

QUANTUM CORP /DE/
Form 10-Q
November 07, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period from _____ to _____
Commission File Number 1-13449

QUANTUM CORPORATION

Incorporated Pursuant to the Laws of the State of Delaware
IRS Employer Identification Number 94-2665054
224 Airport Parkway, Suite 300, San Jose, California 95110
(408) 944-4000

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

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

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

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

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

As of the close of business on October 31, 2014, there were 255,495,188 shares of Quantum Corporation's common stock issued and outstanding.

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2014	March 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 105,031	\$99,125
Restricted cash	2,685	2,760
Accounts receivable, net of allowance for doubtful accounts of \$232 and \$88, respectively	92,882	101,605
Manufacturing inventories	36,200	34,815
Service parts inventories	24,627	25,629
Other current assets	10,382	10,161
Total current assets	271,807	274,095
Long-term assets:		
Property and equipment, less accumulated depreciation	16,261	17,574
Intangible assets, less accumulated amortization	1,051	3,911
Goodwill	55,613	55,613
Other long-term assets	9,451	10,605
Total long-term assets	82,376	87,703
	\$ 354,183	\$361,798
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	\$ 42,157	\$41,792
Accrued warranty	5,290	6,116
Deferred revenue, current	88,088	98,098
Accrued restructuring charges, current	3,424	4,345
Accrued compensation	26,873	25,036
Other accrued liabilities	18,941	15,168
Total current liabilities	184,773	190,555
Long-term liabilities:		
Deferred revenue, long-term	38,197	40,054
Accrued restructuring charges, long-term	3,577	4,023
Convertible subordinated debt	203,735	203,735
Other long-term liabilities	10,103	10,831
Total long-term liabilities	255,612	258,643
Stockholders' deficit:		
Common stock, \$0.01 par value; 1,000,000 shares authorized; 255,479 and 250,410 shares issued and outstanding at September 30, 2014 and March 31, 2014, respectively	2,555	2,504
Capital in excess of par	448,579	443,547
Accumulated deficit	(543,147)	(540,071)

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Accumulated other comprehensive income	5,811	6,620
Total stockholders' deficit	(86,202)	(87,400)
	\$ 354,183	\$361,798

See accompanying Notes to Condensed Consolidated Financial Statements.

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QUANTUM CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2014	2013	2014	2013
Product revenue	\$85,216	\$ 84,756	\$165,410	\$ 170,605
Service revenue	39,157	36,194	77,657	72,686
Royalty revenue	10,733	10,529	20,167	36,037
Total revenue	135,106	131,479	263,234	279,328
Cost of product revenue	55,593	57,882	110,501	116,665
Cost of service revenue	17,584	17,116	35,278	36,347
Restructuring charges related to cost of revenue	—	89	—	89
Total cost of revenue	73,177	75,087	145,779	153,101
Gross margin	61,929	56,392	117,455	126,227
Operating expenses:				
Research and development	15,157	16,359	29,711	33,053
Sales and marketing	28,218	29,995	55,923	60,153
General and administrative	14,085	14,795	28,456	29,484
Restructuring charges	624	208	1,489	2,767
Total operating expenses	58,084	61,357	115,579	125,457
Gain on sale of assets	—	—	462	—
Income (loss) from operations	3,845	(4,965)	) 2,338	770
Other income and expense	215	46	90	421
Interest expense	(2,456)	) (2,440)	) (4,900)	) (4,879)
Income (loss) before income taxes	1,604	(7,359)	) (2,472)	) (3,688)
Income tax provision	356	534	604	924
Net income (loss)	\$1,248	\$ (7,893)	) \$(3,076)	) \$(4,612)
Basic and diluted net income (loss) per share	\$0.00	\$ (0.03)	) \$(0.01)	) \$(0.02)
Weighted average shares:				
Basic	254,760	247,074	252,724	246,569
Diluted	257,579	247,074	252,724	246,569

See accompanying Notes to Condensed Consolidated Financial Statements.

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QUANTUM CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2014	2013	2014	2013
Net income (loss)	\$ 1,248	\$ (7,893)	\$ (3,076)	\$ (4,612)
Other comprehensive income (loss), net of taxes:				
Foreign currency translation adjustments	(1,101)	464	(1,092)	395
Net unrealized gain (loss) on revaluation of	225	(98)	283	(162)
long-term intercompany balances				
Total other comprehensive income (loss)	(876)	366	(809)	233
Total comprehensive income (loss)	\$ 372	\$ (7,527)	\$ (3,885)	\$ (4,379)

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended	
	September 30, 2014	September 30, 2013
Cash flows from operating activities:		
Net loss	\$(3,076	) \$(4,612
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	4,272	5,671
Amortization of intangible assets	3,377	4,449
Amortization of debt issuance costs	829	816
Service parts lower of cost or market adjustment	2,007	6,659
Gain on sale of assets	(462) —
Deferred income taxes	(50	) 59
Share-based compensation	5,737	6,847
Other non-cash	(302) —
Changes in assets and liabilities, net of effect of acquisition:		
Accounts receivable	8,723	10,520
Manufacturing inventories	(3,213	) 185
Service parts inventories	(687	) 1,688
Accounts payable	390	(14,245
Accrued warranty	(826	) (1,031
Deferred revenue	(11,867	) (6,449
Accrued restructuring charges	(1,393	) 359
Accrued compensation	2,151	(5,195
Other assets and liabilities	2,941	2,507
Net cash provided by operating activities	8,551	8,228
Cash flows from investing activities:		
Purchases of property and equipment	(1,912	) (3,226
Proceeds from sale of assets	462	—
Change in restricted cash	(69	) (117
Purchases of other investments	—	(534
Return of principal from other investments	104	—
Payment for business acquisition, net of cash acquired	(517) —
Net cash used in investing activities	(1,932	) (3,877
Cash flows from financing activities:		
Payment of taxes due upon vesting of restricted stock	(2,187	) (1,770
Proceeds from issuance of common stock	1,533	2,247
Net cash provided by (used in) financing activities	(654	) 477
Effect of exchange rate changes on cash and cash equivalents	(59	) 25
Net increase in cash and cash equivalents	5,906	4,853
Cash and cash equivalents at beginning of period	99,125	68,976
Cash and cash equivalents at end of period	\$105,031	\$73,829
Supplemental disclosure of cash flow information:		
Purchases of property and equipment included in accounts payable	\$237	\$758
See accompanying Notes to Condensed Consolidated Financial Statements.		

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QUANTUM CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1: BASIS OF PRESENTATION

Quantum Corporation (“Quantum”, the “Company”, “us” or “we”), founded in 1980, is a leading expert in scale-out storage, archive and data protection, providing solutions for capturing, sharing and preserving digital assets over the entire data lifecycle. Our customers, ranging from small businesses to major enterprises, trust us to address their most demanding data workflow challenges. We provide solutions for storing and protecting information in physical, virtual and cloud environments that are designed to help customers Be Certain™ they have an end-to-end storage foundation to maximize the value of their data by making it accessible whenever and wherever needed, retaining it indefinitely and reducing total cost and complexity. We work closely with a broad network of distributors, value-added resellers (“VARs”), direct marketing resellers (“DMRs”), original equipment manufacturers (“OEMs”) and other suppliers to meet customers’ evolving needs. Our stock is traded on the New York Stock Exchange under the symbol QTM.

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of Quantum and our wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated. The interim financial statements reflect all adjustments, consisting of normal recurring adjustments that, in the opinion of management, are necessary for a fair statement of the results for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for the full fiscal year. The Condensed Consolidated Balance Sheet as of March 31, 2014 has been derived from the audited financial statements at that date, but it does not include all disclosures required by accounting principles generally accepted in the United States for complete financial statements. The accompanying financial statements should be read in conjunction with the audited Consolidated Financial Statements for the fiscal year ended March 31, 2014 included in our Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on June 6, 2014.

Recently Adopted Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (“ASU 2013-11”). ASU 2013-11 requires an entity to present an unrecognized tax benefit as a reduction of a deferred tax asset for a net operating loss (“NOL”) carryforward, or similar tax loss or tax credit carryforward, rather than as a liability when (1) the uncertain tax position would reduce the NOL or other carryforward under the tax law of the applicable jurisdiction and (2) the entity intends to use the deferred tax asset for that purpose. ASU 2013-11 does not require new recurring disclosures. ASU 2013-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. We adopted ASU 2013-11 prospectively in the first quarter of fiscal 2015. Adoption did not impact our statements of financial position or results of operations.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”). ASU 2014-09 requires entities to recognize revenue through the application of a five-step model, which includes identification of the contract, identification of the performance obligations, determination of the transaction price, allocation of the transaction price to the performance obligations and recognition of revenue as the entity satisfies the performance obligations. ASU 2014-09 will become effective for us beginning April 1, 2017, or fiscal 2018. We are currently evaluating the guidance to determine the potential impact on our financial condition, results of operations, cash flows and financial statement disclosures.

In June 2014, the FASB issued ASU No. 2014-12, Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (“ASU 2014-12”). ASU 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period is treated as a performance condition. ASU 2014-12 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. We plan to adopt ASU 2014-12 prospectively in the first quarter of fiscal 2017 and do not anticipate adoption will impact our statements of

financial position or results of operations.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements – Going Concern (Topic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern (“ASU 2014-15”). ASU 2014-15 requires that management assess an entity’s ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and for annual periods and interim periods thereafter. We plan to adopt ASU 2014-15 as of the end of our fiscal year ending March 31, 2017 and do not anticipate adoption will impact our statements of financial position or results of operations.

