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

Form 10-Q

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

For the quarterly period ended December 31, 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 check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the 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 January 31, 2011, approximately 225.4 million shares of Quantum Corporation's common stock were issued and outstanding.

QUANTUM CORPORATION

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended		Nine Months Ended	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
Product revenue	$ 123,218	$ 124,580	$ 344,001	$ 348,131
Service revenue	37,365	38,991	113,730	117,650
Royalty revenue	15,643	18,139	49,442	51,195
Total revenue	176,226	181,710	507,173	516,976
Cost of product revenue	77,456	82,509	221,158	227,672
Cost of service revenue	23,200	24,485	71,595	76,316
Total cost of revenue	100,656	106,994	292,753	303,988
Gross margin	75,570	74,716	214,420	212,988
Operating expenses:				
Research and development	18,240	18,155	54,490	51,594
Sales and marketing	31,776	29,029	90,973	84,202
General and administrative	14,176	16,289	44,600	46,012
Restructuring charges (benefits)	—	(22)	11	4,784
	64,192	63,451	190,074	186,592
Income from operations	11,378	11,265	24,346	26,396
Interest income and other, net	(250)	526	24	1,795
Interest expense	(4,761)	(6,813)	(16,877)	(19,399)
Gain (loss) on debt extinguishment, net of costs	(1,186)	—	(1,186)	12,859
Income before income taxes	5,181	4,978	6,307	21,651
Income tax provision (benefit)	(683)	342	114	652
Net income	$ 5,864	$ 4,636	$ 6,193	$ 20,999
Net income per share:				
Basic	$ 0.03	$ 0.02	$ 0.03	$ 0.10
Diluted	0.03	0.02	0.03	0.04
Income for purposes of computing net income per share:				
Basic	$ 5,864	$ 4,636	$ 6,193	$ 20,999
Diluted	5,864	4,636	6,193	9,389
Weighted average common and common equivalent shares:				
Basic	222,801	213,525	219,052	212,092
Diluted	235,099	220,710	228,154	223,143

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	December 31, 2010	March 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 91,198	$ 114,947
Restricted cash	1,667	1,896
Accounts receivable, net of allowance for doubtful accounts of $343 and $798, respectively	118,747	103,397
Manufacturing inventories, net	54,086	54,080
Service parts inventories, net	46,591	53,217
Deferred income taxes	8,079	7,907
Other current assets	10,667	14,500
Total current assets	331,035	349,944
Long-term assets:		
Property and equipment, less accumulated depreciation	24,994	24,528
Intangible assets, less accumulated amortization	50,642	73,092
Goodwill	46,770	46,770
Other long-term assets	12,909	9,809
Total long-term assets	135,315	154,199
	$ 466,350	$ 504,143
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 58,708	$ 56,688
Accrued warranty	6,511	5,884
Deferred revenue, current	83,539	94,921
Current portion of long-term debt	1,477	1,884
Current portion of convertible subordinated debt	—	22,099
Accrued restructuring charges	944	3,795
Accrued compensation	30,259	31,237
Income taxes payable	1,408	2,594
Other accrued liabilities	22,527	23,555
Total current liabilities	205,373	242,657
Long-term liabilities:		
Deferred revenue, long-term	32,793	30,724
Deferred income taxes	8,398	8,676
Long-term debt	143,227	305,899
Convertible subordinated debt	135,000	—
Other long-term liabilities	6,749	7,444
Total long-term liabilities	326,167	352,743
Commitments and contingencies		
Stockholders' deficit:		
Common stock, $0.01 par value; 1,000,000 shares authorized; 225,031 and 214,946 shares issued and outstanding at December 31, 2010 and March 31, 2010, respectively	2,250	2,149
Capital in excess of par value	380,793	361,374
Accumulated deficit	(454,936)	(461,129)
Accumulated other comprehensive income	6,703	6,349
Stockholders' deficit	(65,190)	(91,257)
	$ 466,350	$ 504,143

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended	
	December 31, 2010	December 31, 2009
Cash flows from operating activities:		
Net income	$ 6,193	$ 20,999
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	8,780	9,111
Amortization	23,728	28,987
Service parts lower of cost or market adjustment	10,957	8,092
(Gain) loss on debt extinguishment	1,186	(15,613)
Deferred income taxes	(417)	(387)
Share-based compensation	8,050	7,155
Changes in assets and liabilities:		
Accounts receivable	(15,350)	(8,702)
Manufacturing inventories	(5,861)	8,387
Service parts inventories	1,524	3,270
Accounts payable	2,000	11,354
Accrued warranty	626	(4,724)
Deferred revenue	(9,312)	13,864
Accrued restructuring charges	(2,856)	(190)
Accrued compensation	(1,068)	1,312
Income taxes payable	(1,159)	(2,268)
Other assets and liabilities	1,900	954
Net cash provided by operating activities	28,921	81,601
Cash flows from investing activities:		
Purchases of property and equipment	(9,348)	(5,728)
(Increase) decrease in restricted cash	222	(120)
Return of principal from other investments	95	166
Net cash used in investing activities	(9,031)	(5,682)
Cash flows from financing activities:		
Borrowings of long-term debt, net	—	120,042
Repayments of long-term debt	(163,079)	(61,463)
Borrowings of convertible subordinated debt, net	130,022	—
Repayments of convertible subordinated debt	(22,099)	(122,288)
Payment of taxes due upon vesting of restricted stock	(2,165)	(960)
Proceeds from issuance of common stock	13,635	1,761
Net cash used in financing activities	(43,686)	(62,908)
Effect of exchange rate changes on cash and cash equivalents	47	248
Net increase (decrease) in cash and cash equivalents	(23,749)	13,259
Cash and cash equivalents at beginning of period	114,947	85,532
Cash and cash equivalents at end of period	$ 91,198	$ 98,791

See accompanying Notes to Condensed Consolidated Financial Statements.

QUANTUM CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1: BASIS OF PRESENTATION

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, original equipment manufacturers and other suppliers to solve customers' data protection, retention and management challenges.

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of Quantum and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated. The interim financial statements reflect all adjustments, consisting of normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the results for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for the full fiscal year. The Condensed Consolidated Balance Sheet as of March 31, 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. 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 or total assets.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES; NEW ACCOUNTING STANDARDS

Except for the revenue recognition policy update described below, there have been no changes to the significant accounting policies used in the preparation of our Condensed Consolidated Financial Statements. Our significant accounting policies are described 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.

Revenue Recognition

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 the 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 on or after April 1, 2010. The adoption of these standards did not have a material impact on our financial position or results of operations.

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 within 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.

Recent Accounting Pronouncements

In December 2010, the FASB issued Accounting Standards Update No. 2010-28,*Intangibles—Goodwill and Other (Topic 350), When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts* ("ASU 2010-28") which modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. ASU 2010-28 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. We will apply this standard beginning in fiscal 2012 and do not anticipate adoption will impact our statements of financial position or results of operations.

