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, 2012

OR

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

For the transition period from _________ to _________

Commission File Number 1-13449

QUANTUM CORPORATION

Incorporated Pursuant to the Laws of the State of Delaware

IRS Employer Identification Number 94-2665054

1650 Technology Drive, Suite 800, San Jose, California 95110

(408) 944-4000

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

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

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

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

As of the close of business on February 1, 2013, 240,962,472 shares of Quantum Corporation’s common stock were issued and outstanding.

QUANTUM CORPORATION

INDEX

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	December 31, 2012	March 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 51,340	$ 51,261
Restricted cash	3,515	4,230
Accounts receivable, net of allowance for doubtful accounts of $58 and $217, respectively	115,993	110,840
Manufacturing inventories	53,845	61,111
Service parts inventories	34,931	39,050
Deferred income taxes	4,927	5,295
Other current assets	8,638	9,434
Total current assets	273,189	281,221
Long-term assets:		
Property and equipment, less accumulated depreciation	24,055	25,440
Amortizable intangible assets, less accumulated amortization	14,879	25,763
In-process research and development	158	349
Goodwill	55,613	55,613
Other long-term assets	10,055	6,962
Total long-term assets	104,760	114,127
	$ 377,949	$ 395,348
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 46,539	$ 56,304
Accrued warranty	7,746	7,586
Deferred revenue, current	86,030	93,441
Accrued restructuring charges	4,935	1,752
Accrued compensation	32,289	31,971
Income taxes payable	227	1,133
Other accrued liabilities	17,477	17,866
Total current liabilities	195,243	210,053
Long-term liabilities:		
Deferred revenue, long-term	39,191	36,430
Deferred income taxes	4,432	4,564
Long-term debt	—	49,495
Convertible subordinated debt	205,000	135,000
Other long-term liabilities	6,163	6,486
Total long-term liabilities	254,786	231,975
Stockholders' deficit:		
Common stock, $0.01 par value; 1,000,000 shares authorized; 240,879 and 236,402 shares issued and outstanding at December 31, 2012 and March 31, 2012, respectively	2,409	2,364
Capital in excess of par	422,132	409,770
Accumulated deficit	(503,309)	(465,397)
Accumulated other comprehensive income	6,688	6,583
Total stockholders' deficit	(72,080)	(46,680)
	$ 377,949	$ 395,348

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended		Nine Months Ended	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Product revenue	$ 112,517	$ 124,081	$ 306,395	$ 341,475
Service revenue	35,340	35,362	107,138	107,956
Royalty revenue	11,538	14,049	34,081	42,635
Total revenue	159,395	173,492	447,614	492,066
Cost of product revenue	72,007	77,238	204,641	218,044
Cost of service revenue	19,360	22,537	59,926	65,732
Restructuring benefit related to cost of revenue	—	—	—	(300)
Total cost of revenue	91,367	99,775	264,567	283,476
Gross margin	68,028	73,717	183,047	208,590
Operating expenses:				
Research and development	18,615	17,629	56,639	55,212
Sales and marketing	33,588	33,350	103,307	94,990
General and administrative	14,851	15,759	46,910	46,991
Restructuring charges	6,602	—	6,602	699
	73,656	66,738	213,458	197,892
Gain on sale of patents	—	—	—	1,500
Income (loss) from operations	(5,628)	6,979	(30,411)	12,198
Other income and expense	60	(142)	(388)	(422)
Interest expense	(2,230)	(2,450)	(5,896)	(8,111)
Income (loss) before income taxes	(7,798)	4,387	(36,695)	3,665
Income tax provision	348	473	1,217	1,416
Net income (loss)	$ (8,146)	$ 3,914	$ (37,912)	$ 2,249
Basic and diluted net income (loss) per share:	$ (0.04)	$ 0.02	$ (0.16)	$ 0.01
Weighted average common and common equivalent shares:				
Basic	240,786	233,812	239,099	231,661
Diluted	240,786	239,912	239,099	239,261

See accompanying notes to Condensed Consolidated Financial Statements.

QUANTUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Net income (loss)	$ (8,146)	$ 3,914	$ (37,912)	$ 2,249
Other comprehensive income (loss), net of taxes:				
Foreign currency translation adjustments	150	(334)	7	(819)
Net unrealized gain (loss) on revaluation of long-term intercompany balances	(76)	(48)	98	63
Total other comprehensive income (loss)	74	(382)	105	(756)
Total comprehensive income (loss)	$ (8,072)	$ 3,532	$ (37,807)	$ 1,493

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended December 31, 2012	Nine Months Ended December 31, 2011
Cash flows from operating activities:		
Net income (loss)	$ (37,912)	$ 2,249
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	9,283	8,776
Amortization	12,013	17,785
Service parts lower of cost or market adjustment	7,026	7,564
Deferred income taxes	231	(785)
Share-based compensation	11,729	10,246
Changes in assets and liabilities, net of effect of acquisition:		
Accounts receivable	(5,153)	(131)
Manufacturing inventories	1,502	(17,463)
Service parts inventories	2,857	3,150
Accounts payable	(9,748)	7,052
Accrued warranty	160	46
Deferred revenue	(4,650)	(2,727)
Accrued restructuring charges	3,184	(3,347)
Accrued compensation	326	1,975
Income taxes payable	(901)	438
Other assets and liabilities	1,921	(1,735)
Net cash provided by (used in) operating activities	(8,132)	33,093
Cash flows from investing activities:		
Purchases of property and equipment	(9,389)	(8,538)
(Increase) decrease in restricted cash	691	(2,317)
Purchases of other investments	(2,169)	—
Return of principal from other investments	208	97
Payment for business acquisition, net of cash acquired	—	(8,152)
Net cash used in investing activities	(10,659)	(18,910)
Cash flows from financing activities:		
Repayments of long-term debt	(49,495)	(35,698)
Borrowings of convertible subordinated debt, net	67,701	—
Payment of taxes due upon vesting of restricted stock	(1,926)	(2,638)
Proceeds from issuance of common stock	2,604	7,506
Net cash provided by (used in) financing activities	18,884	(30,830)
Effect of exchange rate changes on cash and cash equivalents	(14)	(113)
Net increase (decrease) in cash and cash equivalents	79	(16,760)
Cash and cash equivalents at beginning of period	51,261	76,010
Cash and cash equivalents at end of period	$ 51,340	$ 59,250
Fair value of common stock issued for business combination	$ —	$ 2,767

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"), founded in 1980, is a global expert in data protection and big data management. We provide solutions for storing and protecting information in physical, virtual, cloud and big data environments that are designed to help customers be certain they are maximizing the value of their data over its entire lifecycle. With our solutions, customers can better adapt in a world of continuing change by keeping and protecting more data for a longer period of time while reducing costs and increasing return on investment. We work closely with a broad network of distributors, value-added resellers ("VARs"), direct marketing resellers ("DMRs"), original equipment manufacturers ("OEMs") and other suppliers to meet customers' evolving data protection and big data management needs. Our stock is traded on the New York Stock Exchange under the symbol QTM.

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of Quantum and our wholly-owned subsidiaries. On June 13, 2011, we acquired Pancetera Software, Inc. ("Pancetera"), and Pancetera's results of operations are included in our Condensed Consolidated Statements of Operations from that date. 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 statement 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, 2012 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, 2012 included in our Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on June 14, 2012.

Recent Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2012-02,*Intangibles — Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment* ("ASU 2012-02"). ASU 2012-02 provides entities the option to perform a qualitative assessment to determine whether it is more likely than not an indefinite-lived asset is impaired, similar to the goodwill impairment testing guidance. If an entity determines the fair value of the indefinite-lived asset is not more likely than not impaired, then no additional testing is required. ASU 2012-02 also provides examples of changes in events and circumstances that an entity should consider for impairment indicators in interim periods. ASU 2012-02 is effective for fiscal years, and interim periods within those years, beginning after September 15, 2012 and may be early adopted. We plan to early adopt in the fourth quarter of fiscal 2013 and do not anticipate adoption will impact our statements of financial position or results of operations.

NOTE 2: FAIR VALUE

The assets measured and recorded at fair value on a recurring basis consist of money market funds which are valued using quoted market prices (level 1 fair value measurements) at the respective balance sheet dates (in thousands):

	As of	
	December 31, 2012	March 31, 2012
Money market funds	$ 36,115	$ 37,776

We did not record impairments to any non-financial assets in the third quarter and first nine months of fiscal 2013 or 2012. We do not have any non-financial liabilities measured and recorded at fair value on a non-recurring basis.

We had $205.0 million of convertible subordinated debt at December 31, 2012, and the estimated fair value of our convertible subordinated debt was approximately $193.4 million, based on quoted market prices (level 1 fair value measurements).

NOTE 3: INVENTORIES

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

	As of December 31, 2012	As of March 31, 2012
Manufacturing inventories:		
Finished goods	$ 17,349	$ 22,122
Work in process	6,844	5,781
Materials and purchased parts	29,652	33,208
	$ 53,845	$ 61,111

	As of December 31, 2012	As of March 31, 2012
Service parts inventories:		
Finished goods	$ 18,871	$ 19,202
Component parts	16,060	19,848
	$ 34,931	$ 39,050

NOTE 4: INTANGIBLE ASSETS AND GOODWILL

Intangible assets are evaluated for impairment whenever indicators of impairment are present. During the third quarter of fiscal 2013 and 2012, we considered whether there were any indicators of impairment for both our goodwill and our long-lived assets, including amortizable and indefinite-lived intangible assets, and determined there were none. During the third quarter of fiscal 2013, we completed development on $0.2 million of in-process research and development, transferring it to purchased technology intangibles, and we began amortizing it over its useful life.

