disclosure controls and procedures*. Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

(b) *Changes in internal control over financial reporting.* There was no change in our internal control over financial reporting that occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

QUANTUM CORPORATION
PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 1A. RISK FACTORS

THE READER SHOULD CAREFULLY CONSIDER THE RISKS DESCRIBED BELOW, TOGETHER WITH ALL OF THE OTHER INFORMATION INCLUDED IN THIS QUARTERLY REPORT ON FORM 10-Q, 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 QUARTERLY REPORT ON FORM 10-Q CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. PLEASE SEE MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR ADDITIONAL DISCUSSION OF THESE FORWARD-LOOKING STATEMENTS.

We rely on indirect sales channels to market and sell our branded products. Therefore, the loss of or deterioration in our relationship with one or more of our resellers or distributors could negatively affect our operating results.

We sell the majority of our branded products to value-added resellers, or VARs, and to direct marketing resellers such as CDW Corporation, who in turn sell our products to end-users, and to distributors such as Ingram Micro, Inc., Bell Microproducts, Inc. and others. We also have a relationship with EMC through which we make available our branded products that complement EMCs product offerings. The success of these sales channels is hard to predict, particularly over time, and we have no purchase commitments or long-term orders from them that assure us of any baseline sales through these channels. Several of our resellers carry competing product lines that they may promote over our products. A reseller might not continue to purchase our products or market them effectively, and each reseller determines the type and amount of our products that it will purchase from us and the pricing of the products that it sells to end-user customers.

Certain of our contracts with our distributors contain most favored nation pricing provisions mandating that we offer our products to these customers at the lowest price offered to other similarly situated customers. In addition, sales of our enterprise-class libraries, and the revenue associated with the on-site service of those libraries, are somewhat concentrated in specific customers, including government agencies and government-related companies. Our operating results could be adversely affected by any number of factors including:

- A change in competitive strategy that adversely affects a resellers willingness or ability to distribute our products;
- The reduction, delay or cancellation of orders or the return of a significant amount of products;
- The loss of one or more of such resellers; or
- Any financial difficulties of such resellers that result in their inability to pay amounts owed to us.

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 our new DXi-Series product offerings and next generation StorNext software. 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 new products in the timeframe we are forecasting;

- We will not experience technical, quality, performance-related or other difficulties that could prevent or delay the introduction and market acceptance of new products;
- Our new products will achieve market acceptance and significant market share, or that the markets for these products will continue or grow as we have anticipated;
- Our new products will be successfully or timely qualified with our customers by meeting customer performance and quality specifications which 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 not successful in timely completion of our new product qualifications and then ramping sales to our key customers, our revenue and results of operations could be adversely impacted. In addition, if the quality of our products is not acceptable to our customers, this could result in customer dissatisfaction, lost revenue and increased warranty and repair costs.

Competition has increased and evolved, and may increasingly intensify, in the tape and disk-based storage products markets as a result of competitors introducing products based on new technology standards, and merger and acquisition activity, which could materially and adversely affect our business, financial condition and results of operations.

Our disk-based backup systems compete with product offerings of EMC, Hewlett Packard Co. (HP), International Business Machines (IBM) and NetApp, Inc. A number of our competitors also license technology from competing start-up companies such as FalconStor Software, Inc. and Sepaton Inc. These competitors are aggressively trying to advance and develop new technologies and products to compete against our technologies and products and we face the risk that customers could choose competitor products over ours due to these features and technologies. Competition in the disk-based backup systems market, including deduplication and replication technologies, is characterized by technological innovation and advancement. As a result of competition and new technology standards, our sales or gross margins for disk-based backup systems could decline, which could materially and adversely affect our business, financial condition and results of operations.

Our tape automation products compete with product offerings of Dell Inc. (Dell), EMC, IBM and Sun Microsystems, Inc. (Sun). Increased competition has resulted in decreased prices for entry-level tape automation products; however, due to our mix of entry-level, midrange and enterprise tape automation systems, our average unit prices and material margins have remained relatively consistent. Increased competition has also resulted in more product offerings by our competitors that incorporate new features and technologies. We face risks that customers could choose competitor products over ours due to these features and technologies. If competition further intensifies, or if industry consolidation occurs, our sales and gross margins for tape automation systems could decline, which could materially and adversely affect our business, financial condition and results of operations.

Our tape drive business competes with companies that develop, manufacture, market and sell tape drive and tape automation products. The principal competitors for our tape drive products include HP, IBM and Sun. These competitors are aggressively trying to advance and develop new technologies and products to compete against our technologies and products. This intense competition, and additional factors, such as the possibility of industry consolidation, has resulted in decreased prices of tape drives and increasingly commoditized products. Our response has been to manage our tape drive business at the material margin level and we have chosen not to compete for sales in intense price-based situations. Our focus has shifted to higher margin opportunities in other product lines. Although revenue from tape drives has decreased in recent years, our material margins have remained relatively stable over this period. We face risk of reduced shipments of our tape drive products, and could have reduced margins on these products, which could materially and adversely impact our business, financial condition and results of operations.

