QUANTUM CORP /DE/
Form 10-Q
August 09, 2011

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 June 30, 2011

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 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 x No o

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

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

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

As of the close of business on August 2, 2011, 231.9 million shares of Quantum Corporation’s common stock were issued and outstanding.

QUANTUM CORPORATION

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended	
	June 30, 2011	June 30, 2010
Product revenue	$ 102,268	$ 108,454
Service revenue	36,696	38,637
Royalty revenue	14,571	16,134
Total revenue	153,535	163,225
Cost of product revenue	68,507	70,635
Cost of service revenue	22,066	25,136
Restructuring benefit related to cost of revenue	(300)	—
Total cost of revenue	90,273	95,771
Gross margin	63,262	67,454
Operating expenses:		
Research and development	18,580	18,122
Sales and marketing	30,525	30,078
General and administrative	16,002	15,483
Restructuring benefit	(164)	(83)
	64,943	63,600
Income (loss) from operations	(1,681)	3,854
Interest income and other, net	(98)	(32)
Interest expense	(2,809)	(6,115)
Loss before income taxes	(4,588)	(2,293)
Income tax provision	638	403
Net loss	$ (5,226)	$ (2,696)
Basic and diluted net loss per share	$ (0.02)	$ (0.01)
Basic and diluted weighted-average common and common equivalent shares	228,423	215,448

See accompanying notes to Condensed Consolidated Financial Statements.

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

	June 30, 2011	March 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 73,829	$ 76,010
Restricted cash	1,586	1,863
Accounts receivable, net of allowance for doubtful accounts of $304 and $403, respectively	96,825	114,969
Manufacturing inventories	49,085	48,131
Service parts inventories	43,583	45,036
Deferred income taxes	6,219	6,271
Other current assets	11,540	11,274
Total current assets	282,667	303,554
Long-term assets:		
Property and equipment, less accumulated depreciation	25,365	24,980
Amortizable intangible assets, less accumulated amortization	40,575	44,711
In-process research and development	349	—
Goodwill	55,613	46,770
Other long-term assets	10,321	10,950
Total long-term assets	132,223	127,411
	$ 414,890	$ 430,965
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 50,846	$ 52,203
Accrued warranty	7,157	7,034
Deferred revenue, current	81,249	87,488
Current portion of long-term debt	1,016	1,067
Accrued restructuring charges	1,565	4,028
Accrued compensation	30,335	31,249
Income taxes payable	1,483	1,172
Other accrued liabilities	18,714	21,418
Total current liabilities	192,365	205,659
Long-term liabilities:		
Deferred revenue, long-term	33,493	34,281
Deferred income taxes	6,271	6,820
Long-term debt	98,051	103,267
Convertible subordinated debt	135,000	135,000
Other long-term liabilities	7,165	7,049
Total long-term liabilities	279,980	286,417
Stockholders' deficit:		
Common stock, $0.01 par value; 1,000,000 shares authorized; 230,118 and 227,311 shares issued and outstanding at June 30, 2011 and March 31, 2011, respectively	2,301	2,273
Capital in excess of par	394,676	385,911

Accumulated deficit	(461,814)	(456,588)
Accumulated other comprehensive income	7,382	7,293
Total stockholders’ deficit	(57,455)	(61,111)
	$ 414,890	$ 430,965

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	June 30, 2011	June 30, 2010
Cash flows from operating activities:		
Net loss	$ (5,226)	$ (2,696)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	2,982	2,974
Amortization	6,482	9,477
Service parts lower of cost or market adjustment	1,735	4,458
Deferred income taxes	(493)	156
Share-based compensation	3,017	3,042
Changes in assets and liabilities, net of effect of acquisition:		
Accounts receivable	18,150	(2,152)
Manufacturing inventories	(2,564)	(3,204)
Service parts inventories	1,328	(321)
Accounts payable	(1,364)	(4,559)
Accrued warranty	123	(69)
Deferred revenue	(7,055)	(15,185)
Accrued restructuring charges	(2,486)	(1,351)
Accrued compensation	(1,019)	(4,136)
Income taxes payable	303	(623)
Other assets and liabilities	(2,545)	(1,520)
Net cash provided by (used in) operating activities	11,368	(15,709)
Cash flows from investing activities:		
Purchases of property and equipment	(3,413)	(2,193)
Decrease in restricted cash	300	72
Return of principal from other investments	—	95
Payment for business acquisition, net of cash acquired	(8,152)	—
Net cash used in investing activities	(11,265)	(2,026)
Cash flows from financing activities:		
Repayments of long-term debt	(5,267)	(471)
Payment of taxes due upon vesting of restricted stock	(424)	(429)
Proceeds from issuance of common stock	3,433	1,037
Net cash provided by (used in) financing activities	(2,258)	137
Effect of exchange rate changes on cash and cash equivalents	(26)	(61)
Net decrease in cash and cash equivalents	(2,181)	(17,659)
Cash and cash equivalents at beginning of period	76,010	114,947
Cash and cash equivalents at end of period	$ 73,829	$ 97,288
Fair value of common stock issued for business combination	$ 2,767	$ —

See accompanying notes to Condensed Consolidated Financial Statements.

QUANTUM CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1: BASIS OF PRESENTATION

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

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of Quantum and its wholly-owned subsidiaries. On June 13, 2011, we acquired Pancetera Software, Inc. ("Pancetera"), and Pancetera's results of operations are included in our Condensed Consolidated Statement of Operations from that date. All intercompany balances and transactions have been eliminated. The interim financial statements reflect all adjustments, consisting of normal recurring adjustments that, in the opinion of management, are necessary for a fair statement of the results for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for the full fiscal year. The Consolidated Balance Sheet as of March 31, 2011 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, 2011 included in our Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on June 14, 2011.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES; NEW ACCOUNTING STANDARDS

Significant Accounting Policies

Except for the business combination policy noted below, the significant accounting policies used in the preparation of our Condensed Consolidated Financial Statements are unchanged and are disclosed in our Annual Report on Form 10-K for the year ended March 31, 2011, as filed with the Securities and Exchange Commission on June 14, 2011. We allocate the purchase price paid to the assets acquired and liabilities assumed in a business combination at their estimated fair values as of the acquisition date. Any excess purchase price above the identified net tangible and intangible assets and assumed liabilities is allocated to goodwill. We consider fair value to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy is used to assess the fair value of assets acquired and liabilities assumed. We evaluate the tangible and intangible assets as well as liabilities and contingencies of the acquired company.

New Accounting Standards Adopted

In the first quarter of fiscal 2012, we adopted the goodwill impairment guidance for reporting units with zero or negative carrying amounts. The adoption of this standard did not have an impact on our financial position or results of operations.

In the first quarter of fiscal 2012, we adopted the guidance for disclosure of supplementary pro forma information for business combinations. Adoption of this standard did not have an impact on our financial position or results of operations, other than the additional disclosures included in the notes to the Condensed Consolidated Financial Statements.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs ("ASU 2011-04"), which amends the accounting standards for fair value measurements and disclosures. ASU 2011-04 provides clarifications about the application of existing fair value measurement and disclosure requirements. In addition, ASU 2011-04 changes how to measure fair value of financial instruments managed within a portfolio and how to apply premiums and discounts. There are also additional disclosures required. ASU 2011-04 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We will apply this standard beginning in fiscal 2013 and do not anticipate adoption will impact our statements of financial position or results of operations.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income ("ASU 2011-05"). ASU 2011-05 requires that components of other comprehensive income be presented in a single continuous statement of comprehensive income or in two separate but consecutive statements of net income (loss) and its components followed immediately by a statement of total other comprehensive income. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We will apply this standard beginning in fiscal 2013 and, other than changing the location of information presented, we do not anticipate adoption will impact our statements of financial position or results of operations.

NOTE 3: ACQUISITION

On June 13, 2011, we acquired Pancetera pursuant to a statutory merger in order to enhance our product offerings and technology portfolio in exchange for approximately $11.0 million, comprised of $8.2 million in cash and $2.8 million in Quantum common stock. We acquired all outstanding shares of Pancetera and assumed all of Pancetera's outstanding unvested stock options according to the option exchange ratio defined in the purchase agreement with Pancetera. We also assumed unvested restricted Pancetera common stock in accordance with the purchase agreement. Pancetera's results of operations are included in our Condensed Consolidated Statements of Operations and Cash Flows from the June 13, 2011 acquisition date.

The acquisition was recorded under the acquisition method of accounting, resulting in the total purchase price being allocated to the assets acquired and liabilities assumed based on their estimated fair values as set forth below. The excess of the purchase price over the assets acquired and liabilities assumed was recorded as goodwill (in thousands):

Current assets	$ 46
Property and equipment	37
Amortizable intangible assets	1,795
In-process research and development	349
Goodwill	8,843
Current liabilities	(116)
Total purchase price	$ 10,954

In performing our purchase price allocation, we considered, among other factors, our intention for future use of acquired assets, analyses of historical financial performance and estimates of future performance of Pancetera's existing and future products. The fair value of current assets, property and equipment and current liabilities was based on market prices at the acquisition date. The fair value of amortizable intangible assets and in-process research and development ("IPR&D") was based, in part, on a valuation using a discounted cash flow approach and other valuation techniques as well as management's estimates and assumptions.

