QUANTUM CORP /DE/
Form 10-Q
November 06, 2009

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

Form 10-Q

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

For the quarterly period ended September 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 check mark 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 (232.405 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 check mark 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 October 30, 2009, approximately 213.0 million shares of Quantum Corporations common stock were issued and outstanding.

QUANTUM CORPORATION INDEX

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		Six Months Ended	
	September 30, 2009	**September 30, 2008**	**September 30, 2009**	**Septembe 30, 2008**
Product revenue	$ 118,327	$ 143,192	$ 223,551	$ 300,776
Service revenue	39,757	41,579	78,659	83,836
Royalty revenue	16,842	30,619	33,056	52,569
Total revenue	174,926	215,390	335,266	437,181
Cost of product revenue	73,077	99,631	145,163	214,634
Cost of service revenue	25,220	32,884	51,831	64,833
Total cost of revenue	98,297	132,515	196,994	279,467
Gross margin	76,629	82,875	138,272	157,714
Operating expenses:				
Research and development	16,907	18,766	33,439	37,756
Sales and marketing	27,880	38,148	55,173	78,185
General and administrative	15,218	19,820	29,723	41,845
Restructuring charges	1,696	457	4,806	407
	61,701	77,191	123,141	158,193
Income (loss) from operations	14,928	5,684	15,131	(479
Interest income and other, net	1,265	(385)	1,269	1,097
Interest expense	(6,935)	(7,510)	(12,586)	(16,285
Gain on debt extinguishment, net of costs	1,569	—	12,859	
Income (loss) before income taxes	10,827	(2,211)	16,673	(15,667
Income tax provision (benefit)	(528)	1,053	310	1,935
Net income (loss)	$ 11,355	$ (3,264)	$ 16,363	$ (17,602
Net income (loss) per share:				
Basic	$ 0.06	$ (0.01)	$ 0.08	$ (0.08
Diluted	0.04	(0.01)	0.02	(0.08
Income (loss) for purposes of computing net income (loss) per share:				
Basic	$ 11,355	$ (3,264)	16,363	$ (17,602
Diluted	9,792	(3,264)	4,753	(17,602
Weighted average common and common equivalent shares:				
Basic	212,475	208,960	211,372	207,943
Diluted	213,794	208,960	225,752	207,943

See accompanying Notes to Condensed Consolidated Financial Statements.

QUANTUM CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)
(Unaudited)

	September 30,	**M**

	2009
Assets	
Current assets:	
Cash and cash equivalents	$ 84,772
Accounts receivable, net of allowance for doubtful accounts of $786 and $1,999, respectively	106,007
Manufacturing inventories, net	51,069
Service parts inventories, net	57,140
Deferred income taxes	9,917
Other current assets	18,353
Total current assets	327,258
Long-term assets:	
Property and equipment, less accumulated depreciation	25,495
Purchased technology, less accumulated amortization	37,974
Other intangible assets, less accumulated amortization	53,250
Goodwill	46,770
Other long-term assets	10,859
Total long-term assets	174,348
	$ 501,606
Liabilities and Stockholders’ Deficit	
Current liabilities:	
Accounts payable	$ 50,362
Accrued warranty	7,100
Deferred revenue, current	103,538
Current portion of long-term debt	1,884
Current portion of convertible subordinated debt	22,099
Accrued restructuring charges	5,392
Accrued compensation	28,648
Income taxes payable	2,569
Other accrued liabilities	25,599
Total current liabilities	247,191
Long-term liabilities:	
Deferred revenue, long-term	28,096
Deferred income taxes	10,906
Long-term debt	306,841
Convertible subordinated debt	—
Other long-term liabilities	7,122
Total long-term liabilities	352,965
Commitments and contingencies	
Stockholders’ deficit:	
Common stock, $0.01 par value; 1,000,000 shares authorized; 212,964 and 210,231 shares issued and outstanding at September 30, 2009 and March 31, 2009, respectively	2,130
Capital in excess of par value	353,715
Accumulated deficit	(461,400)
Accumulated other comprehensive income	7,005
Stockholders’ deficit	(98,550)
	$ 501,606

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Six Months Ended September 30, 2009	Six Months Ended September 30, 2008
Cash flows from operating activities:		
Net income (loss)	$ 16,363	$ (17,602)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	6,257	8,524
Amortization	19,513	23,333
Service parts lower of cost or market adjustment	4,391	9,068
Gain on debt extinguishment	(15,613)	
Deferred income taxes	(266)	174
Share-based compensation	4,813	5,760
Changes in assets and liabilities:		
Accounts receivable	1,844	34,976
Manufacturing inventories, net	7,937	(7,490)
Service parts inventories, net	3,729	(1,099)
Accounts payable	5,180	(19,973)
Accrued warranty	(4,052)	(4,622)
Deferred revenue	15,473	3,356
Accrued restructuring charges	711	(320)
Accrued compensation	1,314	960
Income taxes payable	(2,183)	(154)
Other assets and liabilities	(690)	(4,312)
Net cash provided by operating activities	64,721	30,579
Cash flows from investing activities:		
Purchases of property and equipment	(3,096)	(3,025)
Net cash used in investing activities	(3,096)	(3,025)
Cash flows from financing activities:		
Borrowings of long-term debt, net	120,042	
Repayments of long-term debt	(60,992)	(90,000)
Repayments of convertible subordinated debt	(122,288)	
Payment of taxes due upon vesting of restricted stock	(928)	(759)
Proceeds from issuance of common stock, net	8	2,739
Net cash used in financing activities	(64,158)	(88,020)
Net decrease in cash and cash equivalents	(2,533)	(60,466)
Cash and cash equivalents at beginning of period	87,305	93,643
Cash and cash equivalents at end of period	$ 84,772	$ 33,177

See accompanying Notes to Condensed Consolidated Financial Statements

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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. We have evaluated subsequent events through November 6, 2009, the issuance date of our September 30, 2009 financial statements. 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.

Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangementsa consensus of the FASB Emerging Issues Task Force* (ASU 2009-13). ASU 2009-13 changes accounting for certain multiple deliverable arrangements. ASU 2009-13 addresses the separation of deliverables and how to measure and allocate the arrangement consideration to one or more units of accounting in multiple deliverable arrangements. Currently, under the residual method of allocation, we use objective and reliable evidence of the fair value of the undelivered elements to separate deliverables in multiple deliverable arrangements. ASU 2009-13 eliminates the residual method and requires that arrangement consideration be allocated to all deliverables using the relative selling price method. ASU 2009-13 requires additional disclosures related to multiple deliverable revenue arrangements upon adoption and is effective for fiscal years beginning after June 15, 2010, or the beginning of our fiscal 2012. In addition, ASU 2009-13 may be early adopted. It may be implemented with either prospective or retrospective application; however, if early adoption is chosen, the entity must either adopt at the beginning of its fiscal year, or adopt using retrospective application. We are currently evaluating the impact ASU 2009-13 will have on our consolidated financial position and results of operations, whether to early adopt and which implementation method to use upon adoption if not prescribed.

In October 2009, the FASB issued ASU 2009-14, *Software (Topic 985): Certain Revenue Arrangements That Include Software Elementsa consensus of the FASB Emerging Issues Task Force* (ASU 2009-14). ASU 2009-14 changes the accounting for revenue arrangements that include both tangible products and software elements. Tangible products containing software components and nonsoftware components that function together to deliver the tangible products essential functionality are no longer within the scope of the software revenue guidance. Under prior guidance such arrangements were accounted for as software if the software was determined to be more than incidental. ASU 2009-14 requires that any hardware components of such arrangements be excluded from software revenue guidance and that any essential software that is sold with or embedded within the product also be excluded from software revenue guidance. ASU 2009-14 notes that its application will likely cause entities to recognize revenue earlier than previously recognized. This ASU is effective for fiscal years beginning after June 15, 2010, or the beginning of our fiscal 2012. In addition, ASU 2009-14 may be early adopted. ASU 2009-14 may be implemented with either prospective or retrospective application; however, if early adoption is chosen, the entity must either adopt at the beginning of its fiscal year, or adopt using retrospective application. Further, ASU 2009-14 must be adopted in the same period and with the same implementation method as ASU 2009-13. We are currently evaluating the impact ASU 2009-14 will have on our consolidated financial position and results of operations, whether to early adopt and which implementation method to use upon adoption if not prescribed.