Additionally, the competitive landscape continues to change due to merger and acquisition activity in the storage industry, such as the recent purchase of Sun by Oracle Corporation and the acquisition of Data Domain by EMC. Transactions such as these may impact us in a number of ways. For instance, they could result in:

- Smaller competitors having greater resources and becoming more competitive with us;

- Companies that we have not historically competed against entering into one or more of our primary markets and increasing competition in that market(s); and
- Customers that are also competitors becoming more competitive with us and/or reducing their purchase of our products.

These transactions also create uncertainty and disruption in the market, given that it is often unknown whether a pending transaction will be completed, the timing of such a transaction, and its degree of impact. Given these factors and others, such merger and acquisition activity may materially and adversely impact our business, financial condition and results of operations.

We face risks related to the current economic crisis.

The current economic crisis in the U.S. and global financial markets has had and may continue to have a material and adverse impact on our business and our financial condition. Uncertainty about current economic conditions poses a risk as businesses may further reduce or postpone spending in response to tighter credit, negative financial news and declines in income or asset values. In addition, current economic conditions have resulted in the reduced credit worthiness and bankruptcies of certain customers and increased our potential exposure to bad debt. These factors have had a material negative effect on our business and the demand for our products, the initial impact of which was reflected in our results for the second quarter of fiscal 2009. We cannot predict the ultimate severity or length of the current economic crisis or the timing or severity of future economic or industry downturns. In addition, our ability to access the capital markets may be severely restricted at a time when we would like, or need, to do so, which could have an impact on our flexibility to react to changing economic and business conditions. A prolonged recession or further decline in the global economy may continue to materially adversely affect our results of operations and financial condition. For additional information regarding the impact of current economic conditions on our results of operations and financial condition, refer to Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations.

A large percentage of our sales come from a few customers, some of which are also competitors, and these customers generally have no minimum or long-term purchase commitments. The loss of, or a significant reduction in demand from, one or more key customers could materially and adversely affect our business, financial condition and operating results.

Our sales have been and continue to be concentrated among a few customers. Sales to our top five customers in fiscal 2009 represented 42% of total revenue. This sales concentration does not include revenues from sales of our media that our licensees sold to these customers, for which we earn royalty revenue. Furthermore, customers are not obligated to purchase any minimum product volume and our relationships with our customers are terminable at will. As an example, in fiscal 2009, sales to Dell contributed approximately 14% of our revenue, a significant decline from prior years. If we experience a significant decline in revenue from Dell or any of our other large customers, we could be materially and adversely affected. In addition, certain of our large customers are also our competitors, and such customers could decide to reduce or terminate their purchases of our products for competitive reasons. Merger and acquisition activity, such as the recent purchase of Data Domain by EMC could increase the risk that large customers reduce or terminate their purchases of our products.

Many of our tape and disk products are primarily incorporated into larger storage systems or solutions that are marketed and sold to end-users by our large OEM customers as well as our value added resellers, channel partners and other distributors. Because of this, we have limited market access to these end-users, limiting our ability to reach and influence their purchasing decisions. These market conditions further our reliance on these OEM and other large customers. Thus if they were to significantly reduce, cancel or delay their orders with us, our results of operations could be materially and adversely affected.

We derive the majority of our revenue from products incorporating tape technology. If competition from alternative storage technologies continues or increases, our business, financial condition and operating results could be materially and adversely harmed.

We derive the majority of our revenue from products that incorporate some form of tape technology and we expect to continue to derive a majority of our revenue from these products for the foreseeable future. As a result, our future operating results depend in significant part on the continued market acceptance of products employing tape drive technology. Our tape products, including tape drives and automation systems, are increasingly challenged by products using hard disk drive technology, such as VTL, standard disk arrays and NAS. If disk-based backup products gain comparable or superior market acceptance, or their costs decline far more rapidly than tape drive and media costs, the competition resulting from these products would increase as our tape customers migrate toward them.

We are working to address this risk through our own targeted investment in disk-based products and other alternative technologies, but these markets are characterized by rapid innovation, evolving customer demands and strong competition, including competition with several companies who are also significant customers. If we are not successful in our efforts, our business, financial condition and operating results could be materially and adversely affected.

We have significant indebtedness, which has substantial debt service obligations and operating and financial covenants that constrain our ability to operate our business. Unless we are able to generate sufficient cash flows from operations to meet these debt obligations, our business, financial condition and operating results could be materially and adversely affected.