The amortizable intangible assets are all related to developed technology and are included in purchased technology within the intangible assets and goodwill footnote. Purchased technology, which comprises products that have reached technological feasibility, was primarily related to SmartRead®. SmartRead is patented technology, primarily comprised of a set of algorithms that reduce storage input-output when performing maintenance tasks such as backup, replication or migration of virtual machines. Current products containing the SmartRead technology include SmartView TM and SmartMotion TM. Purchased technology intangible assets also include a combination of Pancetera processes, patents and trade secrets related to the design and development of these products. This proprietary know-how can be leveraged to develop new technology and improve our products. The SmartRead purchased technology intangible asset has an amortization period of four years.

IPR&D represents incomplete Pancetera research and development projects that had not reached technological feasibility as of the acquisition date. Due to the nature of IPR&D, the expected life is indeterminate and we will periodically evaluate for attainment of technological feasibility or impairment. Technological feasibility is established when an enterprise has completed all planning, designing, coding and testing activities that are necessary to establish that a product can be produced to meet its design specifications including functions, features and technical performance requirements. The value assigned to IPR&D was determined by considering the importance of each project to our overall development plan, estimating costs to develop the purchased IPR&D into commercially viable products, estimating the resulting net cash flows from the projects when completed and discounting the net cash flows using a discount rate of 18% to their present value based on the percentage of completion of the IPR&D projects.

The goodwill as a result of this acquisition is not expected to be deductible for tax purposes. The results of operations for the first quarter of fiscal 2012 included immaterial revenue and a $0.1 million net loss of Pancetera since the acquisition date. In addition, we incurred $0.2 million in acquisition expenses which are included in general and administrative expense in our Condensed Consolidated Statement of Operations.

The following unaudited supplemental pro forma information presents the combined results of operations of Quantum and Pancetera as if the acquisition had occurred as of the beginning of fiscal 2011. The first quarter of fiscal 2011 supplemental pro forma earnings were adjusted to include $0.9 million in nonrecurring acquisition expenses incurred in the first quarter of fiscal 2012. These amounts have been excluded from the first quarter of fiscal 2012 supplemental pro forma earnings (in thousands):

	Three Months Ended	
	June 30, 2011	June 30, 2010
Pro forma revenue	$ 153,568	$ 163,225
Pro forma net loss	$ (5,974)	$ (4,594)

NOTE 4: FAIR VALUE

The assets acquired and liabilities assumed from Pancetera were recorded at their respective fair values on the acquisition date. The following fair value disclosures are in regard to the remainder of our assets and liabilities.

The assets measured and recorded at fair value on a recurring basis consist of money market funds which are valued using quoted market prices for similar assets at the respective balance sheet dates and are level 2 fair value measurements (in thousands):

	June 30, 2011	March 31, 2011
Money market funds	$ 64,610	$ 68,560

We have certain non-financial assets that are measured at fair value on a non-recurring basis when there is an indicator of impairment, and they are recorded at fair value only when an impairment is recognized. These assets include property and equipment, amortizable intangible assets, IPR&D and goodwill. We did not record impairments to any non-financial assets in the first quarter of fiscal 2012 or 2011. We do not have any non-financial liabilities measured and recorded at fair value on a non-recurring basis.

We have financial liabilities for which we are obligated to repay the carrying value. The carrying value and fair value of these financial liabilities at June 30, 2011 and March 31, 2011 were as follows (in thousands):

	June 30, 2011		March 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Credit Suisse term loan(1)	$ 99,067	$ 98,696	$ 104,334	$ 103,812
Convertible subordinated notes(2)	135,000	148,838	135,000	133,126

(1) Fair value based on non-binding broker quotes using current market information.

(2) Fair value based on quoted market prices.

NOTE 5: INVENTORIES

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

	June 30, 2011	March 31, 2011
Manufacturing inventories:		
Finished goods	$ 21,802	$ 19,999
Work in process	6,716	7,385
Materials and purchased parts	20,567	20,747
	$ 49,085	$ 48,131
Service parts inventories:		
Finished goods	$ 23,626	$ 25,348
Component parts	19,957	19,688
	$ 43,583	$ 45,036

NOTE 6: INTANGIBLE ASSETS AND GOODWILL

Intangible assets are evaluated for impairment whenever indicators of impairment are present. During the first quarter of fiscal 2012 and 2011, we considered whether there were any indicators of impairment for both our goodwill and our long-lived assets, including amortizable and indefinite-lived intangible assets, and determined there were none.

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

	June 30, 2011			March 31, 2011		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Purchased technology	$ 189,962	$ (178,925)	$ 11,037	$ 188,167	$ (176,350)	$ 11,817
Trademarks	27,260	(26,519)	741	27,260	(26,316)	944
Non-compete agreements	500	(493)	7	500	(468)	32
Customer lists	106,419	(77,629)	28,790	106,419	(74,501)	31,918
	$ 324,141	$ (283,566)	$ 40,575	$ 322,346	$ (277,635)	$ 44,711

Total intangible amortization expense was $5.9 million and $9.1 million for the first quarter of fiscal 2012 and 2011, respectively.

We evaluate goodwill for impairment annually during the fourth quarter of our fiscal year, or more frequently when indicators of impairment are present. The following provides a summary of the carrying value of goodwill (in thousands):

	Three Months Ended	
	June 30, 2011	March 31, 2011
Beginning balance		
Goodwill	$ 385,770	$ 385,770
Accumulated impairment losses	(339,000)	(339,000)
	46,770	46,770
Goodwill from Pancetera acquisition	8,843	—
Ending balance		
Goodwill	394,613	385,770
Accumulated impairment losses	(339,000)	(339,000)
	$ 55,613	$ 46,770

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NOTE 7: ACCRUED WARRANTY

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

	Three Months Ended	
	June 30, 2011	June 30, 2010
Beginning balance	$ 7,034	$ 5,884
Additional warranties issued	2,449	2,622
Adjustments for warranties issued in prior fiscal years	421	391
Settlements	(2,747)	(3,082)
Ending balance	$ 7,157	$ 5,815

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

NOTE 8: RESTRUCTURING CHARGES

In fiscal 2011 and continuing in fiscal 2012, restructuring actions to consolidate operations supporting the business were the result of strategic management decisions. The types of restructuring expense (benefit) for the three months ended June 30, 2011 and 2010 were (in thousands):

	Three Months Ended	
	June 30, 2011	June 30, 2010
By expense (benefit) type		
Severance and benefits	$ (179)	$ 555
Facilities	15	(638)
Other	(300)	—
	$ (464)	$ (83)

Fiscal 2012

During the first quarter of fiscal 2012, severance and benefits reversals were due to actual payments lower than estimated and retaining certain positions. The other restructuring reversal was due to actual payments lower than estimated on a supplier relationship exited in fiscal 2011.

Fiscal 2011

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

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, 2011 Severance and Benefits	Facilities	Other	Total
Balance as of March 31, 2011	$ 2,885	$ 843	$ 300	$ 4,028
Restructuring charges	—	15	—	15
Reversals	(179)	—	(300)	(479)
Cash payments	(1,907)	(115)	—	(2,022)
Assumed restructuring liability	23	—	—	23
Balance as of June 30, 2011	$ 822	$ 743	$ —	$ 1,565

	Severance and Benefits	Facilities	Other	Total
Estimated timing of future payouts:				
Fiscal 2012	$ 822	$ 295	$ —	$ 1,117
Fiscal 2013 to 2016	—	448	—	448
	$ 822	$ 743	$ —	$ 1,565

NOTE 9: STOCK INCENTIVE PLANS AND SHARE-BASED COMPENSATION

Overview

Our stock incentive plans (“Plans”) are broad-based, long-term retention programs that are intended to attract and retain talented employees and align stockholder and employee interests. The Plans provide for the issuance of stock options, stock appreciation rights, stock purchase rights and long-term performance awards to our employees, officers and affiliates. We also have an employee stock purchase plan (“Purchase Plan”) that allows for the purchase of stock at 85% of fair market value at the date of grant or the exercise date, whichever value is less.

During the first quarter of fiscal 2012, we assumed outstanding unvested options and unvested restricted shares of Pancetera which were exchanged into options to purchase Quantum common stock and unvested restricted shares of Quantum common stock in accordance with the purchase agreement. As of June 13, 2011, Pancetera had approximately 0.8 million unvested stock options and 0.5 million unvested restricted shares outstanding. Based on the exchange ratio of 0.2403 calculated in accordance with the formula in the purchase agreement, we assumed the outstanding unvested options, which are exercisable for an aggregate of 194,000 shares of Quantum common stock. Based on the relative cash and stock consideration for Pancetera shares per the purchase agreement, the unvested restricted shares became 33,000 unvested restricted shares of Quantum common stock and $200,000 in unvested cash. The estimated fair value of unvested Pancetera options, unvested restricted shares and unvested cash related to future service is being recognized over the remaining service period.

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

Share-Based Compensation

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

	Three Months Ended June 30, 2011	June 30, 2010
Share-based compensation:		
Cost of revenue	$ 455	$ 460
Research and development	640	749
Sales and marketing	719	885
General and administrative	1,203	948
	$ 3,017	$ 3,042
Share-based compensation by type of award:		
Stock options	$ 953	$ 1,104
Restricted stock	1,697	1,461
Stock purchase plan	367	477
	$ 3,017	$ 3,042

Stock Options

The weighted-average grant date fair values of employee stock option grants, as well as the weighted-average assumptions used in calculating these values for the first quarter of fiscal 2012 and 2011 were based on estimates at the date of grant as follows:

	Three Months Ended June 30, 2011	June 30, 2010
Options life (in years)	4.0	4.2
Risk-free interest rate	1.57%	2.02%
Stock price volatility	112.33%	106.75%
Weighted-average grant date fair value	$ 1.91	$ 1.96

The weighted-average fair value of stock options assumed from Pancetera, as well as the weighted-average assumptions used in calculating these values for the first quarter of fiscal 2012 were based on estimates at the acquisition date as follows:

	Three Months Ended June 30, 2011
Options life (in years)	5.2
Risk-free interest rate	1.65%
Stock price volatility	100.93%
Weighted-average grant date fair value	$ 2.67

The assumed options have a 10 year contractual life from the original grant date.

