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

Form 10-Q

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

For the quarterly period ended June 30, 2013

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

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

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

As of the close of business on August 5, 2013, there were 247,585,318 shares of Quantum Corporation's common stock issued and outstanding.

QUANTUM CORPORATION

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2013	March 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 76,731	\$ 68,976
Restricted cash	3,104	3,023
Accounts receivable, net of allowance for doubtful accounts of \$78 and \$62, respectively	86,967	97,546
Manufacturing inventories	51,290	53,075
Service parts inventories	31,876	35,368
Other current assets	12,760	12,192
Total current assets	262,728	270,180
Long-term assets:		
Property and equipment, less accumulated depreciation	20,216	21,456
Intangible assets, less accumulated amortization	10,589	12,813
Goodwill	55,613	55,613
Other long-term assets	9,264	9,531
Total long-term assets	95,682	99,413
	<u>\$ 358,410</u>	<u>\$ 369,593</u>
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	\$ 35,274	\$ 47,634
Accrued warranty	7,015	7,520
Deferred revenue, current	88,321	91,108
Accrued restructuring charges, current	4,117	3,021
Accrued compensation	28,599	30,964
Other accrued liabilities	18,842	20,188
Total current liabilities	182,168	200,435
Long-term liabilities:		
Deferred revenue, long-term	39,011	38,393
Convertible subordinated debt	205,000	205,000
Other long-term liabilities	9,540	9,547
Total long-term liabilities	253,551	252,940
Stockholders' deficit:		
Common stock, \$0.01 par value; 1,000,000 shares authorized; 243,493 and 243,080 shares issued and outstanding at June 30, 2013 and March 31, 2013, respectively	2,435	2,431
Capital in excess of par	430,820	427,611
Accumulated deficit	(516,623)	(520,016)
Accumulated other comprehensive income	6,059	6,192
Total stockholders' deficit	(77,309)	(83,782)
	<u>\$ 358,410</u>	<u>\$ 369,593</u>

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	
	June 30, 2013	June 30, 2012
Product revenue	\$ 85,969	\$ 93,785
Service revenue	36,492	36,087
Royalty revenue	25,508	10,981
Total revenue	147,969	140,853
Cost of product revenue	58,783	64,750
Cost of service revenue	19,231	20,304
Total cost of revenue	78,014	85,054
Gross margin	69,955	55,799
Operating expenses:		
Research and development	16,694	18,549
Sales and marketing	30,158	34,444
General and administrative	14,697	16,780
Restructuring charges	2,559	—
Total operating expenses	64,108	69,773
Income (loss) from operations	5,847	(13,974)
Other income and expense	375	(338)
Interest expense	(2,439)	(1,849)
Income (loss) before income taxes	3,783	(16,161)
Income tax provision	390	499
Net income (loss)	\$ 3,393	\$ (16,660)
Basic and diluted net income (loss) per share	\$ 0.01	\$ (0.07)
Weighted-average shares		
Basic	243,309	236,628
Diluted	245,844	236,628

See accompanying notes to Condensed Consolidated Financial Statements.

QUANTUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)
(Unaudited)

	Three Months Ended	
	June 30, 2013	June 30, 2012
Net income (loss)	\$ 3,393	\$ (16,660)
Other comprehensive loss, net of taxes:		
Foreign currency translation adjustments	(69)	(802)
Net unrealized gain (loss) on revaluation of long-term intercompany balances	(64)	284
Total other comprehensive loss	(133)	(518)
Total comprehensive income (loss)	<u>\$ 3,260</u>	<u>\$ (17,178)</u>

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	June 30, 2013	June 30, 2012
Cash flows from operating activities:		
Net income (loss)	\$ 3,393	\$ (16,660)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	2,872	3,021
Amortization	2,633	4,912
Service parts lower of cost or market adjustment	4,028	2,029
Deferred income taxes	128	382
Share-based compensation	3,356	4,287
Changes in assets and liabilities:		
Accounts receivable	10,579	24,009
Manufacturing inventories	337	(4,603)
Service parts inventories	913	722
Accounts payable	(12,372)	(8,891)
Accrued warranty	(505)	211
Deferred revenue	(2,169)	(7,351)
Accrued restructuring charges	1,026	(484)
Accrued compensation	(2,370)	(1,138)
Other assets and liabilities	(2,676)	(1,555)
Net cash provided by (used in) operating activities	9,173	(1,109)
Cash flows from investing activities:		
Purchases of property and equipment	(1,230)	(3,984)
(Increase) decrease in restricted cash	(37)	109
Return of principal from other investments	-	208
Net cash used in investing activities	(1,267)	(3,667)
Cash flows from financing activities:		
Payment of taxes due upon vesting of restricted stock	(203)	(321)
Proceeds from issuance of common stock	60	176
Net cash used in financing activities	(143)	(145)
Effect of exchange rate changes on cash and cash equivalents	(8)	(70)
Net increase (decrease) in cash and cash equivalents	7,755	(4,991)
Cash and cash equivalents at beginning of period	68,976	51,261
Cash and cash equivalents at end of period	\$ 76,731	\$ 46,270

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. All intercompany balances and transactions have been eliminated. In the Consolidated Statements of Cash Flows prior period income taxes payable has been reclassified into other assets and liabilities to conform to current period presentation. This reclassification had no impact on total assets, income (loss) from operations, net income (loss) or net cash provided by (used in) operating activities. 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 Consolidated Balance Sheet as of March 31, 2013 has been derived from the audited financial statements at that date, but it does not include all disclosures 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, 2013 included in our Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on June 7, 2013.

NOTE 2 REVISION OF PRIOR PERIOD FINANCIAL STATEMENTS

During the first quarter of fiscal 2014, we identified an error related to certain allowances recorded for estimated future price adjustments on products and services sold to our customers that had accumulated over a significant number of years, resulting in a \$1.5 million cumulative overstatement of revenue and accounts receivable at April 1, 2013. Revenue for fiscal 2013, 2012 and 2011 was \$0.1 million overstated, \$0.1 million understated and \$0.1 million overstated, respectively, for this error. In addition, we identified a \$0.7 million under accrual of sales commission expense for the fourth quarter of fiscal 2013 that was not recorded in fiscal 2013. The cumulative effect of recording these two items in the first quarter of fiscal 2014 would have been a \$2.2 million reduction in net income.