In connection with our acquisition of Advanced Digital Information Corporation in August 2006, we incurred significant indebtedness and increased interest expense obligations. As of June 30, 2009, the total amount outstanding under the CS credit agreement was $207 million. In addition, in connection with our efforts to refinance our convertible subordinated notes, we have incurred additional subordinated long-term debt with EMC International Company that has a higher coupon interest rate. Our level of indebtedness presents significant risks to investors, both in terms of the constraints that it places on our ability to operate our business and because of the possibility that we may not generate sufficient cash to pay the principal of and interest on our indebtedness as it becomes due.

The significance of our substantial debt could have important consequences, such as:

- Requiring us to dedicate a significant portion of our cash flow from operations and other capital resources to debt service, thereby reducing our ability to fund working capital, capital expenditures, research and development and other cash requirements;
- Making it more difficult or impossible for us to make payments on our remaining outstanding convertible subordinated notes or any other indebtedness or obligations;
- Requiring us to refinance our convertible subordinated notes early;
- Increasing our vulnerability to adverse economic and industry conditions;
- Limiting our flexibility in planning for, or reacting to, changes and opportunities in the markets in which we compete, which may place us at a competitive disadvantage; and
- Limiting our ability to incur additional debt on acceptable terms, if at all.

In addition, there is a risk that we may not be able to repay our debt obligations as they become due. We have incurred significant losses since 2001. Our ability to meet our debt service obligations and fund our working capital, capital expenditures, acquisitions, research and development and other general corporate needs will depend upon our ability to generate sufficient cash flow from operations. We cannot provide assurance that we will generate sufficient cash flow from operations to service these debt obligations, or that future borrowings or equity financing will be available to us on commercially reasonable terms, or at all, or available in an amount sufficient to enable us to pay our debt obligations or fund our other liquidity needs. Unless we are able to maintain our cash flows from operations we may not generate sufficient cash flow to service our debt obligations, which would require that we reduce or delay capital expenditures and/or sell assets, thereby affecting our ability to remain competitive and materially and adversely affecting our business. Such a failure to repay our debt obligations when due would also result in default under our loan agreements, which would give our lenders the right to seize all of our assets. Any such inability to meet our debt obligations could therefore have a material and adverse effect on our business, financial condition and results of operations.

Our CS credit agreement contains various covenants that limit our discretion in the operation of our business, which could have a materially adverse effect on our business, financial condition and results of operations.

Our CS credit agreement contains 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;
- 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 credit agreement may be affected by events beyond our control, including prevailing economic, financial and industry conditions. In prior years, we violated certain financial covenants under a prior credit agreement and received waivers or amendments for such violations. 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 CS credit agreement is secured by a pledge of all of our assets. If we were to default under our CS credit agreement 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 CS credit agreement. 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.

Our tape media royalties and OEM software licenses are relatively profitable and can significantly impact total company profitability. If we were to experience a significant decline in royalty or software license revenues, our business, financial condition and operating results could be materially and adversely affected.

Our tape media royalty revenues are dependent on many factors, including the following:

- The size of the installed base of tape drives that use our tape cartridges;
- The performance of our strategic licensing partners, which sell tape media cartridges;
- The relative growth in units of newer tape drive products, since the associated media cartridges typically sell at higher prices than the media cartridges associated with older tape drive products;
- The media consumption habits and rates of end-users;
- The pattern of tape drive retirements; and
- The level of channel inventories.

To the extent that our media royalties depend upon royalty rates and the quantity of media consumed by the installed base of our tape drives, reduced royalty rates, or a reduced installed tape drive base, would result in further reductions in our media royalty revenue. This could materially and adversely affect our business, financial condition, and results of operations.

Our OEM software royalty revenues are also dependent on many factors, including the success of competitive offerings, our ability to execute on our product roadmap with our OEM software licensing partners and the market acceptance of the resulting products. A reduction in our OEM software royalty revenue could materially and adversely affect our business, financial condition and results of operations.

We have taken considerable steps towards reducing our cost structure and may take further cost reduction actions. The steps we have taken and may take in the future may not reduce our cost structure to a level appropriate in relation to our future sales and therefore, these anticipated cost reductions may be insufficient to bring us back to profitability.

In the last several years, we have recorded significant restructuring charges and made cash payments in order to reduce our cost of sales and operating expenses to rationalize our operations following past acquisitions and in response to adverse economic, industry and competitive conditions. We may take future steps to further reduce our operating costs, including those we undertook recently, as described above in Results of Operations within Item 2 Managements Discussion and Analysis. These steps and additional future restructurings in response to rationalization of operations following strategic decisions, adverse changes in our business or industry or future acquisitions may require us to make cash payments that, if large enough, could materially and adversely affect our liquidity. We may be unable to reduce our cost of sales and operating expenses at a rate and to a level consistent with a future potential adverse sales environment, which may adversely affect our business, financial condition and operating results.