In August 2009, the FASB issued ASU 2009-05, *Fair Value Measurements and Disclosures (Topic 820)Measuring Liabilities at Fair Value* (ASU 2009-05). ASU 2009-05 clarifies that in circumstances in which a quoted price in an active market for the identical liability is not available, an entity must measure fair value using either the quoted price of the identical liability when traded as an asset, quoted prices for similar liabilities or similar liabilities when traded as assets or another valuation technique consistent with fair value measurements such as an income approach or a market approach. ASU 2009-05 clarifies that no separate input, or adjustment to other inputs, must be made for the existence of a restriction that prevents the transfer of a liability when measuring fair value of a liability. ASU 2009-05 is effective for the first reporting period beginning after August 2009, or our third quarter of fiscal 2010. Adoption of ASU 2009-05 will not have an impact on our consolidated financial position or results of operations, but will require expanded disclosures.

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 September 30, 2009 and March 31, 2009, we held $1.7 and $1.6 million, respectively, of investments in private technology venture limited partnerships that are accounted for under the equity method. We recorded income of $0.1 million for the three and six month periods ended September 30, 2009. This compares to income of $0.2 million and $0.3 million for the three and six months ended September 30, 2008, respectively. 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 $1.2 million and $0.9 million in deferred compensation investments at September 30, 2009 and March 31, 2009, respectively, which are recorded in other current assets on the Condensed Consolidated Balance Sheet. These investments consist of marketable mutual funds. We realized gains of $0.2 million and $0.3 million in the three and six month periods ending September 30, 2009, respectively. This compares to negligible losses for the three and six month periods ending September 30, 2008. These gains and losses 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.

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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 September 30, 2009	**As of March 31, 2009**
Assets:		
Money market funds	$ 76,980	$ 75,350
Deferred compensation investments	1,233	910
Liabilities:		
Deferred compensation liabilities	1,233	910
Derivatives	612	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 September 30, 2009 (in thousands):

	Fair Value Measurements Using Input Levels:			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds	$ —	$ 76,980	$ —	$ 76,980
Deferred compensation investments	—	1,233	—	1,233
Liabilities:				
Deferred compensation liabilities	—	1,233	—	1,233
Derivatives	—	612	—	612

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-financial assets measured at fair value in the three or six months ending September 30, 2009 or 2008. 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 September 30, 2009 and March 31, 2009 were as follows (in thousands):

	As of September 30, 2009		As of March 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Credit Suisse term loan(1)	$ 187,008	$ 166,904	$ 248,000	$ 155,000
EMC term loans(2)	121,717	130,560	—	—
Convertible subordinated notes(3)	22,099	13,480	160,000	108,051

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(1) Fair value based on broker quotes.
(2) Fair value is estimated from publicly traded debt with comparable terms.
(3) Fair value based on quoted market prices.

Note 5: MANUFACTURING AND SERVICE PARTS INVENTORIES, NET

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

	September 30, 2009	March 31, 2009
Manufacturing inventories, net:		
Finished goods	$ 23,364	$ 27,629
Work in process	2,549	3,669
Raw materials and purchased parts	25,156	29,939
	$ 51,069	$ 61,237
Service parts inventories, net:		
Finished goods	$ 33,725	$ 36,422
Component parts	23,415	26,607
	$ 57,140	$ 63,029

Note 6: GOODWILL AND INTANGIBLE ASSETS

As of September 30, 2009 and March 31, 2009, goodwill and intangible assets, net of amortization, were $138.0 million and $156.0 million, respectively, and represented approximately 28% of total assets for both periods. 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 three and six months ending September 30, 2009 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 of our business 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 September 30, 2009			**As of March 31, 2009**		
	Gross Amount	**Accumulated Amortization**	**Net Amount**	**Gross Amount**	**Accumulated Amortization**	**Net Amount**
Purchased technology	$ 188,167	$ (150,193)	$ 37,974	$ 188,167	$ (139,019)	$ 49,148
Trademarks	27,260	(25,101)	2,159	27,260	(24,696)	2,564
Non-compete agreements	500	(318)	182	500	(268)	232
Customer lists	108,219	(57,310)	50,909	108,219	(50,927)	57,292
	$ 324,146	$ (232,922)	$ 91,224	$ 324,146	$ (214,910)	$ 109,236

Total intangible amortization expense was $9.0 million and $18.0 million for the three and six months ended September 30, 2009, respectively, as compared to $11.0 million and $22.1 million for the three and six months ended September 30, 2008, respectively.

Note 7: <u>ACCRUED WARRANTY AND INDEMIFICATIONS</u>

The quarterly and year-to-date changes in the accrued warranty balance were (in thousands):

	Three Months Ended		**Six Months Ended**	
	September 30, 2009	**September 30, 2008**	**September 30, 2009**	**September 30, 2008**
Beginning balance	$ 10,608	$ 18,519	$ 11,152	$ 19,862
Additional warranties issued	2,560	3,548	4,238	8,153
Adjustments for warranties issued in prior fiscal years	(3,188)	(1,432)	(2,273)	(872)
Settlements	(2,880)	(5,395)	(6,017)	(11,903)
Ending balance	$ 7,100	$ 15,240	$ 7,100	$ 15,240

Warranties

We generally warrant our products against defects from three to 36 months. A provision for estimated future costs and estimated returns 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 September 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):

	September 30, 2009		**March 31, 2009**	
Convertible subordinated debt	$	22,099	$	160,000
Credit Suisse term loan		187,008		248,000
EMC term loans		121,717		—
	$	330,824	$	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 shares of Quantum common stock at a conversion price of $4.35 per share. As of September 30, 2009, the notes are included in current liabilities. In prior periods, the notes were included in long-term liabilities in the Condensed Consolidated Balance Sheets.

Tender Offer for Convertible Subordinated Notes

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. This transaction was funded by a loan from EMC International Company described below.

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. We also paid $0.9 million in accrued and unpaid interest on the notes. We funded this transaction with $2.8 million of our own funds and the remaining $46.3 million with loans from EMC International Company, described below. This transaction was completed on July 1, 2009, decreasing the aggregate principal amount of notes outstanding to $22.1 million.

Gain on Debt Extinguishment, Net of Costs

In connection with the private transaction, during the second quarter of fiscal 2010, we recorded a gain on debt extinguishment, net of costs, of $1.6 million comprised of the gross gain of $2.5 million from the notes purchased, reduced by $0.7 million in expenses and $0.2 million of unamortized debt costs related to the purchased notes.

In connection with the tender offer and private transaction, during the first six months of fiscal 2010, we recorded a gain on debt extinguishment, net of costs, of $12.9 million comprised of the gross gain of $15.6 million, reduced by $2.1 million in expenses and $0.6 million of unamortized debt costs related to the refinanced notes.

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 was subject to accelerated maturity on February 1, 2010 if we did 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. We are no longer at risk of acceleration of the maturity date related to this refinancing requirement as a result of the tender offer and private transaction described above. 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 3.78% at September 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 second quarter of fiscal 2010, we made principal payments of $20.5 million on the CS credit agreement including a $20.0 million prepayment related to the April 15, 2009 amendment described below. For the first six months of fiscal 2010, we made principal payments of $61.0 million on the CS credit agreement. For the second quarter of fiscal 2009, we made principal payments of $40.0 million on the CS credit agreement. For the six months ended September 30, 2008, we made principal payments of $90.0 million on the term loan and incurred $0.5 million in prepayment fees.

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 September 30, 2009, we have letters of credit totaling $1.4 million, reducing the amounts available to borrow on the revolver to $48.6 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. We did not borrow from the revolving credit facility during the second quarter or first six months of fiscal 2010. During the second quarter and first six months of fiscal 2009, we drew and repaid $15.0 million from our 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 September 30, 2009, we were in compliance with the debt covenants.

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, we made a prepayment of $40.0 million on the term loan on April 22, 2009. We funded this $40.0 million prepayment with $20.0 million of our cash on hand and $20.0 million from prepaid license fees under an OEM agreement. In addition, we agreed to prepay another $20.0 million of principal on the CS credit agreement upon refinancing a total of $135.0 million aggregate principal amount of the notes. We made this $20.0 million principal prepayment on July 6, 2009, which was funded from additional prepaid license fees under an OEM agreement.

