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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2022

or

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

For the transition period from ___ to ___

Commission File Number 001-13449

Quantum Corporation

(Exact name of registrant as specified in its charter)

Delaware	**94-2665054**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
224 Airport Parkway Suite 550 San Jose CA	**95110**
(Address of Principal Executive Offices)	(Zip Code)

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

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.01 par value per share	QMCO	Nasdaq Global Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised ☐

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

As of the close of business on January 30, 2023, there were 105,214,639 shares of Quantum Corporation’s common stock issued and outstanding.

QUANTUM CORPORATION
QUARTERLY REPORT ON FORM 10-Q
For the Quarter Ended December 31, 2022

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As used in this Quarterly Report on Form 10-Q, the terms "Quantum," "we," "us," and "our" refer to Quantum Corporation and its subsidiaries taken as a whole, unless otherwise noted or unless the context indicates otherwise.

Note Regarding Forward-Looking Statements

This report contains forward-looking statements. All statements contained in this report other than statements of historical fact, including statements regarding COVID-19's anticipated impacts on our business, our future operating results and financial position, our business strategy and plans, our market growth and trends, and our objectives for future operations, are forward-looking statements. The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” “could,” “would,” “project,” “plan,” “potentially,” “preliminary,” “likely,” and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties, and assumptions, including those described under Part II, Item 1A. Moreover, we operate in a competitive and changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the effect of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties, and assumptions, the future events and trends discussed in this report may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. Accordingly, you should not rely on forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, performance, or events and circumstances reflected in the forward-looking statements will be achieved or occur. We do not intend to update any of these forward-looking statements for any reason after the date of this report or to conform these statements to actual results or revised expectations, except as required by law.

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

QUANTUM CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts, unaudited)

	December 31, 2022	March 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 26,028	$ 5,210
Restricted cash	219	283
Accounts receivable, net of allowance for doubtful accounts of $219 and $422	72,911	69,354
Manufacturing inventories	32,402	33,546
Service parts inventories	25,822	24,254
Prepaid expenses	7,198	7,853
Other current assets	7,489	4,697
Total current assets	172,069	145,197
Property and equipment, net	16,794	12,853
Intangible assets, net	6,497	9,584
Goodwill	12,969	12,969
Right-of-use assets, net	10,468	11,107
Other long-term assets	13,600	9,925
Total assets	$ 232,397	$ 201,635
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 41,788	$ 34,220
Deferred revenue	72,669	86,517
Long-term debt, current portion	5,000	4,375
Accrued compensation	15,527	16,141
Other accrued liabilities	15,852	16,562
Total current liabilities	150,836	157,815
Deferred revenue	41,076	41,580
Revolving credit facility	27,736	17,735
Long-term debt, net of current portion	67,306	89,448
Operating lease liabilities	10,346	9,891
Other long-term liabilities	12,150	11,849
Total liabilities	309,450	328,318
Commitments and contingencies (Note 9)		
Stockholders' deficit		
Preferred stock, 20,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $0.01 par value; 225,000 shares authorized; 93,144 and 60,433 shares issued and outstanding	932	605
Additional paid-in capital	719,769	645,038
Accumulated deficit	(795,237)	(770,903)
Accumulated other comprehensive loss	(2,517)	(1,423)
Total stockholders' deficit	(77,053)	(126,683)
Total liabilities and stockholders' deficit	$ 232,397	$ 201,635

See accompanying Notes to Condensed Consolidated Financial Statements.

QUANTUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in thousands, except per share amounts, unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2022	2021	2022	2021
Revenue:				
Product	$ 75,420	$ 58,522	$ 198,597	$ 165,308
Service and subscription	32,950	33,162	99,066	100,352
Royalty	2,826	3,660	9,744	11,963
Total revenue	111,196	95,344	307,407	277,623
Cost of revenue:				
Product	58,528	45,118	163,010	124,982
Service and subscription	12,379	15,016	42,229	41,764
Total cost of revenue	70,907	60,134	205,239	166,746
Gross profit	40,289	35,210	102,168	110,877
Operating expenses:				
Research and development	11,254	14,607	33,925	38,287
Sales and marketing	16,339	16,714	47,894	46,128
General and administrative	10,969	10,538	35,223	33,830
Restructuring charges	(41)	576	1,605	850
Total operating expenses	38,521	42,435	118,647	119,095
Income (loss) from operations	1,768	(7,225)	(16,479)	(8,218)
Other income (expense), net	(544)	(150)	2,638	(223)
Interest expense	(2,701)	(2,431)	(7,537)	(9,387)
Loss on debt extinguishment	—	—	(1,392)	(4,960)
Net loss before income taxes	(1,477)	(9,806)	(22,770)	(22,788)
Income tax provision	693	1,254	1,564	1,678
Net loss	$ (2,170)	$ (11,060)	$ (24,334)	$ (24,466)
Deemed dividend on warrants	—	—	(389)	—
Net loss attributable to common stockholders	$ (2,170)	$ (11,060)	$ (24,723)	$ (24,466)
Net loss per share attributable to common stockholders	$ (0.02)	$ (0.19)	$ (0.28)	$ (0.42)
Weighted average shares - basic and diluted	92,752	59,486	89,335	58,399
Net loss	$ (2,170)	$ (11,060)	$ (24,334)	$ (24,466)
Foreign currency translation adjustments, net	1,480	(37)	(1,094)	(276)
Total comprehensive loss	$ (690)	$ (11,097)	$ (25,428)	$ (24,742)

See accompanying Notes to Condensed Consolidated Financial Statements.

QUANTUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, unaudited)

	Nine Months Ended December 31,	
	2022	2021
Operating activities		
Net loss	$ (24,334)	$ (24,466)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	7,235	6,795
Amortization of debt issuance costs	1,201	1,981
Loss on debt extinguishment	992	—
Provision for product and service inventories	11,334	4,016
Stock-based compensation	8,340	10,580
Paycheck Protection Program loan forgiveness	—	(10,000)
Non-cash loss on debt extinguishment	—	8,471
Other	(2,059)	282
Unrealized foreign exchange loss	(1,134)	—
Changes in assets and liabilities:		
Accounts receivable, net	(3,367)	7,008
Manufacturing inventories	(9,352)	(10,672)
Service parts inventories	(2,671)	(2,281)
Prepaid expenses	654	(5,653)
Accounts payable	7,015	5,369
Accrued restructuring charges	130	17
Accrued compensation	(614)	(3,021)
Deferred revenue	(14,351)	(8,598)
Other current assets	(2,812)	(1,394)
Other non-current assets	1,357	(1,148)
Other current liabilities	2,540	(3,350)
Other non-current liabilities	300	(617)
Net cash used in operating activities	(19,596)	(26,681)
Investing activities		
Purchases of property and equipment	(10,644)	(3,971)
Business acquisition payments	(2,000)	(7,808)
Net cash used in investing activities	(12,644)	(11,779)
Financing activities		
Borrowings of long-term debt, net of debt issuance costs	—	94,961
Repayments of long-term debt and payment of amendment fees	(23,346)	(93,677)
Borrowings of credit facility	363,103	207,563
Repayments of credit facility and payment of amendment fees	(353,502)	(200,007)
Proceeds from issuance of common stock, net	66,718	806
Net cash provided by financing activities	52,973	9,646
Effect of exchange rate changes on cash, cash equivalents and restricted cash	21	12
Net change in cash, cash equivalents and restricted cash	20,754	(28,802)
Cash, cash equivalents, and restricted cash at beginning of period	5,493	33,137
Cash, cash equivalents, and restricted cash at end of period	$ 26,247	$ 4,335
Cash, Cash Equivalents and Restricted Cash at end of period		
Cash and cash equivalents	$ 26,028	$ 4,004
Restricted cash, current	219	331
Cash and cash equivalents at the end of period	$ 26,247	$ 4,335
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 6,270	$ 7,180
Cash paid for income taxes, net	$ 837	$ 541
Non-cash transactions		
Purchases of property and equipment included in accounts payable	$ 1,198	$ 1,148
Transfer of manufacturing inventory to services inventory	$ 2,308	$ 1,212
Transfer of manufacturing inventory to property and equipment	$ 264	$ 382
Paid-in-kind interest	$ 319	$ —
Deemed dividend on warrants	$ 389	$ —

See accompanying Notes to Condensed Consolidated Financial Statements.

QUANTUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
(in thousands, unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income Loss	Total Stockholders' Deficit
	Shares	Amount				
Balance, September 30, 2021	59,272	$ 593	$ 636,538	$ (752,029)	$ (1,095)	$ (115,993)
Net loss	—	—	—	(11,060)	—	(11,060)
Foreign currency translation adjustments, net	—	—	—	—	(37)	(37)
Shares issued under employee stock purchase plan	—	—	—	—	—	—
Shares issued under employee incentive plans, net	183	2	(2)	—	—	—
Shares issued in connection with business acquisition	361	4	(4)	—	—	—
Stock-based compensation	—	—	4,307	—	—	4,307
Balance, December 31, 2021	59,816	$ 599	$ 640,839	$ (763,089)	$ (1,132)	$ (122,783)
Balance, September 30, 2022	92,158	$ 922	$ 716,800	(793,067)	$ (3,997)	$ (79,342)
Net loss	—	—	—	(2,170)	—	(2,170)
Foreign currency translation adjustments, net	—	—	—	—	1,480	1,480
Shares issued under employee stock purchase plan	—	—	—	—	—	—
Shares issued under employee incentive plans, net	625	6	(6)	—	—	—
Shares issued in connection with business acquisition	361	4	(4)	—	—	—
Rights offering expenses	—	—	(2)	—	—	(2)
Stock-based compensation	—	—	2,981	—	—	2,981
Balance, December 31, 2022	93,144	$ 932	$ 719,769	$ (795,237)	$ (2,517)	$ (77,053)

See accompanying Notes to Condensed Consolidated Financial Statements.

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Deficit
	Shares	Amount				
Balance, March 31, 2021	56,915	$ 570	$ 626,664	$ (738,623)	$ (856)	$ (112,245)
Net loss	—	—	—	(24,466)	—	(24,466)
Foreign currency translation adjustments, net	—	—	—	—	(276)	(276)
Shares issued under employee stock purchase plan	145	1	805	—	—	806
Shares issued under employee incentive plans, net	1,935	19	(19)	—	—	—
Shares issued in connection with business acquisition	821	9	2,809	—	—	2,818
Stock-based compensation	—	—	10,580	—	—	10,580
Balance, December 31, 2021	59,816	$ 599	$ 640,839	$ (763,089)	$ (1,132)	$ (122,783)
Balance, March 31, 2022	60,433	$ 605	$ 645,038	$ (770,903)	$ (1,423)	$ (126,683)
Net loss	—	—	—	(24,334)	—	(24,334)
Foreign currency translation adjustments, net	—	—	—	—	(1,094)	(1,094)
Shares issued under employee stock purchase plan	300	3	469	—	—	472
Shares issued under employee incentive plans, net	2,050	20	(20)	—	—	—
Shares issued in connection with business acquisition	361	4	(4)	—	—	—
Shares issued in connection with rights offering, net	30,000	300	65,946	—	—	66,246
Settlement of warrant down round provision	—	—	389	—	—	389
Deemed dividend on warrants	—	—	(389)	—	—	(389)
Stock-based compensation	—	—	8,340	—	—	8,340
Balance, December 31, 2022	93,144	$ 932	$ 719,769	$ (795,237)	$ (2,517)	$ (77,053)

See accompanying Notes to Condensed Consolidated Financial Statements.

INDEX TO NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1: DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Quantum Corporation, together with its consolidated subsidiaries ("Quantum" or the "Company"), is a leader in storing and managing digital video and other forms of unstructured data, delivering top streaming performance for video and rich media applications, along with low-cost, long-term storage systems for data protection and archiving. The Company helps customers around the world capture, create and share digital data and preserve and protect it for decades. The Company's software-defined, hyperconverged storage solutions span from non-violate memory express ("NVMe"), to solid state drives ("SSD") hard disk drives ("HDD") tape, the cloud, and video surveillance and are tied together leveraging a single namespace view of the entire data environment. The Company works closely with a broad network of distributors, value-added resellers ("VARs"), direct marketing resellers ("DMRs"), original equipment manufacturers ("OEMs") and other suppliers to meet customers' evolving needs.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. All intercompany balances and transactions have been eliminated. Certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted. The Company believes the disclosures made are adequate to prevent the information presented from being misleading. However, the accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included within the Company's most recent Annual Report on Form 10-K.

The unaudited consolidated interim financial statements reflect all adjustments, consisting only of normal and recurring items, necessary to present fairly our financial position as of December 31, 2022, the results of operations and comprehensive loss, statements of cash flows, and changes in stockholder's deficit for the three and nine months ended December 31, 2022 and 2021. Interim results are not necessarily indicative of full year performance because of the impact of seasonal and short-term variations.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and accompanying notes. Actual results could differ from these estimates and assumptions due to risks and uncertainties, including uncertainty in the current economic environment from the ongoing COVID-19 pandemic. Such estimates include, but are not limited to, the determination of standalone selling price for revenue arrangements with multiple performance obligations, useful lives of intangible assets and property and equipment, stock-based compensation and provision for income taxes including related reserves. Management bases its estimates on historical experience and on various other assumptions which management believes to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

Recently Issued but not Adopted Accounting Pronouncements

None.

NOTE 2: REVENUE

Based on how the Company manages its business, the Company has determined that it currently operates in one reportable segment. The Company operates in three geographic regions: (a) Americas; (b) Europe, Middle East and Africa ("EMEA"); and (c) Asia Pacific ("APAC"). Revenue by geography is based on the location of the customer from which the revenue is earned.

In the following table, revenue is disaggregated by major product offerings and geographies (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2022	2021	2022	2021
Americas[1]				
Primary storage systems	$ 10,668	$ 8,768	$ 28,921	$ 27,228
Secondary storage systems	35,085	15,060	88,821	43,946
Device and media	4,107	7,737	13,773	19,527
Service and subscription	19,756	19,470	59,319	61,003
Total revenue	69,616	51,035	190,834	151,704
EMEA				
Primary storage systems	2,332	3,305	7,078	10,325
Secondary storage systems	10,096	10,377	25,380	27,856
Device and media	6,029	5,125	14,794	15,018
Service and subscription	10,989	11,606	32,748	33,454
Total revenue	29,446	30,413	80,000	86,653
APAC				
Primary storage systems	974	1,718	3,376	4,234
Secondary storage systems	5,541	5,193	13,651	13,291
Device and media	588	1,239	2,803	3,883
Service and subscription	2,205	2,086	6,999	5,895
Total revenue	9,308	10,236	26,829	27,303
Consolidated				
Primary storage systems	13,974	13,791	39,375	41,787
Secondary storage systems	50,722	30,630	127,852	85,093
Device and media	10,724	14,101	31,370	38,428
Service and subscription	32,950	33,162	99,066	100,352
Royalty[2]	2,826	3,660	9,744	11,963
Total revenue	$ 111,196	$ 95,344	$ 307,407	$ 277,623

[1] Revenue for Americas geographic region outside of the United States is not significant.
[2] Royalty revenue is not allocatable to geographic regions.