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During the fourth quarter of fiscal 2014, we identified an error related to certain allowances recorded for estimated future price adjustments with a cumulative \$0.7 million overstatement of revenue and accounts receivable at April 1, 2013. Revenue for the second quarter and first six months of fiscal 2014 was understated by less than \$0.1 million and overstated by \$0.1 million, respectively, as a result of this error. We also identified an error related to straight-line rent expense that had accumulated since fiscal 2006, resulting in a \$2.1 million cumulative overstatement of rent expense and total other accrued liabilities and other long-term liabilities at April 1, 2013. General and administrative expense was overstated by less than \$0.1 million for both the second quarter and first six months of fiscal 2014.

In the fourth quarter of fiscal 2014, we evaluated these errors in accordance with the Securities and Exchange Commission ("SEC") Staff Accounting Bulletin No. 99 and determined that the cumulative impact of the errors was not material to our results of operations, financial position or cash flows in our previously issued financial statements and therefore, amendments of previously filed reports are not required. However, if the entire correction of the errors had been recorded during the fourth quarter of fiscal 2014, the impact would have been significant to the Consolidated Statement of Operations for the quarter ended March 31, 2014. As a result, we revised our prior period financial statements in accordance with the SEC's Staff Accounting Bulletin No. 108.

We believe the revisions are not material to the Condensed Consolidated Statements of Operations, Condensed Consolidated Statements of Comprehensive Income (Loss) or Condensed Consolidated Statements of Cash Flows for the second quarter or first six months ended September 30, 2013.

NOTE 3: ACQUISITION

On July 29, 2014, we acquired a majority of the assets of Symform, Inc., a Washington corporation, for cash of approximately \$0.5 million. The assets, consisting primarily of Symform technology, were recorded as purchased technology and are expected to enhance our cloud software capabilities and service offerings for data protection and scale-out storage. This acquisition was recorded as a business combination and the effect was not material to our financial position, results of operations or cash flows.

NOTE 4: FAIR VALUE

Our assets measured and recorded at fair value on a recurring basis consist of money market funds, which are included in cash and cash equivalents in our Condensed Consolidated Balance Sheets, and are valued using quoted market prices (level 1 fair value measurements) at the respective balance sheet dates (in thousands):

	As of	
	September 30, 2014	March 31, 2014
Money market funds	\$74,703	\$93,077

We did not record impairments to any non-financial assets in the second quarter or first six months of fiscal 2015 or 2014. We do not have any non-financial liabilities measured and recorded at fair value on a non-recurring basis. Our financial liabilities were comprised primarily of convertible subordinated debt at September 30, 2014 and March 31, 2014. The carrying value and fair value based on quoted market prices in less active markets (level 2 fair value measurement) were as follows (in thousands):

	As of		As of	
	September 30, 2014		March 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Convertible subordinated debt	\$203,735	\$204,298	\$203,735	\$203,820

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NOTE 5: INVENTORIES

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

	As of September 30, 2014	March 31, 2014
Manufacturing inventories:		
Finished goods	\$22,346	\$18,069
Work in process	88	1,056
Materials and purchased parts	13,766	15,690
	\$36,200	\$34,815
	As of September 30, 2014	March 31, 2014
Service parts inventories:		
Finished goods	\$16,761	\$17,926
Component parts	7,866	7,703
	\$24,627	\$25,629

NOTE 6: INTANGIBLE ASSETS AND GOODWILL

We evaluate our amortizable and indefinite-lived intangible assets (“long-lived assets”) for impairment whenever indicators of impairment exist. We concluded the carrying amount of our long-lived assets was recoverable and there was no impairment in the second quarter or first six months of fiscal 2015 or 2014. The following provides a summary of the carrying value of intangible assets (in thousands):

	As of September 30, 2014			March 31, 2014		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Purchased technology	\$179,992	\$(178,941)	\$1,051	\$179,475	\$(178,348)	\$1,127
Trademarks	3,900	(3,900)	—	3,900	(3,900)	—
Customer lists	76,019	(76,019)	—	76,019	(73,235)	2,784
	\$259,911	\$(258,860)	\$1,051	\$259,394	\$(255,483)	\$3,911

We evaluate goodwill for impairment annually during the fourth quarter of our fiscal year, or more frequently when indicators of impairment are present. There were no changes to goodwill balances during the second quarter or first six months of fiscal 2015. The following table provides a summary of the goodwill balance at both September 30, 2014 and March 31, 2014 (in thousands):

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

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The quarterly changes in the accrued warranty balance were (in thousands):

	Three Months Ended		Six Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Beginning balance	\$5,898	\$7,015	\$6,116	\$7,520
Additional warranties issued	1,519	1,787	3,247	3,929
Adjustments for warranties issued in prior fiscal years	(243)	) (22	) 140	(82)
Settlements	(1,884)	) (2,291	) (4,213	) (4,878
Ending balance	\$5,290	\$6,489	\$5,290	\$6,489

We warrant our products against certain defects for one to three years. A provision for estimated future costs and estimated returns for credit relating to warranty is recorded when products are shipped and revenue recognized. Our estimate of future costs to satisfy warranty obligations is primarily based on historical trends and, if believed to be significantly different from historical trends, estimates of future failure rates and future costs of repair. Future costs of repair include materials consumed in the repair, labor and overhead amounts necessary to perform the repair. If we determine in a future period, that either actual failure rates or actual costs of repair were to differ from our estimates, we record the impact of those differences in that future period.

NOTE 8: LONG-TERM DEBT

On April 24, 2014, our credit agreement with Wells Fargo (as amended, the “WF credit agreement”) was amended to allow us to use proceeds from the credit agreement to repay our convertible subordinated notes so long as we have a fixed charge coverage ratio of 1.5 and liquidity of \$25 million. The amendment also impacted the available line, maturity date and certain covenants and compliance obligations, which are reflected below.

Under the WF credit agreement, we have the ability to borrow the lesser of \$75 million or the amount of the monthly borrowing base under a senior secured revolving credit facility. The WF credit agreement matures March 29, 2017 so long as an amount sufficient to repay the \$133.7 million of 3.50% convertible subordinated notes due November 15, 2015 is available for borrowing under the WF credit agreement or is deposited in an escrow account prior to August 16, 2015. Otherwise, the WF credit agreement matures on August 16, 2015. Quarterly, we are required to pay a 0.375% commitment fee on undrawn amounts under the revolving credit facility.

The WF credit agreement contains customary covenants, including cross-default provisions, as well as financial covenants. Average liquidity must exceed \$15.0 million each month. The fixed charge coverage ratio is required to be greater than 1.2 for the 12 month period ending on the last day of any month in which the covenant is applicable. This covenant is applicable only in months in which borrowings exceed \$5.0 million at any time during the month. To avoid triggering mandatory field audits and Wells Fargo controlling our cash receipts, we must maintain liquidity of at least \$20.0 million at all times. The fixed charge coverage ratio, average liquidity and liquidity are defined in the WF credit agreement and/or amendments. Certain schedules in the compliance certificate must be filed monthly if borrowings exceed \$5.0 million; otherwise they are to be filed quarterly.

We have letters of credit totaling \$1.0 million, reducing the maximum amount available to borrow by this amount at September 30, 2014. As of September 30, 2014, and during the second quarter and first six months of fiscal 2015, we were in compliance with all covenants and had no outstanding balance on the line of credit.

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NOTE 9: RESTRUCTURING CHARGES

The types of restructuring expense for the three and six months ended September 30, 2014 and September 30, 2013 were (in thousands):

	Three Months Ended		Six Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Severance and benefits	\$(20)	\$108	\$105	\$2,591
Facilities	647	12	1,374	88
Other	(3)	177	10	177
Total	\$624	\$297	\$1,489	\$2,856

In the second quarter and first six months of fiscal 2015, restructuring charges were primarily due to facilities costs as a result of further consolidating our facilities in the U.S. The restructuring charges in the second quarter and first six months of fiscal 2014 were primarily the result of efforts to consolidate manufacturing and service activities with contract manufacturers that were initiated the first quarter of fiscal 2014.

Accrued Restructuring

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

	Three Months Ended September 30, 2014			
	Severance and Benefits	Facilities	Other	Total
Balance as of June 30, 2014	\$498	\$6,915	\$53	\$7,466
Restructuring costs	53	647	—	700
Restructuring charge reversal	(73)	—	(3)	(76)
Cash payments	(230)	(852)	(50)	(1,132)
Other non-cash	—	43	—	43
Balance as of September 30, 2014	\$248	\$6,753	\$—	\$7,001
	Six Months Ended September 30, 2014			
	Severance and Benefits	Facilities	Other	Total
Balance as of March 31, 2014	\$1,574	\$6,724	\$70	\$8,368
Restructuring costs	319	1,374	13	1,706
Restructuring charge reversal	(214)	—	(3)	(217)
Cash payments	(1,431)	(1,647)	(80)	(3,158)
Other non-cash	—	302	—	302
Balance as of September 30, 2014	\$248	\$6,753	\$—	\$7,001
	As of September 30, 2014			
	Severance and Benefits	Facilities	Total	
Estimated timing of future payouts:				
Next twelve months	\$99	\$3,325	\$3,424	
October 2015 through February 2021	149	3,428	3,577	
	\$248	\$6,753	\$7,001	

We anticipate \$0.1 million of severance and benefits will be paid by the end of fiscal 2015 and the remaining \$0.1 million of severance and benefits will be paid by the end of fiscal 2016. Facility restructuring accruals will be paid in accordance with the respective facility lease terms.

