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 June 30, 2010

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 checkmark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ 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 July 30, 2010, 217.7 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	
	June 30, 2010	June 30, 2009
Product revenue	$ 108,454	$ 105,224
Service revenue	38,637	38,902
Royalty revenue	16,134	16,214
Total revenue	163,225	160,340
Cost of product revenue	70,635	72,086
Cost of service revenue	25,136	26,611
Total cost of revenue	95,771	98,697
Gross margin	67,454	61,643
Operating expenses:		
Research and development	18,122	16,532
Sales and marketing	30,078	27,293
General and administrative	15,483	14,505
Restructuring charges (benefit)	(83)	3,110
	63,600	61,440
Income from operations	3,854	203
Interest income and other, net	(32)	4
Interest expense	(6,115)	(5,651)
Gain on debt extinguishment, net of costs	—	11,290
Income (loss) before income taxes	(2,293)	5,846
Income tax provision	403	838
Net income (loss)	$ (2,696)	$ 5,008
Net income (loss) per share:		
Basic	$ (0.01)	$ 0.02
Diluted	(0.01)	(0.02)
Income (loss) for purposes of computing net income (loss) per share:		
Basic	$ (2,696)	$ 5,008
Diluted	(2,696)	(5,592)
Weighted average common and common equivalent shares:		
Basic	215,448	210,257
Diluted	215,448	226,046

See accompanying notes to Consolidated Financial Statements.

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

	June 30, 2010	March 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 97,288	$ 114,947
Restricted cash	1,813	1,896
Accounts receivable, net of allowance for doubtful accounts of $693 and $798, respectively	105,549	103,397
Manufacturing inventories, net	56,043	54,080
Service parts inventories, net	50,321	53,217
Deferred income taxes	7,746	7,907
Other current assets	14,399	14,500
Total current assets	333,159	349,944
Long-term assets:		
Property and equipment, less accumulated depreciation	23,652	24,528
Intangible assets, less accumulated amortization	64,026	73,092
Goodwill	46,770	46,770
Other long-term assets	9,654	9,809
Total long-term assets	144,102	154,199
	$ 477,261	$ 504,143
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 52,099	$ 56,688
Accrued warranty	5,815	5,884
Deferred revenue, current	80,864	94,921
Current portion of long-term debt	1,884	1,884
Current portion of convertible subordinated debt	22,099	22,099
Accrued restructuring charges	2,446	3,795
Accrued compensation	26,921	31,237
Income taxes payable	1,874	2,594
Other accrued liabilities	22,872	23,555
Total current liabilities	216,874	242,657
Long-term liabilities:		
Deferred revenue, long-term	29,595	30,724
Deferred income taxes	8,660	8,676
Long-term debt	305,428	305,899
Other long-term liabilities	7,409	7,444
Total long-term liabilities	351,092	352,743
Commitments and contingencies		
Stockholders' deficit:		
Common stock, $0.01 par value; 1,000,000 shares authorized; 216,041 and 214,946 shares issued and outstanding at June 30, 2010 and March 31, 2010, respectively	2,160	2,149
Capital in excess of par value	365,013	361,374
Accumulated deficit	(463,825)	(461,129)
Accumulated other comprehensive income	5,947	6,349
Total stockholders' deficit	(90,705)	(91,257)
	$ 477,261	$ 504,143

See accompanying notes to Consolidated Financial Statements.

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

	Three Months Ended	
	June 30, 2010	June 30, 2009
Cash flows from operating activities:		
Net income (loss)	$ (2,696)	$ 5,008
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	2,974	3,288
Amortization	9,477	9,840
Service parts lower of cost or market adjustment	4,458	3,026
Gain on debt extinguishment	—	(13,077)
Deferred income taxes	156	(146)
Share-based compensation	3,042	2,138
Changes in assets and liabilities:		
Accounts receivable, net	(2,152)	19,342
Manufacturing inventories, net	(3,204)	4,183
Service parts inventories, net	(321)	1,845
Accounts payable	(4,559)	5,690
Accrued warranty	(69)	(544)
Deferred revenue	(15,185)	5,078
Accrued restructuring charges	(1,351)	(32)
Accrued compensation	(4,136)	(3,712)
Income taxes payable	(623)	(1,714)
Other assets and liabilities	(1,520)	(7,047)
Net cash provided by (used in) operating activities	(15,709)	33,166
Cash flows from investing activities:		
Purchases of property and equipment	(2,193)	(1,916)
Decrease in restricted cash	72	16
Return of principal from other investment	95	—
Net cash used in investing activities	(2,026)	(1,900)
Cash flows from financing activities:		
Borrowings of long-term debt, net	—	73,872
Repayments of long-term debt	(471)	(40,521)
Repayments of convertible subordinated debt	—	(74,104)
Payment of taxes due upon vesting of restricted stock	(429)	(57)
Proceeds from issuance of common stock, net	1,037	—
Net cash provided by (used in) financing activities	137	(40,810)
Effect of exchange rate changes on cash and cash equivalents	(61)	163
Net decrease in cash and cash equivalents	(17,659)	(9,381)
Cash and cash equivalents at beginning of period	114,947	85,532
Cash and cash equivalents at end of period	$ 97,288	$ 76,151

See accompanying notes to Consolidated Financial Statements.

QUANTUM CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1: DESCRIPTION OF BUSINESS

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

Note 2: BASIS OF PRESENTATION

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of Quantum and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated. The interim financial statements reflect all adjustments, consisting of normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the results for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for the full fiscal year. The Consolidated Balance Sheet as of March 31, 2010 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, 2010 included in our Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on June 11, 2010. Restricted cash has been separated from cash and cash equivalents in prior periods to conform to current period presentation in the Condensed Consolidated Balance Sheets. Prior period impacts of foreign exchange rate changes on cash and cash equivalents and changes in restricted cash have been reclassified to conform to current period presentation in the Condensed Consolidated Statements of Cash Flows. These reclassifications had no impact on income from operations, net income (loss) or total assets.

Note 3: SIGNIFICANT ACCOUNTING POLICIES; NEW ACCOUNTING STANDARDS

Except for the revenue recognition policy updates described below, the significant accounting policies used in the preparation of our Condensed Consolidated Financial Statements are unchanged and are disclosed in our Annual Report on Form 10-K for the year ended March 31, 2010, as filed with the Securities and Exchange Commission on June 11, 2010.

In October 2009, the Financial Accounting Standards Board ("FASB") amended the accounting standards for multiple deliverable revenue arrangements which changed how the deliverables in an arrangement should be separated and how the consideration should be allocated using the relative selling price method. This guidance requires an entity to allocate revenue in an arrangement using estimated selling prices ("ESP") of deliverables if a vendor does not have vendor-specific objective evidence of selling price ("VSOE") or third-party evidence of selling price ("TPE") and eliminates the use of the residual method except as allowed for in specific software revenue guidance.

Also in October 2009, the FASB issued guidance which amended the scope of software revenue recognition guidance. Tangible products containing software and nonsoftware components that function together to deliver the tangible product's essential functionality are no longer within the scope of software revenue guidance and are accounted for based on other applicable revenue recognition guidance. In addition, this amendment requires that hardware components of a tangible product containing software be excluded from the software revenue guidance.

We elected to early adopt these standards at the beginning of our first fiscal quarter of 2011 on a prospective basis for applicable transactions originating or materially modified after April 1, 2010. The adoption of these standards did not have a material impact on our financial position or results of operations for the three months ended June 30, 2010.