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

	As of December 31, 2012			As of March 31, 2012		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Purchased technology	$ 183,113	$ (180,300)	$ 2,813	$ 182,922	$ (176,893)	$ 6,029
Trademarks	3,900	(3,900)	—	3,900	(3,656)	244
Customer lists	106,419	(94,353)	12,066	106,419	(86,929)	19,490
	$ 293,432	$ (278,553)	$ 14,879	$ 293,241	$ (267,478)	$ 25,763

Total intangible amortization expense was $2.8 million and $11.1 million for the three and nine months ended December 31, 2012, respectively, and was $4.7 million and $16.1 million for the three and nine months ended December 31, 2011, respectively.

We evaluate goodwill for impairment annually during the fourth quarter of our fiscal year, or more frequently when indicators of impairment are present. There were no changes to goodwill balances during the third quarter of fiscal 2013. The following table provides a summary of the goodwill balance at both December 31, 2012 and March 31, 2012 (in thousands):

	Goodwill	Accumulated Impairment Losses	Net Amount
Balance	$ 394,613	$ (339,000)	$ 55,613

NOTE 5: 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, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Beginning balance	$ 7,904	$ 7,113	$ 7,586	$ 7,034
Additional warranties issued	2,037	2,427	7,240	7,123
Adjustments for warranties issued in prior fiscal years	364	483	954	1,247
Settlements	(2,559)	(2,943)	(8,034)	(8,324)
Ending balance	$ 7,746	$ 7,080	$ 7,746	$ 7,080

We generally warrant our products against defects for 1 to 3 years. A provision for estimated future costs and estimated returns for credit relating to warranty is recorded when products are shipped and revenue recognized. Our estimate of future costs to satisfy warranty obligations is primarily based on historical trends and, if believed to be significantly different from historical trends, estimates of future failure rates and future costs of repair including materials consumed in the repair and labor and overhead amounts necessary to perform the repair. If future actual failure rates differ from our estimates, we record the impact in subsequent periods. If future actual costs to repair were to differ significantly from our estimates, we record the impact of these unforeseen cost differences in subsequent periods.

NOTE 6: LONG-TERM DEBT

On October 31, 2012, we issued $60 million aggregate principal amount of 4.50% convertible subordinated notes due November 15, 2017, and on November 6, 2012 we issued an additional $10 million aggregate principal amount of 4.50% convertible subordinated notes due November 15, 2017 pursuant to an over-allotment provision ("4.50% notes"). These notes are convertible into shares of our common stock at a conversion rate of 607.1645 shares per $1,000 principal amount, a conversion price of approximately $1.65 per share. We may not redeem the notes prior to their maturity date although investors may convert the 4.50% notes into Quantum common stock until November 14, 2017 at their option. In addition, since purchasers are qualified institutional investors, as defined in Rule 144A under the Securities Act of 1933 ("Securities Act"), the 4.50% notes have not been registered under the Securities Act. We will pay 4.50% interest per annum on the principal amount of the 4.50% notes semi-annually on May 15 and November 15 of each year beginning in May 2013. Interest began to accrue on October 31, 2012. The terms of the 4.50% notes are governed by an agreement dated October 31, 2012 between Quantum and U.S. Bank National Association. The 4.50% notes are subordinated to any existing indebtedness and other liabilities. We incurred and capitalized $2.3 million of loan fees for the 4.50% notes which are included in other long-term assets in our Condensed Consolidated Balance Sheets. These fees are amortized to interest expense over the loan term.

On October 31, 2012, we repaid all outstanding borrowings under the Wells Fargo credit agreement ("WF credit agreement") with $49.5 million of the proceeds from the 4.50% notes. We have letters of credit totaling $1.1 million, reducing the amount available to borrow under the WF credit agreement to $71.9 million at December 31, 2012. As of December 31, 2012, we had no borrowings outstanding and were in compliance with all covenants.

On June 28, 2012, the WF credit agreement was amended in order to allow the assignment of $25 million of the total revolver commitment to Silicon Valley Bank. This amendment also made certain other conforming and related modifications, including changes to the average liquidity requirements. The average liquidity covenant requirement was amended to be at $15 million through December 31, 2012, increasing to $20 million on January 1, 2013.

NOTE 7: RESTRUCTURING CHARGES

In fiscal 2012 and 2013, restructuring actions to consolidate operations supporting the business were the result of strategic management decisions. The types of restructuring expense for the three and nine months ended December 31, 2012 and December 31, 2011 were (in thousands):

	Three Months Ended		Nine Months Ended	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
By expense (benefit) type				
Severance and benefits	$ 6,363	$ —	$ 6,363	$ 375
Facilities	239	—	239	324
Other	—	—	—	(300)
Total	$ 6,602	$ —	$ 6,602	$ 399

During the third quarter and first nine months of fiscal 2013, we accrued severance charges for various positions eliminated worldwide across most functions of the business to align spending with revenue expectations and accrued the remaining lease obligation for a vacant facility in the U.S. Severance and benefits accrued during the first nine of months of fiscal 2012 were for various positions eliminated worldwide. Facility restructuring charges for the first nine months of fiscal 2012 were due to estimated charges for a facility in India that we vacated in fiscal 2012. The other restructuring reversal for the first nine months of fiscal 2012 was due to actual payments lower than estimated on a supplier relationship.

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, 2012		
	Severance and Benefits	Facilities	Total
Balance as of September 30, 2012	$ 677	$ 247	$ 924
Restructuring costs	6,363	239	6,602
Cash payments	(2,514)	(77)	(2,591)
Balance as of December 31, 2012	$ 4,526	$ 409	$ 4,935

	Nine Months Ended December 31, 2012		
	Severance and Benefits	Facilities	Total
Balance as of March 31, 2012	$ 1,312	$ 440	$ 1,752
Restructuring costs	6,363	239	6,602
Cash payments	(3,149)	(270)	(3,419)
Balance as of December 31, 2012	$ 4,526	$ 409	$ 4,935

	As of December 31, 2012		
	Severance and Benefits	Facilities	Total
Estimated timing of future payouts:			
Fiscal 2013	$ 2,861	$ 32	$ 2,893
Fiscal 2014 to 2019	1,665	377	2,042
	$ 4,526	$ 409	$ 4,935

NOTE 8: 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. We also have an employee stock purchase plan ("Purchase Plan") that allows for the purchase of stock at a 15% discount to fair market value at the date of grant or the exercise date, whichever value is less.

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, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Share-based compensation:				
Cost of revenue	$ 626	$ 495	$ 1,839	$ 1,518
Research and development	925	795	2,772	2,466
Sales and marketing	1,273	1,127	3,603	3,059
General and administrative	892	1,007	3,515	3,203
	$ 3,716	$ 3,424	$ 11,729	$ 10,246

	Three Months Ended		Nine Months Ended	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Share-based compensation by type of award:				
Stock options	$ 239	$ 583	$ 1,445	$ 2,116
Restricted stock	2,986	2,377	8,767	6,586
Stock purchase plan	491	464	1,517	1,544
	$ 3,716	$ 3,424	$ 11,729	$ 10,246

Stock Options

No stock options were granted in the third quarter or in the first nine months of fiscal 2013, or the third quarter of fiscal 2012; however, stock options were granted in the first nine months of fiscal 2012. The weighted-average grant date fair values of employee stock option grants, as well as the weighted-average assumptions used in calculating these values for the first nine months of fiscal 2012 were based on estimates at the date of grant as follows:

	Nine Months Ended	
	December 31, 2012	December 31, 2011
Option life (in years)	N/A	4.0
Risk-free interest rate	N/A	1.57%
Stock price volatility	N/A	112.33%
Weighted-average grant date fair value	N/A	$ 1.91

Restricted Stock

The fair value of the restricted stock units granted is the intrinsic value as of the respective grant date since the restricted stock units are granted at no cost to the employees. The weighted-average grant date fair values of restricted stock units granted during the third quarter and first nine months of fiscal 2013 were $1.44 and $1.99, respectively. The weighted-average grant date fair values of restricted stock units granted during the third quarter and first nine months of fiscal 2012 were $2.27 and $3.15, respectively.

Stock Purchase Plan

Under the Stock Purchase Plan, rights to purchase shares are typically 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 2013 and fiscal 2012, respectively, was estimated at the date of the grant. The weighted-average grant date fair values and the assumptions used in calculating fair values for the nine month periods ended December 31, 2012 and 2011 are as follows:

	Nine Months Ended	
	December 31, 2012	December 31, 2011
Option life (in years)	0.5	0.5
Risk-free interest rate	0.15%	0.08%
Stock price volatility	74.81%	56.27%
Weighted-average grant date fair value	$ 0.51	$ 0.54

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, 2012	19,394	$ 2.32		
Exercised	(274)	0.97		
Forfeited	(314)	2.49		
Expired	(2,477)	3.66		
Outstanding as of December 31, 2012	16,329	$ 2.14	2.19	$ 1,420
Vested and expected to vest at December 31, 2012	16,233	$ 2.14	2.18	$ 1,418
Exercisable as of December 31, 2012	15,352	$ 2.12	2.00	$ 1,376

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, 2012	8,861	$ 2.75
Granted	5,454	1.99
Vested	(3,217)	2.57
Forfeited	(585)	2.45
Nonvested at December 31, 2012	10,513	$ 2.43

NOTE 9: INCOME TAXES

Income tax provisions for the third quarter and first nine months of fiscal 2013 were $0.3 million and $1.2 million, respectively, and were $0.5 million and $1.4 million for the third quarter and first nine months of fiscal 2012, respectively. Income tax provisions for each of these periods reflect expenses for foreign income taxes and state taxes.

We have provided a full valuation allowance against our U.S. net deferred tax assets due to our history of net losses, difficulty in predicting future results and our conclusion that we cannot rely on projections of future taxable income to realize the deferred tax assets. Significant management judgment is required in determining our deferred tax assets and liabilities and valuation allowances for purposes of assessing our ability to realize any future benefit from our net deferred tax assets. We intend to maintain this valuation allowance until sufficient positive evidence exists to support a reversal or decrease in this allowance. Future income tax expense will be reduced to the extent that we have sufficient positive evidence to support a reversal of, or decrease in, our valuation allowance.