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NOTE 10: STOCK INCENTIVE PLANS AND SHARE-BASED COMPENSATION

Share-Based Compensation

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

	Three Months Ended		Six Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Share-based compensation:				
Cost of revenue	\$333	\$523	\$747	\$1,051
Research and development	603	908	1,383	1,776
Sales and marketing	887	1,080	1,797	2,154
General and administrative	846	980	1,810	1,866
	\$2,669	\$3,491	\$5,737	\$6,847
Share-based compensation by type of award:				
Stock options	\$154	\$208	\$311	\$440
Restricted stock	2,315	2,968	5,013	5,706
Stock purchase plan	200	315	413	701
	\$2,669	\$3,491	\$5,737	\$6,847

Stock Incentive Plans - Grants and Fair Value

Stock Options

No stock options were granted during the second quarter or first six months of fiscal 2015 or 2014. The Black-Scholes option pricing model is used to estimate the fair value of stock options.

Restricted Stock

The fair value of restricted stock units ("RSUs") granted is the intrinsic value as of the respective grant date since the RSUs are granted at no cost to the employee. The weighted-average grant date fair value of RSUs granted during the second quarter and first six months of fiscal 2015 was \$1.25. The weighted-average grant date fair values of RSUs granted during the second quarter and first six months of fiscal 2014 were \$1.41 and \$1.40, respectively.

During the second quarter of fiscal 2015, we granted 2.3 million RSUs with performance conditions ("performance RSUs"), and the total fair value of these RSUs at the grant date was \$2.9 million. Performance RSUs will become eligible for vesting based on Quantum achieving certain revenue and operating income targets through the end of fiscal 2015. Share-based compensation expense for performance RSUs is recognized when it is probable that the performance conditions will be achieved. As of September 30, 2014, the amount of share-based compensation expense recognized for the performance RSUs was immaterial.

Stock Purchase Plan

Under the Stock Purchase Plan, rights to purchase shares are typically granted during the second and fourth quarter of each fiscal year. The value of rights to purchase shares granted in the second quarter and first six months of fiscal 2015 and fiscal 2014, respectively, was estimated at the date of the grant using the Black-Scholes option pricing model. The weighted-average grant date fair values and the assumptions used in calculating fair values for the three and six month periods ended September 30, 2014 and 2013 were as follows:

	Three and Six Months Ended	
	September 30, 2014	September 30, 2013
Option life (in years)	0.5	0.5
Risk-free interest rate	0.06	% 0.07
Stock price volatility	32.19	% 47.65
Weighted-average grant date fair value	\$0.30	\$0.47

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Stock Incentive Plans - 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, 2014	7,997	\$ 1.78		
Exercised	(155)	) 0.86		
Forfeited	(99)	) 2.13		
Expired	(1,761)	) 2.69		
Outstanding as of September 30, 2014	5,982	\$ 1.52	2.07	\$ 704
Vested and expected to vest at September 30, 2014	5,977	\$ 1.52	2.06	\$ 704
Exercisable as of September 30, 2014	5,792	\$ 1.49	2.02	\$ 704

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, 2014	12,108	\$ 1.80
Granted	9,519	1.25
Vested	(5,284)	) 2.21
Forfeited	(462)	) 1.52
Nonvested at September 30, 2014	15,881	\$ 1.34

NOTE 11: INCOME TAXES

Income tax provisions for the second quarter and first six months of fiscal 2015 were \$0.4 million and \$0.6 million, respectively, and were \$0.5 million and \$0.9 million for the second quarter and first six months of fiscal 2014, respectively. Income tax provisions for each of these periods reflect expenses for foreign income taxes and state taxes. We have provided a full valuation allowance against our U.S. net deferred tax assets due to our history of net losses, difficulty in predicting future results and our conclusion that we cannot rely on projections of future taxable income to realize the deferred tax assets. Significant management judgment is required in determining our deferred tax assets and liabilities and valuation allowances for purposes of assessing our ability to realize any future benefit from our net deferred tax assets. We intend to maintain this valuation allowance until sufficient positive evidence exists to support a reversal or decrease in this allowance. Future income tax expense will be reduced to the extent that we have sufficient positive evidence to support a reversal of, or decrease in, our valuation allowance.

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NOTE 12: NET INCOME (LOSS) PER SHARE

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

	Three Months Ended		Six Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2014	2013	2014	2013
Net income (loss)	\$1,248	\$(7,893)	\$(3,076)	\$(4,612)
Divided by				
Weighted average shares:				
Basic	254,760	247,074	252,724	246,569
Dilutive shares from stock plans	2,819	—	—	—
Diluted	257,579	247,074	252,724	246,569
Basic and diluted net income (loss) per share	\$0.00	\$(0.03)	\$(0.01)	\$(0.02)

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

For all periods presented, 42.5 million weighted average shares related to our 4.50% convertible subordinated notes were excluded. At September 30, 2014 and 2013, 30.9 million and 31.2 million, respectively, weighted average shares of 3.50% convertible subordinated notes were excluded.

For the second quarter and first six months of fiscal 2015, options to purchase 2.3 million and 7.0 million weighted average shares, respectively, were excluded. For the second quarter and first six months of fiscal 2014, options to purchase 13.9 million and 14.9 million weighted average shares, respectively, were excluded.

Unvested RSUs of 0.2 million and 12.0 million weighted average shares for the second quarter and first six months of fiscal 2015, respectively, were excluded. Unvested RSUs of 10.9 million and 10.4 million weighted average shares for the second quarter and first six months of fiscal 2014, respectively, were excluded.

NOTE 13: LEGAL PROCEEDINGS

On February 18, 2014, Crossroads Systems, Inc. ("Crossroads") filed a patent infringement lawsuit against Quantum in the U.S. District Court for the Western District of Texas, alleging infringement of U.S. Patents 6,425,035 and 7,934,041. An amended complaint filed on April 15, 2014 also alleged infringement of U.S. patent 7,051,147. Crossroads asserts that we have incorporated Crossroads' patented technology into our StorNext QX and Q-Series lines of disk array products, and into our Scalar libraries. Crossroads seeks unspecified monetary damages and injunctive relief. Crossroads has already dismissed all claims of infringement with respect to the StorNext QX and Q-Series products. We do not believe it is reasonably possible that we will pay material damages related to this lawsuit.

On September 23, 2014, we filed a lawsuit against Crossroads in the U.S. District Court for the Northern District of California alleging patent infringement of our patent 6,766,412 by Crossroad's StrongBox VSeries Library Solution product. We are seeking injunctive relief and the recovery of monetary damages.

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

FORWARD-LOOKING STATEMENT

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements in this report usually contain the words "will," "estimate," "anticipate," "expect," "believe," "project" or similar expressions and variations or negatives of these words. All such forward-looking statements including, but not limited to: (1) our goals for future operating performance including increasing revenue, having operating profit and generating cash from operations; (2) our expectation that we will continue to derive a substantial portion of our revenue from products based on tape technology; (3) our belief that our existing cash and capital resources will be sufficient to meet all currently planned expenditures, debt service and sustain our operations for at least the next 12 months; (4) our expectations regarding our ongoing efforts to control our cost structure; (5) our expectations regarding the outcome of any litigation in which we are involved and (6) our business goals, objectives, key focuses, opportunities and prospects are inherently uncertain as they are based on management's expectations and assumptions concerning future events, and they are subject to numerous known and unknown risks and uncertainties. Readers are cautioned not to place undue reliance on these forward-looking statements, about which we speak only as of the date hereof. As a result, our actual results may differ materially from the forward-looking statements contained herein. Factors that could cause actual results to differ materially from those described herein include, but are not limited to: (1) the amount of orders received in future periods; (2) our ability to timely ship our products; (3) uncertainty regarding information technology spending and the corresponding uncertainty in the demand for our products and services; (4) our ability to maintain supplier relationships; (5) general economic, political and fiscal conditions in the U.S. and internationally; (6) our ability to successfully introduce new products; (7) our ability to capitalize on market demand; (8) our ability to achieve anticipated gross margin levels and (9) those factors discussed under "Risk Factors" in Part II, Item 1A. Our forward-looking statements are not guarantees of future performance. We disclaim any obligation to update information in any forward-looking statement.

OVERVIEW

We believe our combination of expertise, innovation and platform independence enables us to solve data protection and scale-out storage challenges more easily, cost-effectively and securely than competitive offerings. We earn our revenue from the sale of products, systems and services through an array of channel partners and our sales force. Our products are sold under both the Quantum brand name and the names of various OEM customers. Our scale-out storage solutions include StorNext® software, StorNext appliances, StorNext Pro™ Solutions and Lattus™ extended online storage systems and are designed to help customers manage large unstructured data sets in an information workflow, encompassing high-performance ingest, real-time collaboration, scalable processing, intelligent protection and high-value monetization. Our data protection solutions include DXi® deduplication backup systems and Scalar® automated tape libraries that optimize backup and recovery, simplify management and lower cost. Our vmPRO™ virtual server backup and disaster recovery offerings protect virtual environments while minimizing the impact on servers and storage. In addition, we also offer software for cloud backup and disaster recovery of physical and virtual servers. We have a full range of services and the global scale and scope to support our worldwide customer base. Our goal for fiscal 2015 is to profitably grow total revenue in our core business to improve operating results and shareholder value. We have undertaken several initiatives to achieve this goal, which include leveraging our market position in tape automation; penetrating growing markets where we are well positioned from a technology and go-to-market perspective with our DXi, StorNext and Lattus product lines; leveraging our large customer install base across our product portfolio to achieve efficiency and scale; focusing on vertical markets where we are strong; expanding our product portfolio; and continuing to pursue go-to-market partnerships that would drive incremental revenue and profit.