Our multiple deliverable arrangements may include any combination of hardware and software products that may be sold with services such as customer field support agreements and installation. The nature and terms of these multiple deliverable arrangements will vary based on customer needs. For arrangements that consist of multiple deliverables, hardware and software products are generally delivered in one reporting period and the services are generally delivered across multiple reporting periods, either according to the terms of the arrangement or upon completion of the service. Our arrangements generally do not include any provisions for cancellation, termination or refunds that would significantly impact revenue recognition.

We evaluate each deliverable in an arrangement to determine whether they represent separate units of accounting using the following criteria: the delivered item has value to the customer on a standalone basis; and if the arrangement includes a general right of return relative to the delivered item, delivery or performance of any undelivered item is considered probable and substantially in the control of the company. We consider a deliverable to have standalone value if the product or service is sold separately or could be sold on a standalone basis. Further, our revenue arrangements typically do not include a general right of return relative to the delivered products. If these criteria are met for each deliverable in the arrangement, consideration is allocated to the separate units of accounting based on each unit's relative selling price as described below. If these criteria are not met, the arrangement is accounted for as one unit of accounting which would result in revenue being deferred until the earlier of when such criteria are met, when the last undelivered element is delivered or ratably over the contract term as appropriate.

To properly allocate revenue for these multiple deliverable arrangements we initially allocate the separately stated contract price to the hardware customer field support agreement and then allocate the remaining revenue to each deliverable based on the selling price hierarchy using VSOE, TPE or ESP. We have VSOE for installations and assign ESP for the products. VSOE is determined by the price charged when the service is sold separately and ESP is the price at which we would transact a sale if the product or service were regularly sold on a standalone basis. We determine ESP by considering our discounting and internal pricing practices, external market conditions and competitive positioning for similar offerings.

There have not been any accounting pronouncements issued during the first quarter of fiscal 2011 that we expect will materially impact our results of operations or financial condition. However, the Financial Accounting Standards Board issued several exposure drafts during the first quarter of fiscal 2011 that have the potential to impact our results of operations and statements of financial position if finalized. We are evaluating these various proposals for both potential implementation issues and their accounting impact.

Note 4: FAIR VALUE

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

	As of June 30, 2010	As of March 31, 2010
Assets:		
Money market funds	$ 91,725	$ 108,485
Deferred compensation investments	1,096	1,154
Liabilities:		
Deferred compensation liabilities	1,096	1,154

The above fair values are based on quoted market prices at the respective balance sheet dates. Following are the fair values of assets and liabilities measured and recorded at fair value on a recurring basis by input level as of June 30, 2010 (in thousands):

	Fair Value Measurements Using Input Levels:			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds	$ —	$ 91,725	$ —	$ 91,725
Deferred compensation investments	—	1,096	—	1,096
Liabilities:				
Deferred compensation liabilities	—	1,096	—	1,096

We have certain non-financial assets that are measured at fair value on a non-recurring basis when there is an indicator of impairment, and they are recorded at fair value only when an impairment is recognized. These assets include property and equipment, intangible assets and goodwill. We did not have any non-recurring assets measured at fair value in the first quarter of fiscal 2011 or 2010. We do not have any non-financial liabilities measured and recorded at fair value on a non-recurring basis.

We have financial liabilities for which we are obligated to repay the carrying value, unless the holder agrees to a lesser amount. The carrying value and fair value of these financial liabilities at June 30, 2010 and March 31, 2010 were as follows (in thousands):

	As of June 30, 2010		As of March 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Credit Suisse term loan(1)	$ 185,595	$ 174,459	$ 186,066	$ 175,832
EMC term loans(2)	121,717	134,988	121,717	138,301
Convertible subordinated notes(3)	22,099	21,947	22,099	21,547

(1) Fair value based on non-binding broker quotes using current market information.
(2) Fair value based on publicly traded debt with comparable terms.
(3) Fair value based on quoted market prices.

Note 5: MANUFACTURING INVENTORIES AND SERVICE PARTS INVENTORIES

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

	June 30, 2010	March 31, 2010
Manufacturing inventories, net:		
Finished goods	$ 25,243	$ 24,040
Work in process	3,535	3,869
Materials and purchased parts	27,265	26,171
	$ 56,043	$ 54,080
Service parts inventories, net:		
Finished goods	$ 28,381	$ 30,073
Component parts	21,940	23,144
	$ 50,321	$ 53,217

Note 6: GOODWILL AND INTANGIBLE ASSETS

We evaluate goodwill for impairment annually during the fourth quarter of our fiscal year, or more frequently when indicators of impairment are present. Intangible assets are evaluated for impairment whenever indicators of impairment are present. During the first quarter of fiscal 2011 and 2010, we considered whether there were any indicators of impairment for both our goodwill and our long-lived assets, including amortizable intangible assets, and determined there were none.

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

	As of June 30, 2010			As of March 31, 2010		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Purchased technology	$ 188,167	$ (167,135)	$ 21,032	$ 188,167	$ (161,488)	$ 26,679
Trademarks	27,260	(25,709)	1,551	27,260	(25,506)	1,754
Non-compete agreements	500	(393)	107	500	(368)	132
Customer lists	106,419	(65,083)	41,336	106,419	(61,892)	44,527
	$ 322,346	$ (258,320)	$ 64,026	$ 322,346	$ (249,254)	$ 73,092

Total intangible amortization expense was $9.0 million for both the first quarter of fiscal 2011 and 2010.

Note 7: ACCRUED WARRANTY

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

	Three Months Ended	
	June 30, 2010	June 30, 2009
Beginning balance	$ 5,884	$ 11,152
Additional warranties issued	2,622	1,678
Adjustments for warranties issued in prior fiscal years	391	915
Settlements	(3,082)	(3,137)
Ending balance	$ 5,815	$ 10,608

We generally warrant our products against defects from 12 to 36 months. A provision for estimated future costs and estimated returns for credit relating to warranty is recorded when products are shipped and revenue recognized. Our estimate of future costs to satisfy warranty obligations is primarily based on historical trends and, if believed to be significantly different from historical trends, estimates of future failure rates and future costs of repair including materials consumed in the repair, labor and overhead amounts necessary to perform the repair. If future actual failure rates differ from our estimates, we record the impact in subsequent periods. If future actual costs to repair were to differ significantly from our estimates, we record the impact of these unforeseen cost differences in subsequent periods.

Note 8: CONVERTIBLE SUBORDINATED DEBT AND LONG-TERM DEBT

Debt balances consisted of the following (in thousands):

	June 30, 2010	March 31, 2010
Convertible subordinated debt	$ 22,099	$ 22,099
Credit Suisse term loan	185,595	186,066
EMC term loans	121,717	121,717
	$ 329,411	$ 329,882

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

Note 9: RESTRUCTURING CHARGES

In fiscal 2010 and continuing in fiscal 2011, restructuring actions that consolidated operations supporting the business were undertaken to improve operational efficiencies and to adapt our operations in recognition of economic conditions. The types of restructuring expense (benefit) for the three months ended June 30, 2010 and 2009 were (in thousands):

	Three Months Ended	
	June 30, 2010	June 30, 2009
By expense (benefit) type		
Severance and benefits	$ 555	$ 327
Facilities	(638)	2,982
Other	—	(199)
	$ (83)	$ 3,110

Fiscal 2011

During the first quarter of fiscal 2011, severance and benefits restructuring expenses were due to eliminating additional positions worldwide across all operating functions. The net reversal of facility restructuring charges in the first quarter of fiscal 2011 was primarily due to negotiating settlements for lease liabilities on two vacated facilities in the U.S. for amounts lower than the outstanding lease contracts.