In addition, we had previously identified the following items:

- A \$0.7 million overstatement of DXi OEM software revenue in fiscal 2010 that was corrected as an out-of-period adjustment in fiscal 2011;
- A \$0.5 million understatement of royalty revenue in fiscal 2011 that was corrected as an out-of-period adjustment in fiscal 2012; and
- A \$0.9 million understatement of payroll tax expense on commissions that was corrected as an out-of-period adjustment in fiscal 2013. Of the cumulative adjustment, \$0.3 million related to fiscal 2012 and \$0.6 million related to periods prior to fiscal 2011.

We evaluated these errors in accordance with the Securities and Exchange Commission (“SEC”) Staff Accounting Bulletin No. 99 and determined that the errors were not material to our results of operations, financial position or cash flows in our previously issued financial statements, and therefore amendments of previously filed reports are not required. However, if the entire correction of the error was recorded during the first quarter of fiscal 2014, the impact would be significant to the quarter ended June 30, 2013. As a result, we have determined that it is appropriate to revise our prior period financial statements in accordance with the SEC’s Staff Accounting Bulletin No. 108 for the items discussed above. The revisions to correct these items in the applicable prior periods are reflected in the financial information herein and will be reflected in future filings containing such financial information. The revisions had no net impact on our Consolidated Statements of Cash Flows or net income (loss) per diluted share for any prior period.

The impact of these revisions to our Consolidated Balance Sheets at March 31, 2013 and 2012; our Consolidated Statements of Operations for the years ended March 31, 2013, 2012 and 2011; and our Consolidated Statements of Operations for each quarter of fiscal 2013 and 2012 is summarized as follows (in thousands):

Consolidated Balance Sheets

The As Reported column includes certain reclassifications to conform to the current presentation.

	As of March 31,			
	2013		2012	
	As Reported	As Revised	As Reported	As Revised
Accounts receivable	\$ 99,093	\$ 97,546	\$ 110,840	\$ 109,399
Total current assets	271,727	270,180	281,221	279,780
Total assets	371,140	369,593	395,348	393,907
Accrued compensation	30,311	30,964	31,971	32,835
Total current liabilities	199,782	200,435	209,910	210,774
Accumulated deficit	(517,816)	(520,016)	(465,397)	(467,702)
Total stockholders' deficit	(81,582)	(83,782)	(46,680)	(48,985)
Total liabilities and stockholders' deficit	371,140	369,593	395,348	393,907

Consolidated Statements of Operations – Annual

	Fiscal Year Ended March 31,					
	2013		2012		2011	
	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised
Product revenue	\$ 399,043	\$ 398,937	\$ 451,340	\$ 451,468	\$ 456,903	\$ 457,505
Royalty revenue	44,492	44,492	56,666	56,154	64,272	64,784
Total revenue	587,572	587,466	652,370	651,986	672,270	673,384
Cost of service revenue	79,647	79,604	88,459	88,466	94,311	94,311
Total cost of revenue	346,921	346,878	378,535	378,542	389,288	389,288
Gross margin	240,651	240,588	273,835	273,444	282,982	284,096
Sales and marketing expenses	137,041	136,873	130,938	131,239	122,768	122,767
Total operating expenses	283,351	283,183	270,143	270,444	258,278	258,277
Income (loss) from operations	(42,700)	(42,595)	5,192	4,500	24,704	25,819
Income (loss) before income taxes	(51,258)	(51,153)	(7,922)	(8,614)	4,554	5,669
Net income (loss)	(52,419)	(52,314)	(8,809)	(9,501)	4,541	5,656

Consolidated Statements of Operations – Quarterly – Fiscal 2013

	Fiscal 2013			
	1 st Quarter		2 nd Quarter	
	As Reported	As Revised	As Reported	As Revised
Product revenue	\$ 93,811	\$ 93,785	\$ 100,067	\$ 100,041
Total revenue	140,879	140,853	147,340	147,314
Cost of service revenue	20,334	20,304	20,232	20,232
Total cost of revenue	85,084	85,054	88,116	88,116
Gross margin	55,795	55,799	59,224	59,198
Sales and marketing expenses	35,278	34,444	34,441	34,441
Total operating expenses	70,607	69,773	69,195	69,195
Loss from operations	(14,812)	(13,974)	(9,971)	(9,997)
Loss before income taxes	(16,999)	(16,161)	(11,898)	(11,924)
Net loss	(17,498)	(16,660)	(12,268)	(12,294)

	3 rd Quarter		4 th Quarter	
	As Reported	As Revised	As Reported	As Revised
Product revenue	\$ 112,517	\$ 112,490	\$ 92,648	\$ 92,621
Total revenue	159,395	159,368	139,958	139,931
Cost of service revenue	19,360	19,360	19,721	19,708
Total cost of revenue	91,367	91,367	82,354	82,341
Gross margin	68,028	68,001	57,604	57,590
Sales and marketing expenses	33,588	33,588	33,734	34,400
Total operating expenses	73,656	73,656	69,893	70,559
Loss from operations	(5,628)	(5,655)	(12,289)	(12,969)
Loss before income taxes	(7,798)	(7,825)	(14,563)	(15,243)
Net loss	(8,146)	(8,173)	(14,507)	(15,187)

Consolidated Statements of Operations – Quarterly – Fiscal 2012

	Fiscal 2012			
	1 st Quarter		2 nd Quarter	
	As Reported	As Revised	As Reported	As Revised
Product revenue	\$ 102,268	\$ 102,300	\$ 115,126	\$ 115,158
Royalty revenue	14,571	14,059	14,015	14,015
Total revenue	153,535	153,055	165,039	165,071
Cost of service revenue	22,066	22,064	21,129	21,132
Total cost of revenue	90,273	90,271	93,428	93,431
Gross margin	63,262	62,784	71,611	71,640
Sales and marketing expenses	30,525	30,263	31,115	31,171
Total operating expenses	64,943	64,681	66,211	66,267
Income (loss) from operations	(1,681)	(1,897)	6,900	6,873
Income (loss) before income taxes	(4,588)	(4,804)	3,866	3,839
Net income (loss)	(5,226)	(5,442)	3,561	3,534

	3 rd Quarter		4 th Quarter	
	As Reported	As Revised	As Reported	As Revised
Product revenue	\$ 124,081	\$ 124,113	\$ 109,865	\$ 109,897
Royalty revenue	14,049	14,049	14,031	14,031
Total revenue	173,492	173,524	160,304	160,336
Cost of service revenue	22,537	22,548	22,727	22,722
Total cost of revenue	99,775	99,786	95,059	95,054
Gross margin	73,717	73,738	65,245	65,282
Sales and marketing expenses	33,350	33,736	35,948	36,069
Total operating expenses	66,738	67,124	72,251	72,372
Income (loss) from operations	6,979	6,614	(7,006)	(7,090)
Income (loss) before income taxes	4,387	4,022	(11,587)	(11,671)
Net income (loss)	3,914	3,549	(11,058)	(11,142)

These revisions impacted our Consolidated Statements of Comprehensive Income (Loss) for each period by an amount equal to the impact to net income (loss) for the applicable period.