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During the first half of fiscal 2015, our focus on providing an increasingly broad range of scale-out storage solutions and expanding our footprint in the vertical market of media and entertainment helped us achieve record quarterly revenue for scale-out storage products and services. We have created specific product combinations in our StorNext Pro Solutions as well as dedicated sales and marketing resources for this vertical market. We also believe there is opportunity for growth in other vertical markets and use cases where customers can benefit from our workflow-optimized solutions, including oil and gas, government intelligence, corporate video and cybersecurity. In addition, we leveraged our install base of data center customers to sell scale-out storage solutions to manage growing media files and large content workflows for these customers. We also introduced the DXi6900, which incorporates StorNext 5 technology and is optimized for modern data protection workflows. We are pursuing strategic partnerships and have announced new joint solutions with a partner targeted for sporting event media and entertainment customers and with a strategic partner that enables customers to more easily investigate and combat cyber-attacks. In addition, in October we announced a joint solution with a partner that is designed to optimize workflows for the oil and gas industry. We believe these strategic partnership joint solutions for specific use cases can contribute incremental revenue in fiscal 2015.

In July we acquired Symform, Inc.'s cloud storage services platform and development team, gaining technology and expertise we plan to leverage in future scale-out storage and data protection offerings.

We believe our current cash, balance sheet resources and line of credit availability are sufficient to pay off the \$133.7 million of 3.50% convertible subordinated notes due November 15, 2015, operate the business and fund additional growth opportunities.

Results

We had total revenue of \$135.1 million in the second quarter of fiscal 2015, a \$3.6 million increase from the second quarter of fiscal 2014, primarily due to increases in scale-out storage solutions and service revenue, partially offset by decreased revenue from tape automation systems and media. Product and service revenue increased despite a decrease in sales to the U.S. federal government, which were lower than expected. Our branded product and service revenue increased 7% from the second quarter of fiscal 2014 due to increased scale-out storage solutions revenue offset by decreased tape automation and media revenue. Revenue from branded scale-out storage solutions increased compared to the prior year in all geographies - APAC, EMEA and North America. Our continued focus on our branded business is reflected in a greater proportion of non-royalty revenue from branded business, at 86% in the second quarter of fiscal 2015, compared to 83% in the second quarter of fiscal 2014.

Our gross margin percentage increased 290 basis points from the second quarter of fiscal 2014 to 45.8% as a result of higher revenue and the improvements we have made in our business model over the past year, including moving to an outsourced manufacturing model.

Operating expenses decreased \$3.3 million, or 5% from the second quarter of fiscal 2014, primarily from cost controls and spending reductions implemented over the past year. The largest spending decrease compared to the second quarter of fiscal 2014 was for compensation and benefits as a result of reduced staffing to right-size our workforce. Intangible amortization expense also decreased significantly due to certain intangibles becoming fully amortized during the second quarter of fiscal 2015.

Our operating results improved \$8.8 million, from a \$5.0 million loss from operations in the second quarter of fiscal 2014 to \$3.8 million of income from operations in the second quarter of fiscal 2015. We generated \$8.6 million in cash from operations during the first six months of fiscal 2015 compared to \$8.2 million in the first six months of fiscal 2014. We ended the quarter with \$107.7 million in cash, cash equivalents and restricted cash, the highest quarter-end balance in over four years.

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RESULTS OF OPERATIONS

Revenue

Three Months Ended								
(Dollars in thousands)								
	September 30, % of		September 30, % of		Change		% Change	
	2014	revenue	2013	revenue				
Product revenue	\$85,216	63.1	% \$84,756	64.5	% \$460		0.5	%
Service revenue	39,157	29.0	% 36,194	27.5	% 2,963		8.2	%
Royalty revenue	10,733	7.9	% 10,529	8.0	% 204		1.9	%
Total revenue	\$135,106	100.0	% \$131,479	100.0	% \$3,627		2.8	%

Six Months Ended								
(Dollars in thousands)								
	September 30, % of		September 30, % of		Change		% Change	
	2014	revenue	2013	revenue				
Product revenue	\$165,410	62.8	% \$170,605	61.1	% \$(5,195)	) (3.0)%	
Service revenue	77,657	29.5	% 72,686	26.0	% 4,971		6.8	%
Royalty revenue	20,167	7.7	% 36,037	12.9	% (15,870)	) (44.0)%	
Total revenue	\$263,234	100.0	% \$279,328	100.0	% \$(16,094)	) (5.8)%	

Total revenue increased from the second quarter of fiscal 2014 primarily due to increases in scale-out storage solutions and service revenue, partially offset by decreased revenue from media and OEM tape automation systems. Total revenue decreased from the first six months of fiscal 2014 primarily due to a decline in royalty and tape automation systems revenue, partially offset by an increase in sales of scale-out storage solutions. The decrease in royalty revenue was primarily due to a \$15.0 million royalty received in connection with an intellectual property agreement in the prior year.

We believe the changes in our product and service revenue are driven by the changing storage environment, including increased market demand for scale-out storage solutions and reduced demand for tape products. Revenue from branded data protection products and services decreased \$2.9 million, or 3%, from the second quarter of fiscal 2014 and \$7.4 million, or 4%, from the first six months of fiscal 2014, largely due to decreases in media and tape automation systems revenue. Data protection products include our tape automation systems, disk backup systems and devices and media offerings. Revenue from branded scale-out storage solutions and services increased \$9.5 million, or 59%, from the second quarter of fiscal 2014 and \$14.6 million, or 51%, from the first six months of fiscal 2014 largely due to increased sales of our StorNext appliances. Scale-out storage solutions include StorNext software, StorNext appliances, StorNext Pro Solutions and Lattus extended online storage solutions. In addition, OEM product and service revenue, which primarily comprises tape automation systems, decreased \$3.2 million and \$7.4 million from the second quarter and first six months of fiscal 2014, respectively.

Product Revenue

Total product revenue, which includes sales of our hardware and software products sold through both our Quantum branded and OEM channels, increased \$0.5 million in the second quarter of fiscal 2015 and decreased \$5.2 million in the first six months of fiscal 2015 compared to the prior year periods. The increase in product revenue for the second quarter of fiscal 2015 was primarily due to increased sales of both scale-out storage solutions and disk backup systems, partially offset by decreases in revenue from media and OEM tape automation systems. The decrease in product revenue for the first six months of fiscal 2015 was primarily due to lower tape automation systems and media sales, partially offset by an increase in revenue from scale-out storage solutions. Revenue from sales of branded products increased 6% and 2%, respectively, and sales of products to our OEM customers decreased 18% and 20%, respectively, in the second quarter and first six months of fiscal 2015 compared to the prior year periods.

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Three Months Ended

(Dollars in thousands)

	September 30, 2014	% of revenue		September 30, 2013	% of revenue	Change	% Change
Tape automation systems	\$37,857	28.0	%	\$41,570	31.6	% \$(3,713)	(8.9)%
Disk backup systems*	12,860	9.5	%	11,734	8.9	% 1,126	9.6%
Devices and media	12,993	9.6	%	16,762	12.7	% (3,769)	(22.5)%
Scale-out storage solutions*	21,506	16.0	%	14,690	11.3	% 6,816	46.4%
Total product revenue	\$85,216	63.1	%	\$84,756	64.5	% \$460	0.5%

Six Months Ended

(Dollars in thousands)

	September 30, 2014	% of revenue		September 30, 2013	% of revenue	Change	% Change
Tape automation systems	\$75,763	28.8	%	\$86,235	30.9	% \$(10,472)	(12.1)%
Disk backup systems*	22,671	8.6	%	23,230	8.3	% (559)	(2.4)%
Devices and media	30,718	11.7	%	34,741	12.4	% (4,023)	(11.6)%
Scale-out storage solutions*	36,258	13.7	%	26,399	9.5	% 9,859	37.3%
Total product revenue	\$165,410	62.8	%	\$170,605	61.1	% \$(5,195)	(3.0)%

*Revenue from disk backup systems and scale-out storage solutions was previously included in a caption entitled disk backup systems and software solutions. Previously reported amounts have been reclassified to conform to current period presentation.

Our branded tape automation business performed better in the second quarter and first six months of fiscal 2015 than our OEM tape automation systems business. Branded tape automation revenue declined 3%, or \$0.7 million, and 6%, or \$3.2 million, respectively, compared to OEM tape automation revenue decreases of 17%, or \$3.0 million, and 21%, or \$7.3 million, respectively, in the second quarter and first six months of fiscal 2015 compared to the prior year periods. The OEM decreases during both the second quarter and first six months of fiscal 2015 were primarily due to a decline in revenue from enterprise and midrange systems, with both product categories experiencing similar decreases during the second quarter of fiscal 2015 and midrange systems declining approximately twice as much as enterprise systems during the first six months of fiscal 2015. Within our branded tape automation business, the decline in the second quarter of fiscal 2015 was primarily due to a decrease in sales of enterprise systems, and the decline in the first six months of fiscal 2015 was primarily due to a decrease in sales of midrange systems.