NOTE 3: FAIR VALUE

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

	December 31, 2010	March 31, 2010
Assets:		
Money market funds	$ 78,500	$ 108,485
Deferred compensation investments	1,336	1,154
Liabilities:		
Deferred compensation liabilities	1,336	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 December 31, 2010 (in thousands):

	Fair Value Measurements Using Input Levels:			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds	$ —	$ 78,500	$ —	$ 78,500
Deferred compensation investments	—	1,336	—	1,336
Liabilities:				
Deferred compensation liabilities	—	1,336	—	1,336

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

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

	December 31, 2010		March 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Credit Suisse term loan(1)	$ 144,704	$ 143,980	$ 186,066	$ 175,832
EMC term loans(2)	—	—	121,717	138,301
Convertible subordinated notes(3)(4)	135,000	150,243	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.

(4) Carrying and fair value as of December 31, 2010 is for convertible subordinated notes issued November 2010. Carrying value and fair value at March 31, 2010 is for convertible subordinated notes issued July 2003.

NOTE 4: INVENTORIES

Inventories consisted of the following (in thousands):

	December 31, 2010	March 31, 2010
Manufacturing inventories, net:		
Finished goods	$ 23,727	$ 24,040
Work in process	4,347	3,869
Materials and purchased parts	26,012	26,171
	$ 54,086	$ 54,080
Service parts inventories, net:		
Finished goods	$ 26,910	$ 30,073
Component parts	19,681	23,144
	$ 46,591	$ 53,217

NOTE 5: 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 third 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):

	December 31, 2010			March 31, 2010		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Purchased technology	$ 188,167	$ (173,775)	$ 14,392	$ 188,167	$ (161,488)	$ 26,679
Trademarks	27,260	(26,113)	1,147	27,260	(25,506)	1,754
Non-compete agreements	500	(444)	56	500	(368)	132
Customer lists	106,419	(71,372)	35,047	106,419	(61,892)	44,527
	$ 322,346	$ (271,704)	$ 50,642	$ 322,346	$ (249,254)	$ 73,092

Total intangible amortization expense was $5.9 million and $22.5 million for the three and nine months ended December 31, 2010, respectively, compared to $9.1 million and $27.1 million for the three and nine months ended December 31, 2009, respectively.

NOTE 6: ACCRUED WARRANTY

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

	Three Months Ended		Nine Months Ended	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
Beginning balance	$ 6,214	$ 7,100	$ 5,884	$ 11,152
Additional warranties issued	3,059	2,322	8,264	6,560
Adjustments for warranties issued in prior fiscal years	614	(402)	1,740	(2,675)
Settlements	(3,376)	(2,592)	(9,377)	(8,609)
Ending balance	$ 6,511	$ 6,428	$ 6,511	$ 6,428

We warrant our products against defects for 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. Future costs of repair include 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 of repair were to differ significantly from our estimates, we would record the impact of these unforeseen cost differences in subsequent periods.

NOTE 7: CONVERTIBLE SUBORDINATED DEBT AND LONG-TERM DEBT

Debt balances consisted of the following (in thousands):

	December 31, 2010	March 31, 2010
Convertible subordinated debt	$ 135,000	$ 22,099
Credit Suisse term loan	144,704	186,066
EMC term loans	—	121,717
	$ 279,704	$ 329,882

Fiscal 2011

On October 26, 2010, we entered into a second amendment to the senior secured credit agreement with Credit Suisse which, among other changes, provides us with additional flexibility to issue equity securities or certain subordinated debt securities in order to refinance any senior subordinated indebtedness.

During the third quarter and first nine months of fiscal 2011, we made principal payments on the term loan under the Credit Suisse credit agreement of $40.4 million and $41.4 million, respectively, bringing our outstanding balance to $144.7 million at December 31, 2010.

On November 15, 2010, we issued $135.0 million aggregate principal amount of 3.50% convertible senior subordinated notes due November 15, 2015 ("current notes") with a conversion price of $4.33 per share of our common stock. We may not redeem the notes prior to their maturity date although investors may convert the current notes into Quantum common stock until November 14, 2015 at their option. In addition, since purchasers are qualified institutional investors, as defined in Rule 144 under the Securities Act of 1933 ("Securities Act"), the current notes have not been registered under the Securities Act. We will pay 3.50% interest per annum on the principal amount of the current notes semi-annually on May 15 and November 15 of each year beginning in May 2011. Interest began to accrue on November 15, 2010. The terms of the current notes are governed by an agreement dated November 15, 2010 between Quantum and U.S. Bank National Association. The current notes are subordinated to any existing indebtedness and other liabilities.

On November 15, 2010, we paid $121.7 million plus $1.8 million in accrued and unpaid interest to settle the term loan dated as of June 3, 2009 and the supplemental term loan dated as of June 29, 2009 with EMC International Company. In connection with this debt extinguishment, we wrote off $1.2 million of unamortized debt costs related to these term loans. As a result of the voluntary prepayment in full of these term loans, we have satisfied all of our obligations under these loans. We funded this payment using proceeds from the current convertible notes.

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

Fiscal 2010

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

NOTE 8: RESTRUCTURING CHARGES

In fiscal 2010 and continuing into the first quarter of fiscal 2011, we undertook restructuring actions that consolidated operations supporting the business to improve operational efficiencies and to adapt our operations in recognition of economic conditions. The types of restructuring expense (benefit) for the three and nine months ended December 31, 2010 and 2009 were (in thousands):

	Three Months Ended		Nine Months Ended	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
By expense (benefit) type				
Severance and benefits	$ —	$ (94)	$ 549	$ 64
Facilities	—	72	(538)	4,919
Other	—	—	—	(199)
Total	$ —	$ (22)	$ 11	$ 4,784

Fiscal 2011

For the nine months ended December 31, 2010, severance and benefits expense from additional positions eliminated was mostly offset by facility reversals. The facility reversals were 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 third quarter of fiscal 2010, actual severance and benefits restructuring expenses were lower than estimated resulting in a $0.1 million reversal. These reversals were largely offset by facility expenses incurred during the third quarter of fiscal 2010 on vacant facilities.

For the nine months ended December 31, 2009, restructuring charges were primarily due to $4.8 million in remaining contractual lease payments for the three facilities vacated during the second quarter of fiscal 2010 and a California facility vacated during the first quarter of fiscal 2010. Severance and benefits restructuring charges for the nine months ended December 31, 2009 were due to eliminating additional positions in the U.S. and changes in our estimates, primarily in Europe as we received new information related to on-going settlement negotiations with various local authorities. The other restructuring benefits for the nine months ended December 31, 2009 were due to negotiating a $0.2 million reduction in our liability with a vendor related to a research and development program cancelled in a prior year.

