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

Form 10-Q

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

For the quarterly period ended December 31, 2009

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 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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 ☐ No ☐

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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 29, 2010, approximately 214.3 million shares of Quantum Corporation's common stock were issued and outstanding.

QUANTUM CORPORATION

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended		Nine Months Ended	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Product revenue	$ 124,580	$ 143,882	$ 348,131	$ 444,658
Service revenue	38,991	40,757	117,650	124,593
Royalty revenue	18,139	19,029	51,195	71,598
Total revenue	181,710	203,668	516,976	640,849
Cost of product revenue	82,509	88,949	227,672	303,583
Cost of service revenue	24,485	28,933	76,316	93,766
Total cost of revenue	106,994	117,882	303,988	397,349
Gross margin	74,716	85,786	212,988	243,500
Operating expenses:				
Research and development	18,155	16,053	51,594	53,809
Sales and marketing	29,029	32,821	84,202	111,006
General and administrative	16,289	17,015	46,012	58,860
Restructuring charges (benefits)	(22)	4,062	4,784	4,469
Goodwill impairment	—	339,000	—	339,000
	63,451	408,951	186,592	567,144
Income (loss) from operations	11,265	(323,165)	26,396	(323,644)
Interest income and other, net	526	(594)	1,795	503
Interest expense	(6,813)	(7,276)	(19,399)	(23,561)
Gain on debt extinguishment, net of costs	—	—	12,859	—
Income (loss) before income taxes	4,978	(331,035)	21,651	(346,702)
Income tax provision (benefit)	342	(2,259)	652	(324)
Net income (loss)	$ 4,636	$ (328,776)	$ 20,999	$ (346,378)
Net income (loss) per share:				
Basic	$ 0.02	$ (1.58)	$ 0.10	$ (1.66)
Diluted	0.02	(1.58)	0.04	(1.66)
Income (loss) for purposes of computing net income (loss) per share:				
Basic	$ 4,636	$ (328,776)	20,999	$ (346,378)
Diluted	4,636	(328,776)	9,389	(346,378)
Weighted average common and common equivalent shares:				
Basic	213,525	210,086	212,092	208,665
Diluted	220,710	210,086	223,143	208,665

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	December 31, 2009	March 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 100,700	$ 87,305
Accounts receivable, net of allowance for doubtful accounts of $1,400 and $1,999, respectively	116,553	107,851
Manufacturing inventories, net	49,829	61,237
Service parts inventories, net	54,688	63,029
Deferred income taxes	9,970	9,935
Other current assets	17,292	24,745
Total current assets	349,032	354,102
Long-term assets:		
Property and equipment, less accumulated depreciation	25,128	28,553
Purchased technology, less accumulated amortization	32,326	49,148
Other intangible assets, less accumulated amortization	49,832	60,088
Goodwill	46,770	46,770
Other long-term assets	10,518	10,708
Total long-term assets	164,574	195,267
	$ 513,606	$ 549,369
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 56,571	$ 45,182
Accrued warranty	6,428	11,152
Deferred revenue, current	100,580	84,079
Current portion of long-term debt	1,884	4,000
Current portion of convertible subordinated debt	22,099	—
Accrued restructuring charges	4,522	4,681
Accrued compensation	28,925	27,334
Income taxes payable	2,674	4,752
Other accrued liabilities	26,209	34,550
Total current liabilities	249,892	215,730
Long-term liabilities:		
Deferred revenue, long-term	29,445	32,082
Deferred income taxes	10,815	11,190
Long-term debt	306,370	244,000
Convertible subordinated debt	—	160,000
Other long-term liabilities	7,026	6,326
Total long-term liabilities	353,656	453,598
Commitments and contingencies		
Stockholders' deficit:		
Common stock, $0.01 par value; 1,000,000 shares authorized; 214,160 and 210,231 shares issued and outstanding at December 31, 2009 and March 31, 2009, respectively	2,142	2,102
Capital in excess of par value	357,766	349,850
Accumulated deficit	(456,764)	(477,763)
Accumulated other comprehensive income	6,914	5,852
Stockholders' deficit	(89,942)	(119,959)
	$ 513,606	$ 549,369

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended	
	December 31, 2009	December 31, 2008
Cash flows from operating activities:		
Net income (loss)	$ 20,999	$ (346,378)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	9,111	12,054
Amortization	28,987	32,804
Service parts lower of cost or market adjustment	8,092	13,832
Gain on debt extinguishment	(15,613)	—
Goodwill impairment	—	339,000
Deferred income taxes	(410)	141
Share-based compensation	7,155	8,092
Changes in assets and liabilities:		
Accounts receivable, net	(8,702)	37,790
Manufacturing inventories, net	8,387	2,265
Service parts inventories, net	3,270	223
Accounts payable	11,389	(38,949)
Accrued warranty	(4,724)	(7,261)
Deferred revenue	13,864	11,012
Accrued restructuring charges	(159)	2,248
Accrued compensation	1,591	(5,385)
Income taxes payable	(2,078)	93
Other assets and liabilities	706	(11,704)
Net cash provided by operating activities	81,865	49,877
Cash flows from investing activities:		
Purchases of property and equipment	(5,728)	(4,289)
Return of principal from other investments	166	1,038
Net cash used in investing activities	(5,562)	(3,251)
Cash flows from financing activities:		
Borrowings of long-term debt, net	120,042	—
Repayments of long-term debt	(61,463)	(91,000)
Repayments of convertible subordinated debt	(122,288)	—
Payment of taxes due upon vesting of restricted stock	(960)	(768)
Proceeds from issuance of common stock	1,761	2,738
Net cash used in financing activities	(62,908)	(89,030)
Net increase (decrease) in cash and cash equivalents	13,395	(42,404)
Cash and cash equivalents at beginning of period	87,305	93,643
Cash and cash equivalents at end of period	$ 100,700	$ 51,239

See accompanying Notes to Condensed Consolidated Financial Statements.

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 February 5, 2010, the issuance date of our December 31, 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, a number of accounting pronouncements became effective for us. None of these pronouncements 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 Arrangements—a 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 consideration from the arrangement 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 Elements—a 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 non-software components that function together to deliver the tangible product’s 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. 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. Adoption of ASU 2009-05 did not have an impact on our consolidated financial position or results of operations.

In January 2010, the FASB issued ASU 2010-06, *Fair Value Measurements and Disclosures (Topic 820)—Improving Disclosures about Fair Value Measurements* (“ASU 2010-06”). ASU 2010-06 increased disclosures to include transfers in and out of Levels 1 and 2 and clarified inputs, valuation techniques and level of disaggregation to be disclosed. Adoption of ASU 2010-06 is effective for periods beginning after December 15, 2009, or our fourth quarter of fiscal 2010, and will not have an impact on our consolidated financial position or results of operations.

Note 4: OTHER INVESTMENTS AND FAIR VALUE

Other Investments

Other investments include private technology venture limited partnership investments that are recorded in other long-term assets on the Condensed Consolidated Balance Sheets. At December 31, 2009 and March 31, 2009, we held $1.9 and $1.6 million, respectively, in limited partnership investments that are accounted for under the equity method. We received distributions of $0.2 million and $1.0 million during the third quarter of fiscal 2010 and fiscal 2009, respectively, from the limited partnership investments due to liquidation of an underlying holding. We recorded income of $0.3 million and $0.4 million for the three and nine month periods ended December 31, 2009, respectively. This compares to income of $0.4 million and $0.7 million for the three and nine months ended December 31, 2008, respectively. Income and losses are primarily based on the general partners’ estimates of the fair value of nonmarketable securities held by the partnership and realized gains and losses from the partnership’s disposal of securities.

We held $1.3 million and $0.9 million in deferred compensation investments at December 31, 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 negligible gains in the third quarter of fiscal 2010 and a gain of $0.3 million in the first nine months of fiscal 2010. This compares to negligible losses for the three and nine month periods ending December 31, 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.

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 December 31, 2009	As of March 31, 2009
Assets:		
Money market funds	$ 92,500	$ 75,350
Deferred compensation investments	1,282	910
Liabilities:		
Deferred compensation liabilities	1,282	910
Derivatives	—	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 December 31, 2009 (in thousands):

	Fair Value Measurements Using Input Levels			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds	$ —	$ 92,500	$ —	$ 92,500
Deferred compensation investments	—	1,282	—	1,282
Liabilities:				
Deferred compensation liabilities	—	1,282	—	1,282

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, purchased technology, other intangible assets and goodwill. We did not record impairments to any non-financial assets in the three or nine months ending December 31, 2009. We do not have any non-financial liabilities measured and recorded at fair value on a non-recurring basis.

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

	As of December 31, 2009		As of March 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Credit Suisse term loan(1)	$ 186,537	$ 173,013	$ 248,000	$ 155,000
EMC term loans(2)	121,717	133,984	—	—
Convertible subordinated debt(3)	22,099	20,994	160,000	108,051

(1) Fair value based on non-binding broker quotes using current market information.
(2) Fair value is based on publicly traded debt with comparable terms.
(3) Fair value at December 31, 2009 based on pricing from a private transaction on June 26, 2009. Fair value based on quoted market prices for March 31, 2009.