The increase in disk backup systems revenue during the second quarter of fiscal 2015 was primarily attributed to our branded business, with a \$1.8 million increase in revenue from entry-level systems and a \$0.9 million increase in revenue from midrange systems, including the recently-introduced DXi 6900, partially offset by a \$1.3 million decrease in enterprise systems revenue. The DXi 6900 scales to higher storage capacities than previous midrange systems, which contributed to the decrease in enterprise systems revenue. The decrease in disk backup systems revenue during the first six months of fiscal 2015 was primarily due to a 16% decrease in midrange systems revenue, offset by increased sales of entry-level systems, which more than doubled compared to the prior year, driven by the introduction of the DXi 4700. During both the second quarter and first six months of fiscal 2015, we experienced an increase in large disk backup systems orders over \$200,000.

Product revenue from devices, which includes tape drives and removable hard drives, and non-royalty media sales decreased during the second quarter and first six months of fiscal 2015 primarily due to lower media sales.

Our scale-out storage solutions revenue increased during both the second quarter and first six months of fiscal 2015 primarily due to increased sales of StorNext appliances. During these two periods, revenue from Lattus extended online storage and StorNext Pro Solutions products also increased, partially offset by decreases in StorNext standalone software revenue. During both the second quarter and first six months of fiscal 2015, we experienced an

increase in large scale-out storage solutions orders over \$200,000.

Service Revenue

Service revenue is primarily comprised of hardware service contracts, which are typically purchased by our customers to extend the warranty or to provide faster service response time, or both. Service revenue increased from the second quarter and first six months of fiscal 2014 primarily due to increased revenue from branded service contracts for our StorNext appliances.

Table of Contents**Royalty Revenue**

Royalty revenue was relatively flat compared to the second quarter of fiscal 2014. It decreased from the first six months of fiscal 2014 primarily due to the \$15.0 million royalty received in connection with an intellectual property agreement in the prior year.

Gross Margin

(Dollars in thousands)	Three Months Ended						Basis point change
	September 30, 2014	Gross margin %	September 30, 2013	Gross margin %	Change		
Product gross margin	\$29,623	34.8 %	\$26,874	31.7 %	\$2,749		310
Service gross margin	21,573	55.1 %	19,078	52.7 %	2,495		240
Royalty gross margin	10,733	100.0 %	10,529	100.0 %	204		—
Gross margin	\$61,929	45.8 %	\$56,392	* 42.9 %	* \$5,537		290

(Dollars in thousands)	Six Months Ended						Basis point change
	September 30, 2014	Gross margin %	September 30, 2013	Gross margin %	Change		
Product gross margin	\$54,909	33.2 %	\$53,940	31.6 %	\$969		160
Service gross margin	42,379	54.6 %	36,339	50.0 %	6,040		460
Royalty gross margin	20,167	100.0 %	36,037	100.0 %	(15,870))	—
Gross margin	\$117,455	44.6 %	\$126,227	* 45.2 %	* \$(8,772)	)	(60)

* The second quarter and first six months of fiscal 2014 includes \$0.1 million of restructuring charges related to cost of revenue.

The increase in gross margin percentage for the second quarter of fiscal 2015 was primarily due to increases in both product and service gross margin rates. The decrease in gross margin percentage for the first six months of fiscal 2015 was primarily due to the decrease in royalty revenue attributable to the \$15.0 million royalty received in connection with an intellectual property agreement in the prior year. Partially offsetting this decrease were increases in both product and service gross margin rates.

Product Margin

Product gross margins increased 310 and 160 basis points, respectively, during the second quarter and first six months of fiscal 2015, despite relatively flat product revenue during the second quarter of fiscal 2015 and \$5.2 million less product revenue during the first six months of fiscal 2015 compared to the prior year periods. These increases in product gross margin rates were primarily due to shifting to an outsourced manufacturing model during the second half of fiscal 2014. Outsourcing our manufacturing has created a more variable cost model, reducing costs during the first half of fiscal 2015 that were relatively fixed during the first half of fiscal 2014 when we manufactured the majority of our products in our facilities. Notable cost decreases from the second quarter and first six months of fiscal 2014 as a result of implementing outsourced manufacturing include compensation and benefits and facility expenses.

Service Margin

Service gross margin dollars increased 13% and 240 basis points compared to the second quarter of fiscal 2014 on an 8% increase in service revenue. For the first six months of fiscal 2015, service gross margin dollars increased 17% and 460 basis points on a 7% increase in service revenue. The increases in service gross margin rates were primarily due to reduced costs as a result of continued improvements to our service delivery model, including outsourcing geographies with lower service and repair volumes and improving utilization of our service team and service parts inventories. In addition, our service activities continue to reflect a larger proportion of branded products under contract, which have relatively higher margins than margins for OEM repair services.

Table of Contents**Royalty Margin**

Royalties typically do not have related cost of sales and have a 100% gross margin percentage. Therefore, royalty gross margin dollars vary directly with royalty revenue. Royalty revenue and gross margin dollars were relatively flat in the second quarter of fiscal 2015. The decrease in royalty gross margin dollars in the first six months of fiscal 2015 was primarily due to the non-recurring \$15.0 million royalty received in the first quarter of fiscal 2014.

Research and Development Expenses

(Dollars in thousands)	Three Months Ended			September 30, % of			Change	% Change
	September 2014	30,% of revenue		September 2013	30, % of revenue			
Research and development	\$15,157	11.2	%	\$16,359	12.4	%	\$(1,202)	(7.3)%

(Dollars in thousands)	Six Months Ended			September 30, % of			Change	% Change
	September 2014	30,% of revenue		September 2013	30, % of revenue			
Research and development	\$29,711	11.3	%	\$33,053	11.8	%	\$(3,342)	(10.1)%

The decrease in research and development expense in the second quarter and first six months of fiscal 2015 compared to the second quarter and first six months of fiscal 2014 was primarily due to cost reductions that resulted in a \$1.2 million and \$3.1 million decrease, respectively, in compensation and benefits from lower staffing levels.

Sales and Marketing Expenses

(Dollars in thousands)	Three Months Ended			September 30, % of			Change	% Change
	September 2014	30,% of revenue		September 2013	30, % of revenue			
Sales and marketing	\$28,218	20.9	%	\$29,995	22.8	%	\$(1,777)	(5.9)%

(Dollars in thousands)	Six Months Ended			September 30, % of			Change	% Change
	September 2014	30,% of revenue		September 2013	30, % of revenue			
Sales and marketing	\$55,923	21.2	%	\$60,153	21.5	%	\$(4,230)	(7.0)%

The decrease in sales and marketing expense in the second quarter and first six months of fiscal 2015 compared to the second quarter and first six months of fiscal 2014 was primarily due to a \$0.7 million and \$2.6 million, respectively, decrease in compensation and benefits from decreased staffing levels and a \$0.9 million decrease in both periods in intangible amortization expense due to certain intangibles becoming fully amortized during fiscal 2015. Additionally, spending reductions in the second quarter and first six months of fiscal 2015 compared to the second quarter and first six months of fiscal 2014 resulted in a \$0.5 million and \$1.2 million, respectively, decrease in marketing and advertising expense and a \$0.4 million and \$0.5 million, respectively, decrease in travel expense. These decreases in the second quarter and first six months of fiscal 2015 compared to the second quarter and first six months of fiscal 2014 were offset by a \$1.0 million and \$1.4 million, respectively, increase in commission expense as we achieved growth in branded revenue.

General and Administrative Expenses

(Dollars in thousands)	Three Months Ended			September 30, % of			Change	% Change
	September 2014	30,% of revenue		September 2013	30, % of revenue			
General and administrative	\$14,085	10.4	%	\$14,795	11.3	%	\$(710)	(4.8)%

(Dollars in thousands)	Six Months Ended			September 30, % of			Change	% Change
	September 2014	30,% of revenue		September 2013	30, % of revenue			
General and administrative	\$28,456	10.8	%	\$29,484	10.6	%	\$(1,028)	(3.5)%

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The decrease in general and administrative expense for the second quarter and first six months of fiscal 2015 compared to the second quarter and first six months of fiscal 2014 was primarily due to a \$0.7 million refund received for IT purchases. Additionally, we had a \$0.5 million and \$1.2 million, respectively, decrease in facility-related expenses largely from vacating portions of various facilities in the second quarter and first six months of fiscal 2015. These decreases were partially offset by \$0.7 million and \$0.8 million of costs related to activities and inquiries of Starboard Value LP incurred during the second quarter and first six months of fiscal 2015, respectively. For further information regarding Starboard Value LP, refer to Item 1A. "Risk Factors."

Restructuring Charges

(Dollars in thousands)	Three Months Ended			September 30, % of		Change	% Change	
	September 30, 2014	% of revenue		September 30, 2013	% of revenue			
Restructuring charges related to cost of revenue	\$—	—	%	\$ 89	0.1	% \$(89	) (100.0)%
Restructuring charges in operating expenses	624	0.5	%	208	0.2	% 416	200.0	%
	\$624	0.5	%	\$ 297	0.2	% \$327	110.1	%
(Dollars in thousands)	Six Months Ended			September 30, % of		Change	% Change	
	September 30, 2014	% of revenue		September 30, 2013	% of revenue			
Restructuring charges related to cost of revenue	\$—	—	%	\$ 89	—	% \$(89	) (100.0)%
Restructuring charges in operating expenses	1,489	0.6	%	2,767	1.0	% (1,278	) (46.2)%
	\$1,489	0.6	%	\$ 2,856	1.0	% \$(1,367	) (47.9)%

Restructuring charges in the second quarter and the first six months of fiscal 2015 were primarily due to facilities costs as a result of further consolidating our facilities in the U.S. Restructuring charges in the second quarter and the first six months of fiscal 2014 were primarily due to severance and benefits costs as a result of deciding to outsource our manufacturing operations and consolidate production and service activities. For further information regarding restructuring charges, refer to Note 9 "Restructuring Charges."