NOTE 10: NET INCOME (LOSS) PER SHARE

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

	Three Months Ended		Nine Months Ended	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Net income (loss)	$ (8,146)	$ 3,914	$ (37,912)	$ 2,249
Weighted average shares and common share equivalents (“CSE”):				
Basic	240,786	233,812	239,099	231,661
Dilutive CSE from stock plans	—	5,622	—	7,101
Dilutive CSE from ESPP	—	478	—	499
Diluted	240,786	239,912	239,099	239,261
Basic and diluted net income (loss) per share	$ (0.04)	$ 0.02	$ (0.16)	$ 0.01

Note: Rounding may cause some per share amounts not to recalculate.

The computations of diluted net income (loss) 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 2013 and fiscal 2012, 31.2 million weighted equivalent shares of the 3.50% notes were excluded. In addition, for the third quarter and first nine months of fiscal 2013, 28.5 million and 9.4 million weighted equivalent shares, respectively, of the 4.50% notes were excluded.
- For the third quarter and first nine months of fiscal 2013, options to purchase 16.4 million and 17.7 million weighted average shares, respectively, were excluded. For the third quarter and first nine months of fiscal 2012, options to purchase 9.2 million and 9.5 million weighted average shares, respectively, were excluded.
- Unvested restricted stock and restricted stock units of 10.7 million and 10.1 million weighted average shares for the third quarter and first nine months of fiscal 2013, respectively, were excluded. Unvested restricted stock and restricted stock units for 5.3 million and 3.7 million weighted average shares for the third quarter and first nine months of fiscal 2012, respectively, were excluded.

NOTE 11: LEGAL PROCEEDINGS

On June 28, 2012, Overland Storage, Inc. (“Overland”) filed a patent infringement lawsuit against Quantum in the U.S. District Court for the Southern District of California, alleging that certain of its automated tape libraries fall within the scope of patents 6,328,766 and 6,353,581. Overland is seeking injunctive relief, as well as the recovery of unspecified monetary damages, including treble damages for willful infringement. We do not believe we infringe the Overland patents and we will defend ourselves vigorously. Due to the inherent uncertainty of litigation, we cannot identify probable or estimable damages related to the lawsuit at this time.

On August 28, 2012, we filed a lawsuit against Overland in the U.S. District Court for the Southern District of California, for patent infringements of our patents 6,542,787; 6,498,771; 5,925,119 and 5,491,812 by the products in Overland’s NEO tape library and SnapServer product lines. We are seeking injunctive relief and the recovery of monetary damages.

On September 12, 2011, Compression Technology Solutions LLC (“CTS”) filed a patent infringement lawsuit against a group of companies, consisting of Quantum, CA., Inc., EMC Corporation, Hewlett-Packard Company, International Business Machines Corp., NetApp, Inc. and Quest Software, Inc., in the U.S. District Court for the Eastern District of Missouri, alleging that certain unspecified products of the defendants, characterized as “deduplication software systems,” and, in the case of Quantum, including Quantum’s “DXi Series Deduplication software,” fall within the scope of patent 5,414,650. CTS is seeking injunctive relief, as well as the recovery of monetary damages, including treble damages for willful infringement. We do not believe we infringe the CTS patent; we believe that the CTS patent is invalid, and we intend to defend ourselves vigorously. In April 2012, our motion to transfer venue was granted and the lawsuit was transferred to the U.S. District Court for the Northern District of California. Due to the inherent uncertainty of litigation, we cannot identify probable or estimable damages related to the lawsuit at this time.

NOTE 12: SUBSEQUENT EVENT

With the completion of the convertible debt offering in the third quarter of fiscal 2013, we requested an amendment to our WF credit agreement to decrease the line of credit and modify certain covenants. An amendment was completed on January 31, 2013. The maximum borrowing amount decreased to the lesser of $55 million or the amount of the monthly borrowing base and will remain at this level for the remaining term of the credit agreement. The average liquidity covenant was eliminated. The fixed charge coverage ratio covenant is applicable only in fiscal quarters in which liquidity is below $16.5 million and decreased from 1.2 to 1.1 for the 12 month period ending on the last day of a fiscal quarter. The liquidity requirement to avoid triggering mandatory field audits decreased from $20 million to $18.5 million commencing January 31, 2013 and will remain at this level for the remaining term of the credit agreement. Both the fixed charge coverage ratio and liquidity are defined in the WF credit agreement and the January 31, 2013 amendment. In addition, compliance certificates must be filed monthly if borrowings exceed $15 million, otherwise they are to be filed quarterly.

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 increasing revenue in higher margin areas of our business; (2) our expectation that we will continue to derive a substantial portion of our revenue from products based on tape technology; (3) our belief that our existing cash and capital resources will be sufficient to meet all currently planned expenditures, debt service and sustain our operations for at least the next 12 months; (4) our expectations regarding our ongoing efforts to control our cost structure and our plans to reduce spending; and (5) 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) general economic, political and fiscal conditions in the U.S. and internationally; (6) our ability to successfully introduce new products; (7) our ability to capitalize on 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 global expert in data protection and big data management. We provide solutions for storing and protecting information in physical, virtual, cloud and big data environments that are designed to help customers be certain they are maximizing the value of their data over its entire lifecycle. With our solutions, customers can better adapt in a world of continuing change by keeping and protecting more data for a longer period of time while reducing costs and increasing return on investment. We work closely with a broad network of distributors, value-added resellers ("VARs"), direct marketing resellers ("DMRs"), original equipment manufacturers ("OEMs") and other suppliers to meet customers' evolving data protection and big data management needs. Our stock is traded on the New York Stock Exchange under the symbol QTM.

We offer a comprehensive range of solutions for data protection and big data management challenges that provide performance and value to end user customers of all sizes, from small businesses to multinational enterprises. We believe our combination of expertise, innovation and platform independence enables us to solve data protection and big data management issues more easily, cost-effectively and securely. We earn our revenue from the sale of products, systems and services through an array of channel partners and our sales force to reach end user customers of all sizes. Our products are sold under both the Quantum brand name and the names of various OEM customers. They include DXi® deduplication systems for high speed recovery and reliability, Scalar® tape automation products for disaster recovery and long-term data retention, StorNext® data management software and appliances for high-performance big data file sharing and archiving and vmPRO™ solutions for protecting virtual machine data. We also offer cloud solutions for cloud-based backup, fast restore, data recovery and business continuity. In addition, we have the global scale and scope to support our worldwide customer base.

We started fiscal 2013 with the objectives of increasing total revenue, having operating profit and generating cash from operations. These objectives assumed the market for tape automation systems and tape drives would be approximately the same as fiscal 2012 and the market for disk systems and software solutions would grow compared to fiscal 2012. Market analysts have estimated the overall demand in tape market decreased approximately 20% in the first half of fiscal 2013, and during that period we had a 17% decline in our tape automation systems revenue which caused a significant negative impact to both total revenue and operating profit. In addition, our disk systems and software revenue decreased in the first quarter of fiscal 2013 as a result of economic weakness in Europe, and large orders decreased due to customer caution from economic uncertainty. During the third quarter of fiscal 2013, we believe there was continued weakness in the data protection and big data markets as a result of economic uncertainty regarding the fiscal cliff in the U.S., and companies continued to be cautious with their purchasing decisions.

In the second quarter of fiscal 2013, we met our objective of increasing revenue for disk systems and software revenue for the quarter, achieving record revenue in this category. This revenue growth continued in the third quarter of fiscal 2013, increasing disk systems and software solutions revenue from both the third quarter and first nine months of fiscal 2012. We believe this revenue increase reflects the market opportunity, the strength of our DXi and StorNext product portfolios and continued innovation in these product families in addition to achieving better sales traction in the channel and improved sales productivity.

We expected and experienced sequential improvement in tape automation systems revenue from year-end IT budget spending and the release of LTO-6 technology in the third quarter of fiscal 2013. We introduced LTO-6 tape drives and tape automation systems in certain of our products in December 2012, which contributed to increased tape automation revenue from the second quarter of fiscal 2013. Overall, we believe our branded tape business has been outperforming the market due to smaller percentage decreases in branded tape automation systems revenue, devices and media revenue and royalty revenue than the estimated decrease in overall market demand.

We continued our focus on training our sales team and engaging with channel partners to take advantage of sales opportunities across our portfolio. We had strong new customer acquisition in the third quarter of fiscal 2013 which we believe was due in part to increased end user and channel partner awareness as a result of our marketing focus and awareness campaign in the first half of fiscal 2013. In addition, we introduced several new products during the third quarter of fiscal 2013, including Lattus™ X, the first product in our wide area storage family for big data environments, and version 3.0 of our vmPRO virtual machine backup software.

Given the tape revenue decrease in the first half of fiscal 2013 compared to the first half of fiscal 2012, its impact on operating profit and the use of cash in operations, we recognized the need for and implemented cost controls and spending reductions in the third quarter of fiscal 2013. As a result, our financial performance in the third quarter of fiscal 2013 improved from the second quarter of fiscal 2013, contributing to decreased operating loss and generating cash from operations. The improvement in our financial results from the second quarter of fiscal 2013 also reflects the leverage in our business model where revenue growth quickly leads to improved operating results.

We continue to be focused on building the long-term growth areas of the business and supporting our strategic initiatives. We believe our product portfolio and installed base of customers are a competitive strength and provide us with the opportunity to gain market share in a declining tape market. We continue to be opportunistic in improving our capital structure and issued $70 million of convertible subordinated notes due November 15, 2017 in the third quarter of fiscal 2013 to strengthen our balance sheet and provide greater flexibility in our business operations. With the completion of this convertible debt offering, we requested an amendment to our Well Fargo credit agreement to decrease the line of credit and modify certain covenants. An amendment was completed on January 31, 2013. We also continue to introduce new products and features to help customers meet their evolving data protection and big data management requirements. These initiatives are intended to improve profitability and generate cash from operations.