We have received notices from the New York Stock Exchange (NYSE) that we did not meet its continued listing requirements. If we are unable to maintain compliance with NYSE rules, our common stock will be delisted from trading on the NYSE, which could materially and adversely impair the liquidity and value of our common stock.

On December 5, 2008, we received notification from the NYSE that we were not in compliance with the NYSEs continued listing standard requiring that companies maintain an average market capitalization of at least $75 million over any thirty day trading period. Under NYSE rules, we have 18 months after the notice to correct this deficiency. Our average trailing thirty day market capitalization rose above the required $75 million threshold in January 2009 and has remained above it since that time. Once our market capitalization remains above $75 million for two consecutive fiscal quarters, under NYSE rules we may petition the NYSE to be reinstated as compliant with respect to the market capitalization requirement.

In addition, on October 27, 2008, we received notification from the NYSE that we were not in compliance with the NYSEs continued listing standard requiring that our common stock trade at a minimum average close price of $1.00 for thirty consecutive trading days. Since that time, we regained compliance with the minimum price requirement, and although the minimum average close of our common stock for thirty consecutive trading days is now again below $1.00 per share, the NYSE has temporarily suspended the minimum price requirement. If the requirement is reinstated and our common stock price remains below $1.00 per share, the NYSE may again send us notice of non-compliance.

If we are unable to maintain compliance with the NYSE listing requirements, our common stock will be delisted from the NYSE. As a result of such a delisting, we would likely have our common stock quoted on the Over-the-Counter Bulletin Board, or the OTC BB, in order to have our common stock continue to be traded on a public market. Securities that trade on the OTC BB generally have less liquidity and greater volatility than securities that trade on the NYSE. Delisting from the NYSE may also preclude us from using certain state securities law exemptions, which could make it more difficult and expensive for us to raise capital in the future and more difficult for us to provide compensation packages sufficient to attract and retain key employees. In addition, because issuers whose securities trade on the OTC BB are not subject to the corporate governance and other standards imposed by the NYSE, our reputation may suffer, which could result in a decrease in the trading price of our shares. The delisting of our common stock from the NYSE would significantly disrupt the ability of investors to trade our common stock and could materially and adversely affect the value and liquidity of our securities.

Economic or other business factors may lead us to further write down the carrying amount of our goodwill or long-lived assets, such as the $339 million goodwill impairment charge taken in the third quarter of fiscal 2009.

We evaluate our goodwill for impairment annually during the fourth quarter of our fiscal year, or more frequently when indicators of impairment are present. Long-lived assets are reviewed for impairment whenever events or circumstances indicate impairment might exist. We continue to monitor relevant market and economic conditions, including the price of our stock, and will perform the appropriate impairment reviews in the future as necessary should conditions deteriorate such that we believe the value of our goodwill could be further impaired or an impairment exists in our long-lived assets. It is possible that conditions may worsen due to economic or other factors that affect our business, resulting in the need to write down the carrying amount of our goodwill or long-lived assets to fair value at the time of such assessment. As a result, our operating results could be materially and adversely affected.

Third party intellectual property 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. While we currently believe the amount of ultimate liability, if any, with respect to any such actions will not materially affect our financial position, results of operations or liquidity, the ultimate outcome of any license discussion or 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 could be materially and adversely affected.

In addition, certain products or technologies acquired or developed by us may include so-called open source software. Open source software is typically licensed for use at no initial charge. Certain open source software licenses, however, require users of the open source software to license to others any software that is based on, incorporates or interacts with, the open source software under the terms of the open source license. Although we endeavor to comply fully with such requirements, third parties could claim that we are required to license larger portions of our software than we believe we are required to license under open source software licenses. If such claims were successful, they could adversely impact our competitive position and financial results by providing our competitors with access to sensitive information that may help them develop competitive products. In addition, our use of open source software may harm our business and subject us to intellectual property claims, litigation or proceedings in the future because:

- Open source license terms may be ambiguous and may subject us to unanticipated obligations regarding our products, technologies and intellectual property;
- Open source software generally cannot be protected under trade secret law; and
- It may be difficult for us to accurately determine the origin of the open source code and whether the open source software infringes, misappropriates or violates third party intellectual property or other rights.

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, any of which could, individually or in the aggregate have a material adverse effect on our business.