Accrued Restructuring

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

	Three months ended December 31, 2010		
	Severance and Benefits	Facilities	Total
Balance as of September 30, 2010	$ —	$ 1,063	$ 1,063
Restructuring charges	—	—	—
Reversals	—	—	—
Cash payments	—	(119)	(119)
Balance as of December 31, 2010	$ —	$ 944	$ 944

	Nine months ended December 31, 2010		
	Severance and Benefits	Facilities	Total
Balance as of March 31, 2010	$ 494	$ 3,301	$ 3,795
Restructuring charges	555	307	862
Reversals	(6)	(845)	(851)
Cash payments	(1,043)	(1,819)	(2,862)
Balance as of December 31, 2010	$ —	$ 944	$ 944

	Severance and Benefits	Facilities	Total
Estimated timing of future payouts:			
Fiscal 2011	$ —	$ 99	$ 99
Fiscal 2012 to 2016	—	845	845
	$ —	$ 944	$ 944

NOTE 9: 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 12.6 million shares of stock were available for grant as of December 31, 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 7.6 million shares available for issuance as of December 31, 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		Nine Months Ended	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
Share-based compensation:				
Cost of revenue	$ 459	$ 333	$ 1,363	$ 952
Research and development	603	513	1,933	1,733
Sales and marketing	786	619	2,391	1,837
General and administrative	686	877	2,363	2,633
	$ 2,534	$ 2,342	$ 8,050	$ 7,155
Share-based compensation by type of award:				
Stock options	$ 772	$ 1,045	$ 2,807	$ 2,555
Restricted stock	1,287	1,297	3,988	4,600
Stock purchase plan	475	—	1,255	—
	$ 2,534	$ 2,342	$ 8,050	$ 7,155

Stock Options

No stock options were granted in the third quarter of fiscal 2011. The weighted-average grant date fair values of employee stock option grants, as well as the weighted-average assumptions used in calculating fair value for the first nine months of fiscal 2011 and for the third quarter and first nine months of fiscal 2010 were based on estimates at the date of grant as follows:

	Three Months Ended		Nine Months Ended	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
Option life (in years)	n/a	3.9	4.2	3.9
Risk-free interest rate	n/a	1.82%	2.02%	2.06%
Stock price volatility	n/a	109.12%	106.75%	107.66%
Dividend yield	—	—	—	—
Weighted-average grant date fair value	n/a	$ 1.01	$ 1.96	$ 0.73

Restricted Stock

The fair value of the restricted stock awards granted is the intrinsic value as of the respective grant date since the restricted stock awards are granted at no cost to the employees. The weighted-average grant date fair values of restricted stock awards granted during the third quarter and first nine months of fiscal 2011 were $2.73 and $1.95, respectively. The weighted-average grant date fair values of restricted stock awards granted during the third quarter and first nine months of fiscal 2010 were $2.32 and $1.10, respectively.

Stock Purchase Plan

Under the Purchase Plan, rights to purchase shares are granted during the second and fourth quarter of each fiscal year. The value of rights to purchase shares granted in the first nine months of fiscal 2011 was estimated at the date of the grant. No rights to purchase shares were granted during the third quarter or first nine months of fiscal 2010. The weighted-average grant date fair values and the assumptions used in calculating fair values for the nine month periods ended December 31, 2010 and 2009 are as follows:

	Nine Months Ended	
	December 31, 2010	December 31, 2009
Option life (in years)	0.5	n/a
Risk-free interest rate	0.20%	n/a
Stock price volatility	66.91%	n/a
Dividend yield	—	—
Weighted-average grant date fair value	$ 0.48	n/a

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	(6,195)	1.89		
Forfeited	(1,637)	1.99		
Expired	(998)	5.02		
Outstanding as of December 31, 2010	22,703	$ 2.46	3.55	$ 34,668
Vested and expected to vest at December 31, 2010	22,255	$ 2.48	3.51	$ 33,501
Exercisable as of December 31, 2010	16,377	$ 2.98	2.82	$ 18,165

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	5,111	1.95
Vested	(3,433)	1.56
Forfeited	(535)	1.47
Nonvested at December 31, 2010	6,278	$ 1.95

NOTE 10: INCOME TAXES

The tax benefit for the third quarter of fiscal 2011 was primarily due to release of tax liabilities in foreign jurisdictions and the tax expense for the third quarter of fiscal 2010 was primarily comprised of foreign income taxes and state taxes. The tax expense for the first nine months of fiscal 2011 was primarily comprised of foreign income taxes and state taxes largely reduced by release of tax liabilities in foreign jurisdictions. The tax expense for the first nine months of fiscal 2010 was comprised of foreign income taxes and state taxes partially reduced by U.S. tax refunds from amended filings.

NOTE 11: NET INCOME 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. At December 31, 2010, we had outstanding 3.50% 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 $4.33 per share. The current 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 become exercisable. Upon exercise, warrants would increase shares outstanding.

At December 31, 2009, we had outstanding 4.375% convertible subordinated notes which were 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.

Net Income per Share

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

	Three Months Ended		Nine Months Ended	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
Net income	$ 5,864	$ 4,636	$ 6,193	$ 20,999
Interest on dilutive notes	—	—	—	1,249
Gain on debt extinguishment, net of costs	—	—	—	(12,859)
Net income for purposes of computing net income per diluted share	$ 5,864	$ 4,636	$ 6,193	$ 9,389
Weighted average shares and common share equivalents (“CSE”):				
Basic	222,801	213,525	219,052	212,092
Dilutive CSE from stock plans	12,298	7,185	9,102	2,340
Dilutive CSE from convertible notes	—	—	—	8,711
Diluted	235,099	220,710	228,154	223,143
Basic net income per share	$ 0.03	$ 0.02	$ 0.03	$ 0.10
Diluted net income per share	$ 0.03	$ 0.02	$ 0.03	$ 0.04

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

- For the third quarter and first nine months of fiscal 2011, options to purchase 4.4 million and 11.6 million weighted average shares, respectively, were excluded. For the third quarter and first nine months of fiscal 2010, options to purchase 14.9 million and 29.1 million weighted average shares, respectively, were excluded.
- Negligible unvested restricted stock units were excluded for the third quarter of fiscal 2011. Unvested restricted stock units for 0.4 million weighted average shares for the first nine months of fiscal 2011 were excluded. Unvested restricted stock units for 0.4 million and 0.6 million weighted average shares for the third quarter and first nine months of fiscal 2010, respectively, were excluded.
- For the third quarter and first nine months of fiscal 2011, 15.6 million and 5.2 million, respectively, weighted equivalent shares of the 3.50% convertible subordinated notes were excluded. For the third quarter and first nine months of fiscal 2010, 5.1 million weighted equivalent shares of the 4.375% convertible subordinated notes were excluded.

NOTE 12: COMPREHENSIVE INCOME

Total comprehensive income, net of tax, if any, for the three and nine months ended December 31, 2010 and 2009 was (in thousands):

	Three Months Ended		Nine Months Ended	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
Net income	$ 5,864	$ 4,636	$ 6,193	$ 20,999
Net unrealized gains (losses) on revaluation of long-term intercompany balance	58	58	42	(152)
Foreign currency translation adjustment	(147)	(149)	312	1,214
Total comprehensive income	$ 5,775	$ 4,545	$ 6,547	$ 22,061

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, operating expense and diluted earnings per share performance for the fourth quarter of fiscal 2011 and for the full fiscal year; (2) our expectations relating to growing our disk systems and software solutions and tape automation systems revenue; (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 belief that our ultimate liability in any infringement claims made by any third parties against us will not be material to us; and (8) 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, about which we 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 business 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; and (9) 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 solve customers' data protection, retention and management challenges. 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. Our open systems solutions are designed to provide significant storage efficiencies and cost savings while minimizing risk and protecting customers' prior investments. 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 to multinational enterprises. 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.

At the beginning of fiscal 2011, we outlined our goals for the year and believe that we are positioned for stronger performance through revenue growth from newer 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 has been and continues to be our priority. Specifically, for fiscal 2011 our goals were:

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

In order to achieve these goals, we have been focused on continuing to extend and improve our product portfolio by delivering new products, expanding our position with the VAR channel and investing in our technology platform.