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 2012 and 2011 were $2.79 and $2.86, respectively.

The fair value of restricted stock assumed from Pancetera is the intrinsic value as of the assumption date since the related restricted stock was granted at a value of approximately $0.01 per Quantum common share. The weighted-average fair value of assumed restricted stock was $2.94.

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 2012 or 2011.

Stock Activity

Stock Options

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

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding as of March 31, 2011	22,080	$ 2.43		
Granted and assumed	1,618	2.33		
Exercised	(1,464)	2.35		
Forfeited	(139)	1.49		
Expired	(72)	9.39		
Outstanding as of June 30, 2011	22,023	$ 2.41	3.39	$ 25,835
Vested and expected to vest at June 30, 2011	21,565	$ 2.42	3.33	$ 25,209
Exercisable as of June 30, 2011	14,525	$ 2.97	2.42	$ 11,026

Restricted Stock

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

	Shares	Weighted-Average Grant Date Fair Value
Nonvested at March 31, 2011	6,640	$ 1.95
Granted and assumed	854	2.79
Vested	(515)	1.88
Forfeited	(269)	2.39
Nonvested at June 30, 2011	6,710	$ 2.05

NOTE 10: INCOME TAXES

Income tax provision for the first quarter of fiscal 2012 and 2011 was $0.6 million and $0.4 million, respectively, and reflects expenses for foreign income taxes and state taxes.

NOTE 11: NET 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, 2011	June 30, 2010
Net loss	$ (5,226)	$ (2,696)
Basic and diluted weighted-average shares and common share equivalents	228,423	215,448
Basic and diluted net loss per share	$ (0.02)	$ (0.01)

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

- At June 30, 2011, 31.2 million weighted equivalent shares of 3.50% convertible subordinated notes issued in November 2010 were excluded. At June 30, 2010, 5.1 million weighted equivalent shares of 4.375% convertible subordinated notes issued in July 2003 were excluded.
- Options to purchase 7.4 million and 11.5 million weighted-average shares at June 30, 2011 and 2010, respectively, were excluded.
- Unvested restricted stock and restricted stock units of 0.1 million and 0.4 million weighted-average shares at June 30, 2011 and 2010, respectively, were excluded.

NOTE 12: COMPREHENSIVE LOSS

Total comprehensive loss, net of tax, if any, for the three months ended June 30, 2011 and 2010 was (in thousands):

	Three Months Ended	
	June 30, 2011	June 30, 2010
Net loss	$ (5,226)	$ (2,696)
Net unrealized gains (losses) on revaluation of long-term intercompany balance	(27)	215
Foreign currency translation adjustment	116	(617)
Total comprehensive loss	$ (5,137)	$ (3,098)

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENT

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements in this report usually contain the words "will," "estimate," "anticipate," "expect," "believe," "project" or similar expressions and variations or negatives of these words. All such forward-looking statements including, but not limited to, (1) our goals for future operating performance, including our expectations regarding our revenue, gross margin and operating expenses for our second quarter of fiscal 2012; (2) our expectations relating to growing our branded disk systems and software solutions and branded tape automation systems revenue; (3) our research and development plans and focuses; (4) our expectations regarding the benefits of our acquisition of Pancetera Software, Inc. "Pancetera"); (5) our expectation that we will continue to derive a substantial majority of our revenue from products based on tape technology; (6) our belief that our existing cash and capital resources will be sufficient to meet all currently planned expenditures, debt repayments and sustain our operations for at least the next 12 months; (7) our expectations regarding our ongoing efforts to control our cost structure; (8) our belief that our ultimate liability in any infringement claims made by any third parties against us will not be material to us; and (9) our business goals, objectives, key focuses, opportunities and prospects which are inherently uncertain as they are based on management's expectations and assumptions concerning future events, and they are subject to numerous known and unknown risks and uncertainties. Readers are cautioned not to place undue reliance on these forward-looking statements, about which we speak only as of the date hereof. As a result, our actual results may differ materially from the forward-looking statements contained herein. Factors that could cause actual results to differ materially from those described herein include, but are not limited to: (1) the amount of orders received in future periods; (2) our ability to timely ship our products; (3) uncertainty regarding information technology spending and the corresponding uncertainty in the demand for our products and services; (4) our ability to maintain supplier relationships; (5) the successful execution of our strategy to expand our business in new directions; (6) our ability to successfully introduce new products; (7) our ability to capitalize on changes in market demand; (8) our ability to achieve anticipated gross margin levels; (9) U.S. and global macroeconomic conditions, including the on-going budget and debt crises in the U.S. and the European Union; (10) our ability to successfully integrate our Pancetera acquisition; and (11) those factors discussed under "Risk Factors" in Part II, Item 1A. Our forward-looking statements are not guarantees of future performance. We disclaim any obligation to update information in any forward-looking statement.

OVERVIEW

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

We offer a comprehensive range of solutions in the data storage market providing performance and value to organizations of all sizes. We believe our combination of expertise, innovation and platform independence allows us to solve customers' data protection and retention issues more easily, effectively and securely. Our open systems solutions are designed to provide significant storage efficiencies and cost savings while minimizing risk and protecting customers' prior investments. In addition, we have the global scale and scope to support our worldwide customer base. As a pioneer in disk-based data protection, we have a broad portfolio of disk system solutions featuring deduplication and replication technology. We have products spanning from entry-level autoloaders to enterprise libraries, and are a supplier of tape drives and media. Our data management software provides technology for shared workflow applications and multi-tiered archiving in high-performance, large-scale storage environments. We offer a full range of service with support available in more than 100 countries.

We earn our revenue from the sale of products, systems and services through our sales force and an array of channel partners to reach end user customers, which range in size from small businesses to multinational enterprises. Our products are sold under both the Quantum brand name and the names of various OEM customers. We have a broad portfolio of disk systems, software solutions, tape automation systems, tape drives and other devices and media. Our data management software provides technology for shared workflow applications and multi-tiered archiving in high-performance, large-scale storage environments. The majority of our disk systems and tape automation systems include software features that provide disk and tape integration capabilities with our core deduplication and replication technologies. In addition, our service offerings include a broad range of coverage options to provide the level of support for the widest possible range of information technology ("IT") environments.

At the beginning of the fiscal year, we made changes in our sales and marketing organization in an effort to support growth in fiscal 2012, including reallocating our sales resources based on end user requirements, increasing our efforts to achieve tighter technical alignment on our complete product portfolio with our channel partners as well as actively pursuing opportunities to expand the market reach for our products. Another key area of focus for fiscal 2012 is continuing to expand and improve our products and solutions, with emphasis on branded disk systems and software solutions as well as introducing our initial StorNext® appliance and expanding professional services and custom engineering. We believe our current tape automation systems, disk systems and software solutions provide excellent value propositions for customers and we plan to continue to expand the breadth and depth of our product and service offerings in fiscal 2012. We are focused on advancing these objectives to take advantage of our improved position in the markets in which we participate to grow revenue in fiscal 2012 and create shareholder value.

As noted above, one key area of focus is continuing to expand and improve our products and solutions, with emphasis on branded disk systems and software solutions as well as introducing our initial StorNext appliance. In June 2011, we announced availability of the StorNext M330, our first product in a new family of StorNext appliances. The StorNext M330 appliance combines the high-performance, heterogeneous software file sharing and tiered, vendor-agnostic archiving benefits found in our StorNext data management software with the simplicity of purpose-built hardware. The StorNext M330 appliance was designed to be easily deployed with minimal configuration requirements and is targeted especially for rich media environments where it can address complex, large data management needs.

We also continued to expand features of our tape automation systems during the first quarter of fiscal 2012, and we announced enhanced archiving capabilities through the new Extended Data Life Management ("EDLM") feature and its integration with StorNext data management software. As part of the Scalar® i6000 tape library's iLayer™ management software, EDLM builds on the multilevel media scanning capabilities that we introduced last year for vaulted tapes.

During the first quarter of fiscal 2012, we extended the market reach for our StorNext software and Scalar i6000 tape automation products through new reseller and OEM agreements with NetApp, Inc. and Hewlett Packard Company, respectively. We expect these agreements will contribute to increased sales in subsequent quarters of fiscal 2012.

During the first quarter of fiscal 2012, we acquired Pancetera Software, Inc. ("Pancetera") to enhance our product offerings and technology portfolio, paying $11.0 million which was comprised of $8.2 million in cash and $2.8 million in Quantum common stock. As a result of this acquisition, we have extended our technology platform by adding key assets to significantly enhance data management in virtual environments. Pancetera technology is already compatible with our DXi disk backup and deduplication products, and we plan to further integrate the technology into our roadmaps for both DXi and StorNext high-performance file sharing and archive offerings. Existing Pancetera products include SmartView™, software that provides data protection and mobility for virtual machines, and SmartMotion™, a virtual appliance that protects virtual machines to any target NAS device. These products expand the breadth and depth of our current software solutions and appliance offerings. We believe the combination of the Pancetera technology with both DXi and StorNext will provide us with a larger market opportunity and allow us to create unique solutions for protecting and managing data in virtual environments. We expect to introduce a new virtualization backup appliance incorporating the Pancetera technology and to also earn revenue from both this new appliance and existing Pancetera software products in the second quarter of fiscal 2012.