Note 5: MANUFACTURING AND SERVICE PARTS INVENTORIES, NET

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

	December 31, 2009	March 31, 2009
Manufacturing inventories, net:		
Finished goods	$ 21,904	$ 27,629
Work in process	2,973	3,669
Raw materials and purchased parts	24,952	29,939
	$ 49,829	$ 61,237
Service parts inventories, net:		
Finished goods	$ 31,160	$ 36,422
Component parts	23,528	26,607
	$ 54,688	$ 63,029

Note 6: GOODWILL AND INTANGIBLE ASSETS

As of December 31, 2009 and March 31, 2009, goodwill and intangible assets, net of amortization, were $128.9million and $156.0 million, respectively, and represented approximately 25% and 28% of total assets, respectively. We evaluate goodwill for impairment annually during the fourth quarter of our fiscal year, or more frequently when indicators of impairment are present. Intangible assets are evaluated for impairment whenever indicators of impairment are present. For the three and nine month periods ending December 31, 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 in 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):

	December 31, 2009			March 31, 2009		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Purchased technology	$188,167	$(155,841)	$32,326	$188,167	$(139,019)	$ 49,148
Trademarks	27,260	(25,303)	1,957	27,260	(24,696)	2,564
Non-compete agreements	500	(343)	157	500	(268)	232
Customer lists	108,219	(60,501)	47,718	108,219	(50,927)	57,292
	$324,146	$(241,988)	$82,158	$324,146	$(214,910)	$109,236

Total intangible amortization expense was $9.1 million and $27.1 million for the three and nine months ended December 31, 2009, respectively, as compared to $9.0 million and $31.2 million for the three and nine months ended December 31, 2008, respectively.

Note 7: ACCRUED WARRANTY AND INDEMNIFICATIONS

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

	Three Months Ended		Nine Months Ended	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Beginning balance	$ 7,100	$ 15,240	$ 11,152	$ 19,862
Additional warranties issued	2,322	3,476	6,560	11,629
Adjustments for warranties issued in prior fiscal years	(402)	(1,733)	(2,675)	(2,605)
Settlements	(2,592)	(4,382)	(8,609)	(16,285)
Ending balance	$ 6,428	$ 12,601	$ 6,428	$ 12,601

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 December 31, 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):

	December 31, 2009	March 31, 2009
Convertible subordinated debt	$ 22,099	$ 160,000
Credit Suisse term loan	186,537	248,000
EMC term loans	121,717	—
	$ 330,353	$ 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 December 31, 2009, the notes are included in current liabilities and as of March 31, 2009 in long-term liabilities in the Condensed Consolidated Balance Sheet.

<u>Gain on Debt Extinguishment, Net of Costs</u>

On June 3, 2009, $87.2 million of aggregate principal of the notes were tendered in exchange for $850 per $1,000 principal amount, or $74.1 million. We also paid $1.3 million of accrued and unpaid interest on the notes tendered. This transaction was funded by a loan from EMC International Company described below.

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.

In connection with the tender offer and private transaction, during the first nine 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

<u>Credit Suisse Credit Agreement</u>

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 $135 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 4.18% at December 31, 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. In addition, on an annual basis commencing with the fiscal year ending March 31, 2008, we are required to perform a calculation of excess cash flow which may require an additional payment of the principal amount if the excess cash flow requirements are not met. The fiscal 2009 calculation of excess cash flow did not require an additional principal payment. During the third quarter of fiscal 2010, we made principal payments of $0.5 million on the CS credit agreement. For the first nine months of fiscal 2010, we made principal payments of $61.5 million on the CS credit agreement including $60.0 million in prepayments related to the April 15, 2009 amendment described below. For the third quarter of fiscal 2009, we made principal payments of $1.0 million on the CS credit agreement. For the nine months ended December 31, 2008, we made principal payments of $91.0 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 December 31, 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 third quarter or first nine months of fiscal 2010. We drew and repaid $16.0 million and $31.0 million from our revolving credit facility during the third quarter and first nine months of fiscal 2009, respectively.

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 December 31, 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. 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 were 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 fixed 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 third quarter and first nine months of fiscal 2010, the three month LIBOR rate was below the floor of Collar 2 and we incurred $0.6 million and $1.5 million in additional interest expense, respectively. During the third quarter and first nine 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 $0.2 million and $1.0 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 $0.6 million and $1.2 million for the third quarter and first nine months of fiscal 2010, respectively, compared to a $1.1 million loss and a $0.7 million gain in the third quarter and first nine months of fiscal 2009, respectively. As of December 31, 2009, both interest rate collars had expired.

	As of December 31, 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	$ —

	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 December 31, 2009			
Interest rate collar derivatives	Interest income and other, net	$ 612	—	$ —
	For the nine months ended December 31, 2009			
Interest rate collar derivatives	Interest income and other, net	$ 1,175	—	$ —

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 nine months ended December 31, 2009 and 2008 were (in thousands):

	Three Months Ended		Nine Months Ended	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
By expense (benefit) type				
Severance and benefits	$ (94)	$ 4,218	$ 64	$ 5,421
Facilities	72	(177)	4,919	(973)
Other	—	21	(199)	21
Total	$ (22)	$ 4,062	$ 4,784	$ 4,469
By cost reduction action				
Consolidate operations supporting our business	$ (22)	$ 4,062	$ 4,784	$ 4,056
Partner with third party on certain research and development efforts	—	—	—	413
Total	$ (22)	$ 4,062	$ 4,784	$ 4,469

Fiscal 2010

During the third quarter of fiscal 2010, actual severance and benefits restructuring expenses were lower than estimated resulting in a $0.1 million reversal. These reversals were largely offset by facility expenses incurred during the third quarter of fiscal 2010 on vacant facilities in restructuring.

For the nine months ended December 31, 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 nine months ended December 31, 2009 were due to eliminating additional positions in the U.S. and changes in our estimates, primarily in Europe as we received new information related to on-going settlement negotiations with various local authorities. The other restructuring benefits for the nine months ended December 31, 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 third quarter of fiscal 2009, the $4.2 million of severance and benefits expenses were primarily due to cost-saving initiatives in response to the global economic downturn. This restructuring action to realign our cost structure with market growth opportunities reduced our headcount by approximately 8%. The majority of the impacted employees were U.S. sales and marketing and research and development employees; however, all areas of the business, including international operations, were impacted by the restructuring action. For the first nine months of fiscal 2009, severance and benefits were largely due to the restructuring initiative for the third quarter of fiscal 2009. In addition, severance charges were due to additional efficiencies identified as a result of our fiscal 2008 partnership with a third party on certain research and development efforts and consolidating operations.

We had a $0.2 million facilities benefit in the third quarter of fiscal 2009 due to a vendor waiving contractual obligations. During the first nine months of fiscal 2009, we finalized liquidation of a European subsidiary and its related facilities, originally accrued in the third quarter of fiscal 2008. This liquidation resulted in a $0.8 million reversal of facility restructuring in the second quarter of fiscal 2009.

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

Accrued Restructuring

	Three Months Ended December 31, 2009			
	Severance and Benefits	Facilities	Other	Total
Balance as of September 30, 2009	$ 562	$ 4,430	$ 400	$ 5,392
Restructuring charges	51	72	—	123
Reversals	(145)	—	—	(145)
Cash payments	(369)	(483)	—	(852)
Other	(1)	5	—	4
Balance as of December 31, 2009	$ 98	$ 4,024	$ 400	$ 4,522

	Nine Months Ended December 31, 2009			
	Severance and Benefits	Facilities	Other	Total
Balance as of March 31, 2009	$ 3,454	$ 628	$ 599	$ 4,681
Restructuring charges	549	4,919	—	5,468
Reversals	(485)	—	(199)	(684)
Cash payments	(3,455)	(1,528)	—	(4,983)
Other	35	5	—	40
Balance as of December 31, 2009	$ 98	$ 4,024	$ 400	$ 4,522

	Severance and Benefits	Facilities	Other	Total
Estimated timing of future payouts:				
Fiscal 2010	$ 98	$ 454	$ 400	$ 952
Fiscal 2011 to 2013	—	3,570	—	3,570
	$ 98	$ 4,024	$ 400	$ 4,522

The $4.5 million restructuring accrual as of December 31, 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 14.8 million shares of stock were available for grant as of December 31, 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 December 31, 2009. The Board of Directors suspended the Purchase Plan in the fourth quarter of fiscal 2009. On January 1, 2010 the Purchase Plan was reinstated and amended to set the maximum number of shares available in any one offering period to no more than two million shares.