A significant portion of our manufacturing and sales operations and supply chain occurs in countries other than the U.S. We also have sales outside the U.S. We utilize contract manufacturers to produce certain of our products and have suppliers for various components, several of which have operations located in foreign countries including China, Indonesia, Japan, Malaysia and Singapore. Because of these operations, we are subject to a number of risks including:

- Shortages in component parts and raw materials;
- Import and export and trade regulation changes that could erode our profit margins or restrict our ability to transport our products;
- The burden and cost of complying with foreign and U.S. laws governing corporate conduct outside the U.S.;
- Adverse movement of foreign currencies against the U.S. dollar (the currency in which our results are reported) and global economic conditions generally;
- Inflexible employee contracts and employment laws that may make it difficult to terminate employees in some foreign countries in the event of business downturns;
- Potential restrictions on the transfer of funds between countries;
- Political, military, social, and infrastructure risks, especially in emerging or developing economies;
- Import and export duties and value-added taxes; and
- Natural disasters, including earthquakes, typhoons and tsunamis.

Any or all of these risks could have a material adverse effect on our business.

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:

- Failure to complete shipments in the last month of a quarter during which a substantial portion of our products are typically shipped;
- Customers canceling, reducing, deferring or rescheduling significant orders as a result of excess inventory levels, weak economic conditions or other factors;
- Declines in royalty revenues;
- Product development and ramp cycles and product performance or quality issues;
- Poor execution of and performance against expected sales and marketing plans and strategies;
- Reduced demand from our OEM customers; and
- 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.

If our products fail to meet our or our customers specifications for quality and reliability, our results of operations may be adversely impacted and our competitive position may suffer.

Although we place great emphasis on product quality, we may from time to time experience problems with the performance of our products, which could result in one or more of the following:

- Increased costs related to fulfillment of our warranty obligations;
- The reduction, delay or cancellation of orders or the return of a significant amount of products;
- Focused failure analysis causing distraction of the sales, operations, and management teams; or
- The loss of reputation in the market and customer goodwill.

These factors could cause our business, financial condition and results of operations to be materially and adversely harmed.

If we do not successfully manage the changes that we have made and may continue to make to our infrastructure and management, our business could be disrupted, and that could adversely impact our results of operations and financial condition.

Managing change is an important focus for us. Over the last several quarters, we have managed through several significant initiatives involving our sales and marketing, engineering and operations organizations, aimed at increasing our efficiency and better aligning these groups with our corporate strategy. In addition, we continue to reduce headcount to streamline and consolidate our supporting functions as appropriate following past acquisitions and in response to market or competitive conditions. If we are unable to successfully manage the changes that we implement, and detect and address issues as they arise, it could disrupt our business and adversely impact our 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. As of March 31, 2009, we held 514 U.S. patents and had 143 U.S. 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, customers, potential customers and others as required, 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. Enforcing our intellectual property rights can sometimes only be accomplished through the use of litigation, such as in the recent litigation with Riverbed Technology, Inc. settled in the second quarter of fiscal 2009. 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 U.S.

Because we may order components from suppliers in advance of receipt of customer orders for our products which include these components, we could face a material inventory risk.

Although we use third parties to manufacture certain of our products, we also manufacture products in-house. Managing our in-house manufacturing capabilities presents a number of risks that could materially and adversely affect our financial condition. For instance, as part of our component planning, we place orders with or pay certain suppliers for components in advance of receipt of customer orders. We occasionally enter into negotiated orders with vendors early in the manufacturing process of our storage products to ensure that we have sufficient components for our new products to meet anticipated customer demand. Because the design and manufacturing process for these components is complicated, it is possible that we could experience a design or manufacturing flaw that could delay or even prevent the production of the components for which we previously committed to pay. We also face the risk of ordering too many components, or conversely, not enough components, since supply orders are generally based on forecasts of customer orders rather than actual customer orders. In addition, in some cases, we make non-cancelable order commitments to our suppliers for work-in-progress, supplier's finished goods, custom sub-assemblies, discontinued (end-of-life) components and Quantum-unique raw materials that are necessary to meet our lead times for finished goods. If we cannot change or be released from supply orders, we could incur costs from the purchase of unusable components, either due to a delay in the production of the components or other supplies or as a result of inaccurately predicting supply orders in advance of customer orders. Many of these same risks exist with our third party contract manufacturing partners. Our business and operating results could be materially and adversely affected as a result of these increased costs.

Some of our manufacturing, component production and service repair is outsourced to third party contract manufacturers, component suppliers and service providers. If we cannot obtain products, parts and services from these third parties in a cost effective and timely manner that meets our customers' expectations, this could materially and adversely impact our business, financial condition and results of operations.