Fiscal 2010

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

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

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

Accrued Restructuring

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

	For the three months ended June 30, 2010		
	Severance and Benefits	Facilities	Total
Balance as of March 31, 2010	$ 494	$ 3,301	$ 3,795
Restructuring charges	555	47	602
Reversals	—	(685)	(685)
Cash payments	(550)	(716)	(1,266)
Balance as of June 30, 2010	$ 499	$ 1,947	$ 2,446

	Severance and Benefits	Facilities	Total
Estimated timing of future payouts:			
Fiscal 2011	$ 499	$ 1,220	$ 1,719
Fiscal 2012	—	727	727
	$ 499	$ 1,947	$ 2,446

Note 10: 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 14.5 million shares of stock were available for grant as of June 30, 2010.

We also have an employee stock purchase plan (“Purchase Plan”) that allows for the purchase of stock at 85% of fair market value at the date of grant or the exercise date, whichever value is less. There were 9.2 million shares available for issuance as of June 30, 2010.

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

Share-Based Compensation

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

	Three Months Ended	
	June 30, 2010	June 30, 2009
Share-based compensation:		
Cost of revenue	$ 460	$ 300
Research and development	749	638
Sales and marketing	885	458
General and administrative	948	742
	$ 3,042	$ 2,138
Share-based compensation by type of award:		
Stock options	$ 1,104	$ 403
Restricted stock	1,461	1,735
Stock purchase plan	477	—
	$ 3,042	$ 2,138

Stock Options

The weighted-average grant date fair values of employee stock option grants, as well as the weighted-average assumptions used in calculating these values for the first quarter of fiscal 2011 and 2010 were based on estimates at the date of grant as follows:

	Three Months Ended	
	June 30, 2010	June 30, 2009
Options life (in years)	4.2	3.9
Risk-free interest rate	2.02%	1.61%
Stock price volatility	106.75%	105.95%
Dividend yield	—	—
Weighted-average grant date fair value	$ 1.96	$ 0.70

Restricted Stock

The fair value of the restricted stock units granted is the intrinsic value as of the respective grant date since the restricted stock units are granted at no cost to the employees. The weighted-average grant date fair values of restricted stock units granted during the first quarter of fiscal 2011 and 2010 were $2.86 and $1.17, respectively.

Stock Purchase Plan

Under the Purchase Plan, rights to purchase shares are typically granted during the second and fourth quarter of each fiscal year. No rights to purchase shares were granted during the first quarter of fiscal 2011 or 2010.

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, 2010	31,329	$ 2.40		
Granted	204	2.66		
Exercised	(696)	1.49		
Forfeited	(190)	1.47		
Expired	(347)	10.50		
Outstanding as of June 30, 2010	30,300	$ 2.34	3.98	$ 9,768
Vested and expected to vest at June 30, 2010	29,227	$ 2.38	3.90	$ 8,882
Exercisable as of June 30, 2010	19,460	$ 2.91	2.99	$ 1,761

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, 2010	5,135	$ 1.64
Granted	563	2.86
Vested	(588)	1.18
Forfeited	(133)	1.86
Nonvested at June 30, 2010	4,977	$ 1.83

Note 11: INCOME TAXES

Income tax provision for the first quarter of fiscal 2011 and 2010 was $0.4 million and $0.8 million, respectively, and reflects expenses for foreign income taxes and state taxes.

Note 12: 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. We issued a warrant to purchase 10 million shares of our common stock that, in the event of a change of control of Quantum, vests and would be exercisable. Upon exercise, warrants would increase shares outstanding.

Net Income (Loss) per Share

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

	Three Months Ended	
	June 30, 2010	June 30, 2009
Net income (loss)	$ (2,696)	$ 5,008
Interest on dilutive notes	—	690
Gain on debt extinguishment, net of costs	—	(11,290)
Net loss for purposes of computing net loss per diluted share	$ (2,696)	$ (5,592)
Weighted average shares and common share equivalents (“CSE”):		
Basic	215,448	210,257
Dilutive CSE from stock plans	—	1,253
Dilutive CSE from convertible notes	—	14,536
Diluted	215,448	226,046
Basic net income (loss) per share	$ (0.01)	$ 0.02
Diluted net loss per share	(0.01)	(0.02)

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

- 4.375% convertible subordinated notes issued in July 2003, which are convertible into shares of Quantum common stock (229.885 shares per $1,000 note) at a conversion price of $4.35 per share. At June 30, 2010 and 2009, weighted equivalent shares of 5.1 million and 16.7 million, respectively, were excluded.
- Options to purchase 11.5 million and 24.6 million weighted average shares at June 30, 2010 and 2009, respectively, were excluded.
- Unvested restricted stock units of 0.4 million and 1.9 million weighted average shares at June 30, 2010 and 2009, respectively, were excluded.

Note 13: COMPREHENSIVE INCOME (LOSS)

Total comprehensive income (loss), net of tax, if any, for the three months ended June 30, 2010 and 2009 was (in thousands):

	Three Months Ended	
	June 30, 2010	June 30, 2009
Net income (loss)	$ (2,696)	$ 5,008
Net unrealized gains on revaluation of long-term intercompany balance	215	875
Foreign currency translation adjustment	(617)	(71)
Total comprehensive income (loss)	$ (3,098)	$ 5,812

Note 14: SUBSEQUENT EVENT

On July 30, 2010, we paid $22.1 million plus $0.5 million in accrued and unpaid interest to redeem the outstanding convertible subordinated notes (“the notes”) in accordance with the contractual terms at maturity. The notes matured August 1, 2010. We funded this payment with cash on hand.

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," "project" 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 revenue, gross margin and operating expense performance for the second quarter of fiscal 2011; (2) our expectations relating to growing our disk systems, software and service revenues; (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 control 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 goals, objectives, key focuses, opportunities and prospects which 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 maintain supplier relationships; (5) the successful execution of our strategy to expand our businesses in new directions; (6) our ability to successfully introduce new products; (7) our ability to capitalize on changes in market demand; (8) our ability to achieve anticipated gross margin levels; (9) the availability of credit on terms that are acceptable to us; 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 New York Stock Exchange ("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 system 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.

We launched a number of new products in the prior year and believe we are positioned for stronger performance in fiscal 2011 through revenue growth from the combination these and additional new products as well as increasing our engagement with channel partners. We believe our product portfolio provides us with a competitive advantage and establishes the foundation for building revenue momentum. Capitalizing on this opportunity by growing revenue and continuing to improve our competitive position is our priority in fiscal 2011. Specifically, for fiscal 2011 our goals are:

- To gain share in the open systems tape automation market;
- To increase revenue from disk systems and software solutions; and
- To deliver new technology in order to extend our ability to grow.

In order to achieve our goals, we are focused on three primary objectives. These objectives are to continue to extend and improve our product portfolio by delivering new products, to expand our position with the VAR channel and to further invest in our technology platform. In addition, we are working to build a more diverse revenue foundation to provide greater revenue stability and growth potential to minimize the exposure we have to economic downturns by achieving our goals and objectives. With our current mix of revenue streams, we continue to be exposed to economic downturns and our results for the first quarter of fiscal 2011 reflected this exposure. In addition, revenue streams based on large orders can result in variability in quarterly revenue and was apparent this quarter due to delayed sales, especially in Europe, Middle East and Africa (“EMEA”). We had a slower than expected ramp of sales for midrange products in the channel and we are addressing this. We believe that establishing a strong position with the VAR channel will provide a larger, more stable revenue stream from midrange product sales and will help minimize the variability from large transactions and economic conditions in the future.