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		Nine Months Ended	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Share-based compensation				
Cost of revenue	$ 333	$ 141	$ 952	$ 1,099
Research and development	513	601	1,733	2,173
Sales and marketing	619	276	1,837	1,989
General and administrative	877	1,314	2,633	2,831
	$ 2,342	$ 2,332	$ 7,155	$ 8,092
Share-based compensation (by type of award)				
Stock options	$ 1,045	$ 933	$ 2,555	$ 2,729
Restricted stock	1,297	1,709	4,600	4,668
Stock purchase plan	—	(310)	—	695
	$ 2,342	$ 2,332	$ 7,155	$ 8,092

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

	Three Months Ended		Nine Months Ended	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Option life (in years)	3.9	4.0	3.9	4.0
Risk-free interest rate	1.82%	2.27%	2.06%	2.72%
Stock price volatility	109.12%	74.45%	107.66%	50.58%
Dividend yield	—	—	—	—
Weighted-average grant date fair value	$ 1.01	$ 0.42	$ 0.73	$ 0.73

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 third quarter and first nine months of fiscal 2010 were $2.32 and $1.10, respectively. The weighted-average grant date fair values of restricted stock awards granted during the third quarter and first nine months of fiscal 2009 were $0.78 and $1.41, 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 third quarter or first nine months of fiscal 2010 or during the third quarter of fiscal 2009. The value of rights to purchase shares granted in the first nine months of fiscal 2009 was estimated at the date of the grant. The weighted-average fair values and the assumptions used in calculating fair values during the nine month periods ended December 31, 2009 and 2008 were as follows:

	Nine Months Ended	
	December 31, 2009	December 31, 2008
Option life (in years)	N/A	0.5
Risk-free interest rate	N/A	1.98%
Stock price volatility	N/A	61.57%
Dividend yield	—	—
Weighted-average grant date fair value	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	9,607	1.00		
Exercised	(1,161)	1.52		
Forfeited	(1,675)	3.38		
Expired	(140)	13.57		
Outstanding as of December 31, 2009	32,257	$ 2.41	4.29	$ 30,968
Vested and expected to vest at December 31, 2009	30,412	$ 2.49	4.16	$ 27,528
Exercisable as of December 31, 2009	20,482	$ 3.04	3.24	$ 11,593

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	1,972	1.10
Vested	(2,747)	1.99
Forfeited	(769)	0.81
Nonvested at December 31, 2009	4,714	$ 1.53

Note 12: INCOME TAXES

We had an income tax expense of $0.3 million and $0.7 million for the third quarter and first nine months of fiscal 2010, respectively, as compared to an income tax benefit of $2.3 million and $0.3 million for the third quarter and first nine months of fiscal 2009, respectively. Tax expense for the third quarter of fiscal 2010 was primarily comprised of foreign income taxes and state taxes while tax expense for the first nine months of fiscal 2010 was comprised of foreign income taxes and state taxes partially reduced by U.S. tax refunds from amended filings. Tax benefits for the third quarter and first nine months of fiscal 2009 were from the release of a $2.9 million tax liability due to the expiration of a statute of limitation partially offset by foreign income taxes and state taxes of $0.6 million and $2.6 million, respectively.

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		Nine Months Ended	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Net income (loss)	$ 4,636	$ (328,776)	$ 20,999	$ (346,378)
Interest on dilutive notes	—	—	1,249	—
Gain on debt extinguishment, net of costs	—	—	(12,859)	—
Net income (loss) for purposes of computing net income (loss) per diluted share	$ 4,636	$ (328,776)	$ 9,389	$ (346,378)
Weighted average shares and common share equivalents (“CSE”):				
Basic	213,525	210,086	212,092	208,665
Dilutive CSE from stock plans	7,185	—	2,340	—
Dilutive CSE from convertible notes	—	—	8,711	—
Diluted	220,710	210,086	223,143	208,665

Due to the vesting contingency of the warrants, which had not been met as of December 31, 2009, the warrants are excluded from the computation of diluted net income (loss) per share for the third quarter and first nine 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 third quarter and first nine months of fiscal 2010, 5.1 million weighted equivalent shares were excluded. For the third quarter and first nine months of fiscal 2009, 36.8 million weighted equivalent shares were excluded.
- For the third quarter and first nine months of fiscal 2010, options to purchase 14.9 million and 29.1 million weighted average shares, respectively, were excluded. For third quarter and first nine months of fiscal 2009, options to purchase 26.1 million shares were excluded.
- Unvested restricted stock units for 0.4 million and 0.6 million weighted average shares for the third quarter and first nine months of fiscal 2010, respectively, were excluded. Unvested restricted stock units for 6.6 million shares for both the third quarter and first nine months of fiscal 2009 were excluded.

Note 14: COMPREHENSIVE INCOME (LOSS)

Total comprehensive income (loss), net of tax, for the three and nine months ended December 31, 2009 and 2008 was (in thousands):

	Three Months Ended		Nine Months Ended	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Net income (loss)	$ 4,636	$ (328,776)	$ 20,999	$ (346,378)
Net unrealized gains (losses) on revaluation of long-term intercompany balance, net of tax	58	101	(152)	547
Foreign currency translation adjustment, net of tax	(149)	(1,375)	1,214	(2,379)
Total comprehensive income (loss)	$ 4,545	$ (330,050)	$ 22,061	$ (348,210)

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 Riverbed's 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 December 31, 2009 and March 31, 2009, we had issued non-cancelable purchase commitments for $41.9 million and $48.4 million, respectively, to purchase finished goods from our contract manufacturers in future periods. We also accrued $1.6 million and $0.5 million as of December 31, 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: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENT

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements in this report usually contain the words "will," "estimate," "anticipate," "expect", "believe" or similar expressions and variations or negatives of these words. All such forward-looking statements including, but not limited to, (1) our goals for future operating performance, including our expectations regarding our performance for the fourth quarter and fiscal year ending March 31, 2010; (2) our expectations relating to growing our disk-based backup, software and services businesses; (3) our research and development plans and focuses; (4) our expectation that we will continue to derive a substantial majority of our revenue from products based on tape technology; (5) 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 at least the next 12 months; (6) our expectations regarding our ongoing efforts to reduce our cost structure; (7) our expectations about the timing and maximum amounts of our future contractual payment obligations; (8) our belief that our ultimate liability in any infringement claims made by any third parties against us will not be material to us; and (9) our business objectives, key focuses, opportunities and prospects are inherently uncertain as they are based on management's expectations and assumptions concerning future events, and they are subject to numerous known and unknown risks and uncertainties. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. As a result, our actual results may differ materially from the forward-looking statements contained herein. Factors that could cause actual results to differ materially from those described herein include, but are not limited to, (1) the amount of orders received in future periods; (2) our ability to timely ship our products; (3) uncertainty regarding information technology spending and the corresponding uncertainty in the demand for our products and services; (4) our ability to achieve anticipated gross margin levels; (5) our ability to maintain supplier relationships; (6) the successful execution of our strategy to expand our businesses into new directions; (7) our ability to successfully introduce new products; (8) our ability to capitalize on changes in market demand; (9) the availability of credit on terms that are beneficial to us, particularly in light of the continuing global credit crisis and worldwide recession; and (10) those factors discussed under "Risk Factors" in Part II, Item 1A. Our forward-looking statements are not guarantees of future performance. We disclaim any obligation to update information in any forward-looking statement.

OVERVIEW

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

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

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

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

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

We have worked through a series of significant changes during this fiscal year, including a challenging economic environment, an altered relationship with EMC, the pressures of a constrained debt market as well as market transitions. Throughout these changes, we have continued to focus on executing our business strategy, leading to a significantly improved business model with growth opportunities. Our results this quarter and in the second quarter of fiscal 2010 demonstrate our ability to deliver solid operating profit regardless of whether we have significant revenue from OEM DXi™ software, as we did in the second quarter of fiscal 2010, or do not have significant OEM DXi software revenue, as was the case in this quarter. We believe we have the foundation from which we can grow the company and improve our overall performance as we continue to launch critical new products.

We embarked on a broad-based new product cycle earlier this fiscal year to expand our growth platform for disk-based backup systems and software solutions centered on deduplication and replication. Industry data indicates the market for target-based deduplication systems is growing substantially despite the cautious economic environment, and we believe we are well positioned to capitalize on this opportunity. One way we intend to capitalize on this market opportunity is by building a revenue stream to complement the traction we have obtained in the enterprise-VTL segment of the market. During the third 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 NAS-based 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 two models of the DXi6500 family became available in the third quarter of fiscal 2010. We believe the DXi6500 family is an ideal offering for the independent channel and will provide us incremental opportunities. Our priority in the fourth quarter of fiscal 2010 is to begin shipping the remaining models and to work with our channel partners to increase sales of the DXi6500 products to meet the data deduplication and storage needs of end users.

We continue to provide enterprise disk-based solutions in the growing target-based deduplication systems market. Our current DXi results are dominated by the DXi7500 appliance in a VTL implementation, and we continue to pursue this market in a targeted manner. We believe there are additional opportunities in this market and we plan to expand and further improve our product line to deliver edge to core solutions.

Although deduplication disk systems are rapidly becoming the standard for backup and fast recovery of archive data, automated tape continues to hold a strong role in the data preservation hierarchy. 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. During the third quarter of fiscal 2010, we released products and upgrades that we expect will deliver incremental revenue growth opportunities in the near term due to our strength in this market. We introduced an encryption solution and the Scalar® i40 and i80 tape automation libraries that were designed to provide small and medium businesses and distributed data centers with more storage capacity, room for continued growth and simplified system management. We expect to introduce LTO5 technology-based solutions and a new enterprise library that is an extension of our current Scalar i2000 tape automation system in the fourth quarter of fiscal 2010. We anticipate these upcoming product offerings will expand our market opportunity into larger enterprise segments. We continue to work 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. Our focus is to capitalize on these incremental revenue and market-share building opportunities.