Our quarterly revenue from branded disk systems over the past year has been inconsistent as a result of slower than expected growth of the VAR channel business and the variability associated with large orders from enterprise disk customers. These dynamics changed in the third quarter of fiscal 2011. We made progress increasing the branded midrange disk run rate business, adding more new customers than in prior quarters, and expanding our position with the VAR channel significantly. However, we had decreased enterprise disk revenue in the third quarter of fiscal 2011 which we attributed to fewer large orders and a new product transition. Despite this decline in enterprise disk sales, branded disk systems revenue increased 32% from the third quarter of fiscal 2010 and was unchanged sequentially. We expect future quarters to have a more traditional pattern of large orders for enterprise disk products.

Revenue from disk systems and software solutions increased 23% compared to the third quarter of fiscal 2010, and we achieved a new record level of both branded disk systems revenue and branded software solutions revenue. The market for our high performance file sharing and advanced data archiving solution remains strong and we continue to believe we are well positioned to grow StorNext software revenue over the next year through a continued focus on vertical markets and through expanded features and functionality.

We believe our results for the third quarter of fiscal 2011 demonstrated the relative strength of our tape business. Although our branded tape automation revenue decreased slightly from the third quarter of fiscal 2010, the decline was less than the overall tape automation market, suggesting that we gained market share. In addition, tape automation revenue grew sequentially for a second consecutive quarter, with 15% and 11% sequential increases in the third and second quarters of fiscal 2011, respectively. We continue our efforts to grow market share in the tape automation market and are targeting incremental investments around solutions that make tape more valuable to customers in areas such as long-term retention and archive, encryption and the cloud. We continue to believe we have the opportunity to increase market share due to consolidation in the tape market which makes customers more likely to select our products and solutions.

During the third quarter of fiscal 2011, we introduced the DXi8500, a high-performance backup and deduplication system which offers the power and flexibility to anchor a multi-tier, enterprise-wide disaster recovery and data retention strategy. The DXi8500 is designed to deliver the highest single unit VTL performance in its class to accommodate shrinking backup and recovery windows more effectively than competitor offerings. Although the DXi8500 has been well received, customers transitioning to this new product delayed purchases in the third quarter of fiscal 2011 while they evaluated this new system in their enterprise environments. In addition, we announced DXi 2.0 in January 2011, our most significant software release to date, which we believe will strengthen our position in the disk backup and deduplication market.

We continue our efforts to increase revenue momentum and further improve our financial results. Over the next year we plan to expand our available market for StorNext software and other key technologies by delivering integrated solutions of hardware and software, expanding our addressable market and leveraging our go-to-market capability. Underlying these efforts is our ability and drive to position Quantum as the storage systems specialist by bringing these elements together to provide a common management framework and ensure that our service offerings provide unique expertise. We continue to believe we are well positioned to capitalize on the opportunities noted above. However, we have additional work to build our go-to-market position and further expand our product portfolio. We believe that our strategy will enable us to increase profitability by more than offsetting the impact of lost revenue from product lines that have planned revenue declines. While building revenue momentum has been a challenge, we saw distinct progress in the third quarter of fiscal 2011 and look forward to continued improvement.

During the third quarter of fiscal 2011, we improved our capital structure by refinancing our 12% term loans with EMC International Company (“EMC Term Loans”) with 3.5% convertible subordinated notes. These convertible subordinated notes will be due in November 2015. In addition, we paid $40.4 million principal on our senior secured debt during the third quarter of fiscal 2011.

Results

Total revenue for the third quarter of fiscal 2011 decreased $5.5 million to $176.2 million from $181.7 million in the third quarter of fiscal 2010, primarily due to an expected decline in revenue from OEM customers and, to a lesser extent, from decreased royalty revenue. The largest OEM revenue decreases were from devices, tape automation products and service, respectively. Partially offsetting these decreases was a 25% increase in branded disk systems and software solutions revenue in the third quarter of fiscal 2011, primarily due to sales of our newer midrange DXi-series disk products. Disk systems and software solutions increased to 15% of total revenue and to 22% of product revenue in the third quarter of fiscal 2011, up from 12% of total revenue and 18% of product revenue in the third quarter of fiscal 2010. For the third quarter of fiscal 2011, 78% of non-royalty revenue was branded, compared to 76% for the third quarter of fiscal 2010.

Gross margin increased 180 basis points and product gross margin increased 330 basis points compared to the third quarter of fiscal 2010 largely due to decreased intangible amortization expense from certain intangibles becoming fully amortized in the first half of fiscal 2011. Service gross margin increased 70 basis points in the third quarter of fiscal 2011 compared to the third quarter of fiscal 2010 due to expense reductions in our service delivery model and the increase in branded service revenue compared to OEM service revenue due to declines in repairs for OEM customers. Product repairs and service for OEM customers typically have a lower service margin than repairs and service of branded products.

Operating expenses increased 1% to $64.2 million for the third quarter of fiscal 2011 from $63.5 million in the prior year primarily from increased sales and marketing expenses mostly offset by decreased general and administrative expenses. Sales and marketing expenses increased due to expanding our sales force and marketing team to increase channel engagement and drive growth in our branded business. General and administrative expenses decreased primarily due to lower doubtful accounts allowance requirements and provisions for value-added tax (“VAT”) audits that were recorded in the prior year but were not repeated in the third quarter of fiscal 2011.

Operating profit increased slightly, resulting in a 6.5% operating margin for the third quarter of fiscal 2011 compared to a 6.2% operating margin for the third quarter of fiscal 2010. Interest expense decreased $2.1 million primarily due to refinancing the EMC Term Loans with lower interest convertible subordinated notes. We had net income of $5.9 million for the third quarter of fiscal 2011 compared to $4.6 million for the third quarter of fiscal 2010. In addition, we generated $28.9 million of cash from operations during the first nine months of fiscal 2011. We ended the December 31, 2010 quarter with $92.9 million in cash, cash equivalents and restricted cash.

For the fourth quarter of fiscal 2011, we anticipate total revenue between $165 million and $175 million, a similar gross margin rate as the third quarter of fiscal 2011, operating expenses of $64.5 million to $66.5 million, interest expense decreasing to $3.2 million, tax expense of approximately $1.0 million and diluted net income per share of $0.01 to $0.02.

RESULTS OF OPERATIONS

Revenue

(In thousands)	Three Months Ended December 31, 2010	% of revenue	December 31, 2009	% of revenue	Change	% Change
Product revenue	$ 123,218	69.9%	$ 124,580	68.5%	$ (1,362)	(1.1)%
Service revenue	37,365	21.2%	38,991	21.5%	(1,626)	(4.2)%
Royalty revenue	15,643	8.9%	18,139	10.0%	(2,496)	(13.8)%
Total revenue	$ 176,226	100.0%	$ 181,710	100.0%	$ (5,484)	(3.0)%

	Nine Months Ended December 31, 2010	% of revenue	December 31, 2009	% of revenue	Change	% Change
Product revenue	$ 344,001	67.9%	$ 348,131	67.3%	$ (4,130)	(1.2)%
Service revenue	113,730	22.4%	117,650	22.8%	(3,920)	(3.3)%
Royalty revenue	49,442	9.7%	51,195	9.9%	(1,753)	(3.4)%
Total revenue	$ 507,173	100.0%	$ 516,976	100.0%	$ (9,803)	(1.9)%

Total revenue decreased in the third quarter and first nine months of fiscal 2011 primarily due to expected declines in OEM revenue as well as decreased royalty revenue. Partially offsetting these decreases, branded revenue increased 2% and 4% in the third quarter and first nine months of fiscal 2011, respectively, led by increased revenue from disk systems and software solutions. As noted above, we are exposed to variability in our quarterly revenue as a result of large orders, and our decreased revenue for the third quarter of fiscal 2011 reflects a decrease in these orders, primarily for enterprise disk systems. We believe the decreased revenue from enterprise disk systems was also impacted by the introduction of our new DXi8500 product in the third quarter of fiscal 2011.