In regard to our goal to gain share in the open systems tape automation market, our efforts in the first quarter of fiscal 2011 enabled us to have a strong quarter in acquiring new enterprise tape customers. We increased revenue from disk systems and software solutions by 86% compared to the first quarter of fiscal 2010. We also had several product releases during the first quarter of fiscal 2011 described in more detail below. We extended our position with the VAR channel, in part due to availability of these new products, and we continued to invest research and development resources in our technology platform during the first quarter of fiscal 2011.

In April 2010, we announced a new enterprise tape library, the Scalar i6000, designed to meet the challenges of high data growth while facilitating tape consolidation in tiered storage environments. The Scalar i6000 provides a significant increase in capacity, high availability and enhanced security over the previous generation enterprise library and incorporates the company's next-generation iLayer software. This combination of enhanced capabilities and intelligence provides enterprise customers with a long-term archive and data retention solution optimized for the evolving role of tape in data protection. Also in April 2010, we released version 4.0 of the Quantum Vision™ software, which supports a tiered storage strategy by enhancing centralized monitoring and reporting of Scalar tape libraries and DXi-Series disk systems and deduplication products.

In May 2010, we released the DXi4500 family of products comprised of two turnkey disk appliances designed to work with the leading backup software packages to provide non-disruptive deduplication for small and medium-size businesses and remote offices to simply and cost-effectively address their backup needs. Both DXi4500 models are bundled with DXi software to support backup, including in VMware environments, deduplication and replication. In addition, the DXi4500 products are optimized for sales through channel partners.

We anticipate these recently introduced product offerings as well as the other components of our product portfolio will expand our market opportunities and enable us to create a revenue mix that provides both revenue stability and growth. 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 and resulting actions by competitors, we believe are more likely to select our products and solutions.

Although the deduplication and replication market is growing in this mixed economic environment, there remains a risk that demand for backup, storage and archive solutions could soften in certain geographies, especially in Europe, as our customers carefully manage their IT investments. We continue to pursue enterprise opportunities where we are best advantaged and are working to grow our midrange channel around the DXi6500 product family. Combined with the other elements of our go-to-market efforts for tape automation systems and also for software solutions, we believe this will create a more balanced revenue mix that will allow us to build a more profitable, growing business.

Results

Total revenue for the first quarter of fiscal 2011 increased $2.9 million to $163.2 million from $160.3 million in the first quarter of fiscal 2010 primarily reflecting growth in disk systems and software solutions, mostly offset by expected reductions of devices and media sales and lower than expected branded tape automation system sales in the U.S. and in EMEA. Although revenue increased from the prior year, revenue was lower than we had targeted for the first quarter of fiscal 2011 which we believe was primarily due to economic uncertainty in Europe causing customers to reduce overall spending by canceling or delaying purchases. Revenue from disk systems and software solutions increased $14.4 million in the first quarter of fiscal 2011 compared to prior year period primarily due to more than doubling sales of our branded DXi-series disk products in addition to increased OEM DXi software revenue recognized in accordance with contractual requirements. Disk systems and software solutions increased to 19% of total revenue and to 29% of product revenue in the first quarter of fiscal 2011 from 11% of total revenue and 16% of product revenue in the first quarter of fiscal 2010.

Gross margin increased 290 basis points and product gross margin increased 340 basis points compared to the first quarter of fiscal 2010 largely due to this shift in our revenue mix and, to a lesser extent, cost reductions. Branded sales comprised 73% of non-royalty revenue for the first quarter of fiscal 2011 compared to 71% for the first quarter of fiscal 2010. 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. Service gross margin increased 330 basis points in the first quarter of fiscal 2011 compared to the first quarter of fiscal 2010 due to decreased external service provider expense from the combination of decreased volumes to these vendors, negotiating lower rates and the mix of services for OEM repairs and for our branded products under contract.

Operating expenses increased 3.5% to $63.6 million for the first quarter of fiscal 2011 from $61.4 million in the prior year primarily from increased sales and marketing expenses and investments in research and development, partially offset by decreased restructuring expenses. Sales and marketing expenses increased due to higher marketing expenses related to our go-to-market efforts for our new products as well as commissions from increased branded sales. Research and development expense increased due to hiring additional engineers in our disk systems and software development teams to extend and improve our product portfolio. Partially offsetting these increases were lower restructuring charges primarily due to facility consolidations in the prior year that were not repeated in the first quarter of fiscal 2011.

We are focused on growing the company to increase operating profits. Operating profit increased $3.7 million and we had a 2.4% operating margin for the first quarter of fiscal 2011 compared to breakeven for the first quarter of fiscal 2010. Interest expense increased $0.5 million primarily due to higher interest rates on the term debt that replaced the convertible subordinated debt we held in the prior year.

Although we had increased revenue, gross margin and operating profit in the first quarter of fiscal 2011 than the prior year, interest expense was higher than operating profit, resulting in a net loss of $2.7 million for the first quarter of fiscal 2011. In addition, we used $15.7 million of cash in operations in the first quarter of fiscal 2011 primarily due to the final utilization of an OEM DXi software prepayment. We ended the June 30, 2010 quarter with $99.1 million in cash, cash equivalents and restricted cash.

For the second quarter of fiscal 2010, we anticipate total revenue between $165.0 million and $180.0 million, slightly lower gross margin and increased operating expenses commensurate with revenue increases from the first quarter of fiscal 2011.

RESULTS OF OPERATIONS

Revenue

	Three Months Ended					
(In thousands)	June 30, 2010	% of revenue	June 30, 2009	% of revenue	Change	% Change
Product revenue	$ 108,454	66.4%	$ 105,224	65.6%	$ 3,230	3.1%
Service revenue	38,637	23.7%	38,902	24.3%	(265)	(0.7)%
Royalty revenue	16,134	9.9%	16,214	10.1%	(80)	(0.5)%
Total revenue	$ 163,225	100.0%	$ 160,340	100.0%	$ 2,885	1.8%

Total revenue increased in the first quarter of fiscal 2011 reflecting improved global economic conditions compared to the prior year, including significant strength in Asia Pacific and in a number of areas in North America. However, as noted earlier, revenue increases for the first quarter of fiscal 2011 were lower than expected, primarily due to canceled or delayed sales across all of our product lines from economic uncertainty in Europe. Although we remain cautious about the market in Europe due to the uncertain economic environment and typical seasonality in EMEA in the second quarter of fiscal 2011, we anticipate total revenue for the second quarter of fiscal 2011 will increase compared to the first quarter of fiscal 2011. We project revenue growth for our branded products in the second quarter of fiscal 2011, primarily from disk systems and software solutions as well as tape automation systems.

Product Revenue

Our product revenue, which includes sales of our hardware and software products sold through both our Quantum branded and OEM channels, increased $3.2 million for the first quarter of fiscal 2011 compared to the first quarter of fiscal 2010, due to increased sales of our disk systems and software solutions, partially offset by decreases in devices and media sales and tape automation systems revenue. Revenue from sales of branded products increased 6% while sales of products to our OEM customers decreased as expected in the first quarter of fiscal 2011 compared to the prior year.