Many aspects of our supply chain and operational results are dependent on the performance of third party business partners. We face a number of risks as a result of these relationships, including, among others:

- *Sole source of product supply*
  In many cases, our business partner may be the sole source of supply for the products or parts they manufacture, or the services they provide, for us. Because we are relying on one supplier, we are at greater risk of experiencing shortages, reduced production capacity or other delays in customer deliveries that could result in customer dissatisfaction, lost sales and increased expenses, 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 our business partners for the products they manufacture for us or the services they provide to us. They procure inventory to build our products based upon a forecast of customer demand that we provide. We could be responsible for the financial impact on the contract manufacturer, supplier or service provider of any reduction or product mix shift in the forecast relative to materials that they had already purchased under a prior forecast. Such a variance in forecasted demand could require us to pay them for finished goods in excess of current customer demand or for excess or obsolete inventory and generally incur higher costs. As a result, we could experience reduced gross margins and larger operating losses based on these purchase commitments. With respect to service providers, although we have contracts for most of our third party repair service vendors, the contract period may not be the same as the underlying service contract with our customer. In such cases, we face risks that the third party service provider may increase the cost of

providing services over subsequent periods.

- *Financial condition and stability*
  Our third party business partners may suffer adverse financial or operational results or may be negatively impacted by the current economic climate. Therefore, we may face interruptions in the supply of product components or service as a result of financial instability within our supply chain. We could suffer production downtime or increased costs to procure alternate products or services as a result of the possible inadequate financial condition of one or more of our business partners.
- *Quality and supplier conduct*
  We have limited control over the quality of products and components produced and services provided by our supply chain business partners. Therefore, the quality of the products, parts or services may not be acceptable to our customers and could result in customer dissatisfaction, lost revenue and increased warranty costs. In addition, we have limited control over the manner in which our business partners conduct their business. Therefore, we may face negative consequences or publicity as a result of a third party□s failure to comply with applicable compliance, trade, environmental or employment regulations.

Any or all of these risks could have a material adverse effect on our business. In the past we have successfully transitioned products or component supply from one supplier to another existing supplier of different products, but there is no guarantee of our continued ability to do so.

We do not control licensee sales of tape media cartridges. To the extent that our royalty revenue is dependent on the volumes of cartridges sold by our licensees, should these licensees significantly sell fewer media products, such decreased volumes could lower our royalty revenue, which could materially and adversely affect our business, financial condition, and operating results.

We receive a royalty fee based on tape media cartridges sold by Fujifilm Corporation, Imation Corporation, Hitachi Maxell, Limited, Sony Corporation and TDK Corporation. 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. Our royalty revenue varies depending on the level of sales of the various media cartridge offerings sold by the licensees. If licensees sell significantly fewer tape media cartridges, our royalty revenue would decrease, which could materially and adversely affect or financial condition and operating results.

In addition, lower prices set by licensees could require us to lower our prices on direct sales of tape media cartridges, which could reduce our revenue and margins on these products beyond anticipated decreases. As a result, lower prices on our tape media cartridges could reduce media revenue, which could materially and adversely affect our financial condition and operating results.

Our inability to attract and retain employees could adversely impact our business.

Increased turnover in our employee base or the inability to fill open headcount requisitions due to concerns about our operational performance, capital structure, competition or other factors could impair or delay our ability to realize operational and strategic objectives and cause increased expenses and lost sales opportunities.

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.

Five institutional investors owned approximately 28% of our common stock as of March 31, 2009. If any or all of these investors were to decide to purchase significant additional shares or to sell significant or all of the common shares they currently own, that may cause our stock price to be more volatile. For example, there have been instances in the past where a shareholder with a significant equity position began to sell shares, putting downward pressure on our stock price for the duration of their selling activity. In these situations, selling pressure outweighed buying demand and our stock price declined. This situation has occurred due to our stock price falling below institutional investors□ price thresholds and our volatility increasing beyond investors□ volatility parameters causing even greater sell pressure.

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 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;
- Changes in our capital structure, including issuance of additional debt or equity to the public; and
- Strategic acquisitions.

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

Our design and production processes are subject to safety and environmental regulations which could lead to increased costs, or otherwise adversely affect our business, financial condition and results of operations.

We are subject to a variety of laws and regulations relating to, among other things, the use, storage, discharge and disposal of materials and substances used in our facilities and manufacturing processes as well as the safety of our employees and the public. Directives first introduced in the European Union impose a take back obligation on manufacturers for the financing of the collection, recovery and disposal of electrical and electronic equipment and restrict the use of certain potentially hazardous materials, including lead and some flame retardants, in electronic products and components. Other jurisdictions in the U.S. and internationally have since introduced similar requirements, and we anticipate that future regulations might further restrict allowable materials in our products, require the establishment of additional recycling or take back programs or mandate the measurement and reduction of carbon emissions into the environment. We have implemented procedures and will likely continue to introduce new processes to comply with current and future safety and environmental legislation. However, measures taken now or in the future to comply with such legislation may adversely affect our manufacturing or personnel costs or product sales by requiring us to acquire costly equipment or materials, redesign production processes or to incur other significant expenses in adapting our manufacturing programs or waste disposal and emission management processes. Furthermore, safety or environmental claims or our failure to comply with present or future regulations could result in the assessment of damages or imposition of fines against us, or the suspension of affected operations, which could have an adverse effect on our business, financial condition and results of operations.