Results

We had total revenue of $159.4 million in the third quarter of fiscal 2013, an 8% decrease from the third quarter of fiscal 2012. Product revenue from OEM customers decreased 16% and revenue from branded products decreased 7% both primarily due to expected declines in tape automation systems revenue for the third quarter of fiscal 2013. Our continued efforts to increase revenue from disk systems and software solutions resulted in record quarterly revenue for disk systems and a 6% increase in this revenue category from the third quarter of fiscal 2012. Service revenue was the same as the third quarter of fiscal 2012, while royalty revenue decreased 18% from the third quarter of fiscal 2012 as expected. Our continued focus on growing our branded business is reflected in the greater proportion of non-royalty revenue from branded business, at 83% in the third quarter of fiscal 2013, compared to 81% in the third quarter of fiscal 2012.

Our gross margin percentage increased 20 basis points from the third quarter of fiscal 2012 to 42.7% despite a $14.1 million decrease in revenue primarily due to increased service gross margins as a result of reduced costs across our service delivery model and a mix shift toward branded service contract activity and reduced OEM repair activity. Operating expenses increased $6.9 million, or 10% from the third quarter of fiscal 2012, primarily from restructuring charges for severance and benefits to right-size our workforce in order to align spending with revenue expectations. We had a $5.6 million loss from operations in the third quarter of fiscal 2013 compared to operating income of $7.0 million in the third quarter of fiscal 2012.

Interest expense decreased 9% to $2.2 million primarily due to decreased debt amortization expense as a result of debt refinancings in calendar 2012. We generated $6.4 million in cash from operating activities in the third quarter of fiscal 2013 compared to $16.1 million in the third quarter of fiscal 2012.

RESULTS OF OPERATIONS

Revenue

(In thousands)	Three Months Ended December 31, 2012	% of revenue	December 31, 2011	% of revenue	Change	% Change
Product revenue	$ 112,517	70.6%	$ 124,081	71.5%	$ (11,564)	(9.3)%
Service revenue	35,340	22.2%	35,362	20.4%	(22)	(0.1)%
Royalty revenue	11,538	7.2%	14,049	8.1%	(2,511)	(17.9)%
Total revenue	$ 159,395	100.0%	$ 173,492	100.0%	$ (14,097)	(8.1)%

	Nine Months Ended December 31, 2012	% of revenue	December 31, 2011	% of revenue	Change	% Change
Product revenue	$ 306,395	68.5%	$ 341,475	69.4%	$ (35,080)	(10.3)%
Service revenue	107,138	23.9%	107,956	21.9%	(818)	(0.8)%
Royalty revenue	34,081	7.6%	42,635	8.7%	(8,554)	(20.1)%
Total revenue	$ 447,614	100.0%	$ 492,066	100.0%	$ (44,452)	(9.0)%

Total revenue decreased in the third quarter of fiscal 2013, largely due to a decline in the tape automation market and economic weakness due to uncertainty regarding the fiscal cliff in the U.S. Companies of all sizes were cautious with their purchasing decisions in the third quarter of fiscal 2013. Total revenue in the first nine months of fiscal 2013 decreased from the first nine months of fiscal 2012, reflecting a decline in the tape automation market, economic uncertainty and, a decrease in large orders, or orders over $200,000. Revenue from branded data protection products and services decreased $6.5 million, or 6% from the third quarter of fiscal 2012 and decreased 9% from the first nine months of fiscal 2012. Data protection products include our tape automation systems, disk systems and devices and media offerings. Revenue from branded big data and archive products and services was the same as the third quarter of fiscal 2012 and increased 21% from the first nine months of fiscal 2012. Big data and archive products include StorNext software, StorNext and Q-Series appliances and Lattus wide area storage solutions. In addition, OEM product and service revenue decreased $5.1 million and $14.3 million, respectively, from the third quarter and first nine months of fiscal 2012. Royalty revenue decreased $2.5 million and $8.6 million, respectively, from the third quarter and first nine months of fiscal 2012.

<u>Product Revenue</u>

Our product revenue, which includes sales of our hardware and software products sold through both our Quantum branded and OEM channels, decreased $11.6 million and $35.1 million in the third quarter and first nine months of fiscal 2013, respectively, compared to the prior year periods primarily due to decreased revenue from sales of tape automation systems from entry level to enterprise systems. These decreases were partially offset by increased disk systems revenue and the addition of revenue from our new StorNext appliances that resulted in increased disk systems and software solutions revenue for both the third quarter and first nine months of fiscal 2013. Revenue from sales of branded products decreased 7% and 9%, respectively, in the third quarter and first nine months of fiscal 2013 and sales of products to our OEM customers decreased 16% in both the third quarter and first nine months of fiscal 2013 compared to the prior year periods.

(In thousands)	Three Months Ended December 31, 2012	% of revenue	December 31, 2011	% of revenue	Change	% Change
Disk systems and software solutions	$ 33,768	21.2%	$ 31,712	18.3%	$ 2,056	6.5%
Tape automation systems	60,967	38.2%	70,489	40.6%	(9,522)	(13.5)%
Devices and media	17,782	11.2%	21,880	12.6%	(4,098)	(18.7)%
Product revenue	$ 112,517	70.6%	$ 124,081	71.5%	$ (11,564)	(9.3)%

	Nine Months Ended					
	December 31, 2012	% of revenue	December 31, 2011	% of revenue	Change	% Change
Disk systems and software solutions	$ 94,178	21.1%	$ 86,543	17.6%	$ 7,635	8.8%
Tape automation systems	160,259	35.8%	190,634	38.7%	(30,375)	(15.9)%
Devices and media	51,958	11.6%	64,298	13.1%	(12,340)	(19.2)%
Product revenue	$ 306,395	68.5%	$ 341,475	69.4%	$ (35,080)	(10.3)%

Our disk systems and software solutions revenue increased 6% from the third quarter of fiscal 2012 primarily due to increased revenue from our enterprise and midrange disk systems resulting in record quarterly revenue for disk systems. Enterprise disk systems revenue increased 60% from the third quarter of fiscal 2012 mainly due to increased large orders, or orders over $200,000, and midrange disk systems revenue increased 13% from the third quarter of fiscal 2012. For the first nine months of fiscal 2013, disk systems and software solutions revenue increased 9% primarily due to the addition of revenue from our StorNext appliances and Q-Series disk. The first StorNext appliance was introduced in the second quarter of fiscal 2012.

The decrease in tape automation systems revenue in the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012 was primarily due to decreased OEM tape automation system sales and, to a lesser extent, from decreased branded tape automation system sales. OEM tape automation system revenue decreases were primarily due to decreased midrange system sales followed by decreased entry level product sales. Branded tape automation system decreases were primarily due to decreased enterprise systems followed by entry level products. Sales of branded enterprise tape automation units increased from the third quarter of fiscal 2012; however, revenue from these systems declined due to lower system upgrade revenue. LTO-6 tape technology became available in our Scalar products and contributed to revenue in the third quarter of fiscal 2013. The decrease in tape automation systems revenue from the first nine months of fiscal 2012 was primarily due to decreased branded tape automation system sales and, to a lesser extent, from decreased OEM tape automation system sales. For the first nine months of fiscal 2013, enterprise and midrange tape automation systems had the largest decreases compared to the prior year period.

Product revenue from devices and media, which includes tape drives, removable hard drives and non-royalty media, decreased from the third quarter and first nine months of fiscal 2012 largely due to decreased media sales in addition to lower revenue from devices. The third quarter and first nine months of fiscal 2012 had higher than usual media sales due to customers increasing their media inventories in response to concerns of supply disruptions following the March 2011 earthquake and tsunami in Japan. Revenue from devices decreased primarily due to overall market declines.

Service Revenue

Service revenue includes revenue from sales of hardware service contracts, product repair, installation and professional services. Sales of hardware service contracts are typically purchased by our customers to extend the warranty or to provide faster service response time, or both. Service revenue was unchanged from the third quarter of fiscal 2012. For the first nine months of fiscal 2013, service revenue decreased 1% compared to the first nine months of fiscal 2012 primarily due to a decreased volume of OEM product repair services, mostly offset by growth in revenue from branded service contracts associated with our StorNext appliances and midrange disk systems.

Royalty Revenue

Tape media royalties decreased 18% and 20% from the third quarter and first nine months of fiscal 2012 due to lower media unit sales sold by media licensees. The decrease was primarily due to higher than typical media sales during the third quarter and first nine months of fiscal 2012 due to inventories being increased in the third quarter and first nine months of fiscal 2012 in response to concerns of supply disruptions following the March 2011 earthquake and tsunami in Japan.

Gross Margin

(In thousands)	Three Months Ended December 31, 2012	Gross margin %	December 31, 2011	Gross margin %	Change	% Change
Product gross margin	$ 40,510	36.0%	$ 46,843	37.8%	$ (6,333)	(13.5)%
Service gross margin	15,980	45.2%	12,825	36.3%	3,155	24.6%
Royalty gross margin	11,538	100.0%	14,049	100.0%	(2,511)	(17.9)%
Gross margin	$ 68,028	42.7%	$ 73,717	42.5%	$ (5,689)	(7.7)%

	Nine Months Ended December 31, 2012	Gross margin %	December 31, 2011	Gross margin %	Change	% Change
Product gross margin	$ 101,754	33.2%	$ 123,431	36.1%	$ (21,677)	(17.6)%
Service gross margin	47,212	44.1%	42,224	39.1%	4,988	11.8%
Royalty gross margin	34,081	100.0%	42,635	100.0%	(8,554)	(20.1)%
Gross margin	$ 183,047	40.9%	$ 208,590*	42.4%	$ (25,543)	(12.2)%

*Gross margin for the nine months ended December 31, 2011 includes $0.3 million of restructuring benefit related to cost of revenue.

The 20 basis point increase in gross margin percentage compared to the third quarter of fiscal 2012 was primarily due to offsetting factors, with increased service gross margins offsetting lower product gross margin and a $2.5 million decrease in royalty revenue. For the first nine months of fiscal 2013, our gross margin percentage decreased 150 basis points from the first nine months of fiscal 2012 primarily due to decreased product revenue and a corresponding lower product gross margin as well as an $8.6 million decrease in royalty revenue, partially offset by increased service gross margin. Some of our costs of goods sold are relatively fixed in the short term; therefore, revenue increases or decreases can have a material impact on the gross margin rate.