	Three Months Ended					
(In thousands)	June 30, 2010	% of revenue	June 30, 2009	% of revenue	Change	% Change
Disk systems and software solutions	$ 31,257	19.1%	$ 16,840	10.5%	$ 14,417	85.6%
Tape automation systems	56,686	34.7%	61,144	38.1%	(4,458)	(7.3)%
Devices and non-royalty media	20,511	12.6%	27,240	17.0%	(6,729)	(24.7)%
Total revenue	$ 108,454	66.4%	$ 105,224	65.6%	$ 3,230	3.1%

As noted earlier, a primary goal for fiscal 2011 is to grow revenue from disk systems and software solutions, and our efforts, combined with OEM DXi software revenue recognized in accordance with contractual requirements, produced an 86% increase compared to the first quarter of fiscal 2010. Sales of our enterprise disk systems increased more than midrange disk system sales increased compared to the prior year period. As a result of these revenue increases, disk systems and software solutions comprised a greater proportion of both product revenue and total revenue in the first quarter of fiscal 2011 compared to the first quarter of fiscal 2010. We expect revenue from our disk systems and software solutions to be a significant driver of growth in the remainder of fiscal 2011. We believe the market opportunity for these products is large, and that our products and solutions, including the product offerings introduced in the last year, fulfill a need for our channel partners.

Tape automation systems revenue decreased 7% from the first quarter of fiscal 2010 primarily due to decreased branded enterprise tape automation systems sales in North America. We had anticipated higher tape automation system revenue in both North America and EMEA for the first quarter of fiscal 2011. This decrease was tempered by increased branded tape automation systems revenue in Asia in the first quarter of fiscal 2011 compared to the prior year period. In addition, sales of the newer Scalar i40 and Scalar i80 products in the first quarter of fiscal 2011 more than replaced revenue from our legacy entry-level tape automation systems, increasing overall entry-level tape automation systems revenue by over 40% compared to the first quarter of fiscal 2010. Tape automation systems revenue from OEM customers was approximately the same in the first quarter of fiscal 2011 as the prior year.

Product revenue from devices, which includes tape drives and removable hard drives, and non-royalty media sales declined 25% to $20.5 million compared to the first quarter of fiscal 2010, primarily due to anticipated decreases in sales of older OEM technology devices that reached or are nearing end of life. Revenue from OEM devices decreased to less than $1.0 million in the first quarter of fiscal 2011 and has become an insignificant part of our overall revenue mix. We continue to be strategic in media sales opportunities and have not pursued media revenues that do not provide sufficient margins. Media revenue decreases were consistent with our expectations and were 20% lower than the first quarter of fiscal 2010.

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 was approximately the same as the first quarter of fiscal 2010. We continued to increase service revenue from our branded products, which was offset by decreased OEM product repair services and to a lesser extent reduced hardware service contract revenues from our OEM customers.

Royalty Revenue

Tape media royalties were slightly lower in the first quarter of fiscal 2011 compared to the first quarter of fiscal 2010 primarily due to lower media unit sales sold by media licensees. Royalties from maturing DLT media decreased slightly more than LTO media royalty increases in the three months ended June 30, 2010 compared to the prior year.

Gross Margin

	Three Months Ended					
(In thousands)	June 30, 2010	Gross margin %	June 30, 2009	Gross margin %	Change	% Change
Product gross margin	$ 37,819	34.9%	$ 33,138	31.5%	$ 4,681	14.1%
Service gross margin	13,501	34.9%	12,291	31.6%	1,210	9.8%
Royalty gross margin	16,134	100.0%	16,214	100.0%	(80)	(0.5)%
Gross margin	$ 67,454	41.3%	$ 61,643	38.4%	$ 5,811	9.4%

The 290 basis point increase in gross margin percentage during the three months ended June 30, 2010 compared to the prior year was largely due to a shift in our revenue mix toward higher margin revenues. We emphasized sales growth of our disk systems and software solutions which increased to 19% of revenue in the first quarter of fiscal 2011 compared to 11% of revenue in the prior year. Gross margins were also favorably impacted by cost-saving initiatives implemented in the current quarter and prior periods. In addition, we had a higher proportion of our product sales through branded channels compared to the first quarter of fiscal 2010. Branded sales comprised 73% of non-royalty revenue for the first quarter of fiscal 2011 compared to 71% for the first quarter of fiscal 2010. 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. In the second quarter of fiscal 2011, we expect gross margin to be slightly lower than the first quarter of fiscal 2011, primarily due to revenue mix changes resulting from decreased OEM DXi software revenue in the second quarter of fiscal 2011.

Product Margin

Our product gross margin dollars increased $4.7 million, or 14%, and product gross margin rate increased 340 basis points largely due to the shift in our revenue mix toward higher margin revenues. We had a higher proportion of revenue from disk systems and software solutions and a lower proportion of revenue from lower margin devices and media in the first quarter of fiscal 2011 compared to the prior year. Cost cutting measures implemented during the quarter and in the prior fiscal year also contributed to improved product gross margins compared to the first quarter of fiscal 2010.

Service Margin

Service gross margin dollars increased $1.2 million, or 10%, and service gross margin percentage increased 330 basis points primarily due to a decrease in external service provider expense compared to the prior year due to a combination of decreased volumes to these vendors, negotiating lower rates and the mix of services for OEM repairs and for our branded products under contract. Volume decreases to external service providers were due in part to repairing certain product lines in our facilities during the first quarter of fiscal 2011 that previously were repaired by external service providers.

Research and Development Expenses

(In thousands)	Three Months Ended June 30, 2010	% of revenue	June 30, 2009	% of revenue	Change	% Change
Research and development	$ 18,122	11.1%	$ 16,532	10.3%	$ 1,590	9.6%

The increase in research and development expenses compared to the first quarter of fiscal 2010 was due to a $1.6 million increase in salaries and benefits primarily due to additional headcount in our disk systems and software development teams for new product development efforts.

Sales and Marketing Expenses

(In thousands)	Three Months Ended June 30, 2010	% of revenue	June 30, 2009	% of revenue	Change	% Change
Sales and marketing	$ 30,078	18.4%	$ 27,293	17.0%	$ 2,785	10.2%

The increase in sales and marketing expense for the three months ended June 30, 2010 was primarily due to a $1.1 million increase in marketing and advertising expenses related to new product introductions in fiscal 2011 compared to the prior year. We also had a $1.0 million increase in salaries and benefits primarily due to higher commissions from increased branded revenue as well as slightly higher benefit costs. During the first quarter of fiscal 2011, we began a series of new marketing campaigns heavily focused on our installed base and we are also engaging with key channel partners to extend these marketing activities to their customer bases. We believe these programs will help us gain greater revenue momentum with both end users and the channel.

General and Administrative Expenses

(In thousands)	Three Months Ended June 30, 2010	% of revenue	June 30, 2009	% of revenue	Change	% Change
General and administrative	$ 15,483	9.5%	$ 14,505	9.0%	$ 978	6.7%

The $1.0 million increase in general and administrative expenses for the first quarter of fiscal 2011 compared to the first quarter of fiscal 2010 was primarily due to benefits received in the prior year that were not repeated. These included $0.4 million more in bad debt recoveries in first quarter of fiscal 2010 and $0.3 million in insurance refunds received in the prior year. We also had a $0.3 million increase in IT and communications expense compared to the first quarter of fiscal 2010.