We noted stronger competition this quarter which contributed to lower win rates for sales of disk systems in the first quarter of fiscal 2012 than in recent periods. However, we continued to add a significant number of new customers for both disk systems and tape automation solutions. A large number of our product sales in a given quarter are to repeat customers, thus we endeavor to increase our installed base. In addition, we continue to believe that our branded tape automation systems business will perform better than the overall tape market in coming periods.

In July 2011, we announced availability of the DXi6701 and DXi6702 products which incorporate the DXi 2.0 software and provide a unique approach to distributed, or hybrid, deduplication. These products are designed to protect customers' prior investments and provide flexibility for future backup architectures. We believe the introduction of these products provide a solution that will expand our sales opportunities and improve our win rates. In addition, with these new products, the DXi 2.0 software has been incorporated across our midrange disk offerings, which enables more clear and simple product positioning for our midrange products with our channel partners.

For the second quarter of fiscal 2012, we are focused on growing revenue by improving our sales and go-to-market execution, including our overall product and solution messaging with channel partners. We believe the drivers for revenue growth are in place, including our expanded product offerings.

Results

Revenue decreased $9.7 million in the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011 primarily due to expected reductions in OEM deduplication software revenue due to the terms of an OEM agreement. The relationship with a significant OEM customer for deduplication software changed from partner to competitor due to its purchase of one of our competitors in a prior year. We continued to increase year-over-year quarterly revenue from branded disk systems and software solutions. In the first quarter of fiscal 2012, we had continued improvement in revenue momentum with our partners, especially for midrange disk systems, and our efforts to increase revenue from branded disk systems and software solutions resulted in a 5% increase from the first quarter of fiscal 2011. The gross margin percentage decreased slightly from the net impact of decreased high-margin revenue and less intangible amortization. We also had a modest increase in operating expenses. This resulted in a $1.7 million operating loss, or 1% operating margin loss, in the first quarter of fiscal 2012 compared to a 2% operating margin in the first quarter of fiscal 2011. We generated $11.4 million in cash from operations during the first quarter of fiscal 2012.

We had total revenue of $153.5 million in the first quarter of fiscal 2012, a 6% decrease from the first quarter of fiscal 2011 primarily due to expected reductions in OEM deduplication software revenue. Our product revenue from OEM customers decreased 30% as expected while revenue from branded products increased 7% from the first quarter of fiscal 2011, primarily due to increased media revenue and midrange disk systems revenue. In addition, branded tape automation revenue increased 8% in a declining market, an indicator of growing our market share. Service revenue decreased primarily due to a decreased volume of branded and OEM product repair services. Our focus on growing the branded business in recent years is reflected in the greater proportion of non-royalty revenue from our branded business, at 80% in the first quarter of fiscal 2012 compared to 73% in the first quarter of fiscal 2011. Royalty revenue decreased 10% as expected in the first quarter of fiscal 2012, primarily due to declining royalties from older DLT media.

Our gross margin percentage decreased 10 basis points in the first quarter of fiscal 2012 to 41.2% primarily due to the decrease of high margin OEM deduplication software revenue as well as lower royalty revenue. These decreases were largely offset by decreased intangible amortization in the first quarter of fiscal 2012 from certain intangibles becoming fully amortized in the prior year. Operating expenses increased $1.3 million, or 2%, primarily due to increased salaries and benefits from investing in our workforce. Costs incurred to acquire Pancetera were $0.2 million and are included in general and administrative expense. Interest expense decreased $3.3 million, or 54%, compared to the first quarter of fiscal 2011 primarily due to refinancing higher rate subordinated term debt with convertible subordinated notes in fiscal 2011 and to a lesser extent from continued principal prepayments of senior term debt in the prior year. We generated $11.4 million in cash from operating activities in the first quarter of fiscal 2012 compared to cash used in operations of $15.7 million in the first quarter of fiscal 2011.

RESULTS OF OPERATIONS

Revenue

	Three Months Ended					
(In thousands)	June 30, 2011	% of revenue	June 30, 2010	% of revenue	Change	% Change
Product revenue	$ 102,268	66.6%	$ 108,454	66.4%	$ (6,186)	(5.7)%
Service revenue	36,696	23.9%	38,637	23.7%	(1,941)	(5.0)%
Royalty revenue	14,571	9.5%	16,134	9.9%	(1,563)	(9.7)%
Total revenue	$ 153,535	100.0%	$ 163,225	100.0%	$ (9,690)	(5.9)%

Total revenue decreased in the first quarter of fiscal 2012 reflecting expected declines in OEM sales and royalty revenue. In the first quarter of fiscal 2011, we recognized approximately $9.5 million of OEM deduplication software revenue in accordance with contractual requirements that was not repeated. As noted above, this OEM deduplication software customer relationship has changed from partner to competitor. Our total revenue results for the first quarter of fiscal 2012 were lower than we had planned in branded disk systems and software solutions. We anticipate total revenue for the second quarter of fiscal 2012 will increase compared to the first quarter of fiscal 2012. We project revenue growth for our branded products in the second quarter of fiscal 2012, primarily from disk systems and software solutions as well as tape automation systems.

Product Revenue

Our product revenue, which includes sales of our hardware and software products sold through both our Quantum branded and OEM channels, decreased $6.2 million in the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011, primarily due to decreased OEM deduplication software revenue recognized in accordance with contractual requirements as discussed above. This decrease was partially offset by increases in tape automation systems sales and devices and media revenue. Revenue from sales of branded products increased 7% while sales of products to our OEM customers decreased as expected in the first quarter of fiscal 2012 compared to the prior year period.

(In thousands)	Three Months Ended June 30, 2011	% of revenue	June 30, 2010	% of revenue	Change	% Change
Disk systems and software solutions	$ 23,459	15.3%	$ 31,257	19.1%	$ (7,798)	(24.9)%
Tape automation systems	57,735	37.6%	56,686	34.7%	1,049	1.9%
Devices and media	21,074	13.7%	20,511	12.6%	563	2.7%
Total product revenue	$ 102,268	66.6%	$ 108,454	66.4%	$ (6,186)	(5.7)%

As noted above, the primary contributor to the decreased disk systems and software solutions revenue was the prior year recognition of OEM deduplication software revenue in accordance with contractual requirements. However, we had a 5% increase in branded disk systems and software solutions compared to the first quarter of fiscal 2011 primarily due to increased revenue from midrange disk systems as a result of our efforts to build channel volume. Our disk systems and software solutions revenue was lower than we had planned for the first quarter of fiscal 2012. We believe this was due to a number of factors including execution, product positioning and stronger competition. In addition, we believe the midrange disk systems revenue and product positioning contributed to lower than expected revenue due to phased introductions of the DXi 2.0 software across the midrange disk products. Looking ahead, we expect revenue from our branded disk systems and software solutions to be a significant driver of growth in the remainder of fiscal 2012. We believe the market opportunity for these products is large, and that our products and solutions, including the product offerings added to our portfolio from the Pancetera acquisition, the recently announced DXi6701 and DXi6702 products and the newly introduced StorNext appliance, will contribute to revenue growth in the second quarter of fiscal 2012.

The increase in tape automation systems revenue in the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011 was primarily due to increased branded enterprise and entry-level tape automation systems sales. Branded tape automation systems revenue increased 8% from the first quarter of fiscal 2011 while tape automation system revenue from OEM customers decreased 5% as expected in the first quarter of fiscal 2012 compared to the prior year. We have continued to add new tape automation customers in the first quarter of fiscal 2012 despite a declining overall tape automation market.

Product revenue from devices, which includes tape drives and removable hard drives, and non-royalty media sales increased 3% from the first quarter of fiscal 2011. The increase was due to increased branded media sales which more than offset the anticipated decreases in sales of older technology devices that had reached or are nearing end of life. We have been experiencing higher than usual purchases of media as customers increase their media inventories due to the events in Japan and their concern regarding media supply disruption. This may result in lower media purchases in future periods as such concerns subside. The majority of media is manufactured in Japan.

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 decreased 5% from the first quarter of fiscal 2011 primarily due to a decreased volume of branded and OEM product repair services, and to a lesser extent, from decreased sales of branded service contracts.

Royalty Revenue

Tape media royalties were 10% lower in the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011 primarily due to lower media unit sales sold by media licensees. The decrease was primarily due to decreased royalties from maturing DLT media while LTO media royalty had a slight decrease in the three months ended June 30, 2011 compared to the prior year.

Gross Margin

(In thousands)	Three Months Ended June 30, 2011	Gross margin %	June 30, 2010	Gross margin %	Change	% Change
Product gross margin	$ 33,761	33.0%	$ 37,819	34.9%	$ (4,058)	(10.7)%
Service gross margin	14,630	39.9%	13,501	34.9%	1,129	8.4%
Royalty gross margin	14,571	100.0%	16,134	100.0%	(1,563)	(9.7)%
Gross margin	$ 63,262*	41.2%	$ 67,454	41.3%	$ (4,192)	(6.2)%

*First quarter of fiscal 2012 gross margin includes $0.3 million of restructuring benefit related to cost of revenue.