There was measurable improvement in the storage purchasing environment during the third quarter of fiscal 2010. IT budgets were more available, channel inventories began to replenish and, as a result, the industry had modest growth. However, there continued to be difficulties with deals progressing through customers' approval processes resulting in reduced and delayed sales this quarter, but not as many sales were delayed as in recent quarters. We saw the most improvement in Europe, while North America continued to be impacted by the constrained economic environment.

In the near term, we are focused on executing our go-to-market strategies for recently introduced and additional new products, extending our disk-based enterprise-VTL leadership position and growing revenues from products that serve enterprise customers, establishing a strong position in the disk-based midrange NAS market, increasing the market reach of our StorNext® software solution and 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 and in the tape market due to the strength of our tape automation systems product line.

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.

Results

During the third quarter of fiscal 2010, economic conditions improved slightly; however, conditions have not returned to pre-recession levels and continued to impact our revenue results. Total revenue for the third quarter of fiscal 2010 decreased 11% to $181.7 million from $203.7 million in the third quarter of fiscal 2009 primarily reflecting the weaker economy and anticipated decreases in OEM revenue, including DXi software, tape automation systems and devices and media sales. The decrease in OEM DXi software revenue was due to the changed nature of our relationship with EMC as a result of their acquisition of Data Domain, a Quantum competitor, in July 2009. Disk-based backup systems and software solutions decreased to 18% of product revenue and 12% of total revenue in the third quarter of fiscal 2010 from 20% of product revenue and 14% of total revenue in the third quarter of fiscal 2009 due to lower OEM DXi software revenue. In addition, midrange tape automation system revenues decreased largely due to continued weakness in North America. We maintained our efforts to shift our sales mix toward higher-margin branded sales and away from lower-margin OEM sales. Partially offsetting the total revenue decrease was a significant increase in branded DXi-Series product sales and a moderate increase in branded software solutions revenue. In total, our branded disk-based systems and software solutions revenue, inclusive of related service revenue, increased 29% from the third quarter of fiscal 2009. We also increased the proportion of branded tape automation systems revenue relative to OEM tape automation systems revenue in the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009.

Total gross margin and product gross margin decreased 100 basis points and 440 basis points, respectively, for the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009 largely due to these shifts in our revenue mix. Branded sales comprised 76% of non-royalty revenue for the third quarter of fiscal 2010 compared to 65% for the third quarter of fiscal 2009. Sales of branded products typically generate higher gross margins than sales to our OEM customers; however, OEM DXi software revenue provides one of our highest product margins. Gross margins were also impacted by increased lower of cost or market charges related to imminent end of life dates on certain product families and planned product roadmap transitions in addition to a reduction in benefit from lower warranty obligations in the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009. Service gross margin increased to 37.2% in the third quarter of fiscal 2010 from 29.0% in the third quarter of fiscal 2009 primarily due to efficiencies in our service delivery model and decreased OEM repair activities.

Operating expenses decreased 84% to $63.5 million for the third quarter of fiscal 2010 from $409.0 million in the third quarter of the prior year primarily due to the $339.0 million goodwill impairment in the third quarter of fiscal 2009. Decreased restructuring charges and a 12% decrease in sales and marketing expenses comprised the majority of the remaining 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. These decreases were partially offset by a $2.1 million, or 13%, increase in research and development expenses to execute our new product development plans. 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 $0.5 million in the third quarter of fiscal 2010 compared to the third quarter of the prior year primarily due to principal payments over the past year on our CS credit agreement term loan. We had net income of $4.6 million for the third quarter of fiscal 2010 compared to a net loss of $328.8 million for the third quarter of fiscal 2009 primarily due to the goodwill impairment in the prior year. In addition, we generated $81.9 million of cash flow from operations in the first nine months of fiscal 2010 compared to $49.9 million in the first nine months of fiscal 2009.

Total revenue, including product revenue and royalty revenue, has increased for two consecutive quarters. We achieved a record level of branded disk-based systems and software solutions revenue in the third quarter of fiscal 2010. We also had sequential growth in both branded and OEM tape automation systems during the past two quarters. We believe these results are a reflection of our significantly improved business model and our focus on executing our strategies.

For the fourth quarter of fiscal 2010, we anticipate total revenue between $165 million and $175 million, gross margin percentage similar to the third quarter of fiscal 2010 and similar to slightly higher operating expenses from increased research and development and sales and marketing investments compared to the third quarter of fiscal 2010.

RESULTS OF OPERATIONS

Revenue

(in thousands)	Three Months Ended					
	December 31, 2009	% of revenue	December 31, 2008	% of revenue	Change	% Change
Product revenue	$ 124,580	68.6%	$ 143,882	70.6%	$ (19,302)	(13.4)%
Service revenue	38,991	21.5%	40,757	20.0%	(1,766)	(4.3)%
Royalty revenue	18,139	10.0%	19,029	9.3%	(890)	(4.7)%
Total revenue	$ 181,710	100.0%	$ 203,668	100.0%	$ (21,958)	(10.8)%

	Nine Months Ended					
	December 31, 2009	% of revenue	December 31, 2008	% of revenue	Change	% Change
Product revenue	$ 348,131	67.3%	$ 444,658	69.4%	$ (96,527)	(21.7)%
Service revenue	117,650	22.8%	124,593	19.4%	(6,943)	(5.6)%
Royalty revenue	51,195	9.9%	71,598	11.2%	(20,403)	(28.5)%
Total revenue	$ 516,976	100.0%	$ 640,849	100.0%	$ (123,873)	(19.3)%

Percentage columns may not add due to rounding.

Although economic conditions improved and technology spending increased during the third quarter of fiscal 2010 from the second quarter of fiscal 2010, the economy and demand for technology products and solutions was weaker than the prior year. Total revenue decreased in the third quarter and first nine months of fiscal 2010 reflecting the economic downturn that has reduced overall IT spending compared to the same periods in the prior year. In addition, OEM DXi software revenue decreased significantly from the prior year periods due to the changes in our relationship with EMC. We are cautious about economic conditions and anticipate total revenue for the upcoming quarter will be somewhat lower than the third quarter of fiscal 2010 as we experience the traditional seasonal decrease from our third fiscal quarter. We believe there are opportunities for revenue growth in disk-based backup systems and software solutions in the fourth quarter of fiscal 2010 due to the release of new products and solutions and from increased traction in the market for our newer solutions.

Product Revenue

Our product revenue, which includes sales of our hardware and software products sold through both our Quantum branded and OEM channels, decreased $19.3 million for the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009 primarily due to anticipated decreases in OEM sales including decreased OEM DXi software revenue. Product revenue for the first nine months of fiscal 2010 decreased $96.5 million compared to the first nine months of fiscal 2009 primarily due to decreased OEM sales; however, branded sales also decreased compared to the prior year period.

(in thousands)	Three Months Ended December 31, 2009	% of revenue	December 31, 2008	% of revenue	Change	% Change
Disk-based backup systems and software solutions	$ 21,814	12.0%	$ 29,154	14.3%	$ (7,340)	(25.2)%
Tape automation systems	75,465	41.5%	85,034	41.8%	(9,569)	(11.3)%
Devices and non-royalty media	27,301	15.0%	29,694	14.6%	(2,393)	(8.1)%
Total product revenue	$ 124,580	68.6%	$ 143,882	70.6%	$ (19,302)	(13.4)%

	Nine Months Ended December 31, 2009	% of revenue	December 31, 2008	% of revenue	Change	% Change
Disk-based backup systems and software solutions	$ 63,814	12.3%	$ 65,891	10.3%	$ (2,077)	(3.2)%
Tape automation systems	202,118	39.1%	256,559	40.0%	(54,441)	(21.2)%
Devices and non-royalty media	82,199	15.9%	122,208	19.1%	(40,009)	(32.7)%
Total product revenue	$ 348,131	67.3%	$ 444,658	69.4%	$(96,527)	(21.7)%

Percentage columns may not add due to rounding.

Revenue from disk-based backup systems and software solutions decreased $7.3 million and $2.1 million from the third quarter and first nine months of fiscal 2009, respectively, due to OEM DXi software revenue reductions resulting from our changed relationship with EMC. Partially offsetting these decreases were increased revenues from our disk-based backup systems, such as the DXi7500, as well as increased sales of branded software.

Although tape automation systems revenue increased 15% sequentially from the second quarter of fiscal 2010 due to improving market conditions and sales efforts, tape automation systems revenue decreased $9.6 million and $54.4 million in the third quarter and first nine months of fiscal 2010, respectively, compared to the prior year periods, largely due to weakness in the worldwide economy. For both the third quarter and first nine months of fiscal 2010, over half of the tape automation systems revenue decreases were due to reduced sales of OEM products, with the largest decreases in OEM midrange products. We also had declines in branded tape automation sales that were primarily related to volume decreases of enterprise products and, to a lesser extent, midrange products in North America in both the third quarter and first nine months of fiscal 2010 compared to the prior year periods. We increased the proportion of branded tape automation systems revenue to OEM tape automation systems revenue in the third quarter and first nine months of fiscal 2010 compared to the third quarter and first nine months of fiscal 2009.