Restructuring Charges (Benefit)

(In thousands)	Three Months Ended June 30, 2010	% of revenue	June 30, 2009	% of revenue	Change	% Change
Restructuring charges (benefit)	$ (83)	(0.1)%	$ 3,110	1.9%	$ (3,193)	n/m

The $3.2 million decrease in restructuring charges was primarily due to facility restructuring expenses in first quarter of fiscal 2010 from vacating and accruing the remaining contractual lease payments on a U.S. facility compared to a minimal restructuring benefit in the first quarter of fiscal 2011. During the first quarter of fiscal 2011, we negotiated settlements on two vacant facilities in the U.S. for amounts lower than the outstanding lease contracts, mostly offset by severance for positions eliminated worldwide across all operating functions. For additional information, refer to Note 9 “Restructuring Charges.” Until we achieve sustained profitability, we may incur additional charges in the future related to further cost reduction steps.

Interest Expense

(In thousands)	Three Months Ended June 30, 2010	% of revenue	June 30, 2009	% of revenue	Change	% Change
Interest expense	$ 6,115	3.7%	$ 5,651	3.5%	$ 464	8.2%

Interest expense increased $0.5 million compared to the first quarter of fiscal 2010 primarily due to the prior year refinancing of a portion of convertible subordinated debt and replacing it with term debt that has a higher interest rate. Interest expense includes the amortization of debt issuance costs for debt facilities.

Gain on Debt Extinguishment, Net of Costs

(In thousands)	Three Months Ended June 30, 2010	% of revenue	June 30, 2009	% of revenue	Change	% Change
Gain on debt extinguishment, net of costs	$ —	—%	$ 11,290	7.0%	$ (11,290)	n/m

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

Income Taxes

(In thousands)	Three Months Ended June 30, 2010	% of pre-tax loss	June 30, 2009	% of pre-tax income	Change	% Change
Income tax provision	$ 403	(17.6)%	$ 838	14.3%	$ (435)	(51.9)%

The income tax provision for the both the first quarter of fiscal 2011 and 2010 reflects expenses for foreign income taxes and state taxes. We have provided a full valuation allowance against our U.S. net deferred tax assets due to our history of net losses, difficulty in predicting future results and our conclusion that we cannot rely on projections of future taxable income to realize the deferred tax assets.

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

Amortization of Intangible Assets

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

	Three Months Ended		
	June 30, 2010	June 30, 2009	Change
Cost of revenue	$ 5,547	$ 5,475	$ 72
Research and development	100	100	—
Sales and marketing	3,394	3,394	—
General and administrative	25	25	—
	$ 9,066	$ 8,994	$ 72

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 expense within our Condensed Consolidated Statements of Operations (in thousands):

	Three Months Ended		
	June 30, 2010	June 30, 2009	Change
Share-based compensation:			
Cost of revenue	$ 460	$ 300	$ 160
Research and development	749	638	111
Sales and marketing	885	458	427
General and administrative	948	742	206
	$ 3,042	$ 2,138	$ 904

The increase in share-based compensation for the first quarter of fiscal 2011 compared to the prior year was primarily due to a $0.7 million increase in share-based compensation expense for options, largely from options granted to employees in fiscal 2010. Due to economic conditions, the board of directors granted a larger number of stock options to employees in fiscal 2010 than in recent years. In addition, in the first quarter of fiscal 2011, we had $0.5 million of share-based compensation expense related to rights to purchase shares of company stock resulting from reinstatement of the Purchase Plan on January 1, 2010. The Purchase Plan was suspended throughout the first quarter of fiscal 2010.

LIQUIDITY AND CAPITAL RESOURCES

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

	Three Months Ended	
	June 30, 2010	June 30, 2009
Net income (loss)	$ (2,696)	$ 5,008
Net cash provided by (used in) operating activities	(15,709)	33,166
Net cash used in investing activities	(2,026)	(1,900)
Net cash provided by (used in) financing activities	137	(40,810)

Three Months Ended June 30, 2010

The $13.0 million difference between reported net loss and cash used in operating activities during the three months ended June 30, 2010 was primarily due to a $15.2 million reduction in deferred revenue, a $4.6 million decrease in accounts payable, a $4.1 million decrease in accrued compensation and a $3.2 million increase in manufacturing inventories, offset in part by $20.1 million in non-cash expenses. The decrease in deferred revenue was primarily due to the final utilization of an OEM DXi software prepayment and to a lesser extent, a typical seasonal decline in service contract volumes. The majority of our service contracts renew in our third and fourth fiscal quarters. The decrease in accounts payable was primarily due to timing of payments and accrued compensation decreased primarily due to the timing of payroll payments. The increase in manufacturing inventories was primarily due to a build up of finished goods in support of anticipated sales in EMEA. Non-cash expenses included amortization, depreciation, service parts lower of cost or market adjustment and share-based compensation.

Cash used in investing activities was primarily due to $2.2 million of equipment purchases during the first quarter of fiscal 2011. Equipment purchases were primarily for engineering equipment and IT software to support product development activities.

Cash provided by financing activities during the first three months of fiscal 2011 was primarily due to $1.0 million in proceeds from issuance of common stock for employee stock option exercises, mostly offset by a $0.5 million principal payment on the Credit Suisse credit agreement (“CS credit agreement”) term debt and $0.4 million paid for taxes due upon vesting of restricted stock granted to employees in prior years.

Three Months Ended June 30, 2009

The $28.2 million difference between reported net income and cash provided by operating activities during the three months ended June 30, 2009 was primarily due a $19.3 million reduction in accounts receivable, a $5.7 million increase in accounts payable, a $5.1 million increase in deferred revenue and $5.1 million in non-cash items. The decrease in accounts receivable was primarily due to lower sales and strong collections during the first quarter of fiscal 2010. The increase in accounts payable was primarily due to timing of purchases and payments. Deferred revenue increases were attributable to prepaid license fees under an OEM agreement partially offset by lower service contract volumes. Non-cash items included amortization, depreciation, service parts lower of cost or market adjustment and share-based compensation partially offset by a gain on debt extinguishment.

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

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

Capital Resources and Financial Condition

We have made progress in increasing operating income, and we continue to focus on improving our operating performance, including increasing revenue in higher margin areas of the business and continuing to improve margins in an effort to return to consistent profitability and to generate positive cash flows from operating activities. In addition, we may explore refinancing opportunities that reduce interest expense on our debt or provide other favorable terms. 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 achieve revenue and gross margin projections and to continue to control operating expenses in order to provide positive cash flow from operating activities. 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.

The following is a description of our existing capital resources including outstanding balances, funds available to borrow, and primary repayment terms including interest rates.

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 June 30, 2010, we have letters of credit totaling $1.4 million reducing the amounts available to borrow on this 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 $185.6 million at June 30, 2010. This loan matures on July 12, 2014 and has a variable interest rate. The interest rate on the term loan was 3.85% at June 30, 2010. 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 in certain circumstances. The annual calculations of excess cash flow have not required additional payments. There is a blanket lien on all of our assets under the CS credit agreement in addition to certain financial and reporting covenants. As of June 30, 2010, we were in compliance with all debt covenants.

We have $121.7 million in term loans under two credit agreements with EMC International Company ("EMC credit agreements"), of which $21.7 million matures on December 31, 2011 and $100.0 million matures on September 30, 2014. These loans have similar terms, including a 12.0% fixed interest rate. We are required to make quarterly interest payments on these loans.

The $22.1 million aggregate principal amounts of convertible subordinated notes held at June 30, 2010 matured on August 1, 2010 and were redeemed with cash on July 30, 2010 to comply with contractual terms.