We are subject to many laws and regulations, and violation of those requirements could materially and adversely affect our business.

We are subject to numerous U.S. and international laws regarding corporate conduct, fair competition and preventing corruption, including requirements applicable to U.S. government contractors. While we maintain a rigorous corporate ethics and compliance program, we may be subject to increased regulatory scrutiny, significant monetary fines or penalties, suspension of business opportunities or loss of jurisdictional operating rights as a result of any failure to comply with those requirements. In addition, we may be exposed to potential liability resulting from our business partners violation of these requirements. Any of these consequences could materially and adversely impact our business and operating results.

We may be sued by our customers as a result of failures in our products.

We face potential liability for performance problems of our products because our end-users employ our storage technologies for the storage and backup of important data and to satisfy regulatory requirements. Although we maintain technology errors and omissions insurance, our insurance may not cover potential claims of this type or may not be adequate to indemnify us for all liability that may be imposed. Any imposition of liability that is not covered by insurance or is in excess of our insurance coverage could harm our business.

In addition, we could potentially face claims for product liability from our customers if our products cause property damage or bodily injury. Although we maintain general liability insurance, our insurance may not cover potential claims of this type or may not be adequate to indemnify us for all liability that may be imposed. Any imposition of liability that is not covered by insurance or is in excess of our insurance coverage could harm our business.

We must maintain appropriate levels of service parts inventories. If we do not have sufficient service parts inventories, we may experience increased levels of customer dissatisfaction. If we hold excessive service parts inventories, we may incur financial losses.

We maintain levels of service parts inventories to satisfy future warranty obligations and also to earn service revenue by providing enhanced and extended warranty and repair service during and beyond the warranty period. We estimate the required amount of service parts 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 parts inventories to satisfy customer needs and to avoid financial losses from excess service parts inventories. If we are unable to maintain appropriate levels of service parts inventories, our business, financial condition and results of operations may be materially and adversely impacted.

Because 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 relationship with us, this could disrupt the distribution of our products and reduce our revenue, 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, creditworthiness and the ability to successfully manage business relationships with the customers it serves directly. Under our distributor agreements with these companies, each of the distributors determines the type and amount of our products that it will purchase from us and the pricing of the products that it sells to its customers. If the distributor is unable to perform in an acceptable manner, we may be required to reduce the amount of sales of our product to the distributor or terminate the relationship. 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. 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.

From time to time we make acquisitions. The failure to successfully integrate future acquisitions could harm our business, financial condition and operating results.

As a part of our business strategy, we have in the past and may make acquisitions in the future subject to certain debt covenants. We may also make significant investments in complementary companies, products or technologies. If we fail to successfully integrate such acquisitions or significant investments, it could harm our business, financial condition and operating results. Risks that we may face in our efforts to integrate any recent or future acquisitions include, among others:

- Failure to realize anticipated savings and benefits from the acquisition;
- Difficulties in assimilating and retaining employees;
- Potential incompatibility of business cultures;
- Coordinating geographically separate organizations;
- Diversion of management's attention from ongoing business concerns;
- Coordinating infrastructure operations in a rapid and efficient manner;
- The potential inability to maximize our financial and strategic position through the successful incorporation of acquired technology and rights into our products and services;
- Failure of acquired technology or products to provide anticipated revenue or margin contribution;
- Insufficient revenues to offset increased expenses associated with the acquisition;
- Costs and delays in implementing or integrating common systems and procedures;
- Reduction or loss of customer orders due to the potential for market confusion, hesitation and delay;
- Impairment of existing customer, supplier and strategic relationships of either company;
- Insufficient cash flows from operations to fund the working capital and investment requirements;

- 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 we may incur losses from these investments;
- Dissatisfaction or performance problems with the acquired company;
- The assumption of risks of the acquired company that are difficult to quantify, such as litigation;
- The cost associated with the acquisition; and
- Assumption of unknown liabilities or other unanticipated adverse events or circumstances.

Acquisitions present many risks, and we may not realize the financial and strategic goals that were contemplated at the time of any transaction. 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.

If the future outcomes related to the estimates used in recording tax liabilities to various taxing authorities result in higher tax liabilities than estimated, then we would have to record tax charges, which could be material.