The 10 basis point decrease in gross margin percentage during the three months ended June 30, 2011 compared to the first quarter of fiscal 2011 was the net result of largely offsetting factors. The primary factor reducing gross margin and gross margin percentage was decreased OEM deduplication software revenue as noted above. In addition, lower royalty revenue also contributed to lower gross margin in the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011. Largely offsetting the gross margin decrease from these revenue declines was lower intangible amortization due to certain intangible assets becoming fully amortized in fiscal 2011 and, to a lesser extent, increased branded product revenue. Branded sales comprised 80% of non-royalty revenue for the first quarter of fiscal 2012 compared to 73% for the first quarter of fiscal 2011. Sales of branded products typically generate higher gross margins than sales to our OEM customers; however, OEM deduplication software revenue provides one of our highest product margins. In the second quarter of fiscal 2012, we expect gross margin to be slightly higher than the first quarter of fiscal 2012 primarily due to certain intangible assets becoming fully amortized.

Product Margin

Product gross margin dollars decreased $4.1 million, or 11%, on a product revenue decrease of 6% compared to the first quarter of fiscal 2011 and our product gross margin rate decreased 190 basis points primarily due to the decrease in high margin OEM deduplication software revenue. This decrease was partially offset by a decrease in intangible amortization in the first quarter of fiscal 2012.

Service Margin

Service gross margin dollars increased $1.1 million, or 8%, and service gross margin percentage increased 500 basis points despite a decrease in service revenue of $1.9 million. These increases were primarily due to reduced costs from lower inventory allowance expense. We had higher inventory allowance expense in the first quarter of fiscal 2011 due to end of service life plans for several products. In addition, we had a decrease in external service provider expense compared to the first quarter of fiscal 2011 and a change in the mix of services for OEM repairs and for our branded products under contract. External service provider expense decreased due to a combination of bringing repair of certain product lines in-house that previously were repaired by external service providers and negotiating lower rates on the renewals of contracts with certain service providers. 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

(In thousands)	Three Months Ended June 30, 2011	% of revenue	June 30, 2010	% of revenue	Change	% Change
Research and development	$ 18,580	12.1%	$ 18,122	11.1%	$ 458	2.5%

The slight increase in research and development expenses compared to the first quarter of fiscal 2011 was primarily due to a $0.4 million increase in project materials for current development efforts.

Sales and Marketing Expenses

(In thousands)	Three Months Ended June 30, 2011	% of revenue	June 30, 2010	% of revenue	Change	% Change
Sales and marketing	$ 30,525	19.9%	$ 30,078	18.4%	$ 447	1.5%

The slight increase in sales and marketing expense in the first quarter of fiscal 2012 was primarily due to a $0.7 million increase in salaries and benefits from increased headcount mostly offset by a $0.3 million decrease in marketing expenses related to efforts to expand our position with existing and new channel partners in the first quarter of fiscal 2011.

General and Administrative Expenses

(In thousands)	Three Months Ended June 30, 2011	% of revenue	June 30, 2010	% of revenue	Change	% Change
General and administrative	$ 16,002	10.4%	$ 15,483	9.5%	$ 519	3.4%

The increase in general and administrative expenses for the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011 was primarily due a $0.7 million increase in salaries and benefits and $0.2 million in expenses to acquire Pancetera, partially offset by a $0.3 million decrease in expenses related to international business taxes.

Restructuring Benefit

(In thousands)	Three Months Ended June 30, 2011	% of revenue	June 30, 2010	% of revenue	Change	% Change
Restructuring benefit related to cost of revenue	$ 300	0.2%	$ —	—%	$ 300	n/m
Restructuring benefit in operating expense	164	0.1%	83	0.1%	81	97.6%
Total restructuring benefit	$ 464	0.3%	$ 83	0.1%	$ 381	n/m

The increase in restructuring benefit in the first quarter of fiscal 2012 was primarily due to actual payments lower than estimated on a supplier relationship exited in fiscal 2011 and changes in estimated severance amounts. For additional information, refer to Note 8 “Restructuring Charges.” Until we achieve sustained profitability, we may incur additional charges in the future related to further cost reduction steps.

Interest Expense

(In thousands)	Three Months Ended June 30, 2011	% of revenue	June 30, 2010	% of revenue	Change	% Change
Interest expense	$ 2,809	1.8%	$ 6,115	3.7%	$ (3,306)	(54.1)%

Interest expense decreased from the first quarter of fiscal 2011 primarily due to refinancing higher rate subordinated term debt with convertible subordinated debt in fiscal 2011 and to a lesser extent from principal payments in the prior fiscal year reducing the outstanding balance of our senior term debt. Interest expense includes the amortization of debt issuance costs of our debt facilities.

Income Taxes

(In thousands)	Three Months Ended June 30, 2011	% of pre-tax loss	June 30, 2010	% of pre-tax loss	Change	% Change
Income tax provision	$ 638	(13.9)%	$ 403	(17.6)%	$ 235	58.3%

The income tax provision for the both the first quarter of fiscal 2012 and 2011 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, 2011	June 30, 2010	Change	% Change
Cost of revenue	$ 2,575	$ 5,547	$ (2,972)	(53.6)%
Research and development	—	100	(100)	(100.0)%
Sales and marketing	3,331	3,394	(63)	(1.9)%
General and administrative	25	25	—	—%
	$ 5,931	$ 9,066	$ (3,135)	(34.6)%

The decrease in intangible amortization expense in the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011 was due to certain intangible assets becoming fully amortized in the first half of fiscal 2011. For further information regarding amortizable intangible assets, refer to Note 6 “Goodwill and Intangible Assets.”

Share-based Compensation

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

	Three Months Ended June 30, 2011	June 30, 2010	Change	% Change
Cost of revenue	$ 455	$ 460	$ (5)	(1.1)%
Research and development	640	749	(109)	(14.6)%
Sales and marketing	719	885	(166)	(18.8)%
General and administrative	1,203	948	255	26.9%
	$ 3,017	$ 3,042	$ (25)	(0.8)%

LIQUIDITY AND CAPITAL RESOURCES

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

	Three Months Ended June 30, 2011	June 30, 2010
Net loss	$ (5,226)	$ (2,696)
Net cash provided by (used in) operating activities	11,368	(15,709)
Net cash used in investing activities	(11,265)	(2,026)
Net cash provided by (used in) financing activities	(2,258)	137

Three Months Ended June 30, 2011

The $16.6 million difference between reported net loss and cash provided by operating activities during the three months ended June 30, 2011 was primarily due to an $18.2 million decrease in accounts receivable and $13.7 million in non-cash expenses, partially offset by a $7.1 million decrease in deferred revenue. The decrease in accounts receivable was primarily due to decreased sales in the first quarter of fiscal 2012 compared to the fourth quarter of fiscal 2011. Non-cash expenses included $6.5 million in amortization, $3.0 million in depreciation and $3.0 million in share-based compensation. 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 $8.2 million of cash paid, net of cash acquired, for our acquisition of Pancetera and $3.4 million of equipment purchases during the first quarter of fiscal 2012. Equipment purchases were primarily for engineering equipment and testing hardware to support product development activities.

Cash provided by financing activities during the first three months of fiscal 2012 was primarily due to a $5.3 million principal payment on the senior term debt, partially offset by $3.4 million in proceeds received from the exercise of stock options.

Three Months Ended June 30, 2010

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

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

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

Capital Resources and Financial Condition

We have made progress in increasing operating income in recent periods, and we continue to focus on improving our operating performance, including increasing revenue in higher margin areas of the business and continuing to improve margins in an effort to return to consistent profitability and to generate positive cash flows from operating activities. We believe that our existing cash and capital resources will be sufficient to meet all currently planned expenditures, debt repayments, contractual obligations and sustain operations for at least the next 12 months. This belief is dependent upon our ability to achieve revenue and gross margin projections and to continue to control operating expenses in order to provide positive cash flow from operating activities. Should any of the above assumptions prove incorrect, either in combination or individually, it would likely have a material negative effect on our cash balances and capital resources.

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

Under the Credit Suisse credit agreement (“CS credit agreement”), we have the ability to borrow up to $50.0 million under a senior secured revolving credit facility which expires July 12, 2012. As of June 30, 2011, we have letters of credit totaling $1.2 million reducing the amounts available to borrow on this revolver to $48.8 million. Quarterly, we are required to pay a 0.5% commitment fee on undrawn amounts under the revolving credit facility.

Our outstanding term debt under the CS credit agreement was $99.1 million at June 30, 2011. This loan matures on July 12, 2014 and has a variable interest rate. The interest rate on the term loan was 3.75% at June 30, 2011. We are required to make quarterly interest and principal payments on the term loan. In addition, on an annual basis, we are required to perform a calculation of excess cash flow which may require an additional payment of the principal amount in certain circumstances. The annual calculations of excess cash flow have not required additional payments. There is a blanket lien on all of our assets under the CS credit agreement in addition to certain financial and reporting covenants. As of June 30, 2011, we were in compliance with all debt covenants.

We have $135 million aggregate principal amount outstanding of 3.50% convertible subordinated notes due November 15, 2015. Semi-annual interest payments are required on these notes.

Generation of positive cash flow from operating activities has historically been and will continue to be an important source of our cash to fund operating needs and meet our current and long-term obligations. We cannot provide assurance that the actions we have taken in the past or any actions we may take in the future to improve our operating results will ensure a consistent, sustainable and sufficient level of net income and positive cash flow from operating activities to fund, sustain or grow our businesses. Certain events that are beyond our control, including prevailing economic, competitive and industry conditions, as well as various legal and other disputes, may prevent us from achieving these financial objectives. Any inability to achieve consistent and sustainable net income and cash flow could result in:

(i) Restrictions on our ability to manage or fund our existing operations, which could result in a material and adverse effect on our future results of operations and financial condition.