Contract Balances

The following table presents the Company's contract liabilities and certain information related to this balance as of and for the nine months ended December 31, 2022 (in thousands):

	December 31, 2022
Contract liabilities (deferred revenue)	$ 113,745
Revenue recognized in the period from amounts included in contract liabilities at the beginning of the period	71,669

Remaining Performance Obligations

Remaining performance obligations consisted of the following (in thousands):

	Current	Non-Current	Total
As of December 31, 2022	$ 105,981	$ 42,645	$ 148,626

The Company's non-current remaining performance obligations are expected to be recognized in the next 13 to 60 months.

NOTE 3: BALANCE SHEET INFORMATION

Certain significant amounts included in the Company's condensed consolidated balance sheets consist of the following (in thousands):

Manufacturing inventories

	December 31, 2022	March 31, 2022
Finished goods	$ 13,639	$ 14,607
Work in progress	2,268	2,546
Raw materials	16,495	16,393
Total manufacturing inventories	$ 32,402	$ 33,546

Service parts inventories

	December 31, 2022	March 31, 2022
Finished goods	$ 21,215	$ 19,234
Component parts	4,607	5,020
Total service parts inventories	$ 25,822	$ 24,254

Intangibles, net

	December 31, 2022			March 31, 2022		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Developed technology	$ 9,013	$ (5,442)	$ 3,571	$ 9,013	$ (2,926)	$ 6,087
Customer lists	4,398	(1,472)	2,926	4,398	(901)	3,497
Intangible assets, net	$ 13,411	$ (6,914)	$ 6,497	$ 13,411	$ (3,827)	$ 9,584

Intangible assets amortization expense was $0.7 million and $1.2 million for the three months ended December 31, 2022 and 2021, respectively and $ 3.1 million and $2.5 million for the nine months ended December 31, 2022 and 2021, respectively. As of December 31, 2022, the remaining weighted-average amortization period for definite-lived intangible assets was approximately 1.8 years.

As of December 31, 2022, the future expected amortization expense for intangible assets is as follows (in thousands):

Fiscal year ending	Estimated future amortization expense	
Remainder of 2023	$	1,147
2024		3,523
2025		1,827
Thereafter		—
Total	$	6,497

Goodwill

As of December 31, 2022 and March 31, 2022, goodwill was $ 13.0 million. There were no impairments to goodwill during the nine months ended December 31, 2022 and 2021.

NOTE 4: LONG-TERM DEBT

The Company's long-term debt consisted of the following (in thousands):

	December 31, 2022		March 31, 2022	
Term Loan	$	75,917	$	98,722
PNC Credit Facility		27,736		17,735
Less: current portion		(5,000)		(4,375)
Less: unamortized debt issuance costs [1]		(3,611)		(4,899)
Long-term debt, net	$	95,042	$	107,183

[1] The unamortized debt issuance costs related to the Term Loan is presented as a reduction of the carrying amount of the corresponding debt balance on the accompanying condensed consolidated balance sheets. Unamortized debt issuance costs related to the PNC Credit Facility are presented within other assets on the accompanying condensed consolidated balance sheets.

On December 27, 2018, the Company entered into a senior secured term loan (the "Senior Secured Term Loan") and amended its existing PNC Bank Credit Facility Agreement (the "PNC Credit Facility"). On February 11, 2021, the Company prepaid $92.3 million of its outstanding Senior Secured Term Loan.

On August 5, 2021, the Company entered into a new senior secured term loan to borrow an aggregate of $ 100.0 million (the "Term Loan"). A portion of the proceeds were used to repay in full all outstanding borrowings under the Senior Secured Term Loan. Borrowings under the Term Loan mature on August 5, 2026. Principal is payable at a rate per annum equal to (a) 2.5% of the original principal balance thereof during the first year following the closing date of the Term Loan and (b) 5% of the original principal balance thereof thereafter. Principal and interest payments are payable on a quarterly basis.

On April 25, 2022, the Company entered into amendments to the Term Loan and the PNC Credit Facility. The Term Loan amendment, among other things, (a) amended the total net leverage ratio financial covenant and the minimum liquidity financial covenant commencing with the fiscal quarter ended June 30, 2022; and; (b) replaced the benchmark rate for LIBOR Rate Loans with a rate based on the Secured Overnight Financing Rate ("SOFR"). The amendment to the Term Loan was accounted for as a modification. The Company incurred $0.4 million in costs related to the modification which are reflected as a reduction to the carrying amount of the Term Loan and amortized to interest expense over the remaining loan term.

Loans under the Term Loan designated as ABR Loans bear interest at a rate per annum equal to the greatest of (i) 1.75%; (ii) the Federal funds rate plus 0.50%; (iii) the SOFR Rate based upon an interest period of one month plus 1.0%; and (iv) the "Prime Rate" last quoted by the Wall Street Journal, plus an applicable margin of 5.00%. Loans designated as SOFR Rate Loans bear interest at a rate per annum equal to the SOFR Rate plus an applicable margin of 6.00%. The SOFR Rate is subject to a floor of 0.75%. The Company can designate a loan as an ABR Rate Loan or SOFR Rate Loan in its discretion.

The PNC Credit Facility amendment, among other things, (a) increased the principal amount of revolving commitments from $ 30.0 million to $40.0 million; (b) waived compliance with the fixed charge coverage ratio financial covenant until the fiscal quarter ended March 31, 2025; (c) amended the total net leverage ratio financial covenant and the minimum liquidity financial covenant commencing with the fiscal quarter ended June 30, 2022; and (d) replaced the benchmark rate for PNC LIBOR Rate Loans with a rate based on SOFR. The amendment to the PNC Credit Facility was accounted for as a modification. The Company incurred $0.4 million in costs which were recorded to other assets and amortized to interest expense over the remaining term of the agreement.

Loans designated as PNC SOFR Loans bear interest at a rate per annum equal to the SOFR Rate plus 2.75% until December 31, 2023 and thereafter between 2.25% and 2.75% determined based on the Company's Total Net Leverage Ratio, (as defined in the PNC Credit Facility Agreement) for the most recently completed fiscal quarter (the "PNC SOFR Loan Interest Rate"). Loans under the PNC Credit Facility designated as PNC Domestic Rate Loans and Swing Loans bear interest at a rate per annum equal to the greatest of (i) the base commercial lending rate of PNC Bank; (ii) the Overnight Bank Funding Rate plus 0.5%; and (iii) the daily SOFR Rate plus 1.0%, plus 1.75% until December 31, 2023 and thereafter between 1.25% and 1.75% determined based on the Company's Total Net Leverage Ratio (the "PNC Domestic Loan Interest Rate").

With respect to any PNC SOFR Rate Loan, the Company has agreed to pay affiliates of certain Term Loan lenders a fee equal to a percentage per annum equal to the sum of (x) 6.50%, minus (y) the PNC SOFR Loan Interest Rate, plus (z) if the SOFR Rate applicable to such interest payment is less than 0.75%, (i) 0.75% minus (ii) such SOFR Rate. With respect to any Domestic Rate Loan or Swing Loan, the Company has agreed to pay an affiliate of certain Term Loan lenders a fee equal to a percentage per annum equal to the sum of (x) 5.50%, minus (y) the PNC Domestic Loan Interest Rate, plus (z) if the Alternative Base Rate applicable to such interest payment is less than 1.00%, (i) 1.00% minus (ii) such Alternative Base Rate.

During the nine months ended December 31, 2022, the Company recorded a loss on debt extinguishment of $ 1.4 million related to a $20.0 million prepayment of the Term Loan which was comprised of a $0.4 million prepayment penalty and the write-off of unamortized debt issuance costs of $ 1.0 million.

As of December 31, 2022, the interest rate on the Term Loan was 9.81% and the interest rate on the PNC Credit Facility for Domestic Rate Loans and Swing Loans was 9.25%. As of December 31, 2022, the PNC Credit Facility had an available borrowing base of $33.4 million, of which $5.7 million was available to borrow at that date.