Product Margin

Product gross margin dollars decreased $6.3 million, or 14%, compared to the third quarter of fiscal 2012, and our product gross margin rate decreased 180 basis points primarily due to a 9% decrease in product revenue. For the first nine months of fiscal 2013, product gross margin decreased $21.7 million, or 18%, and our product gross margin rate decreased 290 basis points primarily due to a 10% decrease in product revenue. As noted above, some of our product costs of goods sold are relatively fixed in the short term; therefore, product revenue increases or decreases impact the product gross margin rate. The change in the mix of products sold also contributed to decreased product margins in the third quarter and first nine months of fiscal 2013. We had an increase in salaries and benefits in the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012 largely due to merit increases and investments in our software support team. In addition, we had an increase in the manufacturing inventory allowance in the first nine months of fiscal 2013 compared to the prior year period largely due to more products nearing end of life than in the first nine months of fiscal 2012. Partially offsetting these factors was lower intangible amortization in both the third quarter and first nine months of fiscal 2013 due to certain intangible assets becoming fully amortized in fiscal 2012 and the second quarter of fiscal 2013.

Service Margin

Service gross margin dollars increased $3.2 million, or 25%, compared to the third quarter of fiscal 2012, and service gross margin percentage increased 890 basis points while service revenue was unchanged. For the first nine months of fiscal 2013 service gross margin dollars increased $5.0 million, or 12%, and service gross margin percentage increased 500 basis points despite a decrease in service revenue of $0.8 million compared to the first nine months of fiscal 2012. These service margin increases were primarily due to reduced costs across our service delivery model in part due to bringing repair of certain product lines in-house and from a decreased volume of repairs. In addition, our service activities continue to reflect a larger proportion of branded products under contract, which have relatively higher margins than margins for OEM repair services.

The more significant cost decreases in the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012 were service parts inventory allowance, compensation and benefits, external service providers and third party warehouse expense. For the first nine months of fiscal 2013, the more significant cost decreases compared to the prior year period were for third party warehouse, external service providers, compensation and benefits and service materials. Service parts inventory allowance expense decreased primarily due to increased service parts usage and lower overall service parts inventory. Compensation and benefits decreased due to reduced staffing levels. Third party warehouse expenses decreased due to reduced usage as a result of bringing repair of certain product lines in-house. External service provider expense decreased due to a combination of bringing repair of certain product lines in-house and negotiating lower rates on the renewals of contracts with certain service providers. Service material decreases were primarily due to lower repair volumes compared to the prior year.

Research and Development Expenses

	Three Months Ended					
(In thousands)	December 31, 2012	% of revenue	December 31, 2011	% of revenue	Change	% Change
Research and development	$ 18,615	11.7%	$ 17,629	10.2%	$ 986	5.6%

	Nine Months Ended					
	December 31, 2012	% of revenue	December 31, 2011	% of revenue	Change	% Change
Research and development	$ 56,639	12.7%	$ 55,212	11.2%	$ 1,427	2.6%

The increase in research and development expenses compared to the third quarter and first nine months of fiscal 2012 was largely due to a $0.4 million and $0.9 million increase, respectively, in use of external service providers, primarily for next generation LTO product development. In addition, we had a $0.4 million increase in compensation and benefits expense in the third quarter of fiscal 2013 primarily due to merit increases. For the third quarter and first nine months of fiscal 2013, we also had a $0.3 million and a $0.7 million increase, respectively, in depreciation expense due to laboratory testing equipment purchases.

Sales and Marketing Expenses

	Three Months Ended					
(In thousands)	December 31, 2012	% of revenue	December 31, 2011	% of revenue	Change	% Change
Sales and marketing	$ 33,588	21.1%	$ 33,350	19.2%	$ 238	0.7%

	Nine Months Ended					
	December 31, 2012	% of revenue	December 31, 2011	% of revenue	Change	% Change
Sales and marketing	$ 103,307	23.1%	$ 94,990	19.3%	$ 8,317	8.8%

The increase in sales and marketing expense for the third quarter of fiscal 2013 was primarily due to a $1.5 million increase in compensation and benefits from growing our branded sales force and marketing team in the first half of fiscal 2013 and latter part of fiscal 2012, offset by a $1.4 million decrease in intangible amortization due to certain intangibles becoming fully amortized in the second quarter of fiscal 2013. The increase in sales and marketing expense for the first nine months of fiscal 2013 was primarily due to a $5.7 million increase in compensation and benefits from growing our branded sales force and marketing team. In addition, we had a $2.3 million increase in marketing and advertising expenses due to our awareness campaign and expanded marketing programs in the first half of fiscal 2013 intended to increase future demand for our products and services. As noted above, these efforts contributed to our new customer acquisition. We also had an increase of $0.8 million for external service providers, offset by a $2.2 million decrease in intangible amortization due to certain intangibles becoming fully amortized in the second quarter of fiscal 2013.

General and Administrative Expenses

(In thousands)	Three Months Ended December 31, 2012	% of revenue	December 31, 2011	% of revenue	Change	% Change
General and administrative	$ 14,851	9.3%	$ 15,759	9.1%	$ (908)	(5.8)%

	Nine Months Ended December 31, 2012	% of revenue	December 31, 2011	% of revenue	Change	% Change
General and administrative	$ 46,910	10.5%	$ 46,991	9.5%	$ (81)	(0.2)

The decrease in general and administrative expenses for the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012 was due to a $0.4 million decrease in compensation and benefits and a number of expense reductions between $50,000 and $100,000 including telephone and data expenses, external service providers, depreciation, sales and use tax, software maintenance and legal expenses.

Restructuring Charges

(In thousands)	Three Months Ended December 31, 2012	% of revenue	December 31, 2011	% of revenue	Change	% Change
Restructuring charges	$ 6,602	4.1%	$ —	—%	$ 6,602	n/a

	Nine Months Ended December 31, 2012	% of revenue	December 31, 2011	% of revenue	Change	% Change
Restructuring benefit related to cost of revenue	$ —	—%	$ (300)	(0.1)%	$ 300	100.0%
Restructuring charges in operating expense	6,602	1.5%	699	0.1%	5,903	n/a
Total restructuring charges	$ 6,602	1.5%	$ 399	0.1%	$ 6,203	n/a

The increase in restructuring charges for the third quarter and first nine months of fiscal 2013 was primarily due to severance and benefits expense from eliminating positions in both the U.S. and internationally across most functions of the business to align spending with revenue expectations.

Gain on Sale of Patents

(In thousands)	Nine Months Ended December 31, 2012	% of revenue	December 31, 2011	% of revenue	Change	% Change
Gain on sale of patents	$ —	—%	$ 1,500	0.3%	$ (1,500)	(100.0)%

In the second quarter of fiscal 2012, we had a $1.5 million gain on the sale of certain patents. Under the patent sale agreement, we retain a royalty-free license for these patents. We may enter into similar transactions in the future.

Interest Expense

(In thousands)	Three Months Ended December 31, 2012	% of revenue	December 31, 2011	% of revenue	Change	% Change
Interest expense	$ 2,230	1.4%	$ 2,450	1.4%	$ (220)	(9.0)%

	Nine Months Ended December 31, 2012	% of revenue	December 31, 2011	% of revenue	Change	% Change
Interest expense	$ 5,896	1.3%	$ 8,111	1.6%	$ (2,215)	(27.3)%

Interest expense decreased from the third quarter of fiscal 2012 primarily due to decreased debt amortization expense as a result of debt refinancings in calendar 2012. For the first nine months of fiscal 2013, interest expense decreased primarily due to refinancing our senior debt in March 2012 which decreased interest rates and debt amortization expense compared to the prior credit agreement. In addition, principal payments in the prior fiscal year reduced the outstanding balance of senior debt, decreasing interest expense compared to the first nine months of fiscal 2012.

Income Taxes

(In thousands)	Three Months Ended December 31, 2012	% of pre-tax loss	December 31, 2011	% of pre-tax income	Change	% Change
Income tax provision	$ 348	(4.5)%	$ 473	10.8%	$ (125)	(26.4)%

	Nine Months Ended December 31, 2012	% of pre-tax loss	December 31, 2011	% of pre-tax income	Change	% Change
Income tax provision	$ 1,217	(3.3)%	$ 1,416	38.6%	$ (199)	(14.1)%

The income tax provision for the third quarter and first nine months of fiscal 2013 and 2012 reflects expenses for foreign income taxes and state taxes. We have provided a full valuation allowance against our U.S. net deferred tax assets due to our history of net losses, difficulty in predicting future results and our conclusion that we cannot rely on projections of future taxable income to realize the deferred tax assets.

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

Amortization of Intangible Assets

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

	Three Months Ended December 31, 2012	December 31, 2011	Change	% Change
Cost of revenue	$ 911	$ 1,472	$ (561)	(38.1)%
Sales and marketing	1,856	3,256	(1,400)	(43.0)%
	$ 2,767	$ 4,728	$ (1,961)	(41.5)%

	Nine Months Ended			
	December 31, 2012	December 31, 2011	Change	% Change
Cost of revenue	$ 3,407	$ 6,148	$ (2,741)	(44.6)%
Sales and marketing	7,668	9,872	(2,204)	(22.3)%
General and administrative	—	32	(32)	(100.0)%
	$ 11,075	$ 16,052	$ (4,977)	(31.0)%

The decrease in intangible amortization expense in the third quarter and first nine months of fiscal 2013 compared to the third quarter and first nine months of fiscal 2012 was primarily due to certain intangibles becoming fully amortized during fiscal 2012 and during the second quarter of fiscal 2013. For further information regarding amortizable intangible assets, refer to Note 4: "Intangible Assets and Goodwill."