Product Revenue

Our product revenue, which includes sales of our hardware and software products sold through both our Quantum branded and OEM channels, decreased $1.4 million and $4.1 million for the third quarter and first nine months of fiscal 2011 compared to the third quarter and first nine months of fiscal 2010, respectively, primarily due to anticipated decreases in OEM sales revenue from devices and media and, to a lesser extent, from tape automation systems. Revenue from sales of branded products increased 3% and 5% in the third quarter and first nine months of fiscal 2011, respectively, compared to the third quarter and first nine months of fiscal 2010 primarily due to increased sales of disk systems and software solutions.

(In thousands)	Three Months Ended December 31, 2010	% of revenue	December 31, 2009	% of revenue	Change	% Change
Disk systems and software solutions	$ 26,868	15.2%	$ 21,814	12.0%	$ 5,054	23.2%
Tape automation systems	72,482	41.1%	75,465	41.5%	(2,983)	(4.0)%
Devices and media	23,868	13.6%	27,301	15.0%	(3,433)	(12.6)%
Product revenue	$ 123,218	69.9%	$ 124,580	68.5%	$ (1,362)	(1.1)%

	Nine Months Ended December 31, 2010	% of revenue	December 31, 2009	% of revenue	Change	% Change
Disk systems and software solutions	$ 85,088	16.8%	$ 63,814	12.3%	$ 21,274	33.3%
Tape automation systems	192,030	37.9%	202,118	39.1%	(10,088)	(5.0)%
Devices and media	66,883	13.2%	82,199	15.9%	(15,316)	(18.6)%
Product revenue	$ 344,001	67.9%	$ 348,131	67.3%	$ (4,130)	(1.2)%

As noted earlier, a primary goal for fiscal 2011 is to grow revenue from disk systems and software solutions. For the third quarter and first nine months of fiscal 2011, disk systems and software solutions revenue increased 23% and 33%, respectively, compared to the third quarter and first nine months of fiscal 2010, primarily due to increased revenue from our midrange disk products. Midrange disk systems revenue more than doubled from both the third quarter and first nine months of fiscal 2010. In addition, sales of StorNext software also increased in the third quarter and first nine months of fiscal 2011. 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 third quarter and first nine months of fiscal 2011 compared to the third quarter and first nine months of fiscal 2010.

Tape automation systems revenue decreased 4% from the third quarter of fiscal 2010, with decreases in OEM sales and branded revenue contributing evenly to the decrease. For the first nine months of fiscal 2011, tape automation systems revenue decreased 5% 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 nine months of fiscal 2011. Sales of our newer Scalar i40 and i80 products more than replaced the revenue declines from our legacy entry-level tape automation systems in both the third quarter and first nine months of fiscal 2011. As a result, branded entry-level tape automation systems revenue increased by 26% and 32% compared to the third quarter and first nine months of fiscal 2010, respectively. Enterprise and midrange tape automation systems revenue from OEM customers decreased as anticipated in the third quarter and first nine months of fiscal 2011 compared to the prior year periods.

Product revenue from devices, which includes tape drives and removable hard drives, and non-royalty media sales declined 13% and 19% from the third quarter and first nine months of fiscal 2010, respectively, primarily due to anticipated decreases in sales of older OEM device technologies that reached, or are nearing, end of life. We continue to be strategic with media sales and have chosen to not pursue opportunities that do not provide sufficient margins. This resulted in a 6% increase in media revenue compared to the third quarter of fiscal 2010 and a 6% decrease compared to the first nine months of fiscal 2010.

Service Revenue

Service revenue includes revenue from sales of hardware service contracts, product repair, installation and professional services. Hardware service contracts are typically purchased by our customers to extend their warranties or to provide faster service response times, or both. Service revenue decreases of 4% and 3% for the third quarter and first nine months of fiscal 2011, respectively, compared to the third quarter and first nine months of fiscal 2010, were primarily due to decreased OEM product repair services and to a lesser extent reduced hardware service contract revenues from our OEM customers. OEM service revenue decreases are due to many of our device products that have reached or are nearing end of service life. Service revenue from our branded products was approximately the same as the third quarter and first nine months of fiscal 2010.

Royalty Revenue

Tape media royalties were lower in the third quarter and first nine months of fiscal 2011 compared to the third quarter and first nine months of fiscal 2010, respectively, primarily due to decreased media unit sales by media licensees. Royalties decreased from the third quarter of fiscal 2010, primarily due to decreases of maturing DLT media and, to a lesser extent, from lower LTO media royalties. Royalties from LTO media, primarily LTO-5 media formats, increased in the first nine months of fiscal 2011; however, these increases were more than offset by decreases of maturing DLT media, compared to the first nine months of fiscal 2010.

Gross Margin

	Three Months Ended					
(In thousands)	December 31, 2010	Gross margin %	December 31, 2009	Gross margin %	Change	% Change
Product gross margin	$ 45,762	37.1%	$ 42,071	33.8%	$ 3,691	8.8%
Service gross margin	14,165	37.9%	14,506	37.2%	(341)	(2.4)%
Royalty gross margin	15,643	100.0%	18,139	100.0%	(2,496)	(13.8)%
Gross margin	$ 75,570	42.9%	$ 74,716	41.1%	$ 854	1.1%

	Nine Months Ended					
	December 31, 2010	Gross margin %	December 31, 2009	Gross margin %	Change	% Change
Product gross margin	$ 122,843	35.7%	$ 120,459	34.6%	$ 2,384	2.0%
Service gross margin	42,135	37.0%	41,334	35.1%	801	1.9%
Royalty gross margin	49,442	100.0%	51,195	100.0%	(1,753)	(3.4)%
Gross margin	$ 214,420	42.3%	$ 212,988	41.2%	$ 1,432	0.7%

The 180 and 110 basis point increase in gross margin percentage for the third quarter and first nine months of fiscal 2011 compared to the third quarter and first nine months of fiscal 2010 was primarily due to lower intangible amortization from certain intangibles becoming fully amortized in the first half of fiscal 2011. In addition, we had changes in our sales mix including a $2.5 million and $1.8 million decrease in royalty revenue from the third quarter and first nine months of fiscal 2010, respectively, and an increased percentage of products that were sold through our branded channels compared to the prior year periods. Branded sales comprised 78% and 77% of non-royalty revenue for the third quarter and first nine months of fiscal 2011, respectively, compared to 76% and 73% for the third quarter and first nine months of fiscal 2010, respectively. Sales of branded products typically generate higher gross margins than sales to our OEM customers; however, OEM deduplication software revenue provides one of our highest product margins. Contributing to the change in our revenue mix was our emphasis on sales growth of our disk systems and software solutions which increased to 15% and 17% of revenue in the third quarter and first nine months of fiscal 2011, respectively, compared to 12% of revenue in the respective prior year periods. We expect similar gross margin rates in the fourth quarter of fiscal 2011 compared to the third quarter of fiscal 2011.