NOTE 5: LEASES

Supplemental balance sheet information related to leases is as follows (in thousands):

Operating leases	December 31, 2022	March 31, 2022
Operating lease right-of-use asset	$ 10,468	$ 11,107
Other accrued liabilities	1,202	1,727
Operating lease liability	10,346	9,891
Total operating lease liabilities	$ 11,548	$ 11,618

Components of lease cost were as follows (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
Lease Cost	2022	2021	2022	2021
Operating lease cost	$ 994	$ 887	$ 3,023	$ 3,016
Variable lease cost	176	176	513	527
Short-term lease cost	—	13	—	17
Total lease cost	$ 1,170	$ 1,076	$ 3,536	$ 3,560

Maturity of Lease Liabilities		Operating Leases
Remainder of 2023	$	657
2024		2,495
2025		2,185
2026		1,717
2027		1,586
Thereafter		14,696
Total lease payments	$	23,336
Less: imputed interest		(11,788)
Present value of lease liabilities	$	11,548

Lease Term and Discount Rate	December 31, 2022	March 31, 2022
Weighted average remaining operating lease term (years)	11.11	10.88
Weighted average discount rate for operating leases	12.6 %	12.9 %

Operating cash outflows related to operating leases totaled $ 2.4 million and $3.1 million for the nine months ended December 31, 2022 and 2021, respectively.

NOTE 6: COMMON STOCK

In the quarter ended September 30, 2022, the Company's shareholders approved an increase in its authorized shares of common stock from 125 million to 225 million.

On December 30, 2022 the Leadership and Compensation Committee of the Board approved an amendment to the 2021 Inducement Plan to increase the number of shares of common stock of the Company authorized for issuance thereunder from 770,000 to 1.5 million.

Common Stock Rights Offering

On April 22, 2022, the Company completed a rights offering of 30 million shares of its common stock for $2.25 per share (the "Rights Offering"). The proceeds net of offering expenses was $66.0 million. A portion of the proceeds from the Rights Offering was used to prepay $ 20.0 million of the Company's Term Loan.

Warrants

As of the date of the Rights Offering, the Company had outstanding warrants to purchase 7,110,616 shares of the Company's common stock at an exercise price of $1.33 per share and outstanding warrants to purchase 3,400,000 shares of the Company's common stock at an exercise price of $ 3.00 per share (the "$3.00 Warrants"). The exercise price and the number of shares underlying these warrants are subject to adjustment in the event of specified events, including dilutive issuances of common stock linked equity instruments at a price lower than the exercise price of the warrants, a subdivision or combination of the Company's common stock, a reclassification of the Company's common stock or specified dividend payments (the "Down Round Feature").

On April 22, 2022, the Down Round Feature was triggered for the $ 3.00 Warrants due to the price per share received in the Rights Offering. The exercise price for the $3.00 Warrants was adjusted to $2.79 per share and an additional 256,113 warrants were subsequently issued with an exercise price of $ 2.79. The Company calculated the difference between the $3.00 Warrants' fair value before and after the Down Round Feature was triggered using the original exercise price and the new exercise price in addition to the value of the newly issued warrants. The difference in fair value of the effect of the Down Round Feature of $ 0.4 million was reflected as a deemed dividend and a reduction to income available to common stockholders in the basic earnings per share calculation. The Company used the Black-Scholes-Merton option-pricing model to determine the fair value of the deemed dividend. The assumptions used in the model are as follows: dividend rate of 0%; expected term of 8 years; volatility of 56%; and a risk-free rate 2.85%.

As of December 31, 2022, there were approximately 10.8 million warrants outstanding.

NOTE 7: NET LOSS PER SHARE

The following outstanding stock-based instruments which are comprised of performance share units, restricted stock units, and warrants were excluded from the calculation of diluted net loss per share because their effect would have been anti-dilutive (in thousands):

Three Months Ended December 31,		Nine Months Ended December 31,	
2022	2021	2022	2021
5,450	8,802	3,763	9,811

The dilutive impact related to common stock from restricted stock units and warrants is determined by applying the treasury stock method to the assumed vesting of outstanding restricted stock units and the exercise of outstanding warrants. The dilutive impact related to common stock from contingently issuable performance share units is determined by applying a two-step approach using both the contingently issuable share guidance and the treasury stock method.

NOTE 8: INCOME TAXES

The effective tax rate for the three and nine months ended December 31, 2022 was (7.1)% and (6.7)%, respectively, as compared to (12.6)% and (7.3)%, respectively, for the three and nine months ended December 31, 2021. The effective tax rates differed from the federal statutory tax rate of 21% during each of these periods due primarily to unbenefited losses experienced in jurisdictions with valuation allowances on deferred tax assets as well as the forecasted mix of earnings in domestic and international jurisdictions.

As of December 31, 2022, including interest and penalties, the Company had $ 103.0 million of unrecognized tax benefits, $ 84.3 million of which, if recognized, would favorably affect the effective tax rate without consideration of the valuation allowance. As of December 31, 2022, the Company had accrued interest and penalties related to these unrecognized tax benefits of $1.4 million. The Company recognizes interest and penalties related to income tax matters in the income tax provision in the condensed consolidated statements of operations. As of December 31, 2022, $95.0 million of unrecognized tax benefits were recorded as a contra deferred tax asset in other long-term assets in the condensed consolidated balance sheets and $8.0 million (including interest and penalties) were recorded in other long-term liabilities in the condensed consolidated balance sheets. During the next 12 months, it is reasonably possible that approximately $10.8 million of tax benefits, inclusive of interest and penalties, that are currently unrecognized could be recognized as a result of the expiration of applicable statutes of limitations. Upon recognition of the tax benefit related to the expiring statutes of limitation, $10.1 million will be offset by the establishment of a related valuation allowance. The net tax benefit recognized in the statements of operation is estimated to be $0.7 million.

NOTE 9: COMMITMENTS AND CONTINGENCIES

Commitments to Purchase Inventory

The Company uses contract manufacturers for its manufacturing operations. Under these arrangements, the contract manufacturer procures inventory to manufacture products based upon the Company's forecast of customer demand. The Company has similar arrangements with certain other suppliers. The Company is responsible for the financial impact on the supplier or contract manufacturer of any reduction or product mix shift in the forecast relative to materials that the third party had already purchased under a prior forecast. Such a variance in forecasted demand could require a cash payment for inventory in excess of current customer demand or for costs of excess or obsolete inventory. As of December 31, 2022, the Company had issued non-cancelable commitments for $36.7 million to purchase inventory from its contract manufacturers and suppliers.