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 have the right 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”) and on July 1, 2009 we borrowed $46.3 million to fund the purchase of additional notes in the private transaction described above. We incurred and capitalized $0.2 million of loan fees related to the subsequent EMC loan agreement which are being amortized to interest expense over the loan term. 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 has 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. 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.

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 second quarter and first six months of fiscal 2010, the three month LIBOR rate was below the floor of Collar 2 and we incurred $0.5 million and $0.9 million in additional interest expense, respectively. During the second quarter and first six months 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 and $0.8 million, respectively, in additional interest expense.

Our interest rate collars did not meet all of the criteria necessary for hedge accounting treatment. We recorded the change in fair market value in other accrued liabilities in the Condensed Consolidated Balance Sheets and in interest income and other, net in the Condensed Consolidated Statements of Operations. We recognized a gain of $0.4 million and $0.6 million for the second quarter and first six months of fiscal 2010, respectively, compared to $0.5 million and $1.8 million in the second quarter and first six months of fiscal 2009, respectively. As of September 30, 2009, the cumulative loss on the interest rate collars was $0.6 million and as of March 31, 2009, the cumulative loss on the interest rate collars was $1.2 million.

	As of September 30, 2009			
	Derivative Assets		**Derivative Liabilities**	
	Location in the Consolidated Statement of Financial Position	**Fair Value**	**Location in the Consolidated Statement of Financial Position**	**Fair Value**
Interest rate collar derivatives	—	$	Other accrued liabilities	$ 612

	Location of Gain Recognized in Income on Derivatives	**Amount of Gain Recognized in Income on Derivatives**	**Location of Gain on Hedged Item**	**Amount of Gain Recognized in Income Attributable to Risk Being Hedged**
	For the three months ended September 30, 2009			
Interest rate collar derivatives	Interest income and other, net	$ 427	—	$ —
	For the six months ended September 30, 2009			
Interest rate collar derivatives	Interest income and other, net	$ 563	—	$ —

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. In fiscal 2009, we also restructured portions of our research and development operations by partnering with a third party on certain research and development efforts. The types of restructuring expense (benefit) for the three and six months ended September 30, 2009 and 2008 were (in thousands):

	Three Months Ended		**Six Months Ended**	
	September 30, 2009	**September 30, 2008**	**September 30, 2009**	**September 30, 2008**
By expense (benefit) type				
Severance and benefits	$ (169)	$ 1,253	$ 158	$ 1,203
Facilities	1,865	(796)	4,847	(796)
Other	—	—	(199)	—
Total	$ 1,696	$ 457	$ 4,806	$ 407
By cost reduction action				
Consolidate operations supporting our business	$ 1,696	$ 44	$ 4,806	$ (6)
Partner with third party on certain research and development efforts	—	413	—	413
Total	$ 1,696	$ 457	$ 4,806	$ 407

Fiscal 2010

We accrued $1.9 million for the remaining contractual lease payments for two facilities in Colorado and one facility in India that were vacated during the second quarter of fiscal 2010. Partially offsetting this restructuring expense was a $0.2 million reversal of severance and benefits charges due to new information related to on-going settlement negotiations with local authorities in Europe.

For the six months ended September 30, 2009, restructuring charges were primarily due to $4.8 million in remaining contractual lease payments for the three facilities vacated during the second quarter of fiscal 2010 and a California facility vacated during the first quarter of fiscal 2010. Severance and benefits restructuring charges for the six months ended September 30, 2009 were due to eliminating additional positions in the U.S. and changes in our estimates in Europe as we received new information related to on-going settlement negotiations with various local authorities. The other restructuring benefits for the six months ended September 30, 2009 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 second quarter of fiscal 2009, severance and benefits expenses were primarily the result of canceling a next-generation tape automation project and to realize additional efficiencies identified as a result of our fiscal 2008 partnership with a third party on certain research and development efforts. We finalized liquidation of a European subsidiary and its related facilities. This liquidation resulted in a $0.8 million reversal of facility restructuring in the second quarter of fiscal 2009, largely offsetting the $1.3 million severance restructuring described above. For the six months ended September 30, 2008 restructuring for severance and benefits also included a reversal primarily due to changes in estimates of severance and benefits payable to impacted employees.

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

Accrued Restructuring

	Three Months Ended September 30, 2009			
	Severance and Benefits	**Facilities**	**Other**	**Total**
Balance as of June 30, 2009	$ 1,306	$ 2,961	$ 400	$ 4,667
Restructuring charges	69	1,865	—	1,934
Reversals	(238)	—	—	(238)
Cash payments	(580)	(396)	—	(976)
Other	5	—	—	5
Balance as of September 30, 2009	$ 562	$ 4,430	$ 400	$ 5,392

	Six Months Ended September 30, 2009			
	Severance and Benefits	**Facilities**	**Other**	**Total**
Balance as of March 31, 2009	$ 3,454	$ 628	$ 599	$ 4,681
Restructuring charges	498	4,847	—	5,345
Reversals	(340)	—	(199)	(539)
Cash payments	(3,086)	(1,045)	—	(4,131)
Other	36	—	—	36
Balance as of September 30, 2009	$ 562	$ 4,430	$ 400	$ 5,392

	Severance and Benefits	**Facilities**	**Other**	**Total**
Estimated timing of future payouts:				
Fiscal 2010	$ 562	$ 896	$ 400	$ 1,858

Fiscal 2011 to 2013	—	3,534	—	3,534
	$ 562	$ 4,430	$ 400	$ 5,392

The $5.4 million restructuring accrual as of September 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 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. and India will be paid over their respective lease terms, which continue through fiscal 2013.

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 14.7 million shares of stock were available for grant as of September 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 September 30, 2009. The Board of Directors suspended the Purchase Plan in the fourth quarter of fiscal 2009 until our stock price has sufficiently increased. As of September 30, 2009, our stock price had not increased to an adequate level 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		Six Months Ended	
	September 30, 2009	**September 30, 2008**	**September 30, 2009**	**September 30, 2008**
Share-based compensation				
Cost of revenue	$ 319	$ 603	$ 619	$ 958
Research and development	582	807	1,220	1,572
Sales and marketing	760	972	1,218	1,713
General and administrative	1,014	684	1,756	1,517
	$ 2,675	$ 3,066	$ 4,813	$ 5,760
Share-based compensation (by type of award)				
Stock options	$ 1,107	$ 783	$ 1,510	$ 1,796
Restricted stock	1,568	1,813	3,303	2,959
Stock purchase plan	—	470	—	1,005
	$ 2,675	$ 3,066	$ 4,813	$ 5,760

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 second quarter and first six months of fiscal 2010 and 2009 were based on estimates at the date of grant as follows:

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Six Months Ended September 30, 2009	Six Months Ended September 30, 2008
Option life (in years)	3.9	4.0	3.9	4.0
Risk-free interest rate	2.07%	3.10%	2.06%	2.79%
Stock price volatility	107.64%	48.27%	107.62%	47.05%
Dividend yield	—	—	—	—
Weighted-average grant date fair value	$ 0.72	$ 0.72	$ 0.72	$ 0.77

Restricted Stock

The fair value of the restricted stock awards granted is the intrinsic value as of the respective grant date since the restricted stock awards are granted at no cost to the employees. The weighted-average grant date fair values of restricted stock awards granted during the second quarter and first six months of fiscal 2010 were $0.98 and $1.06, respectively. The weighted-average grant date fair values of restricted stock awards granted during the second quarter and first six months of fiscal 2009 were $1.40 and $1.43, 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 second quarter or first six months of fiscal 2010. The value of rights to purchase shares granted in the second quarter and first six months of fiscal 2009 respectively, was estimated at the date of the grant. The weighted-average fair values and the assumptions used in calculating fair values during the three and six month periods ended September 30, 2009 and 2008 are as follows:

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Six Months Ended September 30, 2009	Six Months Ended September 30, 2008
Option life (in years)	N/A	0.5	N/A	0.5
Risk-free interest rate	N/A	1.98%	N/A	1.98%
Stock price volatility	N/A	61.57%	N/A	61.57%
Dividend yield	—	—	—	—
Weighted-average grant date fair value	N/A	$ 0.51	N/A	$ 0.51

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 Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding as of March 31, 2009	25,626	$ 3.02		
Granted	9,317	0.99		
Exercised	(7)	1.04		
Forfeited	(131)	13.62		
Expired	(1,269)	3.78		
Outstanding as of September 30, 2009	33,536	$ 2.39	4.43	$ 2,802
Vested and expected to vest at September 30, 2009	31,372	$ 2.48	4.28	$ 2,233

Exercisable as of September 30, 2009	21,177	$	3.00	3.36	$ 122

Restricted Stock

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	1,909	1.06
Vested	(2,685)	1.99
Forfeited	(699)	0.74
Nonvested at September 30, 2009	4,783	$ 1.53

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Note 12: INCOME TAXES

We had an income tax benefit of $0.5 million and income tax expense of $0.3 million for the second quarter and first six months of fiscal 2010, respectively, as compared to income tax expense of $1.1 million and $1.9 million for the second quarter and first six months of fiscal 2009, respectively. The income tax benefit for the second quarter of fiscal 2010 was primarily due to lower foreign income taxes and U.S. tax refunds from amended filings. The tax provision for the first six months of fiscal 2010 as well as the second quarter and first six months of fiscal 2009 were primarily comprised of 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 our valuation allowance until sufficient positive evidence exists to support a reversal or decrease in the 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.