Gain on Sale of Assets

(Dollars in thousands)	Six Months Ended			September 30, % of		Change	% Change	
	September 30, 2014	% of revenue		September 30, 2013	% of revenue			
Gain on sale of assets	\$462	0.2	%	\$ —	—	% \$462	n/a	

The gain on sale of assets was primarily due to the sale of IP addresses in the first six months of fiscal 2015.

Other Income and Expense

(Dollars in thousands)	Three Months Ended			September 30, % of		Change	% Change	
	September 30, 2014	% of revenue		September 30, 2013	% of revenue			
Other income and expense	\$215	0.2	%	\$ 46	—	% \$169	367.4	%

(Dollars in thousands)	Six Months Ended			September 30, % of		Change	% Change	
	September 30, 2014	% of revenue		September 30, 2013	% of revenue			
Other income and expense	\$90	—	%	\$ 421	0.2	% \$(331	) (78.6)%

Other income in the second quarter of fiscal 2015 was primarily due to net foreign exchange gains, which were largely due to strengthening of the U.S. dollar against the Australian dollar and the Swiss franc. Other income in the first six months of fiscal 2014 was primarily due to net foreign exchange gains, which were largely due to strengthening of the U.S. dollar against the Australian dollar.

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Income Taxes

(Dollars in thousands)	Three Months Ended		September 30, 2013	% of pre-tax loss	Change	% Change
	September 30, 2014	% of pre-tax income				
Income tax provision	\$356	22.2	% \$534	(7.3)	)%	\$(178) (33.3)%

(Dollars in thousands)	Six Months Ended		September 30, 2013	% of pre-tax loss	Change	% Change
	September 30, 2014	% of pre-tax loss				
Income tax provision	\$604	(24.4)	% \$924	(25.1)	)%	\$(320) (34.6)%

The income tax provision for both the second quarter and first six months of fiscal 2015 and fiscal 2014 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 (dollars in thousands):

	Three Months Ended		Change	% Change
	September 30, 2014	September 30, 2013		
Cost of revenue	\$215	\$368	\$(153)	(41.6)%
Sales and marketing	928	1,857	(929)	(50)%
	\$1,143	\$2,225	\$(1,082)	(48.6)%

	Six Months Ended		Change	% Change
	September 30, 2014	September 30, 2013		
Cost of revenue	\$593	\$736	\$(143)	(19.4)%
Sales and marketing	2,784	3,713	(929)	(25)%
	\$3,377	\$4,449	\$(1,072)	(24.1)%

The decrease in intangible amortization in the second quarter and first six months of fiscal 2015 compared to the second quarter and first six months of fiscal 2014 was primarily due to certain intangibles becoming fully amortized during the second quarter of fiscal 2015. For further information regarding amortizable intangible assets, refer to Note 6 "Intangible Assets and Goodwill."

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Share-based Compensation

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

	Three Months Ended		Change	% Change	
	September 30, 2014	September 30, 2013			
Cost of revenue	\$333	\$523	\$(190)	(36.3))%
Research and development	603	908	(305)	(33.6))%
Sales and marketing	887	1,080	(193)	(17.9))%
General and administrative	846	980	(134)	(13.7))%
	\$2,669	\$3,491	\$(822)	(23.5))%

	Six Months Ended		Change	% Change	
	September 30, 2014	September 30, 2013			
Cost of revenue	\$747	\$1,051	\$(304)	(28.9))%
Research and development	1,383	1,776	(393)	(22.1))%
Sales and marketing	1,797	2,154	(357)	(16.6))%
General and administrative	1,810	1,866	(56)	(3.0))%
	\$5,737	\$6,847	\$(1,110)	(16.2))%

The decrease in share-based compensation expense in the second quarter and first six months of fiscal 2015 compared to the second quarter and first six months of fiscal 2014 was primarily due to a \$0.7 million decrease in expense related to a decrease in the fair value of restricted stock units.

LIQUIDITY AND CAPITAL RESOURCES

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

	Six Months Ended	
	September 30, 2014	September 30, 2013
Net loss	\$(3,076)	\$(4,612)
Net cash provided by operating activities	8,551	8,228
Net cash used in investing activities	(1,932)	(3,877)
Net cash provided by (used in) financing activities	(654)	477

Six Months Ended September 30, 2014

The \$11.6 million difference between net loss and net cash provided by operating activities during the six months ended September 30, 2014 was primarily due to \$15.4 million in non-cash items, the largest of which were share-based compensation, depreciation, amortization and service parts lower of cost or market adjustment. In addition, we had an \$8.7 million decrease in accounts receivable, which was offset by an \$11.9 million decrease in deferred revenue. The decrease in accounts receivable was primarily due to decreased service contract invoicing in the second quarter of fiscal 2015 compared to the fourth quarter of fiscal 2014. The decrease in deferred revenue was largely 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 \$1.9 million of property and equipment purchases and \$0.5 million of cash paid for our acquisition of Symform, Inc. Equipment purchases were primarily for engineering equipment for product development and permanent demo units.

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Six Months Ended September 30, 2013

The \$12.8 million difference between reported net loss and net cash provided by operating activities during the six months ended September 30, 2013 was primarily due to \$24.5 million in non-cash items, the largest of which were share-based compensation, service parts lower of cost or market adjustment, depreciation and amortization. In addition, we had a \$10.5 million decrease in accounts receivable primarily due to decreased sales in the second quarter of fiscal 2014 compared to the fourth quarter of fiscal 2013. These were partially offset by cash uses from a \$14.2 million decrease in accounts payable and a \$6.4 million decrease in deferred revenue. Accounts payable decreased due to reduced purchases in addition to the timing of payments. The decrease in deferred revenue was largely due to a typical seasonal decline in service contract volumes.

Cash used in investing activities for the six months ended September 30, 2013 was primarily due to \$3.2 million of property and equipment purchases and \$0.5 million used to purchase other investments. Equipment purchases were primarily for engineering equipment to support product development activities, IT equipment and software, largely related to an ERP system upgrade, and permanent demo units. Other investments were from investments we made in private technology companies with products or features complementary to Quantum products.

Capital Resources and Financial Condition

We continue to focus on improving our operating performance, including efforts to increase revenue and to continue to control costs in order to improve margins, return to consistent profitability and generate positive cash flows from operating activities. We believe that our existing cash and capital resources will be sufficient to meet all currently planned expenditures, debt service and contractual obligations and to sustain operations for at least the next 12 months. This belief is dependent upon our ability to achieve gross margin projections and to control operating expenses in order to provide positive cash flow from operating activities. Although we recorded facility restructuring charges in the second quarter and first six months of fiscal 2015, payments for the accrued facility restructuring will be made monthly in accordance with the lease agreements, which continue through February 2021. As a result, the facility restructuring is not expected to change our cash requirements. Our cash outlay for these lease payments could be reduced in the future if we are able to sublease facilities. Should any of the above assumptions prove incorrect, either in combination or individually, it would likely have a material negative effect on our cash balances and capital resources.

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

We have \$203.7 million of convertible subordinated debt outstanding in addition to a line of credit under a Wells Fargo credit agreement, inclusive of amendments ("WF credit agreement"). The \$203.7 million of convertible subordinated debt comprises \$133.7 million of 3.50% convertible subordinated notes due November 15, 2015 ("3.50% notes") and \$70 million of 4.50% convertible subordinated notes due November 15, 2017 ("4.50% notes"). Both the 3.50% notes and the 4.50% notes require semi-annual interest payments and have no early call provisions. Interest payments related to the 3.50% notes and 4.50% notes are paid on May 15 and November 15 of each year. We paid \$2.3 million of interest on the 3.50% notes and \$1.6 million of interest on the 4.50% notes in the first six months of fiscal 2015.

Under the WF credit agreement, we have the ability to borrow the lesser of \$75 million or the amount of the monthly borrowing base under a senior secured revolving credit facility. The WF credit agreement matures March 29, 2017 so long as an amount sufficient to repay the 3.50% notes is available for borrowing under the WF credit agreement or is deposited in an escrow account prior to August 16, 2015. Otherwise, the WF credit agreement matures on August 16, 2015. Quarterly, we are required to pay a 0.375% commitment fee on undrawn amounts under the revolving credit facility. There is a blanket lien on all of our assets under the WF credit agreement in addition to certain financial and reporting covenants. We have letters of credit totaling \$1.0 million, reducing the maximum amount available to borrow by this amount at September 30, 2014. As of September 30, 2014, and during the second quarter and first six months of fiscal 2015, we were in compliance with all covenants and had no outstanding balance on the line of credit.

Generation of positive cash flow from operating activities has historically been, and will continue to be, an important source of cash to fund operating needs and meet our current and long-term obligations. We anticipate the combination of our current cash balance and availability on the line of credit provides us with the ability to repay the 3.50% notes while maintaining sufficient cash to fund operating needs and other obligations. In addition, we plan to generate cash from operating activities in the future, which would provide us with additional operational flexibility.