(ii) Unwillingness on the part of the group of lenders that provide our CS credit agreement to do any of the following:

- Provide a waiver or amendment for any covenant violations we may experience in future periods, thereby triggering a default under, or termination of, the revolving credit line and term loan, or
- Approve any other amendments to the CS credit agreement we may seek to obtain in the future.

Any lack of renewal, waiver, or amendment, if needed, could result in the revolving credit line and CS term loan becoming unavailable to us and any amounts outstanding becoming immediately due and payable. In the case of our borrowings at June 30, 2011, this would mean $99.1 million could become immediately payable.

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

Any of the above mentioned items, individually or in combination, could have a material and adverse effect on our results of operations, available cash and cash flows, financial condition, access to capital and liquidity.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

Our discussion and analysis of the financial condition and results of operations is based on the accompanying 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 except for the estimated fair value of assets acquired in a business combination described below. These critical accounting estimates and policies have been disclosed in our Annual Report on Form 10-K for the year ended March 31, 2011 filed with the Securities and Exchange Commission on June 14, 2011.

Fair Value of Assets Acquired in a Business Combination

Application of the various accounting principles related to the fair value measurement of certain assets acquired in a business combination are critical accounting estimates because there are matters that are inherently uncertain when the estimate is made, different estimates reasonably could have been used and changes in the estimate that are reasonably possible could materially impact the resulting valuation and the financial statements. Judgments were required to determine fair values of amortizable intangible assets, in-process research and development and the resulting amount of goodwill. Significant estimates and assumptions included:

- Planned product roadmaps, including the primary feature sets of new products;
- Expected efforts and associated costs required to integrate technologies acquired into new products;
- Assessed importance of in-process research and development to our overall development plan;
- Estimated values and rates of a market participant;
- Estimated future cash flows of current and future products; and
- Estimated discount rate applied to future cash flows.

In addition, the estimated future life of purchased technology intangibles impacts future financial statements. We believe the assumptions and estimates used and the resulting balances are reasonable; however, actual results may differ from these estimates under different assumptions or conditions.

RECENT ACCOUNTING PRONOUNCEMENTS

In the first quarter of fiscal 2012, we adopted the goodwill impairment guidance for reporting units with zero or negative carrying amounts and adopted the guidance for disclosure of supplementary pro forma information for business combinations. The adoption of these standards did not have an impact on our financial position or results of operations, other than additional disclosures. For information regarding our assessment of other recent accounting pronouncements, refer to Note 2 “Significant Accounting Policies; New Accounting Standards.”

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Our cash equivalents consisted solely of money market funds during the three months ended June 30, 2011. During the first quarter of fiscal 2012, interest rates on these funds were under 1.0% and we earned negligible amounts in interest income.

Interest accrues on our CS term loan at our option, based on either, a prime rate plus a margin of 2.5%, or a three month LIBOR rate plus a margin of 3.5%. A hypothetical 100 basis point increase in interest rates would increase interest expense $0.3 million.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures. Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective.

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

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

YOU SHOULD CAREFULLY CONSIDER THE RISKS DESCRIBED BELOW, TOGETHER WITH ALL OF THE OTHER INFORMATION INCLUDED IN THIS QUARTERLY REPORT ON FORM 10-Q. THE RISKS AND UNCERTAINTIES DESCRIBED BELOW ARE NOT THE ONLY ONES FACING QUANTUM. ADDITIONAL RISKS AND UNCERTAINTIES NOT PRESENTLY KNOWN TO US OR THAT ARE CURRENTLY DEEMED IMMATERIAL MAY ALSO IMPAIR OUR BUSINESS AND OPERATIONS. THIS QUARTERLY REPORT ON FORM 10-Q CONTAINS “FORWARD-LOOKING” STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. PLEASE SEE “MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS” FOR ADDITIONAL DISCUSSION OF THESE FORWARD-LOOKING STATEMENTS.

We rely on indirect sales channels to market and sell our branded products. Therefore, the loss of or deterioration in our relationship with one or more of our resellers or distributors, or our inability to establish new indirect sales channels to drive growth of our 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 Avnet, Inc., Ingram Micro, Inc. and others. The success of these sales channels is hard to predict, particularly over time, and we have no purchase commitments or long-term orders from them that assure us of any baseline sales through these channels. Several of our resellers carry competing product lines that they may promote over our products. A reseller might not continue to purchase our products or market them effectively, and each reseller determines the type and amount of our products that it will purchase from us and the pricing of the products that it sells to end user customers. Establishing new indirect sales channels is an important part of our strategy to drive growth of our branded revenue.

Certain of our contracts with our distributors contain "most favored nation" pricing provisions mandating that we offer our products to these customers at the lowest price offered to other similarly situated customers. In addition, sales of our enterprise 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.

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 increasingly 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, such as the DXi-Series, Scalar i6000 and the Scalar i40 and i80 product offerings as well as next generation software such as DXi2.0 and StorNext 4.0. We have devoted and expect to continue to devote considerable management and financial resources to these efforts. We cannot provide assurance that:

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

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

Competition has increased and evolved, and may increasingly intensify, in the tape and disk storage products markets as a result of competitors introducing products based on new technology standards, and merger and acquisition activity, which could materially and adversely affect our business, financial condition and results of operations.

Our disk systems compete with product offerings of EMC Corporation ("EMC"), Hewlett-Packard Company ("HP"), International Business Machines Corporation ("IBM") and NetApp, Inc. ("NetApp"). A number of our competitors also license technology from competing companies such as FalconStor Software, Inc. and Sepaton, Inc. These competitors are aggressively trying to advance and develop new technologies and products to compete against our technologies and products, and we face the risk that customers could choose competitor products over ours due to these features and technologies. Competition in the disk systems market, including deduplication and replication technologies, is characterized by technological innovation and advancement. As a result of competition and new technology standards, our sales or gross margins for disk systems could decline, which could materially and adversely affect our business, financial condition and results of operations.

Our tape automation products primarily compete with product offerings of BDT Products Inc., Dell, Inc. ("Dell"), HP, IBM, and Oracle Corporation ("Oracle"). Increased competition has resulted in decreased prices for tape automation products and product offerings that incorporate new features and technologies. 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.

Our devices, which include tape drives and removable hard drives, compete with companies that develop, manufacture, market and sell similar products. The principal competitors for our devices include HP and IBM. Competition and industry consolidation has resulted in decreased prices and increasingly commoditized 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 materially and adversely impact our business, financial condition and results of operations.

Additionally, the competitive landscape could change due to merger and acquisition activity in the storage industry, such as consolidations in prior years resulting from the purchase of Sun Microsystems, Inc. by Oracle and the acquisition of Data Domain, Inc. (“Data Domain”) by EMC. Transactions such as these may impact us in a number of ways. For instance, they could result in:

- Smaller number of competitors having greater resources and becoming more competitive with us;
- Companies that we have not historically competed against entering into one or more of our primary markets and increasing competition in that market(s); and
- Customers that are also competitors becoming more competitive with us and/or reducing their purchase of our products.

These transactions also create uncertainty and disruption in the market, given that it is often unknown whether a pending transaction will be completed, the timing of such a transaction, and its degree of impact. Given these factors and others, such merger and acquisition activity may materially and adversely impact our business, financial condition and results of operations.

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

We derive the majority of our revenue from products that incorporate some form of tape technology and we expect to continue to derive a majority of our revenue from these products 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. Our tape products are increasingly challenged by products using alternative technologies, such as VTL, standard disk arrays and NAS. If disk products gain comparable or superior market acceptance, or their purchase prices decline, the competition resulting from these products would increase as our tape customers migrate toward them.

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.

A large percentage of our sales come from a few customers, some of which are also competitors, and these customers generally have no minimum or long-term purchase commitments. The loss of, or a significant reduction in demand from, one or more key customers could materially and adversely affect our business, financial condition and operating results.

Our sales have been and continue to be concentrated among a few customers. For example, sales to our top five customers in fiscal 2011 represented 33% of total revenue. This sales concentration does not include revenues from sales of our media that our licensees sold to these customers, for which we earn royalty revenue. Furthermore, customers are not obligated to purchase any minimum product volume and our relationships with customers are terminable at will. As an example, in fiscal 2011, sales to Dell contributed approximately 10% of our revenue, a decline from prior years. If we experience further declines in revenue from Dell or any of our other large customers, we could be materially and adversely affected. In addition, certain of our large customers are also our competitors, and such customers could decide to reduce or terminate their purchases of our products for competitive reasons.

Many of our tape and disk products are primarily incorporated into larger storage systems or solutions that are marketed and sold to end users by our large OEM customers as well as our value added resellers, channel partners and other distributors. Because of this, we have limited market access to these end users, limiting our ability to reach and influence their purchasing decisions. These market conditions further our reliance on these OEM and other large customers 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.

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.

Our capital structure includes debt, which has corresponding debt service obligations and our Credit Suisse senior credit agreement contains various operating and financial covenants that limit our discretion in the operation of our business. Unless we are able to generate sufficient cash flows from operations to meet these debt obligations, our business, financial condition and operating results could be materially and adversely affected.

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 includes:

- Requiring that we dedicate a significant portion of our cash flow from operations and other capital resources to debt service, thereby reducing our ability to fund working capital, capital expenditures, research and development and other cash requirements;
- Making it more difficult or impossible for us to make payments on other indebtedness or obligations;
- Increasing our vulnerability to adverse economic and industry conditions;
- Limiting our flexibility in planning for, or reacting to, changes and opportunities in the markets in which we compete, such as limiting our ability to engage in mergers and acquisitions activity, which may place us at a competitive disadvantage; and
- Limiting our ability to incur additional debt on acceptable terms, if at all.