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. Only in the event of a change of control of Quantum will this warrant vest and be exercisable. It 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 if certain license revenue amounts are reached by specific dates. The necessary license revenue amounts are not forecasted to be reached by the specific dates to cause additional warrants to be earned. If additional warrants are earned, they 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		Six Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Net income (loss)	$ 11,355	$ (3,264)	$ 16,363	$ (17,602)
Interest on dilutive notes	6		1,249	
Gain on debt extinguishment, net of costs	(1,569)		(12,859)	
Net income (loss) for purposes of computing net income (loss) per diluted share	$ 9,792	$ (3,264)	$ 4,753	$ (17,602)
Weighted average shares and common share equivalents (CSE):				
Basic	212,475	208,960	211,372	207,943
Dilutive CSE from stock plans	1,193		1,290	
Dilutive CSE from convertible notes	126		13,090	
Diluted	213,794	208,960	225,752	207,943

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Due to the vesting contingency of the warrants, which had not been met as of September 30, 2009, the warrants are excluded from the computation of diluted net income (loss) per share for the second quarter and first six months of fiscal 2010. In addition, the following have been excluded from the periods presented 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. For the second quarter and first six months of fiscal 2010, 5.1 million weighted equivalent shares were excluded. For the second quarter and first six months of fiscal 2009, 36.8 million weighted equivalent shares were excluded.
- For the second quarter and first six months of fiscal 2010, options to purchase 32.9 million and 28.8 million weighted average shares were excluded. For second quarter and first six months of fiscal 2009, options to purchase 26.8 million shares were excluded.
- Unvested restricted stock units for 1.0 million and 1.6 million weighted average shares for the second quarter and first six months of fiscal 2010, respectively, were excluded. Unvested restricted stock units for 6.8 million shares for both the second quarter and first six months of fiscal 2009 were excluded.

Note 14: COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended		Six Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Net income (loss)	$ 11,355	$ (3,264)	$ 16,363	$ (17,602)
Net unrealized gains on revaluation of long-term intercompany balance, net of tax	(139)	(898)	(210)	(1,004)
Foreign currency translation adjustment, net of tax	488	188	1,363	446
Total comprehensive income (loss)	$ 11,704	$ (3,974)	$ 17,516	$ (18,160)

Note 15: LITIGATION

On October 9, 2007, we filed a lawsuit against Riverbed Technology, Inc. (Riverbed) in the U.S. District Court in the Northern District of California, alleging Riverbeds prior and continuing infringement of a patent held by Quantum related to data deduplication technology. On November 13, 2007, Riverbed filed a countersuit against Quantum alleging our infringement of a data deduplication patent held by Riverbed. On September 30, 2008, Quantum and Riverbed settled their mutual patent infringement lawsuits that were pending. The settlement agreement included a mutual covenant not to sue related to the parties data deduplication patents and a one-time $11.0 million payment from Riverbed to Quantum. The mutual covenant not to sue provided for in the settlement agreement operates similarly to a cross license. This $11.0 million was based on prior sales of the parties data deduplication products. In addition, the parties agreed, for a period of three years, not to file any patent infringement lawsuits against the other party. The $11.0 million settlement was recorded in royalty revenue for the second quarter of fiscal 2009.

Note 16: COMMITMENTS AND CONTINGENCIES

We use contract manufacturers for certain manufacturing functions. Under these arrangements, the contract manufacturer procures inventory to manufacture products based upon our forecast of customer demand. We are responsible for the financial impact on the contract manufacturer of any reduction or product mix shift in the forecast relative to materials that the contract manufacturer had already purchased under a prior forecast. Such a variance in forecasted demand could require a cash payment for finished goods in excess of current customer demand or for costs of excess or obsolete inventory. As of September 30, 2009 and March 31, 2009, we had issued non-cancelable purchase commitments for $36.7 million and $48.4 million, respectively, to purchase finished goods from our contract manufacturers in future periods. We also accrued $0.6 million and $0.5 million as of September 30, 2009 and March 31, 2009, respectively, for finished goods in excess of current customer demand or for the costs of excess or obsolete inventory.

Item 2: MANAGEMENTS 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 third quarter and second half 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 managements 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; and (11) 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.

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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. During the second quarter of fiscal 2010, we continued to introduce new products and enhancements to build out our edge-to-core product and solutions portfolio including the esXpress™ backup software module and qualified the DXi7500 with Symantec OpenStorage direct-to-tape capability focused on the midrange NAS segment of the disk backup market. 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. In addition, we recently announced the release of the DXi6500 family, disk-based backup appliances with advanced data deduplication technology targeted to meet the needs of midrange customers. The DXi6500 family consists of five preconfigured appliance models for protecting environments with three to 30 TB of primary data and has been designed to be simple for customers and end users to order, deploy, operate and manage while providing the advantages of data deduplication. The first models of the DXi6500 family will be available in the third quarter of fiscal 2010.

The second quarter of fiscal 2010 was a critical quarter for us given the changes in the deduplication landscape and the ongoing impact of the economic downturn. During the quarter, we made an aggressive shift in our go-to-market focus and our relationship with EMC Corporation (EMC) went through a dramatic change with regard to disk-based backup solutions due to its acquisition of Data Domain, Inc. (Data Domain). We expect software license revenue from EMC will be approximately the same over the next three quarters as it was in the first two quarters of fiscal 2010, with minimal ongoing opportunity with EMC related to deduplication in fiscal 2011. We expect to maintain our relationship with EMC in other markets. The EMC acquisition of Data Domain has created disruption in the distribution channel and with independent software vendors. We intend to capitalize on this changed market landscape and build a revenue stream to complement the traction we have obtained in the enterprise-VTL segment of the market. We believe the DXi6500 family is an ideal offering for the independent channel and will provide us incremental opportunities in a segment of the market where Data Domain has been strong.

There was measurable improvement in the storage purchasing environment during the second quarter of fiscal 2010. In recent quarters it has been difficult for deals to progress through customers’ approval processes, resulting in widespread delays and reduced overall sales. This quarter there continued to be deals that pushed out, but not as many as in recent quarters. It also appeared that channel inventory levels started to increase in order to replenish historically low levels. We saw the most improvement in the enterprise segment of the market, while the midrange continued to suffer from the constrained economic environment.

Our forward momentum of becoming a more systems focused company, building a growth platform in data deduplication and replication and improving and optimizing our core tape business, continued during the quarter. We view our tape automation systems business as a mature segment of storage solutions and have worked to improve our branded sales productivity and decrease our manufacturing cost structure for these products. We continue to manage our tape business in a manner that recognizes the mature nature of tape technology and expect to release products and upgrades that will deliver incremental revenue growth opportunities in the near term. 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.

In the near term, we are focused on three initiatives that complement our key objectives in order to improve our operating results. These are (1) extending our enterprise-VTL leadership position and growing revenues from products that serve enterprise customers, (2) establishing a strong position in the midrange NAS market and (3) developing new OEM and alliance partnerships. We believe executing on these initiatives will enable us to continue to build momentum and a broader revenue base in the fast growing disk-based backup and deduplication market.

As of July 1, 2009, we completed a capital structure solution which addressed the requirement that at least $135.0 million of our convertible subordinated debt (“the notes”) 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 acceleration of the maturity date related to this refinancing requirement. We reduced our overall debt level by $16.2 million related to this capital structure solution. In addition, we made principal payments of $20.5 million on our CS credit agreement term loan during the second quarter of fiscal 2010. We have repaid $309.5 million, or 62%, of our acquisition-related debt since borrowing those funds in August 2006.