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We have taken many actions in recent years to respond to market conditions and improve our operating results. We cannot provide assurance that the actions we have taken in the past or any actions we may take in the future will ensure a consistent, sustainable and sufficient level of net income and positive cash flow from operating activities to fund, sustain or grow our business. Certain events that are beyond our control, including prevailing economic, competitive and industry conditions, as well as various legal and other disputes, may prevent us from achieving these financial objectives. Any inability to achieve consistent and sustainable net income and cash flow could result in:

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

(ii) Unwillingness on the part of the lenders to do any of the following:

• Provide a waiver or amendment for any covenant violations we may experience in future periods, thereby triggering a default under, or termination of, the revolving credit line, or

• Approve any amendments to the credit agreement we may seek to obtain in the future.

Any lack of renewal, waiver, or amendment, if needed, could result in the revolving credit line becoming unavailable to us and any amounts outstanding becoming immediately due and payable.

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

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

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

Our discussion and analysis of the financial condition and results of operations is based on the accompanying unaudited Condensed Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these statements requires us to make significant estimates and judgments about future uncertainties that affect reported assets, liabilities, revenues and expenses and related disclosures. We base our estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances. In the event that estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current information. The accounting estimates requiring our most difficult, subjective or complex judgments because these matters are inherently uncertain are unchanged. These critical accounting estimates and policies have been disclosed in our Annual Report on Form 10-K for the year ended March 31, 2014 filed with the Securities and Exchange Commission on June 6, 2014.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Changes in interest rates affect interest income earned on our cash equivalents, which consisted solely of money market funds during the second quarter and first six months of fiscal 2015. During the second quarter and first six months of fiscal 2015, interest rates on these funds were under 1.0%, and we earned negligible amounts in interest income, thus a hypothetical 100 basis point decrease in interest rates would have an insignificant impact on interest income.

We had no outstanding borrowings under the WF credit agreement and our convertible subordinated notes have a fixed interest rate, thus a hypothetical 100 basis point increase in interest rates would have no impact on interest expense.

ITEM 4. CONTROLS AND PROCEDURES

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

the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls were effective.

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

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On February 18, 2014, Crossroads Systems, Inc. (“Crossroads”) filed a patent infringement lawsuit against Quantum in the U.S. District Court for the Western District of Texas, alleging infringement of U.S. Patents 6,425,035 and 7,934,041. An amended complaint filed on April 15, 2014 also alleged infringement of U.S. patent 7,051,147. Crossroads asserts that we have incorporated Crossroads' patented technology into our StorNext QX and Q-Series lines of disk array products, and into our Scalar libraries. Crossroads seeks unspecified monetary damages and injunctive relief. Crossroads has already dismissed all claims of infringement with respect to the StorNext QX and Q-Series products. We do not believe it is reasonably possible that we will pay material damages related to this lawsuit.

On September 23, 2014, we filed a lawsuit against Crossroads in the U.S. District Court for the Northern District of California alleging patent infringement of our patent 6,766,412 by Crossroad's StrongBox VSeries Library Solution product. We are seeking injunctive relief and the recovery of monetary damages.

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 derive the majority of our revenue from products incorporating tape technology. Our future operating results depend in part on continued market acceptance and use of products employing tape technology and decreases in the market could materially and adversely impact our business, financial condition and operating results. In addition, if we are unable to compete with new or alternative storage technologies, our business, financial condition and operating results could be materially and adversely affected.

We derive the majority of our revenue from products that incorporate some form of tape technology, and we expect to continue to derive significant revenue from these products in the next several years. As a result, our future operating results depend in part on continued market acceptance and use of products employing tape technology. We believe that the storage environment is changing, including reduced demand for tape products. Decreased market acceptance or use of products employing tape technology has materially and adversely impacted our business, financial condition and operating results and we expect that our revenues from tape products will continue to decline, which could materially and adversely impact our business, financial condition and operating results in the future.

Disk products as well as various software solutions and alternative technologies continue to gain broader market acceptance. We expect that, over time, many of our tape customers will migrate toward these products and solutions. While we are making targeted investment in disk systems and other alternative technologies, 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.

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We rely on indirect sales channels to market and sell our branded products. Therefore, the loss of or deterioration in our relationship with one or more of our resellers or distributors, or our inability to establish new indirect sales channels to drive growth of our branded revenue, especially for disk systems and software solutions, could negatively affect our operating results.

We sell the majority of our branded products to value-added resellers, or VARs, and to direct marketing resellers such as CDW Corporation, who in turn sell our products to end users, and to distributors such as Ingram Micro, Inc. and others. The success of these sales channels is hard to predict, particularly over time, and we have no purchase commitments or long-term orders from them that assure us of any baseline sales through these channels. Several of our resellers carry competing product lines that they may promote over our products. A reseller might not continue to purchase our products or market them effectively, and each reseller determines the type and amount of our products that it will purchase from us and the pricing of the products that it sells to end user customers. Establishing new indirect sales channels is an important part of our strategy to drive growth of our branded revenue.

As we introduce new products and solutions, we could negatively impact our relationship with channel partners that historically have sold other products and solutions that now compete with our new offerings. For example, we introduced various StorNext appliance solutions beginning in fiscal 2012 causing us to more directly compete for hardware sales with channel partners that sold other hardware products in conjunction with our StorNext software. Certain of our contracts with customers contain “most favored nation” pricing provisions mandating that we offer our products to these customers at the lowest price offered to other similarly situated customers. In addition, sales of our enterprise products, and the revenue associated with the on-site service of those products, are somewhat concentrated in specific customers, including government agencies and government-related companies. Any failure of such customers and agencies to continue purchasing products in the same quantities and in the same time frames as they have in the past could affect our operating results. 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.
- If our products fail to meet our or our customers’ specifications for quality and reliability, we may face liability and reputational or financial harm which may adversely impact our results of operations, 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.

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

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

Our sales have been and continue to be concentrated among a few customers because under our business model, we sell to OEMs, distributors, VARs and DMRs to reach end user customers. Furthermore, customers are not obligated to purchase any minimum product volume and our relationships with customers are terminable at will. Revenue from OEM customers has decreased in recent years. If we experience further declines in revenue from OEM customers or any of our other large customers, our business, financial condition and operating results could be materially and adversely affected. In addition, certain of our large customers are also our competitors, and such customers could decide to reduce or terminate their purchases of our products for competitive reasons.

Some of our tape and disk products are incorporated into larger storage systems or solutions that are marketed and sold to end users by large OEM customers as well as VARs, channel partners and other distributors. Because of this, we have limited market access to these end users, limiting our ability to reach and influence their purchasing decisions. These market conditions further our reliance on these OEM and other large customers such as distributors and VARs. Thus if they were to significantly reduce, cancel or delay their orders with us, our results of operations could be materially and adversely affected.

A portion of our sales are to various agencies and departments of the U.S. federal government, and funding cuts to federal spending can adversely impact our revenue. In fiscal 2014, the American Taxpayer Relief Act of 2012 implemented automatic spending cuts beginning March 1, 2013. Between October 1 and October 16, 2013, the U.S. government partial shutdown caused reductions, cancellations and delayed orders. Future spending cuts by the U.S. federal government could decrease revenue from sales to the federal government that could materially and adversely affect our results of operations.

Our operating results depend on a limited number of products and on new product introductions, which may not be successful, in which case our business, financial condition and operating results may be materially and adversely affected.

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

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

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

We continue to face risks related to economic uncertainty and slow economic growth.

Uncertainty about economic conditions poses a risk as businesses may further reduce or postpone spending in response to reduced budgets, tightening of credit markets, negative financial news and declines in income or asset values which could adversely affect our business, financial condition and results of operations. The slow economic growth in recent years along with periods of economic uncertainty in various countries around the world has had a material and adverse impact on our business and our financial condition.

In particular, we have experienced reduced demand for IT products and services overall and more specifically for products with tape technology in the data protection market. We continue to face risks related to economic conditions in Europe, including concerns about sovereign debt and related political matters, which could negatively impact the U.S. and global economies and adversely affect our financial results. In addition, our ability to access capital markets may be restricted, which could have an impact on our ability to react to changing economic and business conditions and could also adversely affect our results of operations and financial condition.

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Competition may intensify in the data protection market as a result of competitors introducing products based on new technology standards and merger and acquisition activity, which could materially and adversely affect our business, financial condition and results of operations.

Our competitors in the data protection market for disk systems and virtual machine solutions are aggressively trying to advance and develop new technologies and products to compete against our technologies and products, and we face the risk that customers could choose competitor products over ours. Competition in our markets is characterized by technological innovation and advancement. As a result of competition and new technology standards, our sales or gross margins could decline, which could materially and adversely affect our business, financial condition and results of operations.

Technological developments and competition over the years in the tape automation market and in the storage market in general has resulted in decreased prices for tape automation products and product offerings. Pricing pressure is more pronounced in the tape automation market for entry-level products and least pronounced for enterprise products. Over time, the prices of our products and competitor products have decreased, but such products 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. However, certain of our costs are fixed in the short term, so we may not be able to offset price decreases or reductions in demand sufficiently to maintain our profitability. In addition, if competition further intensifies, or if there is additional industry consolidation, our sales and gross margins for tape automation systems could decline, which could materially and adversely affect our business, financial condition and results of operations.