Product Margin

Product gross margin increased $3.7 million and $2.4 million in the third quarter and first nine months of fiscal 2011, respectively, and product gross margin rate increased 330 basis points and 110 basis points in the third quarter and first nine months of fiscal 2011, respectively, compared to the third quarter and first nine months of fiscal 2010. These increases were primarily due to a $3.0 million and $4.4 million decrease in intangible amortization, respectively, compared to the third quarter and first nine months of fiscal 2010. Product gross margin was also impacted by the change in our product revenue mix compared to the prior year periods. Revenue from branded product sales increased 3% and 5% in the third quarter and first nine months of fiscal 2011, respectively. In addition, revenue from disk systems and software solutions increased to 22% and 25% of product revenue in the third quarter and first nine months of fiscal 2011, respectively, compared to 18% of product revenue in the respective prior year periods.

Service Margin

Service gross margin decreased $0.3 million in the third quarter of fiscal 2011 and increased $0.8 million in the first nine months of fiscal 2011 compared to the prior year periods. However, service gross margin percentage increased 70 basis points and 190 basis points in the third quarter and first nine months of fiscal 2011, respectively, compared to the third quarter and first nine months of fiscal 2010, primarily due to expense reductions in our service delivery model and the increase in branded service revenue compared to OEM service revenue due to declines in repairs for OEM customers. As noted above, product repairs and service for OEM customers typically have a lower service margin than repairs and service of branded products. We have reduced expense in our service delivery model by repairing certain product lines in our facilities at a lower cost than we incurred with external service providers.

Research and Development Expenses

	Three Months Ended					
(In thousands)	December 31, 2010	% of revenue	December 31, 2009	% of revenue	Change	% Change
Research and development	$ 18,240	10.4%	$ 18,155	10.0%	$ 85	0.5%

	Nine Months Ended					
	December 31, 2010	% of revenue	December 31, 2009	% of revenue	Change	% Change
Research and development	$ 54,490	10.7%	$ 51,594	10.0%	$ 2,896	5.6%

The increase in research and development expenses for the first nine months of fiscal 2011 compared to the first nine months of fiscal 2010 was primarily due to a $2.5 million increase in salaries and benefits from investment in our disk systems and software engineering teams to support new product development efforts.

Sales and Marketing Expenses

	Three Months Ended					
(In thousands)	December 31, 2010	% of revenue	December 31, 2009	% of revenue	Change	% Change
Sales and marketing	$ 31,776	18.0%	$ 29,029	16.0%	$ 2,747	9.5%

	Nine Months Ended					
	December 31, 2010	% of revenue	December 31, 2009	% of revenue	Change	% Change
Sales and marketing	$ 90,973	17.9%	$ 84,202	16.3%	$ 6,771	8.0%

The increase in sales and marketing expense for the third quarter and first nine months of fiscal 2011 from the third quarter and first nine months of fiscal 2010 was primarily due to an increase in salaries and benefits from growing our branded sales force and marketing team. Salaries and benefits increased $2.1 million and $3.8 million, respectively, compared to the third quarter and first nine months of fiscal 2010. In addition, advertising and marketing expenditures increased by $1.8 million in the first nine months of fiscal 2011 compared to the first nine months of fiscal 2010 due to new product introductions and efforts to expand our position with the customer bases of our key channel partners. We believe these programs will help us gain greater revenue momentum with end users and within the channel.

General and Administrative Expenses

(In thousands)	Three Months Ended December 31, 2010	% of revenue	December 31, 2009	% of revenue	Change	% Change
General and administrative	$ 14,176	8.0%	$ 16,289	9.0%	$ (2,113)	(13.0)%

	Nine Months Ended December 31, 2010	% of revenue	December 31, 2009	% of revenue	Change	% Change
General and administrative	$ 44,600	8.8%	$ 46,012	8.9%	$ (1,412)	(3.1)%

The decrease in general and administrative expense for the third quarter of fiscal 2011 compared to the third quarter of fiscal 2010 was largely due to a $1.0 million net decrease in bad debt expense resulting from lower allowance for doubtful accounts requirements in the third quarter of fiscal 2011. In addition, we had a $0.8 million and a $1.0 million decrease in net VAT expense for the third quarter and first nine months of fiscal 2011, respectively, primarily due to provisions for VAT audits during the first nine months of fiscal 2010 that were not repeated in the first nine months of fiscal 2011. For the first nine months of fiscal 2011, the decrease in general and administrative expense was primarily due to this VAT expense decrease. We also had a $0.7 million decrease in legal fees for the first nine months of fiscal 2011 compared to the first nine months of fiscal 2010.

Restructuring Charges (Benefits)

(In thousands)	Three Months Ended December 31, 2010	% of revenue	December 31, 2009	% of revenue	Change	% Change
Restructuring charges (benefits)	$ —	—%	$ (22)	—%	$ 22	n/m

	Nine Months Ended December 31, 2010	% of revenue	December 31, 2009	% of revenue	Change	% Change
Restructuring charges	$ 11	—%	$ 4,784	0.9%	$ (4,773)	(99.8)%

The decrease in restructuring charges for the first nine months of fiscal 2011 compared to the first nine months of fiscal 2010 was primarily due to facility restructuring charges from vacating and accruing the remaining contractual lease payments on four facilities in the prior year. For additional information, refer to Note 8 “Restructuring Charges.” Although we anticipate the current expense trend to continue in the near term, until we achieve sustained profitability we may incur additional charges in the future related to further cost reduction steps.

Interest Income and Other, Net

(In thousands)	Three Months Ended December 31, 2010	% of revenue	December 31, 2009	% of revenue	Change	% Change
Interest income and other, net	$ (250)	(0.1)%	$ 526	0.3%	$ (776)	n/m

	Nine Months Ended December 31, 2010	% of revenue	December 31, 2009	% of revenue	Change	% Change
Interest income and other, net	$ 24	—%	$ 1,795	0.3%	$ (1,771)	(98.7)%

The decrease in interest income and other, net compared to the third quarter of fiscal 2010 was primarily due to $0.9 million in fees for an amendment to our senior secured credit agreement in the third quarter of fiscal 2011. The decrease in interest income and other, net for the first nine months of fiscal 2011 was primarily due to $1.2 million in fair value gains on an interest rate collar in first nine months of fiscal 2010 that expired December 31, 2009. The amendment fees also contributed to the decrease in interest income and other, net for the first nine months of fiscal 2011.

Interest Expense

(In thousands)	Three Months Ended December 31, 2010	% of revenue	December 31, 2009	% of revenue	Change	% Change
Interest expense	$ 4,761	2.7%	$ 6,813	3.7%	$ (2,052)	(30.1)%

	Nine Months Ended December 31, 2010	% of revenue	December 31, 2009	% of revenue	Change	% Change
Interest expense	$ 16,877	3.3%	$ 19,399	3.8%	$ (2,522)	(13.0)%

Interest expense decreased $2.1 million in the third quarter of fiscal 2011 compared to the third quarter of fiscal 2010 primarily due to paying off higher interest EMC Term Loans during the third quarter of fiscal 2011. Interest expense decreased $2.5 million in the first nine months of fiscal 2011 primarily due to interest paid in the first nine months of fiscal 2010 related to an interest rate collar that expired on December 31, 2009. Interest expense also includes the amortization of debt issuance costs for debt facilities.