Results

During the second quarter of fiscal 2010 economic conditions began to improve; however, we continued to operate in a challenging economic environment. These conditions impacted our revenue results, yet our progress in changing our business model enabled us to show improvements in our gross margin and operating income compared to the prior year. Total revenue for the second quarter of fiscal 2010 decreased 19% to $174.9 million from $215.4 million in the second quarter of fiscal 2009 primarily reflecting a significantly weaker economy, a continued sales mix shift toward higher margin opportunities and lower-than-expected midrange tape automation system revenues. In addition, royalty revenues decreased $13.8 million largely due to a one-time royalty payment of $11.0 million in the second quarter of the prior year. Disk-based backup systems and software solutions increased to 14% of total revenue and 21% of product revenue in the second quarter of fiscal 2010 from 9% of total revenue and 13% of product revenue in the second 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 midrange tape automation product revenues in the second quarter of fiscal 2010 compared to the second quarter of fiscal 2009.

Gross margin and product gross margin increased 530 basis points and 780 basis points, respectively, for the second quarter of fiscal 2010 compared to the second quarter of fiscal 2009 largely due to this shift in our revenue mix and from cost reductions. Branded sales comprised 73% of non-royalty revenue for the second quarter of fiscal 2010 compared to 66% for the second 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. Although decreased demand within the global IT market has increased competition for sales resulting in pricing pressure on the majority of our products, these pressures eased during the second quarter of fiscal 2010. 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 to 36.6% in the second quarter of fiscal 2010 from 20.9% in the second quarter of fiscal 2009 due to efficiencies in our service delivery model and decreased OEM repair activities.

Operating expenses decreased 20% to $61.7 million for the second quarter of fiscal 2010 from $77.2 million in the second quarter of the prior year. A 27% decrease in sales and marketing expenses comprised the majority of the $15.5 million operating expense reduction. We have reduced our overall sales and marketing expenditures through a variety of cost-reduction initiatives to better align with our product portfolio while supporting our go-to-market partners and new product introductions. In addition, general and administrative expenses decreased $4.6 million, or 23%, while research and development expenses decreased $1.9 million, or 10%, compared to the second 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, by reducing manufacturing costs and decreasing operating expenses to support the business while investing strategically to advance our disk-based backup systems, software solutions and tape automation platforms.

Interest expense decreased $0.6 million in the second quarter of fiscal 2010 compared to the second quarter of the prior year primarily due to principal payments on our CS credit agreement term loan over the past year. During the second quarter of fiscal 2010, we refinanced an additional $50.7 million of aggregate principal of our convertible subordinated debt through a private transaction for $950 per $1,000 principal amount, or $48.2 million. In connection with this transaction, we recorded a gain on debt extinguishment, net of costs, of $1.6 million during the second quarter of fiscal 2010.

We had net income of $11.4 million for the second quarter of fiscal 2010 compared to a net loss of $3.3 million for the second quarter of fiscal 2009 primarily due to the combination of increased gross margin percentage and decreased operating expenses. In addition, we generated $64.7 million of cash flow from operations in the first six months of fiscal 2010 compared to $30.6 million in the first six months of fiscal 2009.

We had sequential growth in all revenue areas, including disk-based systems and software solutions revenue that nearly doubled from the first quarter of fiscal 2010, largely due to increased sales of our DXi-Series products. This is the first quarter we have had a sequential revenue increase since the third quarter of fiscal 2008. In addition, we had sequential revenue increases in both branded tape automation systems and OEM tape automation systems for the first time since the third quarter of fiscal 2007. We believe our increased operating income and net income in the second quarter of fiscal 2010 demonstrate the leverage in our business model that results from increasing revenue.

For the third quarter of fiscal 2010, we anticipate total revenue between $175 million and $185 million, a slightly lower gross margin percentage and modestly higher operating expenses compared to the second quarter of fiscal 2010. We expect this combination to result in a similar operating margin in the third quarter of fiscal 2010 compared to the second quarter of fiscal 2010.

RESULTS OF OPERATIONS

Revenue

	Three Months Ended					
(in thousands)	September 30, 2009	% of revenue	September 30, 2008	% of revenue	Change	% Change
Product revenue	$ 118,327	67.6%	$ 143,192	66.5%	$ (24,865)	(17.4)%

Service revenue	39,757	22.8%	41,579	19.3%	(1,822)	(4.4)%
Royalty revenue	16,842	9.6%	30,619	14.2%	(13,777)	(45.0)%
Total revenue	$ 174,926	100.0%	$ 215,390	100.0%	$ (40,464)	(18.8)%

	Six Months Ended					
	September 30, 2009	% of revenue	September 30, 2008	% of revenue	Change	% Change
Product revenue	$ 223,551	66.7%	$ 300,776	68.8%	$ (77,225)	(25.7)%
Service revenue	78,659	23.4%	83,836	19.2%	(5,177)	(6.2)%
Royalty revenue	33,056	9.9%	52,569	12.0%	(19,513)	(37.1)%
Total revenue	$ 335,266	100.0%	$ 437,181	100.0%	$ (101,915)	(23.3)%

Although economic conditions began to improve and technology spending increased during the second quarter of fiscal 2010, the economy was significantly weaker in the second quarter and first six months of fiscal 2010 compared to the second quarter and first six months of fiscal 2009. Total revenue decreased in the second quarter and first six months of fiscal 2010 reflecting the weaker economy that reduced demand for products. In addition, efforts to shift our sales mix continued in the second quarter and first six months of fiscal 2010 as we increased the proportion of revenue from higher margin products and services. We expect economic conditions to continue to improve and anticipate total revenue for the upcoming quarter to be relatively similar to, or somewhat higher than, the second quarter of fiscal 2010. We believe our greatest opportunities for revenue growth in the third quarter of fiscal 2010 will be in disk-based backup systems and software solutions as our new products and solutions become available and newer solutions continue to gain traction in the market.

Product Revenue

Our product revenue, which includes sales of our hardware and software products sold through both our Quantum branded and OEM channels, decreased $24.9 million for the second quarter of fiscal 2010 compared to the second quarter of fiscal 2009 primarily due to anticipated decreases in OEM sales. Product revenue for the first six months of fiscal 2010 decreased $77.2 million compared to the first six months of fiscal 2009 primarily due to decreased sales of our branded products. Sales of products to our OEM customers decreased as expected during the first six months of fiscal 2010 compared to the prior year period.

	Three Months Ended					
(in thousands)	September 30, 2009	% of revenue	September 30, 2008	% of revenue	Change	% Change
Disk-based backup systems and software solutions	$ 25,160	14.4%	$ 18,529	8.6%	$ 6,631	35.8%
Tape automation systems	65,509	37.4%	85,841	39.9%	(20,332)	(23.7)%
Devices and non-royalty media	27,658	15.8%	38,822	18.0%	(11,164)	(28.8)%
Total product revenue	$ 118,327	67.6%	$ 143,192	66.5%	$ (24,865)	(17.4)%

	Six Months Ended					
	September 30, 2009	% of revenue	September 30, 2008	% of revenue	Change	% Change
Disk-based backup systems and software solutions	$ 42,000	12.5%	$ 36,737	8.4%	$ 5,263	14.3%
Tape automation systems	126,653	37.8%	171,525	39.2%	(44,872)	(26.2)%
Devices and non-royalty media	54,898	16.4%	92,514	21.2%	(37,616)	(40.7)%
Total product revenue	$ 223,551	66.7%	$ 300,776	68.8%	$ (77,225)	(25.7)%

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 products, such as disk-based backup systems and software solutions, is a high priority this fiscal year. Revenue from disk-based backup systems and software solutions increased $6.6 million and $5.3 million in the second quarter and first six months of fiscal 2010, respectively, compared to the second quarter and first six months of fiscal 2009, respectively. The increase in the second quarter of fiscal 2010 was primarily due to sales of our DXi7500 products, and we also had modest increases in StorNext® software revenue. The disk-based backup systems and software solutions revenue increase in the first half of fiscal 2010 compared to the prior year was primarily due to OEM software license revenue and to a lesser extent, sales of our DXi7500 products. In addition, revenue from disk-based backup systems and software solutions comprised a greater proportion of both product revenue and total revenue for the second quarter and first six months of fiscal 2010. 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 software solutions products and upgrades as they gain traction in the market.