NOTE 3 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	
	June 30, 2013	March 31, 2013
Money market funds	\$ 41,525	\$ 32,394

We did not record impairments to any non-financial assets in the first quarter of fiscal 2014 or 2013. We do not have any non-financial liabilities measured and recorded at fair value on a non-recurring basis.

We had \$205.0 million in convertible subordinated debt at June 30, 2013, and the estimated fair value of our convertible subordinated debt was approximately \$219.2 million, based on quoted market prices (level 1 fair value measurements).

NOTE 4 INVENTORIES

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

	As of	
	June 30, 2013	March 31, 2013
Manufacturing inventories:		
Finished goods	\$ 19,436	\$ 19,480
Work in process	7,253	8,633
Materials and purchased parts	24,601	24,962
	<u>\$ 51,290</u>	<u>\$ 53,075</u>

	As of	
	June 30, 2013	March 31, 2013
Service parts inventories:		
Finished goods	\$ 19,538	\$ 19,750
Component parts	12,338	15,618
	<u>\$ 31,876</u>	<u>\$ 35,368</u>

NOTE 5 INTANGIBLE ASSETS AND GOODWILL

We evaluate our amortizable and indefinite-lived intangible assets ("long-lived assets") for impairment whenever indicators of impairment exist and concluded the carrying amount of our long-lived assets was recoverable and there was no impairment in the first quarter of fiscal 2014 and 2013. The following provides a summary of the carrying value of intangible assets (in thousands):

	As of					
	June 30, 2013			March 31, 2013		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Purchased technology	\$ 180,613	\$ (178,536)	\$ 2,077	\$ 180,613	\$ (178,168)	\$ 2,445
Trademarks	3,900	(3,900)	—	3,900	(3,900)	—
Customer lists	105,719	(97,365)	8,354	105,719	(95,509)	10,210
In-process research and development	158	—	158	158	—	158
	<u>\$ 290,390</u>	<u>\$ (279,801)</u>	<u>\$ 10,589</u>	<u>\$ 290,390</u>	<u>\$ (277,577)</u>	<u>\$ 12,813</u>

Total intangible amortization expense was \$2.2 million and \$4.6 million for the first quarter of fiscal 2014 and 2013, 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 first quarter of fiscal 2014. The following table provides a summary of the goodwill balance at both June 30, 2013 and March 31, 2013 (in thousands):

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

NOTE 6 ACCRUED WARRANTY

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

	Three Months Ended	
	June 30, 2013	June 30, 2012
Beginning balance	\$ 7,520	\$ 7,586
Additional warranties issued	2,142	2,624
Adjustments for warranties issued in prior fiscal years	(60)	317
Settlements	(2,587)	(2,730)
Ending balance	<u>\$ 7,015</u>	<u>\$ 7,797</u>

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, 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 7 RESTRUCTURING CHARGES

In the first quarter of fiscal 2014, restructuring actions were primarily the result of strategic management decisions to outsource our manufacturing operations and further consolidate production and service activities. We had no restructuring expense in the first quarter of fiscal 2013. The types of restructuring expense for the three months ended June 30, 2013 were (in thousands):

	Three Months Ended	
	June 30, 2013	June 30, 2012
Severance and benefits	\$ 2,483	\$ —
Facilities	76	—
	<u>\$ 2,559</u>	<u>\$ —</u>

Accrued Restructuring

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

	Three Months Ended June 30, 2013		
	Severance and Benefits	Facilities	Total
Balance as of March 31, 2013	\$ 2,711	\$ 2,045	\$ 4,756
Restructuring costs	3,036	76	3,112
Restructuring charge reversal	(553)	—	(553)
Cash payments	(1,429)	(110)	(1,539)
Balance as of June 30, 2013	\$ 3,765	\$ 2,011	\$ 5,776

	Severance and Benefits	Facilities	Total
	Estimated timing of future payouts:		
Next twelve months	\$ 3,765	\$ 352	\$ 4,117
July 2014 through February 2021	—	1,659	1,659
	\$ 3,765	\$ 2,011	\$ 5,776

As noted above, the \$3.0 million severance and benefit restructuring costs during the first quarter of fiscal 2013 were the result of deciding to outsource our manufacturing operations and further consolidate production and service activities. The restructuring charge reversal during the first quarter of fiscal 2014 was due to retaining certain positions and employees transferring from eliminated positions to fill other staffing needs. The \$1.7 million of facility restructuring lease payments scheduled to occur between July 2014 and February 2021 is included in other long-term liabilities in the Condensed Consolidated Balance Sheets.

NOTE 8 STOCK INCENTIVE PLANS AND SHARE-BASED COMPENSATION

Share-Based Compensation

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

	Three Months Ended	
	June 30, 2013	June 30, 2012
Share-based compensation:		
Cost of revenue	\$ 528	\$ 571
Research and development	868	900
Sales and marketing	1,074	1,084
General and administrative	886	1,732
	\$ 3,356	\$ 4,287
Share-based compensation by type of award:		
Stock options	\$ 232	\$ 959
Restricted stock	2,738	2,753
Stock purchase plan	386	575
	\$ 3,356	\$ 4,287

Stock Incentive Plans - Grants and Fair Value

Stock Options

No options were granted during the first quarter of fiscal 2014 or 2013. The Black-Scholes option pricing model is used to estimate the fair value of options.

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 employee. The weighted-average grant date fair values of restricted stock units granted during the first quarter of fiscal 2014 and 2013 were \$1.32 and \$2.20, respectively.

Stock Purchase Plan

Under the Purchase Plan, rights to purchase shares are typically granted during the second and fourth quarter of each fiscal year. No rights to purchase shares were granted during the first quarter of fiscal 2014 or 2013. The Black-Scholes option pricing model is used to estimate the fair value of rights to acquire stock granted under our Purchase Plan.