Our ability to meet our debt service obligations and fund our working capital, capital expenditures, acquisitions, research and development and other general corporate needs depends upon our ability to generate sufficient cash flow from operations. We cannot provide assurance that we will generate sufficient cash flow from operations to service these debt obligations, or that future borrowings or equity financing will be available to us. Such a failure to repay our debt obligations when due would result in default under our loan agreements. Any such inability to meet our debt obligations could therefore have a material and adverse effect on our business, financial condition and results of operations.

Our Credit Suisse credit agreement ("CS credit agreement") contains numerous restrictive covenants that require us to comply with and maintain certain financial tests and ratios, as well as restrict our ability to:

- Incur debt;
- Incur liens;
- Make acquisitions of businesses or entities or sell certain assets;
- Make investments, including loans, guarantees and advances;

- Make capital expenditures beyond a certain threshold;
- Engage in transactions with affiliates;
- Pay dividends or engage in stock repurchases; and
- Enter into certain restrictive agreements.

Our ability to comply with covenants contained in this credit agreement may be affected by events beyond our control, including prevailing economic, financial and industry conditions. In prior years, we violated certain financial covenants under a prior credit agreement and received waivers or amendments for such violations. Even if we are able to comply with all covenants, the restrictions on our ability to operate our business could harm our business by, among other things, limiting our ability to take advantage of financings, mergers, acquisitions and other corporate opportunities.

Our CS credit agreement is 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 lenders would have a right to foreclose on our assets in order to satisfy our obligations under the CS credit agreement. Any such action on the part of the lenders against us could have a materially adverse impact on our business, financial condition and results of operations.

Our royalties, branded software and OEM deduplication software revenues are relatively profitable and can significantly impact total company profitability. A significant decline in royalty, branded software or OEM deduplication software revenues could materially and adversely affect our business, financial condition and operating results.

We receive royalty revenue based on tape media cartridges sold by Fujifilm Corporation, Imation Corporation, Hitachi Ltd., Maxell Limited, Sony Corporation and TDK Corporation. Under our license agreements with these companies, each of the licensees determines the pricing and number of units of tape media cartridges that it sells. Our royalty revenue varies depending on the level of sales of the various media cartridge offerings sold by the licensees and other factors, including:

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

Our media royalties depend on royalty rates and the quantity of media consumed in the market. We do not control licensee sales of these tape media cartridges. Reduced royalty rates, or a reduced installed device base using tape media cartridges, would result in further reductions in our royalty revenue and could reduce gross margins. This could materially and adversely affect our business, financial condition and results of operations.

Our branded software revenues are also dependent on many factors, including the success of competitive offerings, our ability to execute on our product roadmap and our effectiveness at marketing and selling our branded software solutions directly or through our channel partners.

Our OEM deduplication software revenues also depend on many factors, including the success of competitive offerings, our ability to execute on our product roadmap with our OEM deduplication software partners, the effort of our OEM deduplication software partners in marketing and selling the resulting products, the market acceptance of the resulting products and changes in the competitive landscape such as that which occurred with EMC’s purchase of Data Domain. Our relationship with EMC changed from partner to competitor in deduplication as a result of their acquisition of Data Domain. Following this acquisition, except for the first quarter of fiscal 2011 when significant revenue was recognized in accordance with contractual requirements, our OEM deduplication software revenue has significantly declined, which has negatively impacted our results.

We have taken considerable steps towards reducing our cost structure and may take further cost reduction actions. The steps we have taken and may take in the future may not reduce our cost structure to a level appropriate in relation to our future sales and therefore, these anticipated cost reductions may be insufficient to result in consistent profitability.

In the last several years, we have recorded significant restructuring charges and made cash payments in order to reduce our cost of sales and operating expenses to rationalize our operations following past acquisitions, to respond to adverse economic and industry conditions and from strategic management decisions. We may take future steps to further reduce our operating costs, including future cost reduction steps or restructurings in response to strategic decisions, adverse changes in our business or industry or future acquisitions. We may be unable to reduce our cost of sales and operating expenses at a rate and to a level appropriate in relation to our future sales, which may adversely affect our business, financial condition and operating results.

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

We may be subject to increased turnover in our employee base or the inability to fill open headcount requisitions due to 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 enough to completely realize the expected fulfillment of their job responsibilities. Either of these situations could impair or delay our ability to realize operational and strategic objectives and cause increased expenses and lost sales opportunities.

Economic or other business factors may lead us to further write down the carrying amount of our goodwill or long-lived assets, such as the $339 million goodwill impairment charge taken in fiscal 2009, which could have a material and adverse effect on our results of operations.

We evaluate our goodwill for impairment annually during the fourth quarter of our fiscal year, or more frequently when indicators of impairment are present. Long-lived assets are reviewed for impairment whenever events or circumstances indicate impairment might exist. We continue to monitor relevant market and economic conditions, including the price of our stock, and perform appropriate impairment reviews when conditions deteriorate such that we believe the value of our goodwill could be further impaired or an impairment exists in our long-lived assets. It is possible that conditions 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. 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, Mexico, Singapore and Taiwan. Because of these operations, we are subject to a number of risks including:

- Shortages in component parts and raw materials;
- Import and export and trade regulation changes that could erode our profit margins or restrict our ability to transport our products;
- The burden and cost of complying with foreign and U.S. laws governing corporate conduct outside the U.S.;
- Adverse movement of foreign currencies against the U.S. dollar (the currency in which our results are reported) and global economic conditions generally;
- Inflexible employee contracts and employment laws that may make it difficult to terminate or change the compensation structure for employees in some foreign countries in the event of business downturns;
- Potential restrictions on the transfer of funds between countries;
- Political, military, social and infrastructure risks, especially in emerging or developing economies;
- Import and export duties and value-added taxes; and
- Natural disasters, including earthquakes, typhoons and tsunamis.

Any or all of these risks could have a material adverse effect on our business.

Our quarterly operating results could fluctuate significantly, and past quarterly operating results should not be used to predict future performance.

Our quarterly operating results have fluctuated significantly in the past and could fluctuate significantly in the future. As a result, our quarterly operating results should not be used to predict future performance. Quarterly operating results could be materially and adversely affected by a number of factors, including, but not limited to:

- Failure to complete shipments in the last month of a quarter during which a substantial portion of our products are typically shipped;
- Customers canceling, reducing, deferring or rescheduling significant orders as a result of excess inventory levels, weak economic conditions or other factors;
- Customer fiscal year-ends and budget availability impacting customer demand for our products;
- 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 and other large customers; and
- Increased competition.

If we fail to meet our projected quarterly results, our business, financial condition and results of operations may be materially and adversely affected.

If we fail to protect our intellectual property or if others use our proprietary technology without authorization, our competitive position may suffer.

Our future success and ability to compete depends in part on our proprietary technology. We rely on a combination of copyright, patent, trademark, and trade secrets laws and nondisclosure agreements to establish and protect our proprietary technology. As of March 31, 2011, we held 517 U.S. patents and had 86 U.S. patent applications pending. However, we cannot provide assurance that patents will be issued with respect to pending or future patent applications that we have filed or plan to file or that our patents will be upheld as valid or will prevent the development of competitive products or that any actions we have taken will adequately protect our intellectual property rights. We generally enter into confidentiality agreements with our employees, consultants, customers, potential customers and others as required, in which we strictly limit access to, and distribution of, our software, and further limit the disclosure and use of our proprietary information.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain or use our products or technology. Enforcing our intellectual property rights can sometimes only be accomplished through the use of litigation, such as in the litigation with Riverbed Technology, Inc. settled in fiscal 2009. Our competitors may also independently develop technologies that are substantially equivalent or superior to our technology. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the U.S.

Because we may order components from suppliers in advance of receipt of customer orders for our products which include these components, we could face a material inventory risk, which could have a material and adverse effect on our results of operations and cash flows.

Although we use third parties to manufacture certain of our products, we also manufacture products in-house. Managing our in-house manufacturing capabilities presents a number of risks that could materially and adversely affect our financial condition. For instance, as part of our component planning, we place orders with or pay certain suppliers for components in advance of receipt of customer orders. We occasionally enter into negotiated orders with vendors early in the manufacturing process of our 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 of risks as a result of these relationships, including, among others:

- Sole source of product supply
  In many cases, our business partner may be the sole source of supply for the products or parts they manufacture, or the services they provide, for us. Because we are relying on one supplier, we are at greater risk of experiencing shortages, reduced production capacity or other delays in customer deliveries that could result in customer dissatisfaction, lost sales and increased expenses, each of which could materially damage customer relationships and result in lost revenue.
- Cost and purchase commitments
  We may not be able to control the costs for the products our business partners manufacture for us or the services they provide to us. They procure inventory to build our products based upon a forecast of customer demand that we provide. We could be responsible for the financial impact on the contract manufacturer, supplier or service provider of any reduction or product mix shift in the forecast relative to materials that they had already purchased under a prior forecast. Such a variance in forecasted demand could require us to pay them for finished goods in excess of current customer demand or for excess or obsolete inventory and generally incur higher costs. As a result, we could experience reduced gross margins and operating losses based on these purchase commitments. With respect to service providers, although we have contracts for most of our third party repair service vendors, the contract period may not be the same as the underlying service contract with our customer. In such cases, we face risks that the third party service provider may increase the cost of providing services over subsequent periods contracted with our customer.