Share-based Compensation

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

	Three Months Ended			
	December 31, 2012	December 31, 2011	Change	% Change
Cost of revenue	$ 626	$ 495	$ 131	26.5%
Research and development	925	795	130	16.4%
Sales and marketing	1,273	1,127	146	13.0%
General and administrative	892	1,007	(115)	(11.4)%
	$ 3,716	$ 3,424	$ 292	8.5%

	Nine Months Ended			
	December 31, 2012	December 31, 2011	Change	% Change
Cost of revenue	$ 1,839	$ 1,518	$ 321	21.1%
Research and development	2,772	2,466	306	12.4%
Sales and marketing	3,603	3,059	544	17.8%
General and administrative	3,515	3,203	312	9.7%
	$ 11,729	$ 10,246	$ 1,483	14.5%

The increase in share-based compensation from the third quarter and first nine months of fiscal 2012 was primarily due to $0.6 million and $2.2 million, respectively, of incremental RSU expense as a result of merit awards granted in the second quarter of fiscal 2013. This increase was partially offset by a $0.3 million and $0.7 million decrease in option expense from the third quarter and first nine months of fiscal 2012, respectively, due to a reduced number of unvested options as a result of no option grants in fiscal 2013 and existing options completing vesting.

LIQUIDITY AND CAPITAL RESOURCES

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

	Nine Months Ended	
	December 31, 2012	December 31, 2011
Net income (loss)	$ (37,912)	$ 2,249
Net cash provided by (used in) operating activities	(8,132)	33,093
Net cash used in investing activities	(10,659)	(18,910)
Net cash provided by (used in) financing activities	18,884	(30,830)

Nine Months Ended December 31, 2012

The $29.8 million difference between reported net loss and cash used in operating activities during the nine months ended December 31, 2012 was primarily due to $40.3 million in non-cash items, the largest of which were amortization, depreciation, share-based compensation and service parts lower of cost or market adjustment. This was partially offset by a $9.7 million decrease in accounts payable primarily due to decreased purchases and the timing of payments.

Cash used in investing activities was primarily due to $9.4 million of property and equipment purchases and $2.2 million used to purchase other investments. Equipment purchases were primarily for engineering equipment and testing hardware to support product development activities, and we made leasehold improvements to a location we started leasing in the first quarter of fiscal 2013. Other investments were from investments we made in private technology companies with products or features complementary to Quantum products.

Cash provided by financing activities during the first nine months of fiscal 2013 was primarily due to $18.2 million in net borrowings from issuing convertible subordinated debt and repaying our line of credit balance from a portion of the convertible debt proceeds. In addition, we received $2.6 million from the exercise of stock options and issuance of shares under the employee stock purchase plan, largely offset by $1.9 million paid for taxes due upon vesting of restricted stock.

Nine Months Ended December 31, 2011

The $30.8 million difference between reported net income and cash provided by operating activities during the nine months ended December 31, 2011 was primarily due to $43.6 million in non-cash items, the largest of which were amortization, depreciation, share-based compensation and service parts lower of cost or market adjustment. In addition, we had a $7.1 million increase in accounts payable primarily due to the timing of payments and increased purchases. These were partially offset by a $17.5 million increase in manufacturing inventories primarily due to purchasing materials to meet projected third quarter fiscal 2012 product sales and from securing a sufficient supply of hard disk drives for forecast needs into early fiscal 2013 due to supply constraints from flooding in Thailand.

Cash used in investing activities reflected $8.5 million of equipment purchases during the first nine months of fiscal 2012 and $8.2 million of cash paid, net of cash acquired, for our acquisition of Pancetera. Equipment purchases were primarily for engineering equipment and testing hardware to support product development activities.

Cash used in financing activities during the first nine months of fiscal 2012 was primarily due to $35.7 million of principal payments on senior term debt, partially offset by $7.5 million in proceeds received from the exercise of stock options and issuance of shares under the employee stock purchase plan.

Capital Resources and Financial Condition

We continue to focus on improving our operating performance, including efforts to increase revenue in higher margin areas of the business and continuing efforts to improve margins, 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 service, 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 control operating expenses in order to provide positive cash flow from operating activities. Should any of the above assumptions prove incorrect, either in combination or individually, it would likely have a material negative effect on our cash balances and capital resources.

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

We have $205 million of convertible subordinated debt in addition to a line of credit under the Wells Fargo Credit agreement (“WF credit agreement”). The $135 million aggregate principal amount outstanding of 3.50% convertible subordinated notes is due November 15, 2015 and semi-annual interest payments are required on these notes.

We issued $70 million aggregate principal amount of convertible subordinated notes during the third quarter of fiscal 2013. This was comprised of $60 million aggregate principal amount of 4.50% convertible subordinated notes due November 15, 2017 issued on October 31, 2012, and an additional $10 million aggregate principal amount of 4.50% convertible subordinated notes due November 15, 2017 issued on November 6, 2012 pursuant to an over-allotment provision (“4.50% notes”). These notes are convertible into shares of our common stock at a conversion rate of 607.1645 shares per $1,000 principal amount, a conversion price of approximately $1.65 per share. We may not redeem the notes prior to their maturity date although investors may convert the 4.50% notes into Quantum common stock until November 14, 2017 at their option. In addition, since purchasers are qualified institutional investors, as defined in Rule 144A under the Securities Act of 1933 (“Securities Act”), the 4.50% notes have not been registered under the Securities Act. We will pay 4.50% interest per annum on the principal amount of the 4.50% notes semi-annually on May 15 and November 15 of each year beginning in May 2013. Interest began to accrue on October 31, 2012. The terms of the 4.50% notes are governed by an agreement dated October 31, 2012 between Quantum and U.S. Bank National Association. The 4.50% notes are subordinated to any existing indebtedness and other liabilities. We incurred and capitalized $2.3 million of loan fees for the 4.50% notes which are included in other long-term assets in our Condensed Consolidated Balance Sheets. The fees are amortized to interest expense over the loan term.

Under the WF credit agreement, we had the ability to borrow up to $75 million under a senior secured revolving credit facility. The maximum principal amount that may be borrowed was the lesser of $75 million, reduced by $1 million per quarter commencing July 1, 2012, or the amount of the monthly borrowing base. The WF credit agreement matures March 29, 2017, or on August 16, 2015 if our 3.50% convertible subordinated notes remain outstanding on that date.

On June 28, 2012, the WF credit agreement was amended in order to allow the assignment of $25 million of the total revolver commitment to Silicon Valley Bank. This amendment also made certain other conforming and related modifications, including changes to the average liquidity requirements. The average liquidity covenant requirements were amended to be at $15 million through December 31, 2012, increasing to $20 million on January 1, 2013.

On October 31, 2012, we repaid all outstanding borrowings under the WF credit agreement with $49.5 million of the proceeds from the 4.50% notes. We have letters of credit totaling $1.1 million, reducing the amount available to borrow to $71.9 million at December 31, 2012. Quarterly, we are required to pay a 0.375% commitment fee on undrawn amounts under the revolving credit facility. There is a blanket lien on all of our assets under the WF credit agreement in addition to certain financial and reporting covenants. As of December 31, 2012, we were in compliance with all covenants and had no borrowings on the line of credit.

With the completion of the $70 million convertible debt offering, we requested an amendment to our WF credit agreement to decrease the line of credit and modify certain covenants. An amendment was completed on January 31, 2013. The maximum borrowing amount decreased to the lesser of $55 million or the amount of the monthly borrowing base and will remain at this level for the remaining term of the credit agreement. The average liquidity covenant was eliminated. The fixed charge coverage ratio covenant is applicable only in fiscal quarters in which liquidity is below $16.5 million and decreased from 1.2 to 1.1 for the 12 month period ending on the last day of a fiscal quarter. The liquidity requirement to avoid triggering mandatory field audits decreased from $20 million to $18.5 million commencing January 31, 2013 and will remain at this level for the remaining term of the credit agreement. Both the fixed charge coverage ratio and liquidity are defined in the WF credit agreement and the January 31, 2013 amendment. In addition, compliance certificates must be filed monthly if borrowings exceed $15 million, otherwise they are to be filed quarterly.

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 in recent years to offset the negative impact of the recession and slow economic recovery and their impact on the data protection and big data and archive markets. We implemented cost reduction initiatives in the third quarter of fiscal 2013 in an effort to better align spending with revenue expectations. We cannot provide assurance that the actions we are currently undertaking, 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 lenders 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, or
- Approve any amendments to the 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 becoming unavailable to us and any amounts outstanding becoming immediately due and 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 unaudited Condensed Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these statements requires us to make significant estimates and judgments about future uncertainties that affect reported assets, liabilities, revenues and expenses and related disclosures. We base our estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances. In the event that estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current information. The accounting estimates requiring our most difficult, subjective or complex judgments because these matters are inherently uncertain are unchanged. These critical accounting estimates and policies have been disclosed in our Annual Report on Form 10-K for the year ended March 31, 2012 filed with the Securities and Exchange Commission on June 14, 2012.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Changes in interest rates affect interest income earned on our cash equivalents and interest expense on our borrowings under the Wells Fargo credit agreement. Our outstanding convertible subordinated notes have fixed interest rates, thus a hypothetical 100 basis point increase in interest rates would not impact interest expense on these borrowings.

Our cash equivalents consisted solely of money market funds during the nine months ended December 31, 2012. During the first nine months of fiscal 2013, interest rates on these funds were under 1.0% and we earned negligible amounts in interest income. We did not have any outstanding borrowings under the Wells Fargo credit agreement at December 31, 2012.

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

On June 28, 2012, Overland Storage, Inc. ("Overland") filed a patent infringement lawsuit against Quantum in the U.S. District Court for the Southern District of California, alleging that certain of its automated tape libraries fall within the scope of patents 6,328,766 and 6,353,581. Overland is seeking injunctive relief, as well as the recovery of unspecified monetary damages, including treble damages for willful infringement. We do not believe we infringe the Overland patents and we will defend ourselves vigorously. Due to the inherent uncertainty of litigation, we cannot identify probable or estimable damages related to the lawsuit at this time.