Gain (Loss) on Debt Extinguishment, Net of Costs

(In thousands)	Three Months Ended December 31, 2010	% of revenue	December 31, 2009	% of revenue	Change	% Change
Loss on debt extinguishment	$ (1,186)	(0.7)%	$ —	—%	$ (1,186)	n/m

	Nine Months Ended December 31, 2010	% of revenue	December 31, 2009	% of revenue	Change	% Change
Gain (loss) on debt extinguishment, net of costs	$ (1,186)	(0.2)%	$ 12,859	2.5%	$ (14,045)	n/m

During the third quarter of fiscal 2011, we issued $135.0 million aggregate principal of 3.50% convertible subordinated notes (“current notes”). We used the proceeds from the issuance to fully repay the EMC Term Loans. In connection with this debt extinguishment, we wrote off $1.2 million of unamortized debt costs related to the EMC Term Loans.

During the first nine months of fiscal 2010, we refinanced $137.9 million aggregate principal amount of our 4.375% convertible subordinated notes due August 2010 (“prior notes”), consisting of $50.7 million in a private transaction and $87.2 million through a tender offer. In connection with these transactions, we recorded a gain on debt extinguishment, net of costs, of $12.9 million comprised of the gross gain of $15.6 million, reduced by $2.1 million in expenses and $0.6 million of unamortized debt costs related to the prior notes.

Income Taxes

(In thousands)	Three Months Ended December 31, 2010	% of pre-tax income	December 31, 2009	% of pre-tax income	Change	% Change
Income tax provision (benefit)	$ (683)	(13.2)%	$ 342	6.9%	$ (1,025)	n/m

	Nine Months Ended December 31, 2010	% of pre-tax income	December 31, 2009	% of pre-tax income	Change	% Change
Income tax provision	$ 114	1.8%	$ 652	3.0%	$ (538)	(82.5)%

The decrease in income tax expense for both the third quarter and first nine months of fiscal 2011 compared to the third quarter and first nine months of fiscal 2010 was primarily due to the release of tax liabilities in foreign jurisdictions in the third quarter of fiscal 2011. The tax benefit for the third quarter of fiscal 2011 was primarily due to release of tax liabilities in foreign jurisdictions and the tax expense for the third quarter of fiscal 2010 was primarily comprised of foreign income taxes and state taxes. The tax expense for the first nine months of fiscal 2011 was primarily comprised of foreign income taxes and state taxes, largely reduced by release of tax liabilities in foreign jurisdictions. The tax expense for the first nine months of fiscal 2010 was comprised of foreign income taxes and state taxes partially reduced by U.S. tax refunds from amended filings.

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

	Three Months Ended December 31, 2010	December 31, 2009	Change
Cost of revenue	$ 2,574	$ 5,548	$ (2,974)
Research and development	—	100	(100)
Sales and marketing	3,332	3,393	(61)
General and administrative	25	25	—
	$ 5,931	$ 9,066	$ (3,135)

	Nine Months Ended December 31, 2010	December 31, 2009	Change
Cost of revenue	$ 12,087	$ 16,522	$ (4,435)
Research and development	200	300	(100)
Sales and marketing	10,088	10,181	(93)
General and administrative	75	75	—
	$ 22,450	$ 27,078	$ (4,628)

The decrease in intangible expense in the third quarter and first nine months of fiscal 2011 compared to the third quarter and first nine months of fiscal 2010 was due to certain intangibles becoming fully amortized in the first and second quarters of fiscal 2011. For further information regarding amortizable intangible assets, refer to Note 5 “Goodwill and Intangible Assets.”

Share-based Compensation

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

	Three Months Ended		
	December 31, 2010	December 31, 2009	Change
Cost of revenue	$ 459	$ 333	$ 126
Research and development	603	513	90
Sales and marketing	786	619	167
General and administrative	686	877	(191)
	$ 2,534	$ 2,342	$ 192

	Nine Months Ended		
	December 31, 2010	December 31, 2009	Change
Cost of revenue	$ 1,363	$ 952	$ 411
Research and development	1,933	1,733	200
Sales and marketing	2,391	1,837	554
General and administrative	2,363	2,633	(270)
	$ 8,050	$ 7,155	$ 895

The increase in share-based compensation for the first nine months of fiscal 2011 compared to the first nine months of fiscal 2010 was primarily due to a $1.3 million increase from rights to purchase shares of company stock resulting from reinstatement of the employee stock purchase plan (“Purchase Plan”) on January 1, 2010. The Purchase Plan was suspended throughout the first nine months of fiscal 2010.

LIQUIDITY AND CAPITAL RESOURCES

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

	Nine Months Ended	
	December 31, 2010	December 31, 2009
Net income	$ 6,193	$ 20,999
Net cash provided by operating activities	28,921	81,601
Net cash used in investing activities	(9,031)	(5,682)
Net cash used in financing activities	(43,686)	(62,908)

Nine Months Ended December 31, 2010

The $22.7 million difference between reported net income and cash provided by operating activities during the nine months ended December 31, 2010 was primarily due to $52.3 million in non-cash expenses, the largest of which were amortization, depreciation, service parts lower of cost or market adjustment and share-based compensation. This was partially offset by a $15.4 million increase in accounts receivable and a $9.3 million decrease in deferred revenue. Accounts receivable increased primarily due to an increase in revenue in the third quarter of fiscal 2011 compared to the fiscal quarter ended March 31, 2010. The decrease in deferred revenue was primarily due to the final utilization of an OEM deduplication software prepayment during the first nine months of fiscal 2011.

Cash used in investing activities reflects $9.3 million of equipment purchases during the nine months ended December 31, 2010. Equipment purchases were primarily for engineering test equipment to support product development activities.

Cash used in financing activities during the first nine months of fiscal 2011 was primarily due to repaying a net $55.2 million of outstanding debt, partially offset by $13.6 million received from the issuance of common stock.

Nine Months Ended December 31, 2009

The $60.6 million difference between reported net income and cash provided by operating activities during the nine months ended December 31, 2009 was primarily due to $53.3 million in non-cash expenses, the largest of which were amortization, depreciation, service parts lower of cost or market expense and share-based compensation. Non-cash expenses were partially offset by a $15.6 million non-cash gain on debt extinguishment. Cash provided by operating activities was also impacted by a $13.9 million increase in deferred revenue, an $11.4 million increase in accounts payable and an $8.4 million reduction in manufacturing inventories, partially offset by an $8.7 million increase in accounts receivable. Deferred revenue increases were primarily attributable to prepaid license fees under an OEM agreement partially offset by lower deferred service contract balances. The increase in accounts payable was due to the timing of purchases and payments. Manufacturing inventories decreased due to planned reductions in inventory levels. The increase in accounts receivable was primarily due to increased sales and service contract billings at the end of the third quarter of fiscal 2010.

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

Cash used in financing activities during the first nine months of fiscal 2010 was primarily due to repaying $61.5 million of our term debt under the senior secured credit agreement with Credit Suisse ("CS credit agreement"). We refinanced the majority of our prior convertible subordinated notes during the first half of fiscal 2010, and repayments of these notes were mostly offset by borrowings under two credit agreements with EMC International Company.