Product revenue from devices, which includes tape drives and removable hard drives, and non-royalty media sales declined $2.4 million and $40.0 million compared to the third quarter and first nine 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. Partially offsetting these decreases in the third quarter of fiscal 2010 were increased media revenues largely from customers making purchases in the current quarter that had been delayed due to reduced IT budgets in response to economic conditions. We continue to be strategic with media sales opportunities and have not pursued media revenues that do not provide sufficient margins. Media revenue decreases for the first nine months of fiscal 2010 were consistent with our expectations.

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 $6.9 million in the third quarter and first nine months of fiscal 2010, respectively, compared to the prior year periods, primarily due to reduced service revenues from our OEM customers. Service revenue related to our branded products increased slightly in the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009.

Partially offsetting the increased service revenue related to our branded products for the first nine months of fiscal 2010, were several changes in customer trends noted during the first half of fiscal 2010. These included customers renewing their service contracts for shorter periods, choosing lower cost and slower response time service levels and waiting longer periods after a contract lapsed to renew. It appears these trends were in response to the slow economy and reduced IT budgets. These trends changed in the third quarter of fiscal 2010, and customers chose a more typical mix of services including service contracts for longer periods, faster response time service levels and not to delay service contract renewals.

Royalty Revenue

Media royalties decreased $0.9 million in the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009 due to lower media units sold by media licensees. Media royalties decreased $20.4 million in the first nine months of fiscal 2010 compared to the prior year due to a one-time $11.0 million royalty payment in the prior year and lower media units sold by media licensees. For the third quarter and first nine months of fiscal 2010, royalties from maturing DLT media decreased more than royalties related to LTO media compared to the same periods in the prior year. LTO media royalties had sequential growth in each of the first three quarters of fiscal 2010.

Gross Margin

(in thousands)	Three Months Ended					
	December 31, 2009	Gross margin%	December 31, 2008	Gross margin%	Change	% Change
Product gross margin	$ 42,071	33.8%	$ 54,933	38.2%	$(12,862)	(23.4)%
Service gross margin	14,506	37.2%	11,824	29.0%	2,682	22.7%
Royalty gross margin	18,139	100.0%	19,029	100.0%	(890)	(4.7)%
Gross margin	$ 74,716	41.1%	$ 85,786	42.1%	$ (11,070)	(12.9)%

	Nine Months Ended					
	December 31, 2009	Gross margin%	December 31, 2008	Gross margin%	Change	% Change
Product gross margin	$ 120,459	34.6%	$ 141,075	31.7%	$ (20,616)	(14.6)%
Service gross margin	41,334	35.1%	30,827	24.7%	10,507	34.1%
Royalty gross margin	51,195	100.0%	71,598	100.0%	(20,403)	(28.5)%
Gross margin	$ 212,988	41.2%	$ 243,500	38.0%	$ (30,512)	(12.5)%

The 100 basis point decrease in gross margin percentage for the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009 was largely due to a change in our revenue mix from decreased higher-margin OEM DXi software revenue. For the first nine months of fiscal 2010, our gross margin percentage increased 320 basis points primarily due to a shift in our revenue mix toward higher-margin revenues and manufacturing cost reductions. We continued to emphasize sales of our disk-based backup systems and software solutions as well as enterprise branded products. A higher proportion of our product sales were through branded channels compared to the third quarter and first nine months of fiscal 2009. Branded sales comprised 76% and 73% of non-royalty revenue for the third quarter and first nine months of fiscal 2010, respectively, compared to 65% and 66% for the third quarter and first nine months of fiscal 2009, respectively. Sales of branded products typically generate higher gross margins than sales to our OEM customers. We expect our gross margin percentage in the fourth quarter of fiscal 2010 to be similar to the third quarter of fiscal 2010.

Product Margin

Our product gross margin dollars decreased $12.9 million, or 23%, and the product gross margin rate decreased 440 basis points in the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009. The decreased product gross margin rate in the third quarter of fiscal 2010 was primarily due to a change in our revenue mix from decreased OEM DXi software revenue. OEM DXi software revenue provides one of our highest product margins. Gross margins were also impacted by increased lower of cost or market charges related to imminent end of life dates on certain product families and planned product roadmap transitions in addition to a reduction in benefit from lower warranty obligations in the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009.

For the first nine months of fiscal 2010, product gross margin dollars decreased $20.6 million, or 15%, but the product gross margin rate increased 290 basis points compared to the first nine months of fiscal 2009. This increased product gross margin rate was primarily due to the combination of a shift in our revenue mix and improvements in our manufacturing cost structure. For the first nine months of fiscal 2010, 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 compared to the prior year period. Cost-cutting measures and manufacturing efficiencies implemented in the current and prior quarters also contributed to improved product gross margins compared to the first nine months of fiscal 2009. The change in our revenue mix from decreased OEM DXi software revenue tempered the product gross margin rate increases for the first nine months of fiscal 2010.

Service Margin

Service gross margin dollars increased $2.7 million and $10.5 million in the third quarter and first nine months of fiscal 2010, respectively, compared to the prior year periods, primarily due to cost reductions in our service delivery model and reduced lower-margin OEM repair activities. Service gross margin percentage increased 820 basis points and 1,040 basis points in the third quarter and first nine 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 as well as related expenses. In addition, we had decreased lower of cost or market charges related to imminent end of service life dates on certain product families and planned product roadmap transitions in the third quarter and first nine months of fiscal 2010 compared to the prior year periods.

Research and Development Expenses

	Three Months Ended					
(in thousands)	December 31, 2009	% of revenue	December 31, 2008	% of revenue	Change	% Change
Research and development	$ 18,155	10.0%	$ 16,053	7.9%	$ 2,102	13.1%

	Nine Months Ended					
	December 31, 2009	% of revenue	December 31, 2008	% of revenue	Change	% Change
Research and development	$ 51,594	10.0%	$ 53,809	8.4%	$ (2,215)	(4.1)%

Research and development expenses increased $2.1 million compared to the third quarter of fiscal 2009, primarily due to a $1.4 million increase in salaries and benefits as well as a $0.6 million increase in external service provider expenses and a $0.2 million increase in project materials. Salaries and benefits increased due to higher headcount to execute our product development plans. External service provider and project materials expenses increased to support a number of new products under development.

Research and development expenses decreased $2.2 million in the nine month period ended December 31, 2009 compared to the same period 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 $1.1 million from lower headcount during the majority of the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009. In addition, depreciation expense was $0.9 million lower than the first nine months of fiscal 2009 due to a number of assets supporting our research and development efforts becoming fully depreciated during the past year. We anticipate similar to increased levels of research and development expenses in the fourth quarter of fiscal 2010 compared to the third quarter of fiscal 2010 to support our planned new product introductions and technology roadmap.

Sales and Marketing Expenses

(in thousands)	Three Months Ended					
	December 31, 2009	% of revenue	December 31, 2008	% of revenue	Change	% Change
Sales and marketing	$ 29,029	16.0%	$ 32,821	16.1%	$ (3,792)	(11.6)%

	Nine Months Ended					
	December 31, 2009	% of revenue	December 31, 2008	% of revenue	Change	% Change
Sales and marketing	$ 84,202	16.3%	$ 111,006	17.3%	$ (26,804)	(24.1)%

The $3.8 million and $26.8 million decrease in sales and marketing expense for the third quarter and first nine months of fiscal 2010, respectively, was largely the result of reduced salaries and benefits from lower headcount. Salaries and benefits decreased $1.4 million and $13.6 million for the third quarter and first nine months of fiscal 2010, respectively, compared to the same periods of the prior year.

Cost-savings initiatives implemented company-wide led to other sales and marketing expense decreases. The largest of these decreases were $0.6 million in travel expenses, $0.5 million in external service provider expenses and $0.5 million in marketing expenses, including trade show expenses, for the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009. For the first nine months of fiscal 2010, we had a $4.2 million decrease in marketing expenses, including trade show expenses, a $3.4 million decrease in travel expenses and a $1.3 million decrease in external service provider expenses compared to the first nine months of fiscal 2009. We also had a $1.5 million decrease in intangible amortization for the first nine months of fiscal 2010 due to certain sales and marketing intangible assets becoming fully amortized in the prior year. We expect similar to increased levels of sales and marketing expenses in the fourth quarter of fiscal 2010 compared to the third quarter of fiscal 2010 as we align our expanding product portfolio and revenue opportunities within our sales model.

General and Administrative Expenses

(in thousands)	Three Months Ended					
	December 31, 2009	% of revenue	December 31, 2008	% of revenue	Change	% Change
General and administrative	$ 16,289	9.0%	$ 17,015	8.4%	$ (726)	(4.3)%

	Nine Months Ended					
	December 31, 2009	% of revenue	December 31, 2008	% of revenue	Change	% Change
General and administrative	$ 46,012	8.9%	$ 58,860	9.2%	$ (12,848)	(21.8)%

General and administrative expenses decreased for the third quarter and first nine months of fiscal 2010, respectively, 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 $0.9 million and $5.7 million in the third quarter and first nine months of fiscal 2010, respectively. Cost-savings initiatives commencing in fiscal 2009 and continuing through the third 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 $0.4 million and $2.6 million for the third quarter and first nine months of fiscal 2010, respectively, compared to the same periods of the prior year from reduced headcount. External service provider expenses decreased $0.4 million and $1.4 million for the third quarter and first nine months of fiscal 2010, respectively. These decreases were partially offset by a $0.9 million increase in sales and use tax expense from the release of liabilities due to the expiration of the statute of limitations in a number of jurisdictions in the third quarter of fiscal 2009 that was not repeated.