Legal Proceedings

On July 22, 2016, Realtime Data LLC d/b/a IXO ("Realtime Data") filed a patent infringement lawsuit against the Company in the U.S. District Court for the Eastern District of Texas, alleging infringement of U.S. Patents Nos. 7,161,506, 7,378,992, 7,415,530, 8,643,513, 9,054,728, and 9,116,908. The lawsuit has been transferred to the U.S. District Court for the Northern District of California for further proceedings. Realtime Data asserts that the Company has incorporated Realtime Data's patented technology into its compression products and services. Realtime Data seeks unspecified monetary damages and other relief that the Court deems appropriate. On July 31, 2017, the District Court stayed proceedings in this litigation pending the outcome of Inter Partes Review proceedings before the Patent Trial and Appeal Board relating to the Realtime patents. In those proceedings the asserted claims of the '506 patent, the '992 patent, and the '513 patent were found unpatentable. In addition, on July 19, 2019, the United States District Court for the District of Delaware issued a decision finding that all claims of the '728 patent, the '530 patent, and the '908 patent are not eligible for patent protection under 35 U.S.C. § 101 (the "Delaware Action"). On appeal, the Federal Circuit vacated the decision in the Delaware Action and remanded for the Court to "elaborate on its ruling." The case pending against Quantum in the Northern District of California remains stayed pending the final outcome in the Delaware Action. On May 4, 2021, the Court in the Delaware Action reaffirmed its earlier ruling and granted defendants' motions to dismiss under Section 101. The Court also granted Realtime Data fourteen days to file amended complaints in the Delaware Action where they sought leave to do so. On May 19, 2021, Realtime Data filed amended complaints including revised bases for claims of infringement of the same patents. On June 29, 2021, defendants in the Delaware Action filed a renewed motion to dismiss under Section 101. Realtime Data filed its opposition to the motion to dismiss on July 13, 2021. On August 23, 2021, the Court again reaffirmed its earlier ruling and granted defendants' motions to dismiss under Section 101. Realtime Data has appealed that decision to the Federal Circuit. On September 7, 2021, the case against Quantum in the Northern District of California was stayed pending the outcome of Realtime Data's appeal in the Delaware Action. The Federal Circuit Court has not yet heard oral arguments. Quantum believes the probability that this lawsuit will have a material adverse effect on our business, operating results or financial condition is remote.

On July 14, 2020, Starboard Value LP, Starboard Value and Opportunity Master Fund Ltd., Starboard Value and Opportunity S LLC, and Starboard Value and Opportunity C LP (collectively, "Starboard") filed a lawsuit against Quantum Corporation, Quantum's former CEO and board member Jon Gacek, and former Quantum board member Paul Auvil in the California Superior Court in Santa Clara County alleging that between 2012 and 2014, Starboard purchased shares of Quantum's common stock, obtained three seats on Quantum's board of directors and then, in July 2014, entered into an agreement with Quantum whereby Starboard would not seek control of Quantum's board but would instead support Quantum's slate of board nominees so long as Quantum met certain performance objectives by the end of fiscal 2015. The lawsuit further alleges that Quantum hid its failure to meet those performance objectives by improperly recognizing revenue in fiscal 2015.

The California action was stayed and then dismissed. On April 14, 2021, Starboard filed a new action in the Delaware Court of Chancery, naming as defendants Messrs. Gacek and Auvil and Quantum. The new action largely repeats the allegations of the California action, alleging claims for fraud against all defendants, fraudulent concealment against all defendants, negligent misrepresentation against all defendants, breach of contract against Quantum, breach of the implied covenant of good faith and fair dealing against Quantum, and breach of fiduciary duty against Messrs. Gacek and Auvil.

As of January 12, 2023, all parties signed a settlement agreement amicably resolving both actions. The litigation will have no material effect on the Company's financial statements or business operations.

Other Commitments

Additionally, from time to time, the Company is a party to various legal proceedings and claims arising from the normal course of business activities. Based on current available information, the Company does not expect that the ultimate outcome of any currently pending unresolved matters, individually or in the aggregate, will have a material adverse effect on its results of operations, cash flows or financial position.

NOTE 10: FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's assets, measured and recorded at fair value on a recurring basis, may consist of money market funds which are included in cash and cash equivalents in the Condensed Consolidated Balance Sheets and are valued using quoted market prices (level 1 fair value measurements) at the respective balance sheet dates.

No impairment charges were recognized for non-financial assets in the nine months ended December 31, 2022 and 2021. The Company has no non-financial liabilities measured and recorded at fair value on a non-recurring basis.

Long-term Debt

The Company's financial liabilities were comprised primarily of long-term debt at December 31, 2022. The Company uses significant other observable market data or assumptions (Level 2 inputs as defined in the accounting guidance) that it believes market participants would use in pricing debt.

The carrying value and fair value of the Company's financial liabilities were primarily comprised of the following as of December 31, 2022 (in thousands):

	December 31,			
	2022		2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Term Loan	$ 75,917	$ 75,917	$ 98,750	$ 98,750
PNC Credit Facility	27,736	27,736	7,556	7,556

NOTE 12: SUBSEQUENT EVENTS

As of January 12, 2023, all parties in the Starboard legal matter signed a settlement agreement amicably resolving both actions (see Note 9, Commitments and Contingencies), The litigation will have no material effect on the Company's financial statements or business operations.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements, the accompanying notes, and other information included in this Quarterly Report and our Annual Report on Form 10-K for the year ended March 31, 2022. In particular, the disclosure contained in Part I, Item 1A in our Annual Report on Form 10-K, as updated by Part II, Item 1A in this Quarterly Report, may reflect trends, demands, commitments, events, or uncertainties that could materially impact our results of operations and liquidity and capital resources.

The following discussion contains forward-looking statements, such as statements regarding COVID-19's anticipated impacts on our business, our future operating results and financial position, our business strategy and *plans, and our objectives for future operations. Please see "Note Regarding Forward-Looking Statements" for more information about relying on these forward-looking statements.*

OVERVIEW

We are a technology company whose mission is to deliver innovative solutions to organizations across the world. We design, manufacture and sell technology and services that help customers capture, create and share digital content, and protect it for decades. We emphasize innovative technology in the design and manufacture of our products to help our customers unlock the value in their video and unstructured data in new ways to solve their most pressing business challenges.

We generate revenue by designing, manufacturing, and selling technology and services. Our most significant expenses are related to compensating employees; designing, manufacturing, marketing, and selling our products and services; data center costs in support of our cloud-based services; and interest associated with our long-term debt and income taxes.

Macroeconomic Conditions

We continue to actively monitor, evaluate and respond to the current uncertain macro environment, including the impact of higher interest rates, inflation, lingering supply chain challenges, and a stronger U.S. dollar. During the quarter we continued to experience longer sales cycle for opportunities with our enterprise as well as commercial customers.

The macro environment remains unpredictable and our past results may not be indicative of future performance.

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RESULTS OF OPERATIONS

	Three Months Ended December 31,		Nine Months Ended December 31,	
(in thousands)	2022	2021	2022	2021
Total revenue	$ 111,196	$ 95,344	$ 307,407	$ 277,623
Total cost of revenue [(1)]	70,907	60,134	205,239	166,746
Gross profit	40,289	35,210	102,168	110,877
Operating expenses				
Research and development [(1)]	11,254	14,607	33,925	38,287
Sales and marketing [(1)]	16,339	16,714	47,894	46,128
General and administrative [(1)]	10,969	10,538	35,223	33,830
Restructuring charges	(41)	576	1,605	850
Total operating expenses	38,521	42,435	118,647	119,095
Income (loss) from operations	1,768	(7,225)	(16,479)	(8,218)
Other income (expense), net	(544)	(150)	2,638	(223)
Interest expense	(2,701)	(2,431)	(7,537)	(9,387)
Loss on debt extinguishment	—	—	(1,392)	(4,960)
Net loss before income taxes	(1,477)	(9,806)	(22,770)	(22,788)
Income tax provision	693	1,254	1,564	1,678
Net loss	$ (2,170)	$ (11,060)	$ (24,334)	$ (24,466)

[(1)] Includes stock-based compensation as follows:

(in thousands)	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021	Nine Months Ended December 31, 2022	Nine Months Ended December 31, 2021
Cost of revenue	$ (11)	$ 208	$ 621	$ 799
Research and development	1,251	1,935	2,508	4,798
Sales and marketing	579	655	1,803	1,768
General and administrative	1,162	1,509	3,408	3,215
Total	$ 2,981	$ 4,307	$ 8,340	$ 10,580

Comparison of the Three Months Ended December 31, 2022 and 2021

Revenue

(dollars in thousands)	Three Months Ended December 31, 2022	% of revenue	2021	% of revenue	$ Change	% Change
Product revenue						
Primary storage systems	$ 13,974	13	$ 13,791	14	$ 183	1
Secondary storage systems	50,722	44	30,630	32	20,092	66
Devices and media	10,724	10	14,101	15	(3,377)	(24)
Total product revenue	75,420	67	58,522	61	16,898	29
Service and subscription	32,950	30	33,162	35	(212)	(1)
Royalty	2,826	3	3,660	4	(834)	(23)
Total revenue	$ 111,196	100	$ 95,344	100	$ 15,852	17

Product revenue

In the three months ended December 31, 2022, product revenue increased $16.9 million, or 29%, as compared to the same period in 2021. Primary storage systems increased $0.2 million, or 1%, remaining relatively flat to the same period in 2021. Secondary storage systems increased $20.1 million, or 66%, driven by higher demand in hyperscale use cases.