On August 28, 2012, we filed a lawsuit against Overland in the U.S. District Court for the Southern District of California, for patent infringements of our patents 6,542,787; 6,498,771; 5,925,119 and 5,491,812 by the products in Overland's NEO tape library and SnapServer product lines. We are seeking injunctive relief and the recovery of monetary damages.

On September 12, 2011, Compression Technology Solutions LLC ("CTS") filed a patent infringement lawsuit against a group of companies, consisting of Quantum, CA., Inc., EMC Corporation, Hewlett-Packard Company, International Business Machines Corp., NetApp, Inc. and Quest Software, Inc., in the U.S. District Court for the Eastern District of Missouri, alleging that certain unspecified products of the defendants, characterized as "deduplication software systems," and, in the case of Quantum, including Quantum's "DXi Series Deduplication software," fall within the scope of patent 5,414,650. CTS is seeking injunctive relief, as well as the recovery of monetary damages, including treble damages for willful infringement. We do not believe we infringe the CTS patent; we believe that the CTS patent is invalid, and we intend to defend ourselves vigorously. In April 2012, our motion to transfer venue was granted and the lawsuit was transferred to the U.S. District Court for the Northern District of California. Due to the inherent uncertainty of litigation, we cannot identify probable or estimable damages related to the lawsuit at this time.

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 branded revenue, especially for disk systems and software solutions, could negatively affect our operating results.

We sell the majority of our branded products to value-added resellers, or VARs, and to direct marketing resellers such as CDW Corporation, who in turn sell our products to end users, and to distributors such as Ingram Micro, Inc. 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 branded revenue.

As we introduce new products and solutions, we could negatively impact our relationship with channel partners that historically have sold other products and solutions that now compete with our new offerings. For example, we introduced various StorNext appliance solutions in fiscal 2012 causing us to more directly compete for hardware sales with channel partners that sold other hardware products in conjunction with our StorNext software.

Certain of our contracts with customers 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 products, and the revenue associated with the on-site service of those products, 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 branded 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.

We derive the majority of our revenue from products incorporating tape technology. If we are unable to compete with new or alternative storage technologies, 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 significant revenue from these products in the next several years. As a result, our future operating results depend in part on continued market acceptance and use of products employing tape technology. Disk products as well as various software solutions and alternative technologies continue to gain broader market acceptance. We face risks that our tape customers migrate toward these products and solutions.

We are addressing this risk through our own targeted investment in disk systems and other alternative technologies; however, 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.

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.

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 because under our business model, we sell to OEMs, distributors, VARs and DMRs to reach end user customers. Furthermore, customers are not obligated to purchase any minimum product volume and our relationships with customers are terminable at will. Revenue from OEM customers has decreased in recent years. If we experience further declines in revenue from OEM customers 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.

Some of our tape and disk products are incorporated into larger storage systems or solutions that are marketed and sold to end users by large OEM customers as well as VARs, 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 such as distributors and VARs. Thus if they were to significantly reduce, cancel or delay their orders with us, our results of operations could be materially and adversely affected.

A portion of our sales are to various agencies and departments of the U.S. federal government. The U.S. Congress passed an Omnibus bill that required across-the-board automatic spending cuts effective January 1, 2013 if a budget agreement was not reached by December 31, 2012. The U.S. Congress passed the American Taxpayer Relief Act of 2012 which postponed automatic spending cuts until March 1, 2013 if there is not a budget agreement by that date. The potential automatic spending cuts could decrease revenue from sales to the federal government that could materially and adversely affect our results of operations.

Our operating results depend on a limited number of products and 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.

A limited number of products comprise a significant majority of our sales, and due to rapid technological change in the industry, our future operating results depend on our ability to develop and successfully introduce new products. To compete effectively, we must continually improve existing products and introduce new ones. We have devoted and expect to continue to devote considerable management and financial resources to these efforts. We cannot provide assurance that:

- We will introduce new products in the timeframe we are forecasting;
- We will not experience technical, quality, performance-related or other difficulties that could prevent or delay the introduction and market acceptance of new products;
- Our new products will achieve market acceptance and significant market share, or that the markets for these products will continue or grow as we have anticipated;
- Our new products will be successfully or timely qualified with our customers by meeting customer performance and quality specifications which must occur before customers will place large product orders; or
- We will achieve high volume production of these new products in a timely manner, if at all.

If we are not successful in timely completion of our new product qualifications and then ramping sales to our key customers, our revenue and results of operations could be adversely impacted. In addition, if the quality of our products is not acceptable to our customers, this could result in customer dissatisfaction, lost revenue and increased warranty and repair costs.

We continue to face risks related to the slow economic recovery.

The economic crisis in the U.S. and global financial markets in 2008 and 2009 and the continuing slow recovery has had a material and adverse impact on our business and our financial condition, including reduced demand for IT products and services overall and data protection and big data management specifically. We continue to face risks related to the slow economic recovery, including risks related to economic conditions in Europe. In addition, concerns about the potential default of various national bonds and debt backed by individual countries as well the politics impacting these, could negatively impact the U.S. and global economies and adversely affect our financial results. Uncertainty about economic conditions poses a risk as businesses may further reduce or postpone spending in response to reduced budgets, tight credit, negative financial news and declines in income or asset values which could adversely affect our business, financial condition and results of operations. 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 and could also adversely affect our results of operations and financial condition.

Competition may intensify in the data protection market 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 competitors in the data protection market for disk systems and virtual machine solutions 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. Competition in our markets is characterized by technological innovation and advancement. As a result of competition and new technology standards, our sales or gross margins could decline, which could materially and adversely affect our business, financial condition and results of operations.

Technological developments and competition over the years in the tape automation market has resulted in decreased prices for tape automation products and product offerings. Pricing pressure is more pronounced in the tape automation market for entry-level products and least pronounced for enterprise products. Similar to our competitors, our products may be priced lower and often incorporate new and/or different features and technologies than prior years. We face risks that customers could choose competitor products over ours due to these features and technologies or due to pricing differences. We have managed pricing pressure by reducing production costs and/or adding features to increase value to maintain a certain level of gross margin for our tape automation systems. If competition further intensifies, or if there is additional industry consolidation, 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.

Industry consolidation and competing technologies with device products, which include tape drives and removable hard drives, have resulted in decreased prices and increasingly commoditized device products. Our response has been to manage our device business at the material margin level and we have chosen not to compete for sales in intense price-based situations or if we would be unable to maintain a certain gross margin level. Our focus has shifted to higher margin opportunities in other product lines. Although revenue from devices has decreased in recent years, our material margins have remained relatively stable over this period. We have exited certain portions of the device market and have anticipated decreased sales of devices. We face risk of reduced shipments of our devices beyond our plans, and could have reduced margins on these products, which could adversely impact our business, financial condition and results of operations.

Additionally, the competitive landscape could change due to merger and acquisition activity in the data protection market. Such transactions may impact us in a number of ways. For instance, they could result in:

- Competitors decreasing in number but 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 because whether a pending transaction will be completed, the timing of such a transaction and its degree of impact are often unknown. Given these factors and others, such merger and acquisition activity may materially and adversely impact our business, financial condition and results of operations.

Competition may intensify in the big data and archive market 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.

Competition in the big data and archive market is characterized by technological innovation and advancement, including performance and scale features, and our competitors are aggressively trying to advance and develop new technologies and solutions. We face the risk that customers could choose competitor solutions over ours due to these features and technologies. As a result of competition and new technology standards, our sales from software solutions and appliances could decline, which could materially and adversely affect our business, financial condition and results of operations.

Additionally, the competitive landscape could change due to merger and acquisition activity. Transactions such as these may impact us in a number of ways. For instance, they could result in:

- Competitors decreasing in number but 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, because whether a pending transaction will be completed, the timing of such a transaction and its degree of impact are often unknown. Given these factors and others, such merger and acquisition activity may materially and adversely impact our business, financial condition and results of operations.

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 royalties, branded software and OEM deduplication software revenues are relatively profitable and can significantly impact total company profitability. We receive royalty revenue based on tape media cartridges sold by various tape media manufacturers and resellers. 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 and other factors, including:

- The size of the installed base of devices and similar products that use tape media cartridges;
- The performance of our strategic licensing partners, which sell tape media cartridges;
- The relative growth in units of newer device products, since the associated media cartridges for newer products typically sell at higher prices than the media cartridges associated with older products;
- The media consumption habits and rates of end users;
- The pattern of device retirements; and
- The level of channel inventories.

Our media royalties depend on royalty rates and the quantity of media consumed in the market. We do not control licensee sales of these tape media cartridges. Reduced royalty rates, or a reduced installed device base using tape media cartridges, would result in further reductions in our royalty revenue and could reduce gross margins. 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. Disruptions to any one of these factors could reduce our branded software revenues which could adversely affect our business, financial condition and operating results.

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 of our OEM deduplication software partners in 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. Any further disruptions to the factors on which our OEM deduplication software revenues depends could adversely affect our business, financial condition and operating 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, to respond to adverse economic and industry conditions and from strategic management decisions. We may take future steps to further reduce our operating costs, including future cost reduction steps or restructurings in response to strategic decisions, adverse changes in our business or industry or future acquisitions. 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.

If we are unable to attract and retain skilled employees, our business could be adversely impacted.

We may be subject to increased turnover in our employee base or the inability to fill open headcount requisitions due to competition, concerns about our operational performance or other factors. In addition, we may rely on the performance of employees whose skill sets are not sufficiently developed to fulfill their expected 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 write down the carrying amount of our goodwill or long-lived assets, such as the goodwill impairment charge 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 could deteriorate 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, such as our current litigation with CTS Solutions and Overland Storage described in Legal Proceedings. 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 "open source" software. Open source software is typically licensed for use at no initial charge. Certain open source software licenses, however, require users of the open source software to license to others any software that is based on, incorporates or interacts with, the open source software under the terms of the open source license. Although we endeavor to comply fully with such requirements, third parties could claim that we are required to license larger portions of our software than we believe we are required to license under open source software licenses. If such claims were successful, they could adversely impact our competitive position and financial results by providing our competitors with access to sensitive information that may help them develop competitive products. In addition, our use of open source software may harm our business and subject us to intellectual property claims, litigation or proceedings in the future because:

- Open source license terms may be ambiguous and may subject us to unanticipated obligations regarding our products, technologies and intellectual property;
- Open source software generally cannot be protected under trade secret law; and
- It may be difficult for us to accurately determine the origin of the open source code and whether the open source software infringes, misappropriates or violates third party intellectual property or other rights.