We have provided amounts and recorded liabilities for probable and estimable tax adjustments that may be proposed by various taxing authorities in the U.S. and foreign jurisdictions. If events occur that indicate payments of these amounts will be less than estimated, then reversals of these liabilities would create tax benefits being recognized in the periods when we determine the liabilities have reduced. Conversely, if events occur which indicate that payments of these amounts will be greater than estimated, then tax charges and additional liabilities would be recorded. In particular, various foreign jurisdictions could challenge the characterization or transfer pricing of certain intercompany transactions. In the event of an unfavorable outcome of such challenge, there exists the possibility of a material tax charge and adverse impact on the results of operations in the period in which the matter is resolved or an unfavorable outcome becomes probable and estimable.

Certain changes in stock ownership could result in a limitation on the amount of net operating loss and tax credit carryovers that can be utilized each year. Should we undergo such a change in stock ownership, it would severely limit the usage of these carryover tax attributes against future income, resulting in additional tax charges, which could be material.

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 currently use derivative financial instruments for foreign currency hedging or speculative purposes. To minimize foreign currency exposure, we use foreign currency obligations to match and offset net currency exposures associated with certain assets and liabilities denominated in non-functional currencies. 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. 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.

ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS

On June 23, 2009, we issued a warrant to EMC Corporation pursuant to a warrant purchase agreement, in the amount and on the terms described in our Current Report on Form 8-K filed with the Securities and Exchange Commission on June 23, 2009.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The Exhibit Index beginning on page 43 of this report is herein incorporated by reference.

SIGNATURE

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

QUANTUM CORPORATION

/s/ JON W. GACEK
Jon W. Gacek
Executive Vice President,
Chief Financial Officer and
Chief Operating Officer

Dated: August 7, 2009

QUANTUM CORPORATION

EXHIBIT INDEX

		Incorporated by Reference			
Exhibit Number	**Exhibit Description**	**Form**	**File No.**	**Exhibit(s)**	**Filing Date**

2.1	Agreement and Plan of Merger by and among Quantum Corporation, Agate Acquisition Corporation and Advanced Digital Information Corporation, dated as of May 2, 2006.	8-K	001-13449	2.1	May 5, 2006
3.1	Amended and Restated Certificate of Incorporation of Registrant.	8-K	001-13449	3.1	August 16, 2007
3.2	Amended and Restated By-laws of Registrant, as amended.	10-K	001-13449	3.2	June 28, 2000
3.3	Certificate of Designation of Rights, Preferences and Privileges of Series B Junior Participating Preferred Stock.	S-3	333-109587	4.7	October 9, 2003
3.4	Certificate of Amendment of Amended and Restated By-laws of Registrant, effective August 23, 2007	8-K	001-13449	3.1	August 29, 2007
4.1	Stockholder Agreement, dated as of October 28, 2002, by and between Registrant and Private Capital Management.	10-Q	001-13449	4.2	November 13, 2002
4.2	Indenture, dated as of July 30, 2003, between Registrant and U.S. Bank National Association, related to the Registrant's convertible debt securities.	S-3	333-109587	4.1	October 9, 2003
10.1	Amendment No. 1, dated as of April 15, 2009, to Senior Secured Credit Agreement dated July 12, 2007, by and among the Registrant, Credit Suisse, as Administrative Agent, and the Lenders thereto.	8-K	001-13449	10.1	April 16, 2009
10.2	Senior Subordinated Term loan Agreement, dated as of June 3, 2009, by and between Quantum Corporation and EMC International Company.	8-K	001-13449	10.1	June 9, 2009
10.3	Warrant Purchase Agreement, dated as of June 3, 2009, by and between Quantum Corporation and EMC Corporation.	8-K	001-13449	10.1	June 9, 2009
10.4	First Amendment to the Warrant Purchase Agreement, dated as of June 17, 2009, by and between Quantum Corporation and EMC Corporation.	8-K	001-13449	10.1	June 23, 2009
10.5	Supplemental Senior Subordinated Term Loan Agreement dated as of June 29, 2009, by and between Quantum Corporation and EMC International Company.	8-K	001-13449	10.1	July 1, 2009
10.6	Note Purchase Agreement, dated as of June 26, 2009, by	8-K	001-13449	10.2	July 1, 2009

	and between Quantum Corporation and Tennenbaum Multi-Strategy Master Fund.				
31.1	Certification of the Chairman and Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.				
31.2	Certification of the Executive Vice President, Chief Financial Officer and Chief Operating Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.				
32.1	Certification of the Chairman and Chief Executive Officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley act of 2002.				

		Incorporated by Reference			
Exhibit Number	**Exhibit Description**	**Form**	**File No.**	**Exhibit(s)**	**Filing Date**
32.2	Certification of the Executive Vice President, Chief Financial Officer and Chief Operating Officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley act of 2002.				

Filed herewith.
Furnished herewith.