- Financial condition and stability

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

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

Any or all of these risks could have a material adverse effect on our business. In the past we have successfully transitioned products or component supply from one supplier to another existing supplier of different products or to our own facilities without significant financial or operational impact, but there is no guarantee of our continued ability to do so.

If we do not successfully manage the changes that we have made and may continue to make to our infrastructure and management, our business could be disrupted, and that could adversely impact our results of operations and financial condition.

Managing change is an important focus for us. In recent years, we have implemented several significant initiatives involving our sales and marketing, engineering and operations organizations, aimed at increasing our efficiency and better aligning these groups with our corporate strategy. In addition, we have reduced headcount to streamline and consolidate our supporting functions as appropriate following past acquisitions and in response to market or competitive conditions. Our inability to successfully manage the changes that we implement, and detect and address issues as they arise could disrupt our business and adversely impact our results of operations and financial condition.

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

The economic crisis in the U.S. and global financial markets had a material and adverse impact on our business and our financial condition, including reduced demand for our products and concerns about our ability to access capital markets to refinance certain debt. The initial impact of this economic crisis was reflected in our results for the second quarter of fiscal 2009. We continue to face risks related to the slow economic recovery and concerns of a return to a recession, including the impact to our results in the first half of fiscal 2011 from economic conditions in Europe. For example, U.S. government deficit spending and debt levels, as well as concerns about the U.S. debt ceiling and credit rating as well as the politics impacting these, could negatively impact the U.S. and global economies and adversely affect our financial results. Uncertainty about economic conditions poses a risk as businesses may further reduce or postpone spending in response to reduced budgets, tight credit, negative financial news and declines in income or asset values which could adversely affect our business, financial condition and results of operations. In addition, our ability to access capital markets may be restricted which could have an impact on our ability to react to changing economic and business conditions and could also adversely affect our results of operations and financial condition.

Our stock price could become more volatile if certain institutional investors were to increase or decrease the number of shares they own. In addition, there are other factors and events that could affect the trading prices of our common stock.

Five institutional investors owned approximately 37% of our common stock as of March 31, 2011. 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, 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. The opposite has also occurred whereby a shareholder purchases a significant equity position, creating demand for our common stock and an increased stock price.

Trading prices of our common stock may fluctuate in response to a number of other events and factors, such as:

- General economic conditions;
- Changes in interest rates;
- Fluctuations in the stock market in general and market prices for technology companies in particular;
- Quarterly variations in our operating results;
- New products, services, innovations and strategic developments by our competitors or us, or business combinations and investments by our competitors or us;
- Changes in financial estimates by us or securities analysts and recommendations by securities analysts;
- Changes in our capital structure, including issuance of additional debt or equity to the public; and
- Strategic acquisitions.

Any of these events and factors may cause our stock price to rise or fall and may adversely affect our business and financing opportunities.

Our design and production processes are subject to safety and environmental regulations which could lead to increased costs, or otherwise adversely affect our business, financial condition and results of operations.

We are subject to a variety of laws and regulations relating to, among other things, the use, storage, discharge and disposal of materials and substances used in our facilities and manufacturing processes as well as the safety of our employees and the public. Directives first introduced in the European Union impose a “take back” obligation on manufacturers for the financing of the collection, recovery and disposal of electrical and electronic equipment and restrict the use of certain potentially hazardous materials, including lead and some flame retardants, in electronic products and components. Other jurisdictions in the U.S. and internationally have since introduced similar requirements, and we anticipate that future regulations might further restrict allowable materials in our products, require the establishment of additional recycling or take back programs or mandate the measurement and reduction of carbon emissions into the environment. We have implemented procedures and will likely continue to introduce new processes to comply with current and future safety and environmental legislation. However, measures taken now or in the future to comply with such legislation may adversely affect our manufacturing or personnel costs or product sales by requiring us to acquire costly equipment or materials, redesign production processes or to incur other significant expenses in adapting our manufacturing programs or waste disposal and emission management processes. Furthermore, safety or environmental claims or our failure to comply with present or future regulations could result in the assessment of damages or imposition of fines against us, or the suspension of affected operations, which could have an adverse effect on our business, financial condition and results of operations.

We are subject to many laws and regulations, and violation of or changes in those requirements could materially and adversely affect our business.

We are subject to numerous U.S. and international laws regarding corporate conduct, fair competition, preventing corruption and import and export practices, including requirements applicable to U.S. government contractors. While we maintain a rigorous corporate ethics and compliance program, we may be subject to increased regulatory scrutiny, significant monetary fines or penalties, suspension of business opportunities or loss of jurisdictional operating rights as a result of any failure to comply with those requirements. We may also be exposed to potential liability resulting from our business partners’ violation of these requirements. In addition, U.S. regulatory agencies have recently introduced new enforcement efforts that may proactively seek conduct-related information from companies operating in certain targeted industries or locations, without regard for whether potential violations have been identified. If we were to receive such an information request, we may incur increased personnel and legal costs in order to adequately review and respond to the request. Further our U.S. and international business models are based on currently applicable regulatory requirements and exceptions. Changes in those requirements or exceptions could necessitate changes to our business model. Any of these consequences could materially and adversely impact our business and operating results.

We may be sued by our customers as a result of failures in our products.

We face potential liability for performance problems of our products because our end users employ our storage technologies for the storage and backup of important data and to satisfy regulatory requirements. Although we maintain technology errors and omissions insurance, our insurance may not cover potential claims of this type or may not be adequate to indemnify us for all liability that may be imposed. Any imposition of liability or accrual of litigation costs that is not covered by insurance or is in excess of our insurance coverage could harm our business.

In addition, we could potentially face claims for product liability from our customers if our products cause property damage or bodily injury. Although we maintain general liability insurance, our insurance may not cover potential claims of this type or may not be adequate to indemnify us for all liability that may be imposed. Any imposition of liability or accrual of litigation costs that is not covered by insurance or is in excess of our insurance coverage could harm our business.

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

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

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

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

From time to time we 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 being recognized in the periods when we determine the liabilities have reduced. Conversely, if events occur which indicate that payments of these amounts will be greater than estimated, then tax charges and additional liabilities would be recorded. In particular, various foreign jurisdictions could challenge the characterization or transfer pricing of certain intercompany transactions. In the event of an unfavorable outcome of such challenge, there exists the possibility of a material tax charge and adverse impact on the results of operations in the period in which the matter is resolved or an unfavorable outcome becomes probable and estimable.

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

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

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

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

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

On June 13, 2011, we entered into an Agreement and Plan of Merger to acquire Pancetera Software, Inc. We paid approximately $11.0 million of aggregate merger consideration, comprised of approximately $8.2 million in cash and $2.8 million in Quantum common stock. We issued 937,931 shares of our common stock to the stockholders of Pancetera Software, Inc. In addition, we assumed the unvested restricted shares of Pancetera Software, Inc. in exchange for cash and 33,484 shares of Quantum common stock. Based on representations and warranties made by the stockholders of Pancetera Software, Inc., we issued our common stock in a transaction exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(2) and Regulation D Rule 506.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. RESERVED

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

Dated: August 9, 2011

QUANTUM CORPORATION

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit(s)	Filing Date
3.1	Amended and Restated Certificate of Incorporation of Registrant.	8-K	001-13449	3.1	August 16, 2007
3.2	Amended and Restated By-laws of Registrant, as amended.	8-K	001-13449	3.1	December 5, 2008
3.3	Certification of Amendment to the Bylaws of Quantum Corporation, as adopted on January 20, 2010.	8-K	001-13449	3.1	January 26, 2010
4.1	Stockholder Agreement, dated as of October 28, 2002, by and between Registrant and Private Capital Management.	10-Q	001-13449	4.2	November 13, 2002
4.2	Indenture for 3.50% Convertible Senior Subordinated Notes due 2015, between the Registrant and U.S. Bank National Association, as trustee, dated November 15, 2010, including the form of 3.50% Convertible Senior Subordinated Note due 2015.	8-K	001-13449	4.1	November 15, 2010
10.1	Employment offer letter, dated March 31, 2011, between Registrant and Jon W. Gacek.*	8-K	001-13449	10.1	April 5, 2011
10.2	Offer letter, dated March 31, 2011, between Registrant and Richard E. Belluzzo.*	8-K	001-13449	10.2	April 5, 2011
10.3	Chief Executive Change of Control Agreement between Registrant and Jon W. Gacek.*	8-K	001-13449	10.3	April 5, 2011
10.4	Executive Chairman Change of Control Agreement between Registrant and Richard E. Belluzzo.*	8-K	001-13449	10.4	April 5, 2011
10.5	Form of Officer Change of Control Agreement between Registrant and each of Registrant's Executive Officers (Other than the Executive Chairman and the CEO).*	8-K	001-13449	10.5	April 5, 2011
10.6	Offer Letter, dated May 2, 2011, between Registrant and David E. Roberson.*	8-K	001-13449	10.1	May 10, 2011
10.7	Form of Amended and Restated Director Change of Control Agreement between Registrant and the Directors (Other than the Executive Chairman and the CEO).*	8-K	001-13449	10.2	May 10, 2011
10.8	Agreement and Plan of Merger by and between Registrant, Pancetera Software, Inc., Quarry Acquisition Corporation and Henrik Rosendahl as the stockholder representative, dated June 13, 2011.‡				
10.9	Pancetera Software, Inc. Amended and Restated 2008 Stock Option and Stock Purchase Plan.*	S-8	333-175208	4.1	June 29, 2011
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.