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 will provide us with improved financing capacity. We have taken many actions to offset the negative impact of the recent economic downturn and its impact on 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 the group lenders that provide our CS credit agreement 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 loan, or
- Approve any other amendments to the CS credit agreement 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 CS term loan becoming unavailable to us and any amounts outstanding becoming immediately due and payable. In addition, the EMC credit agreements contain cross-default provisions. In the case of our borrowings at June 30, 2010, this would mean $307.3 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, could 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. The accounting estimates requiring our most difficult, subjective or complex judgments because these matters are inherently uncertain are unchanged except for revenue recognition estimates and policies described below. These critical accounting estimates and policies have been disclosed in our Annual Report on Form 10-K for the year ended March 31, 2010 filed with the Securities and Exchange Commission on June 11, 2010.

Revenue Recognition

The following have been updated to reflect new standards adopted at the beginning of our first quarter of fiscal 2011.

Application of newly adopted accounting principles related to measurement and recognition of revenue requires us to make judgments and estimates in the separation and allocation of consideration for multiple deliverable revenue arrangements and the scope of the software revenue recognition guidance.

Tangible products containing software and nonsoftware components that function together to deliver the product's essential functionality are no longer within the scope of software revenue guidance and; therefore, we use judgment to determine which guidance our new products are subject to. If scoped out of existing software revenue guidance, these arrangements are accounted for based on other applicable revenue recognition guidance. For any undelivered elements in multiple element software arrangements we determine fair value based on vendor-specific objective evidence ("VSOE"), which consists of the prices charged when these services are sold separately or, for new software products, the price established by management. If VSOE does not exist for undelivered elements, the revenue for the entire arrangement is deferred until all elements have been delivered.

When we enter into multiple deliverable revenue arrangements with customers which are not subject to software revenue guidance, we use judgment to (1) separate the deliverables based on specific criteria, (2) assign an estimated selling price to each deliverable based on the selling price hierarchy using VSOE, third-party evidence ("TPE") or estimated selling prices ("ESP") and (3) allocate the total arrangement consideration using the relative selling price method. When VSOE cannot be established we attempt to establish the selling price of each element based on TPE. TPE is determined based on competitor prices for largely interchangeable products when sold separately. When we are unable to establish selling price using VSOE or TPE, we use ESP. We use judgment to determine ESP, which is the price at which we would transact a sale if the product or service were regularly sold on a standalone basis. In this determination we consider our discounting and internal pricing practices, external market conditions and competitive positioning for similar offerings. Additionally, for certain transactions we use judgment in determining whether any undelivered elements are essential to the functionality of the delivered elements in order to determine the appropriate timing of revenue recognition. If specific criteria are not met, the arrangement is accounted for as one unit of accounting which would result in revenue being deferred until the earlier of when such criteria are met, when the last undelivered element is delivered or ratably over the contract term as appropriate.

RECENT ACCOUNTING PRONOUNCEMENTS

In the first quarter of fiscal 2011, we elected to early adopt the amended revenue recognition guidance for multiple element deliverable arrangements as well as for software revenue recognition on a prospective basis for applicable transactions originating or materially modified after April 1, 2010. The adoption of these standards did not have a material impact on our financial position or results of operations for the three months ended June 30, 2010. For additional information regarding the adoption of these amendments and our assessment of other recent accounting pronouncements, refer to Note 3 "Significant Accounting Policies; New Accounting Standards."

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

Changes in interest rates affect interest income earned on our cash equivalents. In addition, changes in interest rates affect interest expense on our borrowings under the CS credit agreement. Our outstanding convertible subordinated notes and our term loans under the EMC credit agreements have fixed interest rates, thus a hypothetical 100 basis point increase in interest rates would not impact interest expense on these borrowings.

Our cash equivalents consisted solely of money market funds during the three months ended June 30, 2010. During the first quarter of fiscal 2011, interest rates on these funds were under 1.0% and we earned negligible amounts in interest income.

Interest accrues on our CS term loan at our option, based on either, a prime rate plus a margin of 2.5%, or a three month LIBOR rate plus a margin of 3.5%. A hypothetical 100 basis point increase in interest rates would increase interest expense $0.5 million.

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% appreciation of the U.S. dollar would have resulted in a $0.3 million decrease in loss before taxes in the first quarter of fiscal 2011. Such a change would have resulted from applying a different exchange rate to translate and revalue the financial statements of our subsidiaries with a functional currency other than the U.S. dollar.

ITEM 4. CONTROLS AND PROCEDURES

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

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

QUANTUM CORPORATION
PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

YOU SHOULD CAREFULLY CONSIDER THE RISKS DESCRIBED BELOW, TOGETHER WITH ALL OF THE OTHER INFORMATION INCLUDED IN THIS QUARTERLY REPORT ON FORM 10-Q. 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, or our inability to establish new indirect sales channels to drive growth of our disk systems revenue, 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 Avnet, Inc., Ingram Micro, Inc. and others. We also have a relationship with EMC Corporation ("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. Establishing new indirect sales channels is an important part of our strategy to drive growth of our disk systems revenue, especially for midrange products.

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;
- Our inability to gain traction in developing new indirect sales channels for our midrange disk system products;
- The loss of one or more of such distributors or resellers;
- Any financial difficulties of such distributors or resellers that result in their inability to pay amounts owed to us; or
- Changes in requirements or programs that allow our products to be sold by third parties to government customers.

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 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 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 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 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”), HP, IBM and Oracle Corporation (“Oracle”). Increased competition has resulted in decreased prices for entry-level tape automation products and 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 and IBM. 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 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 number of 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.

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. In recent years, we have implemented 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 have reduced headcount to streamline and consolidate our supporting functions as appropriate following past acquisitions and in response to market or competitive conditions. Our inability to successfully manage the changes that we implement, and detect and address issues as they arise could disrupt our business and adversely impact our results of operations and financial condition.

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

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 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 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 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, including the impact to our results in the first quarter of fiscal 2011 from economic conditions in Europe. 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 businesses' 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. In addition, our ability to access capital markets may be restricted which could have an impact on our ability to react to changing economic and business conditions. 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. For example, sales to our top five customers in fiscal 2010 represented 37% 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 2010, sales to Dell contributed approximately 13% of our revenue, a decline from prior years. If we experience further declines 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 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.

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 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. 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 other indebtedness or obligations;
- 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, such as limiting our ability to engage in mergers and acquisitions activity, 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 depends 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 consistently generate 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 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 Credit Suisse 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, as well as restrict 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, branded software and OEM DXi software revenues are relatively profitable and can significantly impact total company profitability. A significant decline in royalty, branded software or OEM DXi software revenues could materially and adversely affect our business, financial condition and operating results.

Our tape media royalty revenues depend 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.

Our media royalties depend in part upon royalty rates and the quantity of media consumed by the installed base of our tape drives, and 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 branded software revenues are also dependent on many factors, including the success of competitive offerings, our ability to execute on our product roadmap and our effectiveness at marketing and selling our branded software solutions directly or through our channel partners.

Our OEM DXi software revenues also depend 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, the market acceptance of the resulting products and changes in the competitive landscape such as that which occurred with EMC's purchase of Data Domain. Our relationship with EMC changed from partner to competitor in deduplication as a result of their acquisition of Data Domain. Following this acquisition, except for the first quarter of fiscal 2011 when significant revenue was recognized in accordance with contractual requirements, our OEM DXi software revenue has significantly declined, which has negatively impacted our results.