As a result of our global manufacturing and sales operations, we are subject to a variety of risks that are unique to businesses with international operations of a similar scope, any of which could, individually or in the aggregate have a material adverse effect on our business.

A significant portion of our manufacturing and sales operations and supply chain occurs in countries other than the U.S. We also have sales outside the U.S. We utilize contract manufacturers to produce certain of our products and have suppliers for various components, several of which have operations located in foreign countries including China, Hungary, Japan, Malaysia, Singapore and Thailand. 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, flooding, 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;
- Customer fiscal year-ends and budget availability impacting customer demand for our products;
- Declines in large orders, or orders greater than $200,000;
- Declines in royalty revenues;
- Declines in software 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 or distribution, VAR, DMR and other large customers; and
- Increased competition.

For instance, for the first quarter of fiscal 2013, our financial results were below our guidance for the period in part because we were unable to close a number of larger transactions. After we reported this on July 9, 2012, our share price declined by 28%. 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. 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. 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 products to ensure that we have sufficient components for our products to meet anticipated customer demand. Because the design and manufacturing process for these components can be 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. These same risks exist with our third party contract manufacturing partners. Our business and operating results could be materially and adversely affected if we incur increased costs, or are unable to fulfill customer orders.

Some of our manufacturing, component production and service repair are 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 for the products our business partners 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 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 contracted with our customer.

- *Financial condition and stability*
  Our third party business partners may suffer adverse financial or operational results or may be negatively impacted by global and local economic conditions. Therefore, we may face interruptions in the supply of product components or service as a result of financial or other volatility affecting our supply chain. We could suffer production downtime or increased costs to procure alternate products or services as a result of the possible inadequate financial condition of one or more of our business partners.

- *Quality and supplier conduct*
  We have limited control over the quality of products and components produced and services provided by our supply chain business partners. Therefore, the quality of the products, parts or services may not be acceptable to our customers and could result in customer dissatisfaction, lost revenue and increased warranty costs. In addition, we have limited control over the manner in which our business partners conduct their business. Sub-tier suppliers selected by the primary third party could have process control issues or could select components with latent defects that manifest over a longer period of time. Therefore, we may face negative consequences or publicity as a result of a third party's failure to comply with applicable compliance, trade, environmental or employment regulations.

Any or all of these risks could have a material adverse effect on our business. In the past we have successfully transitioned products or component supply from one supplier to another existing supplier of different products or to our own facilities without significant financial or operational impact, 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.

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.

Our capital structure includes debt, which imposes upon us debt service obligations and our credit facility contains various operating and financial covenants that limit our discretion in the operation of our business. If we are unable to generate sufficient cash flows from operations to meet these debt obligations or remain in compliance with the covenants our business, financial condition and operating results could be materially and adversely affected.

Our level of indebtedness presents 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.

Potential consequences of having debt include:

- Requiring that we dedicate a 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;
- 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;
- Mandatory field audits and control of cash receipts by the lender if we do not maintain average liquidity above certain thresholds;
- Increasing our vulnerability to adverse economic and industry conditions;
- Making it more difficult or impossible for us to make payments on other indebtedness or obligations; and
- Limiting our ability to incur additional debt on acceptable terms, if at all.

Our credit facility agreement contains restrictive covenants that require us to comply with and maintain certain financial tests and ratios, as well as restrict our ability, subject to certain thresholds, to:

- Incur debt;
- Incur liens;
- Make acquisitions of businesses or entities or sell certain assets;
- Make investments, including loans, guarantees and advances;
- 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 this credit agreement may be affected by events beyond our control, including prevailing economic, financial and industry conditions.

Our credit facility agreement is collateralized by a pledge of all of our assets. If we were to default and were unable to obtain a waiver for such a default, the lender would have a right to foreclose on our assets in order to satisfy our obligations under the credit agreement. Any such action on the part of the lender against us could have a materially adverse impact on our business, financial condition and results of operations.

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.

A small number of institutional investors have owned a significant portion of our common stock at various times in recent years. If any or all of these investors were to decide to purchase significant additional shares or to sell significant amounts or all of the common shares they currently own, or if there is a perception that those sales may occur, 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.

If the average closing price of our common stock were to drop below $1.00 per share over a consecutive thirty trading-day period, we would be out of compliance with NYSE Euronext ("NYSE") rules, and our common stock could be delisted from trading on the NYSE, which could materially and adversely impair the liquidity and value of our common stock.

The price of our common stock has decreased recently, closing as low as $1.05 on October 31, 2012. If the average closing price of our common stock does not exceed $1.00 per share over a consecutive thirty trading-day period, we will be non-compliant with NYSE continued listing standards. Once notified of such non-compliance by the NYSE, we would need to bring our share price and consecutive thirty trading-day average share price back above $1.00 per share within six months or the NYSE would commence suspension and delisting procedures. In addition, if our common stock price falls below the $1.00 threshold to the point where the NYSE considers the stock price to be "abnormally low," the NYSE has the discretion to begin delisting proceeding immediately with respect to our common stock. There is no formal definition of "abnormally low" in the NYSE rules. If our common stock were delisted, the ability of our stockholders to sell any of our common stock at all would be severely, if not completely, limited, causing our stock price to decline further.

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.

From time to time we have made 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, including restructuring actions, which may require cash payments that, if large enough, could materially and adversely affect our liquidity; 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 negatively impact 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 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. We have used in the past, and may use in the future, foreign currency forward contracts to hedge our exposure to foreign currency exchange rates. To the extent that we have assets or liabilities denominated in a foreign currency that are inadequately hedged or not hedged at all, we may be subject to foreign currency losses, which could be significant.

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

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The Exhibit Index beginning on page 39 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)

Date: February 8, 2013

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit(s)	Filing Date
3.1	Amended and Restated Certificate of Incorporation of Registrant.	8-K	001-13449	3.1	August 16, 2007
3.2	Amended and Restated By-laws of Registrant, as amended.	8-K	001-13449	3.1	December 5, 2008
3.3	Certification of Amendment to the Bylaws of Quantum Corporation, as adopted on January 20, 2010.	8-K	001-13449	3.1	January 26, 2010
4.1	Stockholder Agreement, dated as of October 28, 2002, by and between Registrant and Private Capital Management.	10-Q	001-13449	4.2	November 13, 2002
4.2	Indenture 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
4.3	Indenture for 4.50% Convertible Senior Subordinated Notes due 2017, between the Registrant and U.S. Bank National Association, as trustee, dated October 31, 2012, including the form of 4.50% Convertible Senior Subordinated Note due 2017.	8-K	001-13449	4.1	October 31, 2012
10.1	Amendment to Employment Offer Letter between Registrant and Jon W. Gacek.*‡				
10.2	Fourth Amendment to Credit Agreement and First Amendment to Security Agreement, dated January 31, 2013, among Registrant, the lenders identified therein, and Wells Fargo Capital Finance, LLC, as the administrative agent for the lenders.	8-K	001-13449	10.1	February 6, 2013
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. †				
101.INS	XBRL Instance Document.††				
101.SCH	XBRL Taxonomy Extension Schema Document.††				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.††				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.††				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.††				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.††				

* Indicates management contract or compensatory plan or arrangement.

‡ Filed herewith.

† Furnished herewith.

†† XBRL (Extensible Business Reporting Language) information is furnished and not filed herewith, is not a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

[Quantum Letterhead]

November 8, 2012

Mr. Jon W. Gacek
[address]

Re: Amendment to Offer Letter dated as of March 31, 2011

Dear Jon,

As you may recall, your offer letter with Quantum Corporation (the "*Company*") dated March 31, 2011 (the "*Offer Letter*"), provides for severance benefits to be paid to you if your employment is involuntarily terminated by the Company other than for "cause" and a "Change in Control" (as such terms are described in the Offer Letter) has not occurred (the "*Severance Benefits*").

The Offer Letter is intended to comply with Section 409A of the Internal Revenue Code of 1986, as amended and the final Treasury Regulations and any guidance promulgated thereunder (collectively, "*Section 409A*"), so that the Severance Benefits are not subject to any tax, interest or penalties under Section 409A. For purposes of better complying with Section 409A, this letter (the "*Amendment*") modifies the terms of the Offer Letter by including the following additional terms and conditions:

- The separation agreement and general release that is required to be executed in exchange for the Severance Benefits must become effective within 60 days after the termination of your employment. Your Severance Benefits will be paid in a single lump sum on the 60^{th} day after you have a "separation from service" as defined in Section 409A.

- References to your termination of employment with respect to any six-month delay required by Section 409A will mean a "separation from service" as defined in Section 409A.

Except as provided above, the Offer Letter remains in full force and effect. Please acknowledge your agreement by countersigning below and returning your countersignature to me at your earliest convenience.

[Signature page follows.]

Sincerely,

/s/ Shawn D. Hall

Shawn D. Hall
Senior Vice President, General Counsel and
Secretary

Quantum Corporation

Agreed and Accepted November 8, 2012

/s/ Jon W. Gacek

Jon W. Gacek

Exhibit 31.1

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

I, Jon W. Gacek, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: February 8, 2013

/s/ JON W. GACEK
Jon W. Gacek
President 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, 2013

/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, Jon W. Gacek, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Quantum Corporation, on Form 10-Q for the quarterly period ended December 31, 2012 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, 2013

QUANTUM CORPORATION

/s/ JON W. GACEK

Jon W. Gacek
President 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, 2012 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, 2013

QUANTUM CORPORATION

/s/ LINDA M. BREARD

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