Although tape automation systems revenue increased sequentially due to improving market conditions and sales efforts, tape automation systems revenue decreased $20.3 million and $44.9 million in the second quarter and first half of fiscal 2010, respectively, compared to the prior year periods, largely due to weakness in the worldwide economy. Tape automation systems revenue decreases for the second quarter of fiscal 2010 compared to the second quarter of fiscal 2009 were primarily due to reduced sales of our branded tape automation products and to a lesser extent reduced sales to OEMs. The decline in branded tape automation products was primarily related to volume decreases in North America across midrange and entry-level products. For the first half of fiscal 2010, over half of the tape automation systems revenue decreases were due to reduced sales of OEM products, with slightly more of the OEM tape automation systems declines in midrange products than entry-level products compared to the first six months of fiscal 2009. We increased the proportion of branded tape automation systems revenue to OEM tape automation systems revenue and also increased the proportion of enterprise and midrange tape automation product revenues in the second quarter and first six months of fiscal 2010 compared to the second quarter and first six months of fiscal 2009.

Product revenue from devices, which includes tape drives and removable hard drives, and non-royalty media sales declined $11.2 million and $37.6 million compared to the second quarter and first six months of fiscal 2009, respectively, primarily due to anticipated decreases in sales of older technology devices that are nearing end of life in both the branded channel 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 approximately 22% and 35% lower than the second quarter and first half of fiscal 2009, respectively.

Service Revenue

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 $1.8 million and $5.2 million in the second quarter and first six months of fiscal 2010, respectively, compared to the prior year periods, primarily due to reduced service revenues from our OEM customers. Service revenue from our branded products increased slightly in the first half of fiscal 2010 compared to the first half of fiscal 2009.

We noticed several changes in customer trends during the first quarter of fiscal 2010 that continued in the second quarter of fiscal 2010 and are reducing service revenues. These include customers renewing their service contracts for shorter periods, choosing lower cost and slower 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.

Royalty Revenue

Media royalties decreased $13.8 million and $19.5 million in the second quarter and first six months of fiscal 2010, respectively, compared to the second quarter and first six months of fiscal 2009 due to a one-time $11.0 million royalty payment in the prior year and lower media units sold by media licensees. Royalties related to LTO media decreased more than royalties from maturing DLT media compared to the second quarter of fiscal 2009. For the first six months of fiscal 2010, royalties from DLT media decreased more than royalties related to LTO media compared to the first six months of fiscal 2009. LTO media royalties had sequential growth in both the first and second quarters of fiscal 2010.

Gross Margin

	Three Months Ended					
(in thousands)	**September 30, 2009**	**Gross margin%**	**September 30, 2008**	**Gross margin%**	**Change**	**% Change**
Product gross margin	$ 45,250	38.2%	$ 43,561	30.4%	$ 1,689	3.9%
Service gross margin	14,537	36.6%	8,695	20.9%	5,842	67.2%
Royalty gross margin	16,842	100.0%	30,619	100.0%	(13,777)	(45.0)%
Gross margin	$ 76,629	43.8%	$ 82,875	38.5%	$ (6,246)	(7.5)%

	Six Months Ended					
	September 30, 2009	**Gross margin%**	**September 30, 2008**	**Gross margin%**	**Change**	**% Change**
Product gross margin	$ 78,388	35.1%	$ 86,142	28.6%	$ (7,754)	(9.0)%
Service gross margin	26,828	34.1%	19,003	22.7%	7,825	41.2%
Royalty gross margin	33,056	100.0%	52,569	100.0%	(19,513)	(37.1)%
Gross margin	$ 138,272	41.2%	$ 157,714	36.1%	$ (19,442)	(12.3)%

The 530 basis point and 510 basis point increases in gross margin percentage for the second quarter and first six months of fiscal 2010, respectively, compared to the prior year periods, were largely due to a shift in our revenue mix toward higher margin revenues and manufacturing cost reductions. We emphasized sales of our disk-based backup systems and software solutions as well as enterprise 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 second quarter and first six months of fiscal 2009. Branded sales comprised 73% and 72% of non-royalty revenue for the second quarter and first six months of fiscal 2010, respectively, compared to 66% for both the second quarter and first six months of fiscal 2009. Sales of branded products typically generate higher gross margins than sales to our OEM customers. We expect our gross margin percentage to be slightly lower in the third quarter of fiscal 2010 than the second quarter of fiscal 2010 due to revenue mix changes.

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Product Margin

Our product gross margin dollars increased $1.7 million, or 4%, and the product gross margin rate increased 780 basis points in the second quarter of fiscal 2010 compared to the second quarter of fiscal 2009. For the first six months of fiscal 2010, gross margin dollars decreased $7.8 million, or 9%, and the product gross margin rate increased 650 basis points compared to the first six months of fiscal 2009. The increased gross margin in the second quarter of fiscal 2010 compared to the second quarter of fiscal 2009 was primarily 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 midrange branded products in both the second quarter and first six months of fiscal 2010 compared to the prior year periods. Cost cutting measures and manufacturing efficiencies implemented during the quarter and in prior quarters also contributed to improved product gross margins compared to the second quarter and first six months of fiscal 2009.

Service Margin

Service gross margin dollars increased $5.8 million and $7.8 million in the second quarter and first six months of fiscal 2010, respectively, primarily due to cost reductions in our service delivery model and reduced OEM repair activities compared to the prior year periods. Service gross margin percentage increased 1,570 basis points and 1,140 basis points in the second quarter and first six months of fiscal 2010, respectively, 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 and decreasing third party external service providers and freight vendors.

Research and Development Expenses

	Three Months Ended					
(in thousands)	September 30, 2009	% of revenue	September 30, 2008	% of revenue	Change	% Change
Research and development	$ 16,907	9.7%	$ 18,766	8.7%	$ (1,859)	(9.9)%

	Six Months Ended					
	September 30, 2009	% of revenue	September 30, 2008	% of revenue	Change	% Change
Research and development	$ 33,439	10.0%	$ 37,756	8.6%	$ (4,317)	(11.4)%

Research and development expenses decreased $1.9 million and $4.3 million in the three and six month periods ended September 30, 2009, respectively, compared to the same periods of the prior year largely due to cost cutting initiatives and efforts to streamline processes that reduced expenses while maintaining research and development activities in strategic areas of our business and developing several new products. Salaries and benefits decreased $1.0 million and $2.5 million during the second quarter and first six months of fiscal 2010, respectively, compared to the second quarter and first six months of fiscal 2009. We had a holiday shutdown in North America during July 2009 that did not occur in the prior year. Project materials decreased $0.6 million and $0.5 million due to less tape automation system development material needs in the second quarter and first six months of fiscal 2010, respectively, compared to the prior year periods. Depreciation expense was $0.3 million and $0.7 million lower than the second quarter and first six months of fiscal 2009, respectively, due to a number of assets supporting our research and development efforts becoming fully depreciated during the past year.

Sales and Marketing Expenses

	Three Months Ended					
(in thousands)	September 30, 2009	% of revenue	September 30, 2008	% of revenue	Change	% Change
Sales and marketing	$ 27,880	15.9%	$ 38,148	17.7%	$ (10,268)	(26.9)%

	Six Months Ended					
	September 30, 2009	% of revenue	September 30, 2008	% of revenue	Change	% Change
Sales and marketing	$ 55,173	16.5%	$ 78,185	17.9%	$ (23,012)	(29.4)%

The $10.3 million and $23.0 million decrease in sales and marketing expense for the second quarter and first six months of fiscal 2010, respectively, compared to the second quarter and first six months of fiscal 2009 was largely the result of reduced salaries and benefits from reduced headcount. Salaries and benefits decreased $5.3 million and $12.2 million for the second quarter and first six months of fiscal 2010, respectively, compared to the same periods of the prior year. In addition, we had a holiday shutdown in North America during July 2009 that did not occur in the prior year.