Restructuring Charges (Benefits)

(in thousands)	Three Months Ended December 31, 2009	% of revenue	December 31, 2008	% of revenue	Change	% Change
Restructuring charges (benefits)	$ (22)	—%	$ 4,062	2.0%	$ (4,084)	n/m

	Nine Months Ended December 31, 2009	% of revenue	December 31, 2008	% of revenue	Change	% Change
Restructuring charges	$ 4,784	0.9%	$ 4,469	0.7%	$ 315	7.0%

The $4.1 million decrease in restructuring charges was due to minimal restructuring activity in the third quarter of fiscal 2010 compared to $4.2 million in severance and benefits restructuring charges for a reduction-in-force in the third quarter of fiscal 2009. For the first nine months of fiscal 2010, restructuring charges increased $0.3 million from the first nine months of fiscal 2009 primarily due to facility restructuring charges for contractual lease payments of four facilities vacated in fiscal 2010. Largely offsetting this increase were reduced severance and benefits restructuring charges compared to the prior year period. 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 to maintain or improve our cost structure.

Goodwill Impairment

(in thousands)	Three Months Ended December 31, 2009	% of revenue	December 31, 2008	% of revenue	Change	% Change
Goodwill impairment	—	—%	$ 339,000	166.4%	$ (339,000)	n/m

	Nine Months Ended December 31, 2009	% of revenue	December 31, 2008	% of revenue	Change	% Change
Goodwill impairment	—	—%	$ 339,000	52.9%	$ (339,000)	n/m

We evaluate goodwill for impairment annually during the fourth quarter of our fiscal year, or more frequently when indicators of impairment are present. We consider the indicators of impairment in the accounting guidance, as well as indicators the Securities and Exchange Commission (“SEC”) has noted, and evaluate any other relevant facts and circumstances that may indicate that the fair value of goodwill is less than its carrying amount. Because we operate as a single reporting unit, we consider the company as a whole when reviewing these factors.

During the third quarter of fiscal 2009, we determined that the following significant impairment indicators were present:

- a significant decline in our stock price, bringing market capitalization below book value;
- a significant adverse change in the business climate;
- negative current events and changed long-term economic outlook as a result of the financial market collapse that started in the second quarter of fiscal 2009; and
- our need to test long-lived assets for recoverability under applicable accounting rules.

As a result of the presence of these indicators of impairment, during the third quarter of fiscal 2009 we performed an interim test to determine if our goodwill was impaired and recorded a goodwill impairment of $339.0 million. The goodwill impairment did not impact our cash or cash equivalents balances, cash flows from operations, liquidity or compliance with debt covenants. There were no impairment indicators in the third quarter or first nine months of fiscal 2010.

Interest Income and Other, Net

(in thousands)	Three Months Ended December 31, 2009	% of revenue	December 31, 2008	% of revenue	Change	% Change
Interest income and other, net	$ 526	0.3%	$ (594)	(0.3)%	$ 1,120	n/m

	Nine Months Ended December 31, 2009	% of revenue	December 31, 2008	% of revenue	Change	% Change
Interest income and other, net	$ 1,795	0.3%	$ 503	0.1%	$ 1,292	n/m

The $1.1 million increase in interest income and other, net for the third quarter of fiscal 2010 was primarily due to gains from the change in market value of our interest rate hedge that expired on December 31, 2009 compared to losses on the interest rate hedge in the prior year.

For the nine months ended December 31, 2009, interest income and other, net increased $1.3 million primarily due to a net increase in foreign exchange gains and losses due to smaller losses during the first nine months of fiscal 2010 than in the first nine months of fiscal 2009. The foreign exchange losses in both periods were primarily due to the U.S. dollar strengthening against the euro and the Australian dollar.

Interest Expense

(in thousands)	Three Months Ended December 31, 2009	% of revenue	December 31, 2008	% of revenue	Change	% Change
Interest expense	$ 6,813	3.7%	$ 7,276	3.6%	$ (463)	(6.4)%

	Nine Months Ended December 31, 2009	% of revenue	December 31, 2008	% of revenue	Change	% Change
Interest expense	$ 19,399	3.8%	$ 23,561	3.7%	$ (4,162)	(17.7)%

Interest expense decreased $0.5 million and $4.2 million compared to the third quarter and first nine months of fiscal 2009, respectively, primarily due to reducing our outstanding term debt balance under the CS credit agreement as well as reducing our outstanding convertible subordinated notes. Partially offsetting this decrease was relatively higher interest expense for the third quarter and first nine 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 also includes the amortization of debt issuance costs for debt facilities and prepayment fees. We incurred $0.5 million in prepayment fees in the first nine months 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 December 31, 2009	% of revenue	December 31, 2008	% of revenue	Change	% Change
Gain on debt extinguishment, net of costs	—	—%	—	—%	—	— %

	Nine Months Ended December 31, 2009	% of revenue	December 31, 2008	% of revenue	Change	% Change
Gain on debt extinguishment, net of costs	$ 12,859	2.5%	—	—%	$ 12,859	n/m

During the first nine months of fiscal 2010, we refinanced $137.9 million aggregate principal amount of our convertible subordinated debt, consisting of $50.7 million in a 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)	December 31, 2009	% of pre-tax income	December 31, 2008	% of pre-tax loss	Change	% Change
Income tax provision (benefit)	$ 342	6.9%	$ (2,259)	0.7%	$ 2,601	n/m

	Nine Months Ended					
	December 31, 2009	% of pre-tax income	December 31, 2008	% of pre-tax loss	Change	% Change
Income tax provision (benefit)	$ 652	3.0%	$ (324)	0.1%	$ 976	n/m

The increase in income tax expenses for both the third quarter and first nine months of fiscal 2010 compared to the third quarter and first nine months of fiscal 2009 was primarily due to the release of a tax liability in the third quarter of fiscal 2009. Tax expense for the third quarter of fiscal 2010 was primarily comprised of foreign income taxes and state taxes while tax expense for the first nine months of fiscal 2010 was comprised of foreign income taxes and state taxes partially reduced by U.S. tax refunds from amended filings. Tax benefits for the third quarter and first nine months of fiscal 2009 were from the release of a $2.9 million tax liability due to the expiration of a statute of limitation partially offset by foreign income taxes and state taxes of $0.6 million and $2.6 million, respectively.

Amortization of Intangible Assets

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

	Three Months Ended		
	December 31, 2009	December 31, 2008	Change
Cost of revenue	$ 5,548	$ 5,510	$ 38
Research and development	100	100	—
Sales and marketing	3,393	3,394	(1)
General and administrative	25	25	—
	$ 9,066	$ 9,029	$ 37

	Nine Months Ended		
	December 31, 2009	December 31, 2008	Change
Cost of revenue	$ 16,522	$ 19,158	$(2,636)
Research and development	300	300	—
Sales and marketing	10,181	11,642	(1,461)
General and administrative	75	75	—
	$ 27,078	$ 31,175	$(4,097)

The decrease in intangible asset amortization for the first nine 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. 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		
	December 31, 2009	December 31, 2008	Change
Cost of revenue	$ 333	$ 141	$ 192
Research and development	513	601	(88)
Sales and marketing	619	276	343
General and administrative	877	1,314	(437)
	$ 2,342	$ 2,332	$ 10

	Nine Months Ended		
	December 31, 2009	December 31, 2008	Change
Cost of revenue	$ 952	$ 1,099	$ (147)
Research and development	1,733	2,173	(440)
Sales and marketing	1,837	1,989	(152)
General and administrative	2,633	2,831	(198)
	$ 7,155	$ 8,092	$ (937)

The decrease in share-based compensation for the first nine 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 and it was reinstated on January 1, 2010. 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):

	Nine Months Ended	
	December 31, 2009	December 31, 2008
Net income (loss)	$ 20,999	$ (346,378)
Net cash provided by operating activities	$ 81,865	$ 49,877
Net cash used in investing activities	$ (5,562)	$ (3,251)
Net cash used in financing activities	$ (62,908)	$ (89,030)

Nine Months Ended December 31, 2009

The $60.9 million difference between reported net income and cash provided by operating activities during the nine months ended December 31, 2009 was primarily due to $53.3 million in non-cash expenses, the largest of which were amortization, depreciation, service parts lower of cost or market expense 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 impacted by a $13.9 million increase in deferred revenue, an $11.4 million increase in accounts payable and an $8.4 million reduction in manufacturing inventories, partially offset by an $8.7 million increase in accounts receivable. Deferred revenue increases were primarily attributable to prepaid license fees under an OEM agreement partially offset by lower deferred service contract balances. The increase in accounts payable was due to the timing of purchases and payments. Manufacturing inventories decreased due to planned reductions in inventory levels. The increase in accounts receivable was primarily due to increased sales and service contract billings at the end of the third quarter of fiscal 2010.

Cash used in investing activities primarily reflects $5.7 million of equipment purchases during the nine months ended December 31, 2009. Equipment purchases were primarily for engineering and IT equipment to support product development activities and to upgrade a data center in addition to leasehold improvements for a facility.

Cash used in financing activities during the first nine months of fiscal 2010 was primarily due to repaying $61.5 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.

