

QUANTUM CORP /DE/
Form 10-Q
November 06, 2009

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

Form 10-Q

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

For the quarterly period ended September 30, 2009

OR

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

For the transition period from ____ to ____

Commission File Number 1-13449

QUANTUM CORPORATION

Incorporated Pursuant to the Laws of the State of Delaware

IRS Employer Identification Number 94-2665054

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

(408) 944-4000

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of the close of business on October 30, 2009, approximately 213.0 million shares of Quantum Corporation's common stock were issued and outstanding.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

QUANTUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per-share data)
(Unaudited)

	Three Months Ended		Six Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Product revenue	\$ 118,327	\$ 143,192	\$ 223,551	\$ 300,776
Service revenue	39,757	41,579	78,659	83,836
Royalty revenue	16,842	30,619	33,056	52,569
Total revenue	174,926	215,390	335,266	437,181
Cost of product revenue	73,077	99,631	145,163	214,634
Cost of service revenue	25,220	32,884	51,831	64,833
Total cost of revenue	98,297	132,515	196,994	279,467
Gross margin	76,629	82,875	138,272	157,714
Operating expenses:				
Research and development	16,907	18,766	33,439	37,756
Sales and marketing	27,880	38,148	55,173	78,185
General and administrative	15,218	19,820	29,723	41,845
Restructuring charges	1,696	457	4,806	407
	61,701	77,191	123,141	158,193
Income (loss) from operations	14,928	5,684	15,131	(479)
Interest income and other, net	1,265	(385)	1,269	1,097
Interest expense	(6,935)	(7,510)	(12,586)	(16,285)
Gain on debt extinguishment, net of costs	1,569	□	12,859	
Income (loss) before income taxes	10,827	(2,211)	16,673	(15,667)
Income tax provision (benefit)	(528)	1,053	310	1,935
Net income (loss)	\$ 11,355	\$ (3,264)	\$ 16,363	\$ (17,602)
Net income (loss) per share:				
Basic	\$ 0.06	\$ (0.01)	\$ 0.08	\$ (0.08)
Diluted	0.04	(0.01)	0.02	(0.08)
Income (loss) for purposes of computing net income (loss) per share:				
Basic	\$ 11,355	\$ (3,264)	16,363	\$ (17,602)
Diluted	9,792	(3,264)	4,753	(17,602)
Weighted average common and common equivalent shares:				
Basic	212,475	208,960	211,372	207,943
Diluted	213,794	208,960	225,752	207,943

See accompanying Notes to Condensed Consolidated Financial Statements.

QUANTUM CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)
(Unaudited)

September
30, M

	2009	
Assets		
Current assets:		
Cash and cash equivalents	\$ 84,772	\$
Accounts receivable, net of allowance for doubtful accounts of \$786 and \$1,999, respectively	106,007	
Manufacturing inventories, net	51,069	
Service parts inventories, net	57,140	
Deferred income taxes	9,917	
Other current assets	18,353	
Total current assets	327,258	
Long-term assets:		
Property and equipment, less accumulated depreciation	25,495	
Purchased technology, less accumulated amortization	37,974	
Other intangible assets, less accumulated amortization	53,250	
Goodwill	46,770	
Other long-term assets	10,859	
Total long-term assets	174,348	
	\$ 501,606	\$
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	\$ 50,362	\$
Accrued warranty	7,100	
Deferred revenue, current	103,538	
Current portion of long-term debt	1,884	
Current portion of convertible subordinated debt	22,099	
Accrued restructuring charges	5,392	
Accrued compensation	28,648	
Income taxes payable	2,569	
Other accrued liabilities	25,599	
Total current liabilities	247,191	
Long-term liabilities:		
Deferred revenue, long-term	28,096	
Deferred income taxes	10,906	
Long-term debt	306,841	
Convertible subordinated debt	□	
Other long-term liabilities	7,122	
Total long-term liabilities	352,965	
Commitments and contingencies		
Stockholders' deficit:		
Common stock, \$0.01 par value; 1,000,000 shares authorized; 212,964 and 210,231 shares issued and outstanding at September 30, 2009 and March 31, 2009, respectively	2,130	
Capital in excess of par value	353,715	
Accumulated deficit	(461,400)	(
Accumulated other comprehensive income	7,005	
Stockholders' deficit	(98,550)	(
	\$ 501,606	\$