Capital Resources and Financial Condition

We have made progress increasing operating income levels, and we continue to focus on improving our operating performance. Our efforts are intended to increase revenue in higher margin areas of the business and to continue to improve margins in order to return to consistent profitability and to generate positive cash flows from operating activities. We believe that our existing cash and capital resources will be sufficient to meet all currently planned expenditures, debt repayments, contractual obligations and sustain operations for at least the next 12 months. This belief is dependent upon our ability to 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 debt repayment terms including interest rates.

On November 15, 2010, we issued $135.0 million aggregate principal amount of 3.50% convertible subordinated notes due November 15, 2015. We are required to make semi-annual interest payments on the current notes. The terms are governed by an agreement between Quantum and U.S. Bank National Association. For additional terms of the current notes, refer to Note 7, "Convertible Subordinated Debt and Long-term Debt."

Also on November 15, 2010, we repaid in full all amounts outstanding, plus accrued and unpaid interest on the EMC Term Loans using proceeds received from issuing the current convertible notes. As a result of this voluntary prepayment, we have satisfied all of our obligations under the EMC Term Loans.

Under the CS credit agreement, we have the ability to borrow up to $50.0 million under a senior secured revolving credit facility which expires July 12, 2012. As of December 31, 2010, we have letters of credit totaling $1.2 million reducing the amount available to borrow on this revolver to $48.8 million. Quarterly, we are required to pay a 0.5% commitment fee on the undrawn amount under the revolving credit facility.

During the third quarter of fiscal 2011, we paid $40.4 million principal under the CS credit agreement. Our outstanding term debt under the CS credit agreement was $144.7 million at December 31, 2010. This loan matures on July 12, 2014 and has a variable interest rate. The interest rate on the term loan was 3.80% at December 31, 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. To date, 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 December 31, 2010, we were in compliance with all debt covenants.

In addition, on October 26, 2010, we entered into an amendment to the CS credit agreement that provides us, among other changes, with additional flexibility to issue equity securities or certain subordinated debt securities.

Generation of positive cash flow from operating activities has historically been, and will continue to be, an important source of cash to fund operating needs and meet our current and long-term obligations. We have taken many actions to offset the negative impact of the recession 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 business. 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 the case of our borrowings at December 31, 2010, this would mean $144.7 million could become immediately payable.

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

Any of the above mentioned items, individually or in combination, 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 are unchanged except for the revenue recognition estimates and policies described below. Our 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 on or after April 1, 2010. The adoption of these standards did not have a material impact on our financial position or results of operations. For additional information regarding the adoption of these amendments and our assessment of other recent accounting pronouncements, refer to Note 2 "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 have a fixed interest rate, 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 nine months ended December 31, 2010. During the first nine months 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 LIBOR rate plus a margin of 3.5%. A hypothetical 100 basis point increase in interest rates would have increased interest expense $1.4 million for the first nine months of fiscal 2011.

Foreign Currency Exchange Rate Risk

As a multinational corporation, we are exposed to changes in foreign exchange rates. The assets and liabilities of many of our non-U.S. subsidiaries have functional currencies other than the U.S. dollar and are translated into U.S. dollars at exchange rates in effect at the balance sheet date. Income and expense items are translated at the average exchange rates prevailing during the period. A 10% depreciation of the U.S. dollar would have resulted in a $0.2 million increase to income before income taxes for the nine months ended December 31, 2010. We determined this result by applying the exchange rate resulting from a 10% depreciation of the U.S. dollar 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.

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

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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. 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 theintroduction and market acceptance of new products;
- Our new products will achieve market acceptance and significant market share, or that the markets for these productswill continue or grow as we have anticipated;
- Our new products will be successfully or timely qualified with our customers by meeting customer performance andquality 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.

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.

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 cash flows from operations, we may not generate sufficient cash flow to service our debt obligations, which could 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 deduplication software revenues are relatively profitable and can significantly impact total company profitability. A significant decline in royalty, branded software or OEM deduplication 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. 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 deduplication software revenues also depend on many factors, including the success of competitive offerings, our ability to execute on our product roadmap with our OEM deduplication software partners, the effort our OEM deduplication 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 deduplication 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 and industry conditions. We may take future steps to further reduce our operating costs, including future cost reduction steps or 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 appropriate in relation to our future sales, 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 sourcesoftware 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, each of 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 oursupply 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 suppliersselected 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 employmentregulations.

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.

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 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 half 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 in recent years have resulted in some customers' reduced credit worthiness, bankruptcies of certain customers and the global disruption in the credit markets continues to affect customers' and business' efforts to obtain credit, each of which has increased our potential exposure to bad debt. These macroeconomic 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 could materially adversely affect our results of operations and financial condition.

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 SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On November 15, 2010, we issued $135.0 million aggregate principal amount of 3.50% convertible senior subordinated notes due 2015 ("the Notes") to the initial purchasers in a private placement pursuant to exemptions from the registration requirements of the Securities Act of 1933 ("Securities Act"). The net proceeds from the offering were $130.0 million after deducting discounts, commissions and other offering expenses of $5.0 million. We offered and sold the Notes to the initial purchasers in reliance on the exemption from registration provided by Section 4(2) of the Securities Act. The initial purchasers then sold the Notes to qualified institutional buyers pursuant to the exemption from registration provided by Rule 144A under the Securities Act.

The Notes and the underlying common stock issuable upon conversion of the Notes have not been registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. RESERVED

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The Exhibit Index beginning on page 42 of this report sets forth a list of exhibits and is hereby incorporated by reference.

SIGNATURE

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

QUANTUM CORPORATION

/s/ LINDA M. BREARD

Linda M. Breard
Chief Financial Officer
(Principal Financial and Chief Accounting Officer)

Dated: February 8, 2011

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 Bylaws 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	Indenture for 3.50% Convertible Senior Subordinated Notes due 2015, between the Registrant and U.S. Bank National Association, as trustee, dated November 15, 2010, including the form of 3.50% Convertible Senior Subordinated Note due 2015.	8-K	001-13449	4.1	November 15, 2010
10.1	Amendment No. 2 to Senior Secured Credit Agreement, between the Registrant and Credit Suisse AG, as administrative agent, dated October 26, 2010.	8-K	001-13449	10.1	October 26, 2010
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. †				

‡ 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: February 8, 2011

/s/ RICHARD E. BELLUZZO

Richard E. Belluzzo
Chairman and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

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

I, Linda M. Breard, certify that:

1) I have reviewed this quarterly report on Form 10-Q of Quantum Corporation;

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

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

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

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

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

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

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

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

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

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

Date: February 8, 2011

/s/ LINDA M. BREARD
Linda M. Breard
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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

I, Richard E. Belluzzo, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Quantum Corporation, on Form 10-Q for the quarterly period ended December 31, 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: February 8, 2011

QUANTUM CORPORATION

/s/ RICHARD E. BELLUZZO

Richard E. Belluzzo
Chairman and Chief Executive Officer
(Principal 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, Linda M. Breard, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Quantum Corporation, on Form 10-Q for the quarterly period ended December 31, 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: February 8, 2011

QUANTUM CORPORATION

/s/ LINDA M. BREARD

Linda M. Breard
Chief Financial Officer
(Principal Financial Officer)