Nine Months Ended December 31, 2008

The $396.3 million difference between net loss and cash provided by operating activities during the nine months ended December 31, 2008 was primarily due to $405.9 million in non-cash expenses, the largest of which were goodwill impairment, amortization, depreciation and share-based compensation. Uses of cash in operations were primarily a $38.9 million decrease in accounts payable, largely offset by a $37.8 million reduction in accounts receivable. Accounts payable decreased primarily due to lower expenditures for inventory and other operating costs. The decrease in accounts receivable was primarily due to lower sales and strong collections during the first nine months of fiscal 2009.

Cash used in investing activities reflects $4.3 million of equipment purchases during the nine months ended December 31, 2008, partially offset by a $1.0 million return of principal from our private technology venture limited partnership investments. Equipment purchases were primarily the result of maintaining our day to day business operations infrastructure and included voice communication system upgrades, hardware and software to equip our consolidated data center and leasehold improvements. We also purchased development equipment to support disk-based product releases during the first nine months of fiscal 2009.

Cash used in financing activities during the first nine months of fiscal 2009 was primarily due to repaying $91.0 million of the CS term debt.

Capital Resources and Financial Condition

We have made progress in reducing operating costs and changing our capital structure. We 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 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 December 31, 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 $186.5 million at December 31, 2009. This loan matures on July 12, 2014 and has a variable interest rate. The interest rate on the term loan was 4.18% at December 31, 2009. We are required to make quarterly interest and principal payments on the term loan. In addition, on an annual basis, we are required to perform a calculation of excess cash flow which may require an additional payment of the principal amount if the excess cash flow requirements are not met. The revolving credit facility and term loan under the CS credit agreement are secured by a blanket lien on all of our assets and contain certain financial and reporting covenants. As of December 31, 2009, we were in compliance with the debt covenants.

Under the terms of the CS credit agreement, we were 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 that fixed 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 31, 2009.

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.

We have convertible subordinated notes that 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 December 31, 2009, this would mean $308.3 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 affected interest expense if interest rates were not within the floor and cap on our interest rate collar.

Our cash equivalents consisted solely of money market funds during the nine months ended December 31, 2009. Interest rates on these funds are under 1.0% and we earned approximately $0.1 million in interest income during the first nine 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 were required to hedge floating interest rate exposure on 50% of our funded debt balance through December 31, 2009. We had an interest rate collar that fixed 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 31, 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):

	Nine months ended December 31, 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	$ 1,488	$ (1,488)
Interest expense increase (decrease) from collar	(774)	450
Net interest expense increase (decrease)	$ 714	$ (1,038)

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 $0.1 million increase in income before income taxes for the nine months ending December 31, 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.

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 “MANAGEMENT’S 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 EMC’s 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 reseller’s 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 continue to face risks related to the economic crisis.

The economic crisis in the U.S. and global financial markets had and may continue to have a material and adverse impact on our business and our financial condition. Uncertainty about economic conditions always 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, economic conditions over the past year 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 another global economic crisis like the one that we recently experienced would 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 December 31, 2009, the total amount outstanding under the CS credit agreement was $186.5 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 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 incurred significant losses from fiscal 2002 through fiscal 2009. 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 DXi software revenues are relatively profitable and can significantly impact total company profitability. If we were to experience a significant decline in royalty or OEM DXi software 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 DXi software revenues are also dependent on many factors, including the success of competitive offerings, our ability to execute on our product roadmap with our OEM DXi software partners, the effort our OEM DXi software partners put into marketing and selling the resulting products and the market acceptance of the resulting products. A reduction in our OEM DXi software 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 result in 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.

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 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 SALES 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

None.

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: February 5, 2010

QUANTUM CORPORATION

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Form	Incorporated by Reference 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 Registrant's convertible debt securities.	S-3	333-109587	4.1	October 9, 2003
10.1	Amended and Restated Employee Stock Purchase Plan, dated January 1, 2010.	8-K	001-13449	10.1	January 6, 2010
10.2‡	Amendment to Employment Offer Letter between Registrant and Richard E. Belluzzo.*				
10.3‡	Amendment to Employment Offer Letter between Registrant and William C. Britts.*				
10.4‡	Amendment to Employment Offer Letter between Registrant and Jon W. Gacek.*				
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.				

* Indicates management contract or compensatory plan, contract or arrangement.
‡ Filed herewith.
† Furnished herewith.

QUANTUM CORPORATION

AMENDMENT TO RICHARD BELLUZZO OFFER LETTER

Quantum Corporation (the "Company") and Richard Belluzzo (the "Executive") entered into an offer letter, dated July 12, 2002 (the "Offer Letter") and an amendment to the Offer Letter, dated August 18, 2008. This Amendment to the Offer Letter is made as of January 28, 2010, by and between the Company and the Executive.

RECITALS

WHEREAS, the Company and the Executive desire to further amend the Offer Letter to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended.

WHEREAS, under the Offer Letter, the Executive will be entitled a lump sum cash payment if his employment is terminated in certain circumstances and he executes and does not revoke a separation agreement and general release of claims, all as described in the Offer Letter.

NOW, THEREFORE, the Company and the Executive agree that in consideration of the foregoing and the promises and covenants contained herein, the parties agree as follows:

AGREEMENT

1. <u>Code Section 409A</u>. The Code Section 409A paragraphs previously added to the OfferLetter are hereby amended in their entirety to read as follows:

> "Notwithstanding anything to the contrary in this Offer Letter, no Deferred Compensation Separation Benefits (as defined below) will be considered due or payable until you have a "separation from service" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended, and the final regulations and any guidance promulgated thereunder ("Section 409A"). In addition, if you are a "specified employee" within the meaning of Section 409A at the time of your separation from service (other than due to death), then the severance benefits payable to you under this Offer Letter, if any, and any other severance payments or separation benefits that may be considered deferred compensation under Section 409A (together, the "Deferred Compensation Separation Benefits") otherwise due to you on or within the six (6) month period following your separation from service will accrue during such six (6) month period and will become payable in a lump sum payment (less applicable withholding taxes) on the date six (6) months and one (1) day following the date of your separation from service. All subsequent payments, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, if you die following your separation from service but prior to the six (6) month anniversary of your date of separation, then any payments delayed in accordance with this paragraph will be payable in a lump sum (less applicable withholding taxes) to your estate as soon as administratively practicable after the date of your death and all other Deferred Compensation Separation Benefits will be payable in accordance with the payment schedule applicable to each payment or benefit.

It is the intent of this Offer Letter to comply with the requirements of Section 409A so that none of the severance payments and benefits to be provided hereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to so comply. You and the Company agree to work together in good faith to consider amendments to this Offer Letter and to take such reasonable actions which are necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition under Section 409A prior to actual payment to you.

The release of claims required above must be executed and not revoked within the period required by the release and in no event later than sixty (60) days following your termination, inclusive of any revocation period set forth in the release. Subject to the six (6) month delay described above, if your employment ends on or before October 15 of a calendar year, the Deferred Compensation Separation Benefits to which you are entitled shall be paid by Quantum to you within ten (10) calendar days after the date the release of claims becomes effective, but on or before December 31 of that calendar year. If your employment ends after October 15 of a calendar year, the Deferred Compensation Separation Benefits to which you are entitled shall be paid by Quantum to you on the later of (a) the second payroll date in the calendar year next following the calendar year in which your employment has ended or (b) the first payroll date following the date the your release of claims becomes effective, subject to the six (6) month delay described above."

2. Full Force and Effect. To the extent not expressly amended hereby, the Offer Letter shall remain in full force and effect.

3. Entire Agreement. This Amendment and the Offer Letter between the Executive and the Company, as amended, constitute the full and entire understanding and agreement between the parties with regard to the subjects hereof and thereof.

4. Successors and Assigns. This Amendment and the rights and obligations of the parties hereunder shall inure to the benefit of, and be binding upon, their respective successors, assigns, and legal representatives.

5. Counterparts. This Amendment may be executed in counterparts, all of which together shall constitute one instrument, and each of which may be executed by less than all of the parties to this Amendment.

6. Governing Law. This Amendment shall be governed in all respects by the internal laws ofCalifornia, without regard to principles of conflicts of law.

7. Amendment. Any provision of this Amendment may be amended, waived or terminated by a written instrument signed by the Company and the Executive.

(***Signature page follows***)

IN WITNESS WHEREOF, the undersigned parties have caused this Amendment to be executed as of the date first set forth above.

RICHARD BELLUZZO	**QUANTUM CORPORATION**
/s/ Richard Belluzzo	/s/ Shawn Hall
Signature	*Signature*
Richard Belluzzo	Shawn Hall
Print Name	*Print Name*
	Senior Vice President, General Counsel
	Print Title

(Signature page to Amendment to Belluzzo Offer Letter)

QUANTUM CORPORATION

AMENDMENT TO WILLIAM BRITTS OFFER LETTER

Quantum Corporation (the “Company”) and William Britts (the “Executive”) entered into an offer letter, dated August 25, 2006 (the “Offer Letter”) and an amendment to the Offer Letter, dated August 18, 2008. This Amendment to the Offer Letter is made as of January 28, 2010, by and between the Company and the Executive.

RECITALS

WHEREAS, the Company and the Executive desire to further amend the Offer Letter to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended.