See accompanying Notes to Condensed Consolidated Financial Statements

	Six Months Ended	
	September 30, 2009	September 30, 2008
Cash flows from operating activities:		
Net income (loss)	\$ 16,363	\$ (17,602)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	6,257	8,524
Amortization	19,513	23,333
Service parts lower of cost or market adjustment	4,391	9,068
Gain on debt extinguishment	(15,613)	□
Deferred income taxes	(266)	174
Share-based compensation	4,813	5,760
Changes in assets and liabilities:		
Accounts receivable	1,844	34,976
Manufacturing inventories, net	7,937	(7,490)
Service parts inventories, net	3,729	(1,099)
Accounts payable	5,180	(19,973)
Accrued warranty	(4,052)	(4,622)
Deferred revenue	15,473	3,356
Accrued restructuring charges	711	(320)
Accrued compensation	1,314	960
Income taxes payable	(2,183)	(154)
Other assets and liabilities	(690)	(4,312)
Net cash provided by operating activities	64,721	30,579
Cash flows from investing activities:		
Purchases of property and equipment	(3,096)	(3,025)
Net cash used in investing activities	(3,096)	(3,025)
Cash flows from financing activities:		
Borrowings of long-term debt, net	120,042	□
Repayments of long-term debt	(60,992)	(90,000)
Repayments of convertible subordinated debt	(122,288)	□
Payment of taxes due upon vesting of restricted stock	(928)	(759)
Proceeds from issuance of common stock, net	8	2,739
Net cash used in financing activities	(64,158)	(88,020)
Net decrease in cash and cash equivalents	(2,533)	(60,466)
Cash and cash equivalents at beginning of period	87,305	93,643
Cash and cash equivalents at end of period	\$ 84,772	\$ 33,177

See accompanying Notes to Condensed Consolidated Financial Statements

QUANTUM CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1: DESCRIPTION OF BUSINESS

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

Note 2: BASIS OF PRESENTATION

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of Quantum and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated. The interim financial statements reflect all adjustments, consisting of normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the results for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for the full fiscal year. We have evaluated subsequent events through November 6, 2009, the issuance date of our September 30, 2009 financial statements. The Condensed Consolidated Balance Sheet as of March 31, 2009 has been derived from the audited financial statements at that date. However, it does not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. The accompanying financial statements should be read in conjunction with the audited Consolidated Financial Statements for the fiscal year ended March 31, 2009 included in our Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on June 30, 2009. We have presented service parts lower of cost or market adjustment separately from amortization in the prior year Condensed Consolidated Statement of Cash Flows to conform to current period presentation. This reclassification has no effect on total assets, stockholders' deficit, net loss or cash flows as previously presented.

Note 3: SIGNIFICANT ACCOUNTING POLICIES; NEW ACCOUNTING STANDARDS

The significant accounting policies used in the preparation of our Condensed Consolidated Financial Statements are disclosed in our Annual Report on Form 10-K for the year ended March 31, 2009, as filed with the Securities and Exchange Commission on June 30, 2009.

On April 1, 2009, we adopted a number of accounting pronouncements, none of which had a material impact to our Condensed Consolidated Financial Statements. These pronouncements include: Business Combinations, Non-controlling Interests in Consolidated Financial Statements, Determinations of the Useful Life of Intangible Assets, Accounting for Convertible Debt Instruments that may be Settled in Cash Upon Conversion, Interim Disclosure about Fair Value of Financial Instruments, Nonfinancial Asset and Liability Fair Value Measurements, Equity Method Investment Accounting Considerations and Subsequent Events.

Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements* a consensus of the FASB Emerging Issues Task Force (ASU 2009-13). ASU 2009-13 changes accounting for certain multiple deliverable arrangements. ASU 2009-13 addresses the separation of deliverables and how to measure and allocate the arrangement consideration to one or more units of accounting in multiple deliverable arrangements. Currently, under the residual method of allocation, we use objective and reliable evidence of the fair value of the undelivered elements to separate deliverables in multiple deliverable arrangements. ASU 2009-13 eliminates the residual method and requires that arrangement consideration be allocated to all deliverables using the relative selling price method. ASU 2009-13 requires additional disclosures related to multiple deliverable revenue arrangements upon adoption and is effective for fiscal years beginning after June 15, 2010, or the beginning of our fiscal 2012. In addition, ASU 2009-13 may be early adopted. It may be implemented with either prospective or retrospective application; however, if early adoption is chosen, the entity must either adopt at the beginning of its fiscal year, or adopt using retrospective application. We are currently evaluating the impact ASU 2009-13 will have on our consolidated financial position and results of operations, whether to early adopt and which implementation method to use upon adoption if not prescribed.

In October 2009, the FASB issued ASU 2009-14, *Software (Topic 985): Certain Revenue Arrangements That Include Software Elements* a consensus of the FASB Emerging Issues Task Force