Stock Incentive Plans - Activity

Stock Options

A summary of activity relating to our stock options follows (options and aggregate intrinsic value in thousands):

	<u>Options</u>	<u>Weighted-Average Exercise Price</u>	<u>Weighted-Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Outstanding as of March 31, 2013	16,050	\$ 2.14		
Exercised	(63)	0.95		
Forfeited	(62)	1.49		
Expired	(4)	2.62		
Outstanding as of June 30, 2013	<u>15,921</u>	2.15	1.70	2,023
Vested and expected to vest at June 30, 2013	<u>15,863</u>	2.15	1.68	2,022
Exercisable as of June 30, 2013	<u>15,192</u>	2.13	1.55	1,996

Restricted Stock

A summary of activity relating to our restricted stock follows (shares in thousands):

	<u>Shares</u>	<u>Weighted-Average Grant Date Fair Value</u>
Nonvested at March 31, 2013	9,887	\$ 2.43
Granted	315	1.32
Vested	(500)	2.51
Forfeited	(203)	2.41
Nonvested at June 30, 2013	<u>9,499</u>	\$ 2.39

NOTE 9 INCOME TAXES

Income tax provision for the first quarter of fiscal 2014 and 2013 was \$ 0.4 million and \$0.5 million, respectively, and 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.

NOTE 10 NET INCOME (LOSS) PER SHARE

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

	Three Months Ended	
	June 30, 2013	June 30, 2012
Net income (loss)	\$ 3,393	\$ (16,660)
Divided by		
Weighted average shares and common share equivalents ("CSE"):		
Basic	243,309	236,628
Dilutive CSE from stock plans	2,463	—
Dilutive CSE from purchase plan	72	—
Diluted	245,844	236,628
Basic and diluted net income (loss) per share	\$ 0.01	\$ (0.07)

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

- At June 30, 2013 and 2012, 31.2 million weighted equivalent shares of 3.50% convertible subordinated notes were excluded. At June 30, 2013, 42.5 million weighted equivalent shares of 4.50% convertible subordinated notes were excluded.
- Stock options to purchase 10.7 million and 18.9 million weighted-average shares at June 30, 2013 and 2012, respectively, were excluded.
- Unvested restricted stock units of 7.5 million and 8.7 million weighted-average shares at June 30, 2013 and 2012, respectively, were excluded.

NOTE 11 LEGAL PROCEEDINGS

Overland

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. We do not believe there is a reasonable possibility that we will pay material damages related to this lawsuit.

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 April 12, 2013, we filed a lawsuit against Overland in the U.S. District Court for the Southern District of California, for patent infringements of our patent 7,263,596 by the products in Overland's SnapScale product lines. We are seeking injunctive relief and the recovery of monetary damages.

Compression Technology Solutions

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 was 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 defended 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. On May 29, 2013, our motion for summary judgment was granted, with all of the asserted claims held invalid by the District Court, and the lawsuit against Quantum and the other defendants has been dismissed with prejudice. On July 10, 2013, CTS appealed the decision of the District Court to the United States Court of Appeals for the Federal Circuit.

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, investing wisely in our business, having operating profit and generating cash from operations; (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; (5) our expectations regarding the outcome of any litigation in which we are involved and (6) 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 proven global expert in data protection and big data management. We provide solutions for storing and protecting information in physical, virtual and cloud environments and for enabling high performance sharing of content. These solutions are designed to help customers be certain they are maximizing the value of their data over its entire lifecycle. With our products, customers can better adapt in a world of continuing change by keeping and protecting more data for a longer period of time and leveraging it more effectively to meet their business or organizational objectives, while at the same time 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. Our data protection solutions include DXi[®] deduplication systems and Scalar[®] automated tape libraries that optimize backup and recovery, simplify management and lower cost and our vmPRO[™] virtual server backup and disaster recovery offerings that protect virtual environments while minimizing the impact to servers and storage. In addition, we also offer software for cloud backup and disaster recovery of physical and virtual servers. For big data environments, we provide StorNext[®] tiered storage and Lattus[™] object storage solutions designed to help maximize revenue and results by enabling customers to extract the full value from their digital assets. We have a full range of services and the global scale and scope to support our worldwide customer base.

Our goals for fiscal 2014 are to grow revenue and invest wisely in our business to create operating profit and generate cash from operations. Our revenue growth strategy is focused on our DXi product lines, StorNext software and appliances and Lattus for big data, data protection and cloud. As a specialist providing end user customers with differentiated data protection and big data management solutions, one of our strategies to increase revenue is to continue to grow the independent channel for Quantum branded solutions. We continued our focus on go-to-market activities across all product lines during the first quarter of fiscal 2014, which we believe contributed to the continued addition of new customers for our tape automation systems and our disk systems and software solutions. We plan to further expand and improve our product and solution offerings in fiscal 2014, with emphasis on software solutions, branded disk systems, next generation object storage, virtual offerings and cloud solutions. New products introduced during the first quarter of fiscal 2014 included additional StorNext appliances and expansion of our Lattus object storage offerings. We followed a balanced approach to take advantage of market opportunities and invest for growth, resulting in operating profit and cash from operations during the quarter.

Results

We had total revenue of \$148.0 million in the first quarter of fiscal 2014, a 5% increase from the first quarter of fiscal 2013, primarily due to a \$15.0 million royalty received in connection with finalizing an intellectual property agreement in the first quarter of fiscal 2014. Our branded product revenue decreased 7% largely due to decreased enterprise disk systems revenue and expected decreases in revenue from tape automation systems, while product revenue from OEM customers decreased 13% as expected. Service revenue increased \$0.4 million, or 1%, primarily due to increased sales of branded hardware service contracts for our StorNext appliances mostly offset by decreased OEM repair services. Our continued focus on our branded business is reflected in the greater proportion of non-royalty revenue from branded business, at 83% in the first quarter of fiscal 2014, compared to 82% in the first quarter of fiscal 2013. Royalty revenue more than doubled from the first quarter of fiscal 2013 due to the \$15.0 million royalty received in connection with an intellectual property agreement as noted above.

Our gross margin percentage increased 770 basis points from the first quarter of fiscal 2013 to 47.3%, primarily due to increased royalty revenue. Operating expenses decreased \$5.7 million, or 8%, primarily from cost controls and spending reductions that we began implementing in the third quarter of fiscal 2013 and continued into the first quarter of fiscal 2014. The largest spending decrease compared to the first quarter of fiscal 2013 was for compensation and benefits as a result of reduced staffing to right-size our workforce in order to align spending with revenue expectations. These cost reductions impacted sales and marketing expenses the most compared to the first quarter of fiscal 2013. As a result of increased revenue, increased gross margins and reduced operating expenses, we had operating income of \$5.8 million in the first quarter of fiscal 2014 compared to a \$14.0 million loss from operations in the first quarter of fiscal 2013.