WHEREAS, under the Offer Letter, the Executive will be entitled a lump sum cash payment if his employment is Involuntarily Terminated (as defined in, and in the circumstances described in, the Offer Letter) and Executive executes and does not revoke a separation agreement and general release of claims.

NOW, THEREFORE, the Company and the Executive agree that in consideration of the foregoing and the promises and covenants contained herein, the parties agree as follows:

AGREEMENT

1. Code Section 409A. The Code Section 409A paragraphs previously added to the OfferLetter are hereby amended in their entirety to read as follows:

> “Notwithstanding anything to the contrary in this Offer Letter, no Deferred Compensation Separation Benefits (as defined below) will be considered due or payable until you have a “separation from service” within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended, and the final regulations and any guidance promulgated thereunder (“Section 409A”). In addition, if you are a “specified employee” within the meaning of Section 409A at the time of your separation from service (other than due to death), then the severance benefits payable to you under this Offer Letter, if any, and any other severance payments or separation benefits that may be considered deferred compensation under Section 409A (together, the “Deferred Compensation Separation Benefits”) otherwise due to you on or within the six (6) month period following your separation from service will accrue during such six (6) month period and will become payable in a lump sum payment (less applicable withholding taxes) on the date six (6) months and one (1) day following the date of your separation from service. All subsequent payments, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, if you die following your separation from service but prior to the six (6) month anniversary of your date of separation, then any payments delayed in accordance with this paragraph will be payable in a lump sum (less applicable withholding taxes) to your estate as soon as administratively practicable after the date of your death and all other Deferred Compensation Separation Benefits will be payable in accordance with the payment schedule applicable to each payment or benefit.

It is the intent of this Offer Letter to comply with the requirements of Section 409A so that none of the severance payments and benefits to be provided hereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to so comply. You and the Company agree to work together in good faith to consider amendments to this Offer Letter and to take such reasonable actions which are necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition under Section 409A prior to actual payment to you.

The separation agreement and general release required above must be executed and not revoked within the period required by the release and in no event later than sixty (60) days following your termination, inclusive of any revocation period set forth in the release. Subject to the six (6) month delay described above, if your employment ends on or before October 15 of a calendar year, the Deferred Compensation Separation Benefits to which you are entitled shall be paid by Quantum to you within ten (10) calendar days after the date the separation agreement and general release becomes effective, but on or before December 31 of that calendar year. If your employment ends after October 15 of a calendar year, the Deferred Compensation Separation Benefits to which you are entitled shall be paid by Quantum to you on the later of (a) the second payroll date in the calendar year next following the calendar year in which your employment has ended or (b) the first payroll date following the date the your separation agreement and general release becomes effective, subject to the six (6) month delay described above."

2. Full Force and Effect. To the extent not expressly amended hereby, the Offer Letter shall remain in full force and effect.

3. Entire Agreement. This Amendment and the Offer Letter between the Executive and the Company, as amended, constitute the full and entire understanding and agreement between the parties with regard to the subjects hereof and thereof.

4. Successors and Assigns. This Amendment and the rights and obligations of the parties hereunder shall inure to the benefit of, and be binding upon, their respective successors, assigns, and legal representatives.

5. Counterparts. This Amendment may be executed in counterparts, all of which together shall constitute one instrument, and each of which may be executed by less than all of the parties to this Amendment.

6. Governing Law. This Amendment shall be governed in all respects by the internal laws ofCalifornia, without regard to principles of conflicts of law.

7. Amendment. Any provision of this Amendment may be amended, waived or terminated by a written instrument signed by the Company and the Executive.

(***Signature page follows***)

IN WITNESS WHEREOF, the undersigned parties have caused this Amendment to be executed as of the date first set forth above.

WILLIAM BRITTS

/s/ William Britts
Signature

William Britts
Print Name

QUANTUM CORPORATION

/s/ Shawn Hall
Signature

Shawn Hall
Print Name

Senior Vice President, General Counsel
Print Title

(Signature page to Amendment to Britts Offer Letter)

QUANTUM CORPORATION

AMENDMENT TO JON GACEK OFFER LETTER

Quantum Corporation (the "Company") and Jon Gacek (the "Executive") entered into an offer letter, dated August 25, 2006 (the "Offer Letter") and an amendment to the Offer Letter, dated August 18, 2008. This Amendment to the Offer Letter is made as of January 28, 2010, by and between the Company and the Executive.

RECITALS

WHEREAS, the Company and the Executive desire to further amend the Offer Letter to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended.

WHEREAS, under the Offer Letter, the Executive will be entitled a lump sum cash payment if his employment is Involuntarily Terminated (as defined in, and in the circumstances described in, the Offer Letter) and Executive executes and does not revoke a separation agreement and general release of claims.

NOW, THEREFORE, the Company and the Executive agree that in consideration of the foregoing and the promises and covenants contained herein, the parties agree as follows:

AGREEMENT

1. Code Section 409A. The Code Section 409A paragraphs previously added to the OfferLetter are hereby amended in their entirety to read as follows:

"Notwithstanding anything to the contrary in this Offer Letter, no Deferred Compensation Separation Benefits (as defined below) will be considered due or payable until you have a "separation from service" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended, and the final regulations and any guidance promulgated thereunder ("Section 409A"). In addition, if you are a "specified employee" within the meaning of Section 409A at the time of your separation from service (other than due to death), then the severance benefits payable to you under this Offer Letter, if any, and any other severance payments or separation benefits that may be considered deferred compensation under Section 409A (together, the "Deferred Compensation Separation Benefits") otherwise due to you on or within the six (6) month period following your separation from service will accrue during such six (6) month period and will become payable in a lump sum payment (less applicable withholding taxes) on the date six (6) months and one (1) day following the date of your separation from service. All subsequent payments, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, if you die following your separation from service but prior to the six (6) month anniversary of your date of separation, then any payments delayed in accordance with this paragraph will be payable in a lump sum (less applicable withholding taxes) to your estate as soon as administratively practicable after the date of your death and all other Deferred Compensation Separation Benefits will be payable in accordance with the payment schedule applicable to each payment or benefit.

It is the intent of this Offer Letter to comply with the requirements of Section 409A so that none of the severance payments and benefits to be provided hereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to so comply. You and the Company agree to work together in good faith to consider amendments to this Offer Letter and to take such reasonable actions which are necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition under Section 409A prior to actual payment to you.

The separation agreement and general release required above must be executed and not revoked within the period required by the release and in no event later than sixty (60) days following your termination, inclusive of any revocation period set forth in the release. Subject to the six (6) month delay described above, if your employment ends on or before October 15 of a calendar year, the Deferred Compensation Separation Benefits to which you are entitled shall be paid by Quantum to you within ten (10) calendar days after the date the separation agreement and general release becomes effective, but on or before December 31 of that calendar year. If your employment ends after October 15 of a calendar year, the Deferred Compensation Separation Benefits to which you are entitled shall be paid by Quantum to you on the later of (a) the second payroll date in the calendar year next following the calendar year in which your employment has ended or (b) the first payroll date following the date the your separation agreement and general release becomes effective, subject to the six (6) month delay described above."

2. Full Force and Effect. To the extent not expressly amended hereby, the Offer Letter shall remain in full force and effect.

3. Entire Agreement. This Amendment and the Offer Letter between the Executive and the Company, as amended, constitute the full and entire understanding and agreement between the parties with regard to the subjects hereof and thereof.

4. Successors and Assigns. This Amendment and the rights and obligations of the parties hereunder shall inure to the benefit of, and be binding upon, their respective successors, assigns, and legal representatives.

5. Counterparts. This Amendment may be executed in counterparts, all of which together shall constitute one instrument, and each of which may be executed by less than all of the parties to this Amendment.

6. Governing Law. This Amendment shall be governed in all respects by the internal laws ofCalifornia, without regard to principles of conflicts of law.

7. Amendment. Any provision of this Amendment may be amended, waived or terminated by a written instrument signed by the Company and the Executive.

(***Signature page follows***)

IN WITNESS WHEREOF, the undersigned parties have caused this Amendment to be executed as of the date first set forth above.

JON GACEK	**QUANTUM CORPORATION**
/s/ Jon Gacek	/s/ Shawn Hall
Signature	*Signature*
Jon Gacek	Shawn Hall
Print Name	*Print Name*
	Senior Vice President, General Counsel
	Print Title

(Signature page to Amendment to Gacek Offer Letter)

Exhibit 31.1

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

I, Richard E. Belluzzo, 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 5, 2010

/s/ RICHARD E. BELLUZZO
Richard E. Belluzzo
Chairman and Chief Executive Officer

Exhibit 31.2

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

I, Jon W. Gacek, 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 5, 2010

/s/ JON W. GACEK

Jon W. Gacek
Executive Vice President,
Chief Financial Officer and
Chief Operating Officer

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Richard E. Belluzzo, 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, 2009 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 5, 2010

QUANTUM CORPORATION

/s/ RICHARD E. BELLUZZO
Richard E. Belluzzo
Chairman and Chief Executive Officer

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Jon W. Gacek, 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, 2009 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 5, 2010

QUANTUM CORPORATION

/s/ JON W. GACEK

Jon W. Gacek
Executive Vice President,
Chief Financial Officer and
Chief Operating Officer