Service revenue

We offer a broad range of services including product maintenance, implementation, and training as well as software subscriptions. Service revenue is primarily comprised of customer field support contracts which provide standard support services for our hardware. Standard service contracts may be extended or include enhanced service, such as faster service response times.

Service and subscription revenue decreased 1% in the three months ended December 31, 2022 compared to the same period in 2021, partially driven by lower overall legacy service revenues offset by higher subscription revenue.

Royalty revenue

We receive royalties from third parties that license our LTO media patents through our membership in the LTO consortium. Royalty revenue decreased $0.8 million, or 23%, in the three months ended December 31, 2022 compared to the same period in 2021 due to decreased market volume of older generation LTO media.

Gross Profit and Margin

(dollars in thousands)	Three Months Ended December 31,					
	2022	Gross margin %	2021	Gross margin %	$ Change	Basis point change
Product	$ 16,892	22.4	$ 13,404	22.9	$ 3,488	(50)
Service and subscription	20,571	62.4	18,146	54.7	2,425	770
Royalty	2,826	100.0	3,660	100.0	(834)	—
Gross profit	$ 40,289	36.2	$ 35,210	36.9	$ 5,079	(70)

Product Gross Margin

Product gross margin decreased to 22.4% or by 50 basis points for the three months ended December 31, 2022, as compared with the same period in 2021. This decrease was primarily due to a less favorable mix of revenues, weighted towards our lower margin product lines.

Service and Subscription Gross Margin

Service and subscription gross margins increased 770 basis points for the three months ended December 31, 2022, as compared with the same period in 2021. This increase was primarily driven by lower overhead costs across our support and repair functions.

Royalty Gross Margin

Royalties do not have significant related cost of sales.

Operating expenses

(dollars in thousands)	Three Months Ended December 31,					
	2022	% of revenue	2021	% of revenue	$ Change	% Change
Research and development	$ 11,254	10.1	$ 14,607	15.3	$ (3,353)	(23)
Sales and marketing	16,339	14.7	16,714	17.5	(375)	(2)
General and administrative	10,969	9.9	10,538	11.1	431	4
Restructuring charges	(41)	—	576	0.6	(617)	(107)
Total operating expenses	$ 38,521	34.6	$ 42,435	44.5	$ (3,914)	(9)

In the three months ended December 31, 2022, research and development expense decreased $3.4 million, or 23%, as compared with the same period in 2021. This decrease was primarily driven by cost reduction measures to consolidate acquired businesses.

In the three months ended December 31, 2022, sales and marketing expenses decreased $0.4 million, or 2%, as compared with the same period in 2021. Marketing program expense decreased slightly as we shifted investment to earlier in the year.

In the three months ended December 31, 2022, general and administrative expenses increased $0.4 million, or 4%, as compared with the same period in 2021. This increase was largely driven by project cost in our facilities and IT organizations.

In the three months ended December 31, 2022, restructuring expenses decreased $0.6 million as compared with the same period in 2021. The decrease was the result of cost reduction initiatives in the prior year.

Other Income (Expense)

(dollars in thousands)	Three Months Ended December 31,								
	2022		% of revenue	2021		% of revenue	$ Change		% Change
Other income (expense)	$	(544)	0	$	(150)	—	$	(394)	(263)

The change in other income (expense), net during the three months ended December 31, 2022 compared with the same period in 2021 was related primarily to fluctuations in foreign currency exchange rates and the sale of certain intangible assets during the nine months ended December 31, 2022.

Interest expense

(dollars in thousands)	Three Months Ended December 31,					
	2022	% of revenue	2021	% of revenue	$ Change	% Change
Interest expense	(2,701)	2	(2,431)	3	(270)	(11)

In the three months ended December 31, 2022, interest expense increased $0.3 million, or 11%, as compared with the same period in 2021 due to a higher effective interest rate on our Term Loan.

Loss on debt extinguishment

(dollars in thousands)	Three Months Ended December 31,					
	2022	% of revenue	2021	% of revenue	$ Change	% Change
Loss on debt extinguishment	—	—	—	—	—	n/a

There were no debt extinguishments in the three months ended December 31, 2022 and 2021.

Income Taxes

(dollars in thousands)	Three Months Ended December 31,								
	2022		% of revenue	2021		% of revenue	$ Change		% Change
Income tax provision	$	693	1	$	1,254	—	$	(561)	(45)

The income tax provision for the three months ended December 31, 2022 and 2021 is primarily influenced by foreign and state income taxes. Due to our history of net losses in the United States, the protracted period for utilizing tax attributes in certain foreign jurisdictions, and the difficulty in predicting future results, we believe that we cannot rely on projections of future taxable income to realize most of our deferred tax assets. Accordingly, we have established a full valuation allowance against our U.S. and certain foreign net deferred tax assets. Significant management judgement is required in assessing our ability to realize any future benefit from our net deferred tax assets. We intend to maintain this valuation allowance until sufficient positive evidence exists to support its reversal. Our income tax expense recorded in the future will be reduced to the extent that sufficient positive evidence materializes to support a reversal of, or decrease in, our valuation allowance.

Comparison of the Nine Months Ended December 31, 2022 and 2021

Revenue

(dollars in thousands)	Nine Months Ended December 31, 2022	% of revenue	2021	% of revenue	$ Change	% Change
Product revenue						
Primary storage systems	$ 39,375	13	$ 41,787	15	$ (2,412)	(6)
Secondary storage systems	127,852	43	85,093	31	42,759	50
Devices and media	31,370	9	38,428	14	(7,058)	(18)
Total product revenue	198,597	65	165,308	60	33,289	20
Service and subscription	99,066	32	100,352	36	(1,286)	(1)
Royalty	9,744	3	11,963	4	(2,219)	(19)
Total revenue	$ 307,407	100	$ 277,623	100	$ 29,784	11

Product revenue

In the nine months ended December 31, 2022, product revenue increased $33.3 million, or 20%, as compared to the same period in 2021. Primary storage systems decreased $2.4 million, or 6%, primarily driven from a reduced number of large purchases from install base customers. Secondary storage systems increased $42.8 million, or 50%, driven by higher demand in hyperscale use cases.

Service revenue

We offer a broad range of services including product maintenance, implementation, and training as well as software subscriptions. Service revenue is primarily comprised of customer field support contracts which provide standard support services for our hardware. Standard service contracts may be extended or include enhanced service, such as faster service response times.

Service and subscription revenue decreased 1% in the nine months ended December 31, 2022 compared to the same period in 2021 partially driven by lower overall legacy service revenues offset by higher subscription revenue.

Royalty revenue

We receive royalties from third parties that license our LTO media patents through our membership in the LTO consortium. Royalty revenue decreased $2.2 million, or 19%, in the nine months ended December 31, 2022 compared to the same period in 2021 due to decreased market volume of older generation LTO media.