Cost-savings initiatives implemented company-wide also led to other sales and marketing expense decreases. The largest of these decreases were $1.8 million in decreased marketing expenses, such as trade show and telemarketing expenses, $1.2 million in decreased travel expenses and $0.4 million in decreased external service provider expenses for the second quarter of fiscal 2010 compared to the second quarter of fiscal 2009. For the first six months of fiscal 2010, we had a $3.7 million decrease in marketing expenses, a $2.8 million decrease in travel expenses and a $0.8 million decrease in external service provider expenses compared to the first six months of fiscal 2009. We also had a $0.7 million and $1.5 million decrease in intangible amortization for the second quarter and first six months of fiscal 2010, respectively, due to certain sales and marketing intangible assets becoming fully amortized in the prior year.

General and Administrative Expenses

	Three Months Ended					
(in thousands)	September 30, 2009	% of revenue	September 30, 2008	% of revenue	Change	% Change
General and administrative	$ 15,218	8.7%	$ 19,820	9.2%	$ (4,602)	(23.2)%

	Six Months Ended					
	September 30, 2009	% of revenue	September 30, 2008	% of revenue	Change	% Change
General and administrative	$ 29,723	8.9%	$ 41,845	9.6%	$ (12,122)	(29.0)%

General and administrative expenses decreased for the second quarter and first six months of fiscal 2010 compared to the second quarter and first six months of fiscal 2009 largely due to significant legal expenses incurred in fiscal 2009 associated with patent infringement lawsuits that were not repeated in fiscal 2010. Legal expenses decreased $2.1 million and $4.8 million in the second quarter and first six months of fiscal 2010, respectively, compared to the second quarter and first six months of fiscal 2009. Cost savings initiatives commencing in fiscal 2009 and continuing through the second quarter of fiscal 2010 were drivers of expense decreases across many general and administrative activities, including a reduction in force initiated in fiscal 2009. Salaries and benefits decreased $0.8 million and $2.2 million for the second quarter and first six months of fiscal 2010, respectively, compared to the same periods of the prior year from reduced headcount. In addition, we had a holiday shutdown in North America during July 2009 that did not occur in the prior year. For the first six months of fiscal 2010, external service provider expense decreased $1.0 million compared to the first six months of fiscal 2009.

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Restructuring Charges

	Three Months Ended					
(in thousands)	September 30, 2009	% of revenue	September 30, 2008	% of revenue	Change	% Change
Restructuring charges	$ 1,696	1.0%	$ 457	0.2%	$ 1,239	271.1%

	Six Months Ended					
	September 30, 2009	% of revenue	September 30, 2008	% of revenue	Change	% Change
Restructuring charges	$ 4,806	1.4%	$ 407	0.1%	$ 4,399	n/m

We accrued $1.9 million for the remaining contractual lease payments for two facilities in Colorado and one facility in India that were vacated during the second quarter of fiscal 2010. Partially offsetting this restructuring charge was a $0.2 million reversal of severance and benefits charges due to new information related to on-going settlement negotiations with various local authorities in Europe. These activities resulted in a $1.2 million increase in restructuring charges compared to the second quarter of fiscal 2009.

Restructuring charges increased $4.4 million for the first six months of fiscal 2010 primarily due to facility restructuring charges for contractual lease payments of four facilities vacated in fiscal 2010. Partially offsetting this increase were reduced severance and benefits restructuring charges due to a reduction in force in the first six months of fiscal 2009 compared to minimal severance and benefits restructuring activities in the first six months 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

(in thousands)	Three Months Ended September 30, 2009	% of revenue	September 30, 2008	% of revenue	Change	% Change
Interest income and other, net	$ 1,265	0.7%	$ (385)	(0.2)%	$ 1,650	n/m

	Six Months Ended September 30, 2009	% of revenue	September 30, 2008	% of revenue	Change	% Change
Interest income and other, net	$ 1,269	0.4%	$ 1,097	0.3%	$ 172	15.7%

The $1.7 million increase in interest income and other, net for the second quarter of fiscal 2010 compared to the second quarter of fiscal 2009 was primarily due to increased foreign exchange gains. We had a net $1.6 million increase in foreign exchange gains and losses due to gains during the second quarter of fiscal 2010 compared to losses in the second quarter of fiscal 2009. The foreign exchange gains in the second quarter of fiscal 2010 were primarily due to the U. S. dollar weakening against the euro and the Australian dollar. The foreign exchange losses in the second quarter of fiscal 2009 were primarily due to the U.S. dollar strengthening against the euro and the Australian dollar.

For the six months ended September 30, 2009, interest income and other, net was relatively unchanged due the net impact of three items. The increase in foreign exchange gains and losses was mostly offset by losses from 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 market interest rates in the first six months of fiscal 2010 than the first six months of fiscal 2009.

Interest Expense

(in thousands)	Three Months Ended September 30, 2009	% of revenue	September 30, 2008	% of revenue	Change	% Change
Interest expense	$ 6,935	4.0%	$ 7,510	3.5%	$ (575)	(7.7)%

	Six Months Ended September 30, 2009	% of revenue	September 30, 2008	% of revenue	Change	% Change
Interest expense	$ 12,586	3.8%	$ 16,285	3.7%	$ (3,699)	(22.7)%

Interest expense decreased $0.6 million and $3.7 million compared to the second quarter and first six months of fiscal 2009, respectively, primarily due to reducing our outstanding term debt balance under the CS credit agreement. Partially offsetting this decrease was relatively higher interest expense for the second quarter and first six months of fiscal 2010 related to the $137.9 million of our convertible subordinated debt refinanced during the first half of fiscal 2010 because the replacement debt carries a higher interest rate. Interest expense includes the amortization of debt issuance costs for debt facilities and prepayment fees. We incurred $0.5 million in prepayment fees in the first half 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 September 30, 2009	% of revenue	September 30, 2008	% of revenue	Change	% Change
Gain on debt extinguishment, net of costs	$ 1,569	0.9%	$ —	—%	$ 1,569	n/m

	Six Months Ended					
	September 30, 2009	% of revenue	September 30, 2008	% of revenue	Change	% Change
Gain on debt extinguishment, net of costs	$ 12,859	3.8%	$ —	—%	$ 12,859	n/m

During the second quarter of fiscal 2010, we refinanced $50.7 million aggregate principal amount of our convertible subordinated debt at $950 per $1,000 through a private transaction. In connection with this transaction, we recorded a gain on debt extinguishment, net of costs, of $1.6 million comprised of the gross gain of $2.5 million from the notes purchased, reduced by $0.7 million in expenses and $0.2 million of unamortized debt costs related to the purchased notes.

During the first six months of fiscal 2010, we refinanced $137.9 million aggregate principal amount of our convertible subordinated debt, consisting of the $50.7 million noted above in the private transaction and $87.2 million through a tender offer. In connection with these transactions, we recorded a gain on debt extinguishment, net of costs, of $12.9 million comprised of the gross gain of $15.6 million, reduced by $2.1 million in expenses and $0.6 million of unamortized debt costs related to the refinanced notes.

Income Taxes

	Three Months Ended					
(in thousands)	September 30, 2009	% of pre-tax income	September 30, 2008	% of pre-tax loss	Change	% Change
Income tax provision (benefit)	$ (528)	(4.9)%	$ 1,053	(47.6)%	$ (1,581)	(150.1)%

	Six Months Ended					
	September 30, 2009	% of pre-tax income	September 30, 2008	% of pre-tax loss	Change	% Change
Income tax provision	$ 310	1.9%	$ 1,935	(12.4)%	$ (1,625)	(84.0)%

The income tax decrease for both the second quarter and first six months of fiscal 2010 compared to the second quarter and first six months of fiscal 2009 was primarily due to lower foreign income taxes and U.S. tax refunds from amended filings. The tax provision in the second quarter and first six months of fiscal 2009 was primarily comprised of foreign income taxes and state taxes.