Interest expense increased \$0.6 million to \$2.4 million primarily due to refinancing our revolving debt balance in the third quarter of fiscal 2013 with 4.50% convertible subordinated notes. We generated \$9.2 million in cash from operations during the first quarter of fiscal 2014 compared to net cash used in operating activities of \$1.1 million in the first quarter of fiscal 2013.

RESULTS OF OPERATIONS

Revenue

	Three Months Ended					
	June 30, 2013	% of revenue	June 30, 2012	% of revenue	Change	% Change
Product revenue	\$ 85,969	58.1%	\$ 93,785	66.6%	\$ (7,816)	(8.3)%
Service revenue	36,492	24.7%	36,087	25.6%	405	1.1%
Royalty revenue	25,508	17.2%	10,981	7.8%	14,527	132.3%
Total revenue	\$ 147,969	100.0%	\$ 140,853	100.0%	\$ 7,116	5.1%

Total revenue increased from the first quarter of fiscal 2013 primarily due to increased royalty revenue as noted above, partially offset by decreased product revenue. Revenue from branded data protection products and services decreased \$5.6 million, or 6%, from the first quarter of fiscal 2013. 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 increased \$1.5 million, or 14% from the first quarter of fiscal 2013. Big data and archive products include StorNext software and StorNext and Q-Series appliances. In addition, OEM product and service revenue decreased \$3.3 million from the first quarter of fiscal 2013, and royalty revenue increased \$14.5 million primarily due to a \$15.0 million payment received in connection with an intellectual property agreement.

Product Revenue

Our product revenue, which includes sales of our hardware and software products sold through both our Quantum branded and OEM channels, decreased \$7.8 million in the first quarter of fiscal 2014 compared to the first quarter of fiscal 2013, primarily due to decreased revenue from sales of enterprise disk systems and expected decreases in revenue from tape automation systems. Revenue from sales of branded products decreased 7% and sales of products to our OEM customers decreased 13% in the first quarter of fiscal 2014 compared to the prior year period.

(In thousands)

	Three Months Ended					
	June 30, 2013	% of revenue	June 30, 2012	% of revenue	Change	% Change
Disk systems and software solutions	\$ 23,205	15.7%	\$ 24,661	17.5%	\$ (1,456)	(5.9)%
Tape automation systems	44,665	30.2%	50,480	35.8%	(5,815)	(11.5)%
Devices and media	18,099	12.2%	18,644	13.3%	(545)	(2.9)%
Total product revenue	<u>\$ 85,969</u>	<u>58.1%</u>	<u>\$ 93,785</u>	<u>66.6%</u>	<u>\$ (7,816)</u>	<u>(8.3)%</u>

Our disk systems and software solutions revenue decreased \$1.5 million, or 6%, from the first quarter of fiscal 2013 primarily due to decreased sales of enterprise disk systems worldwide. We had fewer large orders, or orders over \$200,000, in the first quarter of fiscal 2014 which impacted enterprise disk systems sales. In addition, our DXi6800, which we include in our midrange results, scales into enterprise class systems. We have seen strong sales of the DXi6800 which contributed to a 23% increase in midrange disk systems revenue. In addition, our StorNext archive enabled libraries, server-based appliances and related disk revenue increased over 60% from the first quarter of fiscal 2013. These increases were partially offset by decreased standalone StorNext software revenue mainly due to reduced large orders.

Our branded tape automation business performed better in the first quarter of fiscal 2014 than our OEM tape automation systems business, declining 10% or \$3.1 million, compared to a 13%, or \$2.7 million, decrease in OEM tape automation revenue. This is consistent with revenue decreases over the past year, with larger percentage decreases in OEM than branded tape automation system revenue. OEM tape automation systems decreases were primarily due to a 34% decline in enterprise sales from the first quarter of fiscal 2013. Within our branded tape automation systems categories, midrange tape automation systems sales decreased the most, at 13% from the first quarter of fiscal 2013, followed by smaller percentage revenue decreases from enterprise and entry-level tape automation systems.

Product revenue from devices, which includes tape drives and removable hard drives, and non-royalty media sales decreased as expected from the first quarter of fiscal 2013.

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 increased 1% from the first quarter of fiscal 2013 primarily due to an increase in branded hardware service contracts for our StorNext appliances, mostly offset by a decreased volume of OEM product repair services.

Royalty Revenue

As noted above, in the first quarter of fiscal 2014 we received a one-time cash payment of \$15 million from Microsoft Corporation pursuant to an intellectual property agreement entered into in May. Partially offsetting this increase, tape media royalties decreased as expected from the first quarter of fiscal 2013 primarily from decreased sales of older DLT media due to lower media unit sales sold by media licensees. We had a nominal increase in LTO royalties in the first quarter of fiscal 2014, largely due to a change in the basis on which royalties were reported and paid by one of the media manufacturers in the first quarter of fiscal 2013. This change affected the timing of royalties, but not the ultimate amount from this media manufacturer; therefore, it only negatively impacted our royalty results in the first quarter of fiscal 2013 when the transition took effect.

Gross Margin

	Three Months Ended					
	June 30, 2013	Gross margin %	June 30, 2012	Gross margin %	Change	Basis point change
Product gross margin	\$ 27,186	31.6%	\$ 29,035	31.0%	\$ (1,849)	60
Service gross margin	17,261	47.3%	15,783	43.7%	1,478	360
Royalty gross margin	25,508	100.0%	10,981	100.0%	14,527	—
Gross margin	\$ 69,955	47.3%	\$ 55,799	39.6%	\$ 14,156	770

The 770 basis point increase in gross margin percentage for the first quarter of fiscal 2014 compared to the first quarter of fiscal 2013 was primarily due to the \$14.5 million increase in royalty revenue. In addition, we had a 360 basis point increase in service margin as a result of cost reductions and continued mix shift to more service for branded products and reduced OEM repair service.

Product Margin

Product gross margin dollars decreased \$1.8 million, or 6%, on a product revenue decrease of \$7.8 million, or 8%, compared to the first quarter of fiscal 2013; however, our product gross margin rate increased 60 basis points primarily due to lower intangible amortization from certain intangible assets becoming fully amortized in fiscal 2013. We also had decreased compensation and benefits expense from reduced staffing levels and a decrease in warranty expense from a reduced number of products under warranty compared to the first quarter of fiscal 2013.