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 in "Results of Operations" within "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.

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

We may be subject to 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. In addition, we may rely on the performance of employees whose skill sets are not sufficiently developed enough to completely realize the expected fulfillment of their job responsibilities. Either of these situations could impair or delay our ability to realize operational and strategic objectives and cause increased expenses and lost sales opportunities.

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 fiscal 2009, which could have a material and adverse effect on our results of operations.

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 perform appropriate impairment reviews when 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, Hungary, Japan, Malaysia, Mexico, Singapore and Taiwan. 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 or change the compensation structure for 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 affected.

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, 2010, we held 504 U.S. patents and had 96 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 litigation with Riverbed Technology, Inc. settled in 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, which could have a material and adverse effect on our results of operations and cash flows.

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. Sub-tier suppliers selected by the primary third party could have process control issues or could select components with latent defects that manifest over a longer period of time. 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 our 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 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 30% of our common stock as of March 31, 2010. 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 or changes in those requirements could materially and adversely affect our business.

We are subject to numerous U.S. and international laws regarding corporate conduct, fair competition, preventing corruption and import and export practices, 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. We may also be exposed to potential liability resulting from our business partners' violation of these requirements. In addition, U.S. regulatory agencies have recently introduced new enforcement efforts that may proactively seek conduct-related information from companies operating in certain targeted industries or locations, without regard for whether potential violations have been identified. If we were to receive such an information request, we may incur increased personnel and legal costs in order to adequately review and respond to the request. Further our U.S. and international business models are based on currently applicable regulatory requirements and exceptions. Changes in those requirements or exceptions could necessitate changes to our business model. 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 or accrual of litigation costs 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 or accrual of litigation costs that is not covered by insurance or is in excess of our insurance coverage could harm our business.

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

We maintain levels of service parts inventories to satisfy future warranty obligations and also to earn service revenue by providing enhanced and extended warranty and repair service during and beyond the warranty period. We estimate the required amount of service parts inventories based on historical usage and forecasts of future warranty requirements, including estimates of failure rates and costs to repair, and out of warranty revenue. Given the significant levels of judgment inherently involved in the process, we cannot provide assurance that we will be able to maintain appropriate levels of service parts inventories to satisfy customer needs and to avoid financial losses from excess service parts inventories. If we are unable to maintain appropriate levels of service parts inventories, our business, financial condition and results of operations may be materially and adversely impacted.

Because we rely heavily on distributors and other resellers to market and sell our products, if one or more distributors were to experience a significant deterioration in its financial condition or its relationship with us, this could disrupt the distribution of our products and reduce our revenue, which could materially and adversely affect our business, financial condition and operating results.

In certain product and geographic segments we heavily utilize distributors and value added resellers to perform the functions necessary to market and sell our products. To fulfill this role, the distributor must maintain an acceptable level of financial stability, creditworthiness and the ability to successfully manage business relationships with the customers it serves directly. Under our distributor agreements with these companies, each of the distributors determines the type and amount of our products that it will purchase from us and the pricing of the products that it sells to its customers. If the distributor is unable to perform in an acceptable manner, we may be required to reduce the amount of sales of our product to the distributor or terminate the relationship. We may also incur financial losses for product returns from distributors or for the failure or refusal of distributors to pay obligations owed to us. Either scenario could result in fewer of our products being available to the affected market segments, reduced levels of customer satisfaction and/or increased expenses, which could in turn have a material and adverse impact on our business, results of operations and financial condition.

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

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

- Failure to realize anticipated savings and benefits from the acquisition;
- Difficulties in assimilating and retaining employees;
- Potential incompatibility of business cultures;
- Coordinating geographically separate organizations;
- Diversion of management's attention from ongoing business concerns;
- Coordinating infrastructure operations in a rapid and efficient manner;
- The potential inability to maximize our financial and strategic position through the successful incorporation of acquired technology and rights into our products and services;
- Failure of acquired technology or products to provide anticipated revenue or margin contribution;
- Insufficient revenues to offset increased expenses associated with the acquisition;
- Costs and delays in implementing or integrating common systems and procedures;
- Reduction or loss of customer orders due to the potential for market confusion, hesitation and delay;
- Impairment of existing customer, supplier and strategic relationships of either company;
- Insufficient cash flows from operations to fund the working capital and investment requirements;
- Difficulties in entering markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions;
- The possibility that we may not receive a favorable return on our investment, the original investment may become impaired, and/or we may incur losses from these investments;
- Dissatisfaction or performance problems with the acquired company;
- The assumption of risks of the acquired company that are difficult to quantify, such as litigation;
- The cost associated with the acquisition; and
- Assumption of unknown liabilities or other unanticipated adverse events or circumstances.

Acquisitions present many risks, and we may not realize the financial and strategic goals that were contemplated at the time of any transaction. We cannot provide assurance that we will be able to successfully integrate any business, products, technologies or personnel that we may acquire in the future, and our failure to do so could harm our business, financial condition and operating results.

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

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

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

We are exposed to fluctuations in foreign currency exchange rates, and an adverse change in foreign currency exchange rates relative to our position in such currencies could have a materially adverse impact on our business, financial condition and results of operations.

We do not currently use derivative financial instruments for foreign currency hedging or speculative purposes. To minimize foreign currency exposure, we use foreign currency obligations to match and offset net currency exposures associated with certain assets and liabilities denominated in non-functional currencies. We have used in the past, and may use in the future, foreign currency forward contracts to hedge our exposure to foreign currency exchange rates. To the extent that we have assets or liabilities denominated in a foreign currency that are inadequately hedged or not hedged at all, we may be subject to foreign currency losses, which could be significant.

Our international operations can act as a natural hedge when both operating expenses and sales are denominated in local currencies. In these instances, although an unfavorable change in the exchange rate of a foreign currency against the U.S. dollar would result in lower sales when translated to U.S. dollars, operating expenses would also be lower in these circumstances. An increase in the rate at which a foreign currency is exchanged for U.S. dollars would require more of that particular foreign currency to equal a specified amount of U.S. dollars than before such rate increase. In such cases, and if we were to price our products and services in that particular foreign currency, we would receive fewer U.S. dollars than we would have received prior to such rate increase for the foreign currency. Likewise, if we were to price our products and services in U.S. dollars while competitors priced their products in a local currency, an increase in the relative strength of the U.S. dollar would result in our prices being uncompetitive in those markets. Such fluctuations in currency exchange rates could materially and adversely affect our business, financial condition and results of operations.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. RESERVED

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The Exhibit Index beginning on page 38 of this report is herein incorporated by reference.

SIGNATURE

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

QUANTUM CORPORATION

/s/ JON W. GACEK

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

Dated: August 6, 2010

QUANTUM CORPORATION
EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit(s)	Filing Date
3.1	Amended and Restated Certificate of Incorporation of Registrant.	8-K	001-13449	3.1	August 16, 2007
3.2	Amended and Restated By-laws of Registrant, as amended.	8-K	001-13449	3.1	December 5, 2008
3.3	Certification of Amendment to the Bylaws of Quantum Corporation, as adopted on January 20, 2010.	8-K	001-13449	3.1	January 26, 2010
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
31.1	Certification of the Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002. ‡				
31.2	Certification of the Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002. ‡				
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. †				
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. †				

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

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: August 6, 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: August 6, 2010

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

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 June 30, 2010 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: August 6, 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 June 30, 2010 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: August 6, 2010

QUANTUM CORPORATION

/s/ JON W. GACEK

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