Amortization of Intangible Assets

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

	Three Months Ended		
	September 30, 2009	September 30, 2008	Change
Cost of revenue	$ 5,499	$ 6,730	$ (1,231)
Research and development	100	100	—
Sales and marketing	3,394	4,117	(723)
General and administrative	25	25	—
	$ 9,018	$ 10,972	$ (1,954)

	Six Months Ended		
	September 30, 2009	September 30, 2008	Change
Cost of revenue	$ 10,974	$ 13,648	$ (2,674)

Research and development	200	200	—
Sales and marketing	6,788	8,248	(1,460)
General and administrative	50	50	—
	$ 18,012	$ 22,146	$ (4,134)

The decrease in intangible asset amortization for the second quarter and first six months 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		
	September 30, 2009	September 30, 2008	Change
Cost of revenue	$ 319	$ 603	$ (284)
Research and development	582	807	(225)
Sales and marketing	760	972	(212)
General and administrative	1,014	684	330
	$ 2,675	$ 3,066	$ (391)

	Six Months Ended		
	September 30, 2009	September 30, 2008	Change
Cost of revenue	$ 619	$ 958	$ (339)
Research and development	1,220	1,572	(352)
Sales and marketing	1,218	1,713	(495)
General and administrative	1,756	1,517	239
	$ 4,813	$ 5,760	$ (947)

The decrease in share-based compensation for the second quarter and first six months 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 has sufficiently increased. As of September 30, 2009, our stock price had not increased to an adequate level to reinstate the Purchase Plan. Partially offsetting the decreases for the second quarter and first six months of fiscal 2010 were increased share-based compensation expenses from a higher number of options granted during the second quarter of fiscal 2010. Management limited cash compensation increases due to the economic recession, choosing to award more stock options. For additional information regarding share-based compensation by type of equity award, refer to Note 11 “Stock Incentive Plans and Share-based Compensation.”

LIQUIDITY AND CAPITAL RESOURCES

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

	Six Months Ended	
	September 30, 2009	September 30, 2008
Net income (loss)	$ 16,363	$ (17,602)
Net cash provided by operating activities	$ 64,721	$ 30,579
Net cash used in investing activities	$ (3,096)	$ (3,025)

Net cash used in financing activities	$	(64,158)	$	(88,020)

Six Months Ended September 30, 2009

The $48.4 million difference between reported net income and cash provided by operating activities during the six months ended September 30, 2009 was due in part to $35.0 million in non-cash expenses, the largest of which were amortization, depreciation and share-based compensation. Non-cash expenses were partially offset by a $15.6 million non-cash gain on debt extinguishment. Cash provided by operating activities was also due to a $15.5 million increase in deferred revenue, a $7.9 million reduction in manufacturing inventories and a $5.2 million increase in accounts payable. Deferred revenue increases were primarily attributable to prepaid license fees under an OEM agreement partially offset by lower service contract volumes. Manufacturing inventories decreased due to planned reductions in inventory levels. The increase in accounts payable was primarily due to lower expenditures and the timing of purchases and payments.

Cash used in investing activities reflects $3.1 million of equipment purchases during the six months ended September 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 six months of fiscal 2010 was primarily due to repaying $61.0 million of the CS credit agreement term debt. We refinanced the majority of our convertible subordinated notes during the first half of fiscal 2010, and repayments of these notes were mostly offset by borrowings of long-term debt, net, under the respective EMC loan agreements.

Six Months Ended September 30, 2008

The $48.2 million difference between net loss and cash provided by operating activities during the six months ended September 30, 2008 was primarily due to $46.9 million in non-cash expenses, the largest of which were amortization, depreciation, service parts lower of cost or market adjustment and share-based compensation. We also had a $35.0 million reduction in accounts receivable which was largely offset by uses of cash in operations including a $20.0 million decrease in accounts payable and a $7.5 million increase in manufacturing inventories. The decrease in accounts receivable was primarily due to lower sales and strong collections during the first six months of fiscal 2009. Accounts payable decreased due to lower expenditures and the timing of payments to vendors. Manufacturing inventories increased primarily due to ramping for production of the DXi7500 released during the first quarter of fiscal 2009 and lower than anticipated shipments in the last days of the quarter.

Cash used in investing activities reflects $3.0 million of equipment purchases during the six months ended September 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 six months of fiscal 2009 was primarily due to repaying $90.0 million 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 maintain or 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 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 were 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.

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. We also paid $0.9 million in accrued and unpaid interest on the notes. We funded this transaction with $2.8 million of our own funds and the remaining $46.3 millions from loans from EMC International Company, described below (“subsequent EMC loan agreement”). This transaction was completed on July 1, 2009, resulting in $137.9 million aggregate principal amount of notes refinanced between the two transactions. We are no longer at risk of acceleration of the maturity date for borrowings under the CS credit agreement related to the convertible debt refinancing requirement.

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 this $40.0 million principal prepayment with $20.0 million of our cash on hand and $20.0 million from prepaid license fees under an OEM agreement. In addition, we agreed to prepay another $20.0 million of principal on the CS credit agreement upon refinancing a total of $135.0 million aggregate principal amount of the notes. 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 $50.0 million under a senior secured revolving credit facility which expires July 12, 2012. As of September 30, 2009, we have letters of credit totaling $1.4 million, reducing the amounts available to borrow on the revolver to $48.6 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 $187.0 million at September 30, 2009. This loan matures on July 12, 2014 and has a variable interest rate. The interest rate on the term loan was 3.78% at September 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 loan agreement and the subsequent EMC loan 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 September 30, 2009, this would mean $308.7 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

See Recent Accounting Pronouncements in Note 3 Significant Accounting Policies; New Accounting Standards to the Consolidated Financial Statements for a full description of recent accounting pronouncements including the respective expected dates of adoption and effects on 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 term loans under the initial EMC loan agreement and the subsequent 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 six months ended September 30, 2009. Interest rates on these funds are under 1.0% and we earned less than $0.1 million in interest income during the first six months of fiscal 2010. A decrease in interest rates would cause an immaterial decrease in interest income.

Interest accrues on our CS credit agreement 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):

	Six months ended September 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	$ 1,017	$ (1,017)
Interest expense increase (decrease) from collar	(514)	388
Net interest expense increase (decrease)	$ 503	$ (629)

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 $0.5 million increase in income before income taxes for the six months ending September 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, as amended, 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

The information contained in Note 15 Litigation to the Condensed Consolidated Financial Statements is incorporated into this Part II, Item 1 by reference.

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. 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 further 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, and a global disruption in the credit markets, which continues to affect consumers and business efforts to obtain credit. 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 September 30, 2009, the total amount outstanding under the CS credit agreement was $187.0 million. In addition, in connection with our efforts to refinance our convertible subordinated notes, we have incurred $121.7 million in 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 off and interest on our indebtedness as it becomes due.

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

- Requiring that we 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 license 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 license 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 consistent 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 "Management's 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.

In the past, we have received notices that we were not in compliance with the NYSEs continued listing standards relating to average stock price and average market capitalization. Though we have regained compliance with these requirements, if our stock price or market capitalization fell again and we were unable to maintain compliance with the NYSE listing requirements, our common stock could 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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

An annual meeting of the stockholders of Quantum was held on August 19, 2009. The following are the proposals voted upon at the meeting, and the number of votes cast for, against or withheld, as well as the number of abstentions for each proposal:

Proposal 1. Proposal to elect nine (9) directors to serve until the next Annual Meeting of Stockholders or until their successors are elected and qualified.

	For	Withheld
Paul R. Auvil III	171,748,911	3,248,234
Richard E. Belluzzo	169,685,448	5,311,697
Michael A. Brown	132,393,173	42,603,972
Thomas S. Buchsbaum	171,783,452	3,213,693
Edward M. Esber Jr.	171,469,197	3,527,948
Elizabeth A. Fetter	171,760,955	3,236,190
Joseph A. Marengi	171,603,818	3,393,327
Bruce A. Pasternack	171,767,556	3,229,589
Dennis P. Wolf	171,845,646	3,151,499

Proposal 2. Proposal to ratify the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm of the Company for the fiscal year ending March 21, 2010.

For: 173,824,694   Against: 838,160   Abstain: 334,290

Proposal 3. Proposal to authorize the Board to select and file an amendment to the Company's certificate of incorporation effecting a reverse stock split, pursuant to which any whole number of outstanding shares of the Company's Common Stock between and including three and twelve would be combined into one share of such stock.

For: 168,493,741   Against: 5,855,949   Abstain: 647,454

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The Exhibit Index beginning on page 48 of this report sets forth a list of exhibits and is hereby 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: November 6, 2009

QUANTUM CORPORATION

EXHIBIT INDEX

		Incorporated by Reference			
Exhibit Number	**Exhibit Description**	**Form**	**File No.**	**Exhibit(s)**	**Filing Date**
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 Registrants convertible debt securities.	S-3	333-109587	4.1	October 9, 2003
10.1	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
10.2	Note Purchase Agreement, dated as of June 26, 2009, by and between Quantum Corporation and Tennenbaum Multi-Strategy Master Fund.	8-K	001-13449	10.2	July 1, 2009
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.				
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.