Service Margin

Service gross margin dollars increased \$1.5 million, or 9%, compared to the first quarter of fiscal 2013, and service gross margin percentage increased 360 basis points on a nominal increase in service revenue. These increases were primarily due to reduced compensation and benefits from lower staffing levels as a result of implementing changes in our service delivery model, including outsourcing geographies with lower service and repair volumes and improving utilization of our service team. 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.

Research and Development Expenses

	Three Months Ended					
	June 30, 2013	% of revenue	June 30, 2012	% of revenue	Change	% Change
Research and development	\$ 16,694	11.3%	\$ 18,549	13.2%	\$ (1,855)	(10.0)%

The \$1.9 million decrease in research and development expense in the first quarter of fiscal 2014 compared to the first quarter of fiscal 2013 was primarily due to cost controls that resulted in a \$1.3 million decrease in compensation and benefits from lower staffing levels. In addition, we had a \$0.3 million decrease in external service provider expense related to specific development activities in the prior year.

Sales and Marketing Expenses

	Three Months Ended					
	June 30, 2013	% of revenue	June 30, 2012	% of revenue	Change	% Change
Sales and marketing	\$ 30,158	20.4%	\$ 34,444	24.5%	\$ (4,286)	(12.4)%

The \$4.3 million decrease in sales and marketing expense in the first quarter of fiscal 2014 compared to the first quarter of fiscal 2013 was due to a \$1.4 million decrease in intangible amortization due to certain intangibles becoming fully amortized in fiscal 2013 and from cost reduction initiatives. We had a \$1.3 million decrease in compensation and benefits from decreased staffing levels, a \$0.7 million decrease in travel expenses and a \$0.4 million decrease in advertising and marketing expenses due to more advertising and marketing programs in the prior year.

General and Administrative Expenses

	Three Months Ended					
	June 30, 2013	% of revenue	June 30, 2012	% of revenue	Change	% Change
General and administrative	\$ 14,697	9.9%	\$ 16,780	11.9%	\$ (2,083)	(12.4)%

The decrease in general and administrative expenses for the first quarter of fiscal 2014 compared to the first quarter of fiscal 2013 was primarily due to a \$1.2 million decrease in compensation and benefits, largely from reduced stock compensation expense due to a modification to extend the post-retirement exercise period for certain options in the first quarter of fiscal 2013. In addition, cost reduction initiatives resulted in decreases of \$0.2 million in external service provider expense, \$0.2 million in expensed equipment and \$0.2 million in facility expenses from lower lease renewal rates and consolidating facilities during fiscal 2013.

Restructuring Charges

	Three Months Ended					
	June 30, 2013	% of revenue	June 30, 2012	% of revenue	Change	% Change
Restructuring charges	\$ 2,559	1.7%	\$ —	—%	\$ 2,559	n/a

Restructuring charges in the first quarter of fiscal 2014 were primarily due to severance and benefits costs as a result of deciding to outsource our manufacturing operations and further consolidate production and service activities.

Other Income and Expense

	Three Months Ended					
	June 30, 2013	% of revenue	June 30, 2012	% of revenue	Change	% Change
Other income and expense	\$ 375	0.3%	\$ (338)	(0.2)%	\$ 713	n/a

Other income in the first quarter of fiscal 2014 was primarily due to net foreign exchange gains compared to other expense in the first quarter of fiscal 2013 largely due to net foreign exchange losses. Foreign exchange gains in the first quarter of fiscal 2014 were primarily due to the U.S. dollar strengthening against the Australian dollar, and foreign exchange losses in the first quarter of fiscal 2013 were primarily due to the U.S. dollar strengthening against the euro.

Interest Expense

	Three Months Ended					
	June 30, 2013	% of revenue	June 30, 2012	% of revenue	Change	% Change
Interest expense	\$ 2,439	1.6%	\$ 1,849	1.3%	\$ 590	31.9%

Interest expense increased from the first quarter of fiscal 2013 primarily due to refinancing our revolving debt balance in the third quarter of fiscal 2013 with 4.50% convertible subordinated notes. These convertible subordinated notes have a higher interest rate and a larger principal balance.

Income Taxes

(In thousands)

	Three Months Ended					
	June 30, 2013	% of pre-tax income	June 30, 2012	% of pre-tax loss	Change	% Change
Income tax provision	\$ 390	10.3%	\$ 499	(3.1)%	\$ (109)	(21.8)%

The income tax provision for both the first quarter of fiscal 2014 and fiscal 2013 reflects expenses for foreign income taxes and state taxes. We have provided a full valuation allowance against our U.S. net deferred tax assets due to our history of net losses, difficulty in predicting future results and our conclusion that we cannot rely on projections of future taxable income to realize the deferred tax assets.

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

Amortization of Intangible Assets

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

	Three Months Ended			
	June 30, 2013	June 30, 2012	Change	% Change
Cost of revenue	\$ 368	\$ 1,362	\$ (994)	(73.0)%
Sales and marketing	1,856	3,256	(1,400)	(43.0)%
	<u>\$ 2,224</u>	<u>\$ 4,618</u>	<u>\$ (2,394)</u>	<u>(51.8)%</u>

The decrease in intangible amortization expense in the first quarter of fiscal 2014 compared to the first quarter of fiscal 2013 was due to certain intangible assets becoming fully amortized in fiscal 2013. For further information regarding amortizable intangible assets, refer to Note 5 "Intangible Assets and Goodwill."

Share-based Compensation

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

	Three Months Ended			
	June 30, 2013	June 30, 2012	Change	% Change
Cost of revenue	\$ 528	\$ 571	\$ (43)	(7.5)%
Research and development	868	900	(32)	(3.6)%
Sales and marketing	1,074	1,084	(10)	(0.9)%
General and administrative	886	1,732	(846)	(48.8)%
	<u>\$ 3,356</u>	<u>\$ 4,287</u>	<u>\$ (931)</u>	<u>(21.7)%</u>

The decrease in share-based compensation expense was primarily due to a modification to extend the post-retirement exercise period for certain options in the first quarter of fiscal 2013 that was not repeated.