Gross Profit and Margin

(dollars in thousands)	Nine Months Ended December 31, 2022	Gross margin %	2021	Gross margin %	$ Change	Basis point change
Product	$ 35,587	17.9	$ 40,326	24.4	$ (4,739)	(650)
Service and subscription	56,837	57.4	58,588	58.4	(1,751)	(100)
Royalty	9,744	100.0	11,963	100.0	(2,219)	—
Gross profit	$ 102,168	33.2	$ 110,877	39.9	$ (8,709)	(670)

Product Gross Margin

Product gross margin decreased to 17.9% or by 650 basis points for the nine months ended December 31, 2022, as compared with the same period in 2021. This decrease was due primarily to a $6.9 million extraordinary inventory reserve provision recorded during the nine months ended December 31, 2022. Due to longer purchasing lead times and other factors caused by the global supply chain disruptions occurring since the beginning of the COVID-19 pandemic, certain inventory has become obsolete due to next generation products being released and legacy products being discontinued. In addition, following our integration of several past acquisitions, certain legacy products were discontinued and replaced with updated product offerings rendering the related inventory obsolete. We do not believe that the magnitude of this inventory provision is indicative of our ongoing operations and is not expected to be repeated in the near term. Excluding this non-recurring adjustment, product gross margin has declined approximately 300 basis points for the nine months ended December 31, 2022, as compared to the same period in 2021 primarily due to a less favorable mix of revenues weighted towards our lower margin product lines of business and a reduction in royalty partially offset by improvements in pricing and lower supply chain costs.

Service and Subscription Gross Margin

Service and subscription gross margins decreased 100 basis points for the nine months ended December 31, 2022, as compared with the same period in 2021. This was partially driven by lower overall service revenues, and by cost pressures as a result of certain constraints in the global supply chain.

Royalty Gross Margin
Royalties do not have significant related cost of sales.

Operating expenses

(dollars in thousands)	Nine Months Ended December 31, 2022	% of revenue	2021	% of revenue	$ Change	% Change
Research and development	$ 33,925	11.0	$ 38,287	13.8	$ (4,362)	(11)
Sales and marketing	47,894	15.6	46,128	16.6	1,766	4
General and administrative	35,223	11.5	33,830	12.2	1,393	4
Restructuring charges	1,605	0.5	850	0.3	755	89
Total operating expenses	$ 118,647	38.6	$ 119,095	42.9	$ (448)	—

In the nine months ended December 31, 2022, research and development expense decreased $4.4 million, or 11%, as compared with the same period in 2021. This decrease was primarily driven by cost reduction measures to consolidate acquired businesses.

In the nine months ended December 31, 2022, sales and marketing expenses increased $1.8 million, or 4%, as compared with the same period in 2021. Both marketing expense and travel expense have increased over the prior year as COVID-19 restrictions ease.

In the nine months ended December 31, 2022, general and administrative expenses increased $1.4 million, or 4%, as compared with the same period in 2021. This increase was largely driven by increased intangible amortization from business acquisitions.

In the nine months ended December 31, 2022, restructuring expenses increased $0.8 million, or 89%, as compared with the same period in 2021. The increase was the result of cost reduction initiatives.

Other Income (Expense)

(dollars in thousands)	Nine Months Ended December 31, 2022	% of revenue	2021	% of revenue	$ Change	% Change
Other income (expense)	$ 2,638	1	$ (223)	—	$ 2,861	1,283

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The change in other income (expense), net during the nine months ended December 31, 2022 compared with the same period in 2021 was related primarily to fluctuations in foreign currency exchange rates and the sale of certain intangible assets during the nine months ended December 31, 2022.

Interest expense

(dollars in thousands)	Nine Months Ended December 31,					
	2022	% of revenue	2021	% of revenue	$ Change	% Change
Interest expense	(7,537)	2	(9,387)	3	1,850	20

In the nine months ended December 31, 2022, interest expense decreased $1.9 million, or 20%, as compared with the same period in 2021 due to a lower principal balance and a lower effective interest rate on our Term Loan.

Loss on debt extinguishment

(dollars in thousands)	Nine Months Ended December 31,					
	2022	% of revenue	2021	% of revenue	$ Change	% Change
Loss on debt extinguishment	(1,392)	—	(4,960)	2	3,568	n/a

In the nine months ended December 31, 2022, the change in loss on debt extinguishment of $3.6 million was related to prepayments of our long term debt.

Income Taxes

(dollars in thousands)	Nine Months Ended December 31,					
	2022	% of revenue	2021	% of revenue	$ Change	% Change
Income tax provision	$ 1,564	1	$ 1,678	1	$ (114)	(7)

The income tax provision for the nine months ended December 31, 2022 and 2021 is primarily influenced by foreign and state income taxes. Due to our history of net losses in the United States, the protracted period for utilizing tax attributes in certain foreign jurisdictions, and the difficulty in predicting future results, we believe that we cannot rely on projections of future taxable income to realize most of our deferred tax assets. Accordingly, we have established a full valuation allowance against our U.S. and certain foreign net deferred tax assets. Significant management judgement is required in assessing our ability to realize any future benefit from our net deferred tax assets. We intend to maintain this valuation allowance until sufficient positive evidence exists to support its reversal. Our income tax expense recorded in the future will be reduced to the extent that sufficient positive evidence materializes to support a reversal of, or decrease in, our valuation allowance.

LIQUIDITY AND CAPITAL RESOURCES

We consider liquidity in terms of the sufficiency of internal and external cash resources to fund our operating, investing and financing activities. Our principal sources of liquidity include cash from operating activities, cash and cash equivalents on our balance sheet, and amounts available under our PNC Credit Facility. We require significant cash resources to meet obligations to pay principal and interest on our outstanding debt, provide for our research and development activities, fund our working capital needs, and make capital expenditures. Our future liquidity requirements will depend on multiple factors, including our research and development plans and capital asset needs. We are subject to the risks arising from COVID-19 and substantial financial market volatility which have adversely affected both the U.S. and the global economy. We have experienced negative impacts on sales due to global supply chain constraints, inflationary concerns and overall uncertainty in the macroeconomic environment which has resulted in a significant increase in our sales backlog compared to our historical levels. The extent of the impacts depends, in part, on how long the negative trends in customer demand and supply chain levels continue. We expect the impact of COVID-19 and market instability to continue to have a significant impact on our liquidity and capital resources.

We had cash and cash equivalents of $26.0 million as of December 31, 2022, which consisted primarily of bank deposits and money market accounts. As of December 31, 2022 we had $5.7 million available to borrow under the PNC Credit Facility.

We are subject to various debt covenants under our debt agreements including a net leverage covenant and a minimum liquidity covenant. Our failure to comply with our debt covenants could materially and adversely affect our financial condition and ability to service our obligations. On April 25, 2022, we amended the covenant levels for our financial covenants under our term debt and PNC Credit Facility. We believe we were in compliance with all covenants under our debt agreements as of the date of filing of this Quarterly Report on Form 10-Q. For additional information about our debt, see the sections entitled “Risk Factors—Risks Related to Our Business Operations” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” in our Annual Report on Form 10-K for the fiscal year ended March 31, 2022.

Cash Flows

The following table summarizes our consolidated cash flows for the periods indicated.

	Nine Months Ended December 31,	
(in thousands)	**2022**	**2021**
Cash provided by (used in):		
Operating activities	$ (19,596)	$ (26,681)
Investing activities	(12,644)	(11,779)
Financing activities	52,973	9,646
Effect of exchange rate changes	21	12
Net increase (decrease) in cash and cash equivalents and restricted cash	$ 20,754	$ (28,802)

Cash Used In Operating Activities

Net cash used in operating activities was $19.6 million for the nine months ended December 31, 2022. This use of cash was primarily attributed to cash used due related to manufacturing and service part inventories of $12.0 million and a decrease in deferred revenue of $14.4 million offset by an increase $7.2 million in accounts payable.