LIQUIDITY AND CAPITAL RESOURCES

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

	Three Months Ended	
	June 30, 2013	June 30, 2012
Net income (loss)	\$ 3,393	\$ (16,660)
Net cash provided by (used in) operating activities	9,173	(1,109)
Net cash used in investing activities	(1,267)	(3,667)
Net cash used in financing activities	(143)	(145)

Three Months Ended June 30, 2013

The \$5.8 million difference between net income and net cash provided by operating activities during the three months ended June 30, 2013 was primarily due to \$13.0 million in non-cash items, the largest of which were service parts lower of cost or market adjustment, share-based compensation, depreciation and amortization. In addition we had a \$10.6 million decrease in accounts receivable, which was offset by a \$12.4 million decrease in accounts payable. The decrease in accounts receivable was primarily due to decreased sales in the first quarter of fiscal 2014 compared to the fourth quarter of fiscal 2013. Accounts payable decreased due to reduced purchases in the first quarter of fiscal 2014 compared to the fourth quarter of fiscal 2013 and timing of payments.

Cash used in investing activities reflects \$1.2 million of property and equipment purchases during the first quarter of fiscal 2014. Equipment purchases were primarily for IT equipment and software, largely related to an ERP system upgrade, engineering equipment to support product development activities and permanent demo units.

Three Months Ended June 30, 2012

The \$15.6 million difference between net loss and net cash used in operating activities during the three months ended June 30, 2012 was primarily due to a \$24.0 million decrease in accounts receivable and \$14.6 million in non-cash expenses, partially offset by an \$8.9 million decrease in accounts payable and a \$7.4 million decrease in deferred revenue. The decrease in accounts receivable was primarily due to decreased sales in the first quarter of fiscal 2013 compared to the fourth quarter of fiscal 2012. Non-cash expenses included \$4.9 million in amortization, \$4.3 million in share-based compensation and \$3.0 million in depreciation. Accounts payable decreased due to the timing of payments in addition to decreased purchases compared to the fourth quarter of fiscal 2012. The decrease in deferred revenue was primarily due to a typical seasonal decline in service contract volumes. The majority of our service contracts renew in our third and fourth fiscal quarters.

Cash used in investing activities reflects \$4.0 million of property and equipment purchases during the first quarter of fiscal 2013. Equipment purchases were primarily for engineering equipment and testing hardware to support product development activities, and we made leasehold improvements to a facility in the first quarter of fiscal 2013.

Capital Resources and Financial Condition

We continue to focus on improving our operating performance, including efforts to increase revenue and to continue to control costs in order to improve margins, return to consistent profitability and 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 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 a Wells Fargo Credit agreement (“WF credit agreement”). The \$205 million of convertible subordinated debt is comprised of \$135 million of 3.50% convertible subordinated notes due November 15, 2015 (“3.50% notes”) and \$70 million of 4.50% convertible subordinated notes due November 15, 2017 (“4.50% notes”). Both the 3.50% notes and the 4.50% notes have required semi-annual interest payments.

Under the WF credit agreement, we have the ability to borrow the lesser of \$55 million or the amount of the monthly borrowing base under a senior secured revolving credit facility. 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. We had no outstanding borrowings on the revolving credit line as of June 30, 2013 and were in compliance with all debt covenants.

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 economic uncertainty and slow economic growth and their impact on the data protection and big data and archive markets. We cannot provide assurance that the actions we have taken in the past or any actions we may take in the future will ensure a consistent, sustainable and sufficient level of net income and positive cash flow from operating activities to fund, sustain or grow our business. Certain events that are beyond our control, including prevailing economic, competitive and industry conditions, as well as various legal and other disputes, may prevent us from achieving these financial objectives. Any inability to achieve consistent and sustainable net income and cash flow could result in:

- (i) Restrictions on our ability to manage or fund our existing operations, which could result in a material and adverse effect on our future results of operations and financial condition.
- (ii) Unwillingness on the part of the 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, 2013 filed with the Securities and Exchange Commission on June 7, 2013.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Changes in interest rates affect interest income earned on our cash equivalents, which consisted solely of money market funds during the three months ended June 30, 2013. During the first quarter of fiscal 2014, interest rates on these funds were under 1.0% and we earned negligible amounts in interest income, thus a hypothetical 100 basis point decrease in interest rates would have an insignificant impact on interest income.

We had no outstanding borrowings under the WF credit agreement and our convertible subordinated notes have a fixed interest rate, thus a hypothetical 100 basis point increase in interest rates would not impact interest expense.

ITEM 4. CONTROLS AND PROCEDURES

- (a) *Evaluation of disclosure controls and procedures.* We evaluated the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of the end of the period covered by this Quarterly Report on Form 10-Q. This control evaluation was performed under the supervision and with the participation of management, including our CEO and our CFO. Disclosure controls and procedures are designed to ensure that information required to be disclosed in our reports filed under the Exchange Act, such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified by the SEC. Disclosure controls are also designed to ensure that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. Based on the controls evaluation, our CEO and CFO have concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls were 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

Overland

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. We do not believe there is a reasonable possibility that we will pay material damages related to this lawsuit.

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 April 12, 2013, we filed a lawsuit against Overland in the U.S. District Court for the Southern District of California, for patent infringements of our patent 7,263,596 by the products in Overland’s SnapScale product lines. We are seeking injunctive relief and the recovery of monetary damages.

Compression Technology Solutions

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 was 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 defended 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. On May 29, 2013, our motion for summary judgment was granted, with all of the asserted claims held invalid by the District Court, and the lawsuit against Quantum and the other defendants has been dismissed with prejudice. On July 10, 2013, CTS appealed the decision of the District Court to the United States Court of Appeals for the Federal Circuit.

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 beginning 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. Our future operating results depend in part on continued market acceptance and use of products employing tape technology and decreases in the market could materially and adversely impact our business, financial condition and operating results. In addition, 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. The use of products employing tape technology continues to decrease and is projected to continue to decrease. Decreased market acceptance or use of products employing tape technology has materially and adversely impacted our business, financial condition and operating results and could materially and adversely impact our business, financial condition and operating results in the future.

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 the American Taxpayer Relief Act of 2012, which implemented automatic spending cuts beginning March 1, 2013. These 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 economic uncertainty and slow economic growth.

Uncertainty about economic conditions poses a risk as businesses may further reduce or postpone spending in response to reduced budgets, tightening of credit markets, negative financial news and declines in income or asset values which could adversely affect our business, financial condition and results of operations. The slow economic growth in recent years along with periods of economic uncertainty in various countries around the world have had a material and adverse impact on our business and our financial condition, including reduced demand for IT products and services overall and more specifically for products with tape technology in the data protection market. We continue to face risks related to economic conditions in Europe, including concerns about the potential default of various national bonds and debt backed by individual countries, as well the politics impacting these, which could negatively impact the U.S. and global economies and adversely affect our financial results. 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);
- Customers that are also competitors becoming more competitive with us and/or reducing their purchase of our products and
- Competitors acquiring our current suppliers or business partners and negatively impacting our business model.

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 media royalty, branded software or OEM deduplication software revenues could materially and adversely affect our business, financial condition and operating results.

Our media royalties, branded software and OEM deduplication software revenues are relatively profitable and can significantly impact total company profitability. We receive media 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 media 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 media 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, including the impact of acquisitions. At various times, we had significant revenue from OEM deduplication software revenue and at times we had negligible revenue from OEM deduplication software, which 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.

Some of our products contain licensed, third-party technology that provides important product functionality and features. Our license agreements contain contractual protections; however, the risk of continued access to this technology, along with other risks, remains.

Our products may contain technology licensed from third parties that provides important product functionality and features. For example, our Lattus product family contains technology licensed from a private, international company. We have contractual protections within our license agreements to help mitigate against the risks of incorporating third-party technology into our products. However, there remains a risk that we may not have continued access to this technology, for instance if the licensing company ceased to exist, either from bankruptcy, dissolution or purchase by a competitor. In addition, legal actions, such as intellectual property actions, brought against the licensing company could impact our future access to the technology. We also have limited control of the technology roadmap and cannot ensure that the licensing company will advance the roadmap of the licensed technology in the manner best for Quantum. Any of these actions could negatively impact our technology licensing, thereby reducing the functionality and/or features of our products, and adversely affect our business, financial condition and operating results. We also face the risk of not being able to quickly implement a replacement technology or otherwise mitigating the risks associated with not having access to this licensed technology, which may 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 respond to adverse economic and industry conditions, from strategic management decisions and to rationalize our operations following acquisitions. 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 Overland Storage and Compression Technology Solutions 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 results 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 that 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 and third party contract manufacturing 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. 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 in response to market or competitive conditions and following past acquisitions. 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 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.

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 introduced 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 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. 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 37 of this report is herein incorporated by reference.

SIGNATURE

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

QUANTUM CORPORATION

/s/ LINDA M. BREARD

Linda M. Beard

Chief Financial Officer

(Principal Financial and Chief Accounting Officer)

Date: August 9, 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	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
4.2	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	November 15, 2010
10.1	Agreement, dated as of May 13, 2013, by and among Quantum Corporation, Starboard Value LP, and certain of its affiliates.	8-K	001-13449	10.1	May 14, 2013
10.2	Offer Letter, dated May 14, 2013, between Registrant and Mr. Jeffrey C. Smith.*‡				
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, contract 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]

May 14, 2013

Mr. Jeffrey C. Smith
Chief Executive Officer
Starboard Value LP
830 3rd Avenue
New York, NY 10022

Dear Jeffrey:

We are very pleased to offer you the opportunity to serve on the Board of Directors of Quantum Corporation.

As a Member of the Board of Directors, and under the current Board compensation program, your Board retainer will be \$50,000 per annum, all of which will be paid in cash. Additionally, as a member of the Leadership and Compensation Committee of the Board, you will receive a cash retainer of \$10,000 per annum. The retainers are generally paid in quarterly installments. Quantum will also reimburse you for any travel or incidental expenses associated with performing your duties as a Board member.

We will recommend to the Leadership and Compensation Committee that restricted stock units (RSUs) with a total value of \$125,000 be awarded to you. However, under the current Board compensation program, the maximum number of RSUs that may be awarded as an initial award to a new Board member is limited to 75,000 RSUs. The actual number of RSUs to be awarded will be determined at the time of award based on the company's closing stock price on the date of the Leadership and Compensation Committee's approval, which occurs on the first business day of every month. As the first day of June, 2013 falls on a Saturday, the number of RSUs to be awarded to you will be determined using the closing stock price on the immediately preceding trading date, or May 31, 2013. These RSUs will vest over two (2) years with 50% of the RSUs vesting after one (1) year and the remaining 50% vesting in quarterly installments over the second year. Once the RSUs have been approved, you will receive documentation from E*Trade, Quantum's Stock Administrator, within two (2) months from your start date. If you remain a Board member, you will receive an annual stock grant thereafter. Details of the ongoing annual stock program will be forthcoming and are subject to change. Lastly, we are pleased to offer you the opportunity to participate in Quantum's Deferred Compensation Program, details of which are enclosed in this packet.

To confirm your acceptance of our offer, please sign one copy of this letter, complete the enclosed documents, and return them in the enclosed envelope. Please note that your membership on the Board becomes effective as of May 13, 2013, as the Board of Directors' have already approved your appointment. Upon your execution of this offer letter, our General Counsel, Shawn Hall, will contact you to arrange a Board of Directors' orientation.

Jeffrey C. Smith
May 14, 2013
Page 2 of 2

Jeffrey, we are very enthusiastic about you joining our Board of Directors. If you have any questions, please do not hesitate to contact me. Again, it is a pleasure to welcome you to Quantum Corporation.

Sincerely,
/s/ Shawn Hall
for

Jon Gacek
President & CEO
Quantum Corporation
[phone number]

I understand and accept the terms of this agreement and agree to comply with all Quantum and Board policies and procedures, including those described in Quantum's Business Conduct and Ethic's Policy, Section 16 Policy, Insider Trading Policy, and Corporate Governance Principles.

Signed: /s/ Jeffrey Smith
Jeffrey C. Smith

Date: 5/20/13

Start Date: 5/13/13

Enclosures:

- Return Envelope
- Deferred Compensation Program overview and forms
- Director Change in Control Agreement
- Director Indemnification Agreement
- The High Road: Quantum's Business Conduct & Ethics Policy
- Section 16 Policy Documentation
- Insider Trading Policy
- Corporate Governance Principles

cc: Compensation
Legal

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

I, Jon W. Gacek, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q of Quantum Corporation;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2013

/s/ JON W. GACEK

Jon W. Gacek
President and Chief Executive Officer
(Principal Executive Officer)

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: August 9, 2013

/s/ LINDA M. BREARD

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

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 June 30, 2013 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Quantum Corporation.

Date: August 9, 2013

QUANTUM CORPORATION

/s/ JON W. GACEK

Jon W. Gacek

President and Chief Executive Officer
(Principal Executive Officer)

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 June 30, 2013 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Quantum Corporation.

Date: August 9, 2013

QUANTUM CORPORATION

/s/ LINDA M. BREARD

Linda M. Breard

Chief Financial Officer

(Principal Financial Officer)