Net cash used in operating activities was $26.7 million for the nine months ended December 31, 2021. This use of cash was primarily attributable to changes in working capital of $24.3 million driven by increases in manufacturing and service part inventories of $13.0 million, a decrease in deferred revenue of $8.6 million and a net change in other assets and liabilities of $12.2 million which includes an increase in prepaid inventory of approximately $5.5 million in order to secure manufacturing materials. These were partially offset by a decrease in accounts receivable of $7.0 million and a $5.4 million increase in accounts payable.

Cash Used in Investing Activities

Net cash used in investing activities was $12.6 million in the nine months ended December 31, 2022, which was primarily attributable to capital expenditures of $10.6 million and a $2.0 million deferred business acquisition payment.

Net cash used in investing activities was $11.8 million in the nine months ended December 31, 2021, which was primarily attributable to cash paid for our acquisition of our video surveillance business of $7.8 million and capital expenditures of $4.0 million.

Cash Provided by Financing Activities

Net cash provided by financing activities was $53.0 million for the nine months ended December 31, 2022, which was related primarily to $66.7 million of net cash received from the Rights Offering of 30 million shares of our common stock and borrowings on our credit facility of $9.6 million offset by a $20.0 million prepayment of our term debt and term debt principal amortization payments and amendment fees totaling $3.3 million.

Net cash provided by financing activities was $9.6 million in the nine months ended December 31, 2021, which was related primarily to borrowings under our credit facility and proceeds from the new Term Loan offset by the repayment in full of the Senior Secured Term Loan.

Commitments and Contingencies

Our contingent liabilities consist primarily of certain financial guarantees, both express and implied, related to product liability and potential infringement of intellectual property. We have little history of costs associated with such indemnification requirements and contingent liabilities associated with product liability may be mitigated by our insurance coverage. In the normal course of business to facilitate transactions of our services and products, we indemnify certain parties with respect to certain matters, such as intellectual property infringement or other claims. We also have indemnification agreements with our current and former officers and directors. It is not possible to determine the maximum potential amount under these indemnification agreements due to the limited history of our 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.

We are also subject to ordinary course litigation.

Off Balance Sheet Arrangements

Except for the indemnification commitments described under "—Commitments and Contingencies" above, we do not currently have any other off-balance sheet arrangements and do not have any holdings in variable interest entities.

Contractual Obligations

We have contractual obligations and commercial commitments, some of which, such as purchase obligations, are not recognized as liabilities in our financial statements. There have not been any other material changes to the contractual obligations disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2022.

Critical Accounting Estimates and Policies

The preparation of our consolidated financial statements in accordance with generally accepted accounting principles requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes included elsewhere in this Quarterly Report on Form 10-Q. On an ongoing basis, we evaluate estimates, which are based on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. We consider certain accounting policies to be critical to understanding our financial statements because the application of these policies requires significant judgment on the part of management, which could have a material impact on our financial statements if actual performance should differ from historical experience or if our assumptions were to change. Our accounting policies that include estimates that require management's subjective or complex judgments about the effects of matters that are inherently uncertain are summarized in our most recently filed Annual Report on Form 10-K for the fiscal year ended March 31, 2022 under the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates and Policies.” For additional information on our significant accounting policies, see Note 1 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Recently Issued and Adopted Accounting Pronouncements

See Note 1 to the notes to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q and in our most recently filed Annual Report on Form 10-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to our quantitative and qualitative disclosures about market risk from those described under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our most recent Annual Report on Form 10-K, which such section is incorporated herein by reference.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive and principal financial officers, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934), as of the end of the period covered by this Quarterly Report. Based on such evaluation, our principal executive and principal financial officers have concluded that as of such date, our disclosure controls and procedures were effective at the reasonable assurance level described below.

Changes in Internal Control

In connection with the evaluation required by Rule 13a-15(d) under the Securities Exchange Act of 1934, there were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2022 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls

Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 9, Commitments and Contingencies, of the notes to the unaudited condensed consolidated financial statements for a discussion of our legal matters.

ITEM 1A. RISK FACTORS

There have been no material changes to the previously disclosed risk factors discussed in "Part I, Item 1A, Risk Factors" in our Annual Report on Form 10-K for the year ended March 31, 2022. You should consider carefully these factors, together with all of the other information in this Quarterly Report on Form 10-Q, including our unaudited condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q, before making an investment decision.

ITEM 6. EXHIBITS

The exhibits required to be filed or furnished as part of this Quarterly Report are listed below. Notwithstanding any language to the contrary, exhibits 32.1 and 32.2 shall not be deemed to be filed as part of this Quarterly Report for purposes of Section 18 of the Securities Exchange Act of 1934 (the “Exchange Act”) or deemed to be incorporated by reference into any filing under the Exchange Act or the Securities Act of 1933, except to the extent that the Company specifically incorporates it by reference.

		Incorporated by Reference			
Exhibit Number	**Exhibit Description**	**Form**	**Filing Date**	**Exhibit**	**Filed or Furnished Herewith**
10.1#	Director Offer Letter between Quantum Corporation and Don Jaworski, dated September 16, 2022	8-K	9/28/22	10.1	
10.2#	Director Offer Letter between Quantum Corporation and Hugues Meyrath, dated September 16, 2022	8-K	9/28/22	10.2	
10.3#	Form of Indemnification Agreement between Quantum Corporation and its Named Executive Officers and Directors	8-K	9/28/22	10.3	
10.4#	Offer Letter between the Company and Kenneth P. Gianella dated December 15, 2022.	8-K	1/11/23	10.1	
10.5#	Transition Agreement between the Company and J. Michael Dodson dated January 9, 2023.	8-K	1/11/23	10.3	
31.1	Certification of the Principal Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002				X
31.2	Certification of the Principal Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002				X
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley act of 2002				X
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley act of 2002				X
101.SCH	XBRL Taxonomy Extension Schema Document				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				X
104	Cover page interactive data file, submitted using inline XBRL (contained in Exhibit 101)				X

# Indicates management contract or compensatory plan or arrangement.

SIGNATURES

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

	Quantum Corporation (Registrant)
February 2, 2023 (Date)	/s/ James J. Lerner James J. Lerner President, Chief Executive Officer and Chairman of the Board (Principal Executive Officer)
February 2, 2023 (Date)	/s/ Kenneth Gianella Kenneth Gianella Chief Financial Officer (Principal Financial Officer)

CERTIFICATION PURSUANT TO SECTION 302(a)
OF THE SARBANES-OXLEY ACT OF 2002

I, James J. Lerner, certify that:

1) I have reviewed this Quarterly Report on Form 10-Q of Quantum Corporation;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date February 2, 2023

/s/ James J. Lerner
James J. Lerner
President, Chief Executive Officer and Chairman of the Board
(Principal Executive Officer)

CERTIFICATION PURSUANT TO SECTION 302(a)
OF THE SARBANES-OXLEY ACT OF 2002

I, Kenneth Gianella, certify that:

1) I have reviewed this Quarterly Report on Form 10-Q of Quantum Corporation;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

    d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date February 2, 2023

/s/ Kenneth Gianella
Kenneth Gianella
Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

I, James J. Lerner, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Quantum Corporation, on Form 10-Q for the quarterly period ended December 31, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Quantum Corporation.

Date February 2, 2023

/s/ James J. Lerner

James J. Lerner
President, Chief Executive Officer and Chairman of the Board
(Principal Executive Officer)

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

I, J. Kenneth Gianella, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Quantum Corporation, on Form 10-Q for the quarterly period ended December 31, 2022, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects he financial condition and results of operations of Quantum Corporation.

Date February 2, 2023

/s/ Kenneth Gianella

Kenneth Gianella
Chief Financial Officer
(Principal Financial Officer)