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

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

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

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

Competition may intensify in the scale-out storage market as a result of competitors introducing products based on new technology standards and market consolidation, which could materially and adversely affect our business, financial condition and results of operations.

Competition in the scale-out storage market is characterized by technological innovation and advancement, including performance and scale features, and our competitors are aggressively trying to advance and develop new technologies and solutions. If we are unable to compete effectively in these markets and develop solutions that have features and technologies that our customers desire, including new technology standards, our sales from software solutions and appliances could decline, which could materially and adversely affect our business, financial condition and results of

operations.

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Additionally, the competitive landscape could change due to mergers and acquisitions among our competitors, customers and partners. Transactions such as these may impact us in a number of ways. For instance, they could result in:

- Competitors decreasing in number but having greater resources and becoming more competitive with us;
 - Companies that we have not historically competed against entering into one or more of our primary markets and increasing competition in that market(s);
 - Customers that are also competitors becoming more competitive with us and/or reducing their purchase of our products; and
 - Competitors acquiring our current suppliers or business partners and negatively impacting our business model.
- These transactions also create uncertainty and disruption in the market, because whether a pending transaction will be completed, the timing of such a transaction and its degree of impact are often unknown. Given these factors and others, such merger and acquisition activity may materially and adversely impact our business, financial condition and results of operations.

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

Our media royalties, branded software and OEM deduplication software revenues are relatively profitable and can significantly impact total company profitability. We receive media royalty revenue based on tape media cartridges sold by various tape media manufacturers and resellers. Under our license agreements with these companies, each of the licensees determines the pricing and number of units of tape media cartridges that it sells. Our media royalty revenue varies depending on the level of sales of the various media cartridge offerings sold by the licensees and other factors, including:

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

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

Our branded software revenues are also dependent on many factors, including the success of competitive offerings, our ability to execute on our product roadmap and our effectiveness at marketing and selling our branded software solutions directly or through our channel partners. Disruptions to any one of these factors could reduce our branded software revenues, which could adversely affect our business, financial condition and operating results.

Our OEM deduplication software revenues also depend on many factors, including the success of competitive offerings, our ability to execute on our product roadmap with our OEM deduplication software partners, the effort of our OEM deduplication software partners in marketing and selling the resulting products, the market acceptance of the resulting products and changes in the competitive landscape, including the impact of acquisitions. At various times, we had significant revenue from OEM deduplication software revenue and at times we had negligible revenue from OEM deduplication software, which negatively impacted our results. Any further disruptions to the factors on which our OEM deduplication software revenues depend could adversely affect our business, financial condition and operating results.

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Some of our products contain licensed, third-party technology that provides important product functionality and features. The loss or inability to obtain any such license could have a material adverse effect on our business. Our products may contain technology licensed from third parties that provides important product functionality and features. For example, our Lattus product family contains technology licensed from a private, international company. We have contractual protections within our license agreements to help mitigate against the risks of incorporating third-party technology into our products. However, there remains a risk that we may not have continued access to this technology, for instance if the licensing company ceased to exist, either from bankruptcy, dissolution or purchase by a competitor. In addition, legal actions, such as intellectual property actions, brought against the licensing company could impact our future access to the technology. We also have limited control of the technology roadmap and cannot ensure that the licensing company will advance the roadmap of the licensed technology in the manner best for Quantum. Any of these actions could negatively impact our technology licensing, thereby reducing the functionality and/or features of our products, and adversely affect our business, financial condition and operating results. We also face the risk of not being able to quickly implement a replacement technology or otherwise mitigating the risks associated with not having access to this licensed technology, which may adversely affect our business, financial condition and operating results.

We have taken considerable steps towards reducing our cost structure and may take further cost reduction actions. The steps we have taken and may take in the future may not reduce our cost structure to a level appropriate in relation to our future sales and therefore, these anticipated cost reductions may be insufficient to result in consistent profitability. In the last several years, we have recorded significant restructuring charges and made cash payments in order to reduce our cost of sales and operating expenses to respond to adverse economic and industry conditions, from strategic management decisions and to rationalize our operations following acquisitions. These restructurings may result in decreases to our revenues or adversely affect our ability to grow our business in the future. We may take future steps to further reduce our operating costs, including future cost reduction steps or restructurings in response to strategic decisions, adverse changes in our business or industry or future acquisitions. We may be unable to reduce our cost of sales and operating expenses at a rate and to a level appropriate in relation to our future sales, which may adversely affect our business, financial condition and operating results.

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

We may be subject to increased turnover in our employee base or the inability to fill open headcount requisitions due to competition, concerns about our operational performance or other factors. In addition, we may rely on the performance of employees whose skill sets are not sufficiently developed to fulfill their expected job responsibilities. Either of these situations could impair or delay our ability to realize operational and strategic objectives and cause increased expenses and lost sales opportunities.

Additionally, over the last several years, we made certain changes in strategic direction focusing on key technology segments. As part of this change in focus, we reduced costs of revenue and other operating expenses. Executing on this new strategic direction as well as the ongoing efficiency initiatives across the company could adversely affect our ability to retain and hire key personnel and may result in reduced productivity by our employees.

The loss of the services of any of our key employees, the inability to attract or retain qualified talent in the future, or delays in hiring required talent, particularly sales and engineering talent, could delay the development and introduction of our products or services and/or negatively affect our ability to sell our products or services.

Economic or other business factors may lead us to write down the carrying amount of our goodwill or long-lived assets, 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. For example, in fiscal 2009, we had a goodwill impairment charge of \$339 million. As a result of any

impairment charge, our operating results could be materially and adversely affected.

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Third party intellectual property infringement claims could result in substantial liability and significant costs, and, as a result, our business, financial condition and operating results may be materially and adversely affected.

From time to time, third parties allege our infringement of and need for a license under their patented or other proprietary technology, such as our current litigation with Crossroads Systems, Inc. described in Legal Proceedings. While we currently believe the amount of ultimate liability, if any, with respect to any such actions will not materially affect our financial position, results of operations or liquidity, the ultimate outcome of any license discussion or litigation is uncertain. Adverse resolution of any third party infringement claim could subject us to substantial liabilities and require us to refrain from manufacturing and selling certain products. In addition, the costs incurred in intellectual property litigation can be substantial, regardless of the outcome. As a result, our business, financial condition and operating results could be materially and adversely affected.

In addition, certain products or technologies acquired or developed by us may include “open source” software. Open source software is typically licensed for use at no initial charge. Certain open source software licenses, however, require users of the open source software to license to others any software that is based on, incorporates or interacts with, the open source software under the terms of the open source license. Although we endeavor to comply fully with such requirements, third parties could claim that we are required to license larger portions of our software than we believe we are required to license under open source software licenses. If such claims were successful, they could adversely impact our competitive position and financial results by providing our competitors with access to sensitive information that may help them develop competitive products. In addition, our use of open source software may harm our business and subject us to intellectual property claims, litigation or proceedings in the future because:

- Open source license terms may be ambiguous and may subject us to unanticipated obligations regarding our products, technologies and intellectual property;

- Open source software generally cannot be protected under trade secret law; and

- It may be difficult for us to accurately determine the origin of the open source code and whether the open source software infringes, misappropriates or violates third party intellectual property or other rights.

As a result of our global manufacturing and sales operations, we are subject to a variety of risks related to our business outside of the U.S., 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 and fulfill orders for our products and have suppliers for various components, several of which have operations located in foreign countries including China, Hungary, Japan, Malaysia, Singapore and Thailand. Because of these operations, we are subject to a number of risks including:

- Reduced or limited protection of our intellectual property;

- Compliance with multiple and potentially conflicting regulatory requirements and practices;

- Commercial laws that favor local businesses;

- Exposure to economic fluctuations including inflationary risk and continuing sovereign debt risk;

- 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. including the Foreign Corrupt Practices Act;

- 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;

- Recruiting employees in highly competitive markets and wage inflation in certain markets;

- 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;

• Natural disasters, including earthquakes, flooding, typhoons and tsunamis; and

• Cultural differences that affect the way we do business.

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

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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:

• Fluctuations in IT spending as a result of economic conditions or fluctuations in U.S. federal government spending;

• Failure by our contract manufacturers 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;

• Seasonality, including customer fiscal year-ends and budget availability impacting customer demand for our products;

• Declines in large orders defined as orders greater than \$200,000;

• Declines in royalty or software revenues;

• Product development and ramp cycles and product performance or quality issues of ours or our competitors;

• Poor execution of and performance against expected sales and marketing plans and strategies;

• Reduced demand from our OEM or distribution, VAR, DMR and other large customers;

• Increased competition which may, among other things, increase pricing pressure or reduce sales;

• Failure to meet the expectations of investors or analysts; and

• Restructuring actions or unexpected costs.

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

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

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

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

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Because we may order components from suppliers in advance of receipt of customer orders for our products that include these components, we could face a material inventory risk if we fail to accurately forecast demand for our products or manage production, which could have a material and adverse effect on our results of operations and cash flows.

Although we use third parties to manufacture our products, in some cases we may retain the responsibility to purchase component inventory to support third party manufacturing activities, which presents a number of risks that could materially and adversely affect our financial condition. For instance, as part of our component planning, we may place orders with or pay certain suppliers for components in advance of receipt of customer orders. We may 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 may 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.

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 increased the use of third party contract manufacturers, service providers and/or product integrators in fiscal 2014. We face a number of risks as a result of these relationships, including, among others:

• Sole source of product supply

In many cases, our business partner may be the sole source of supply for the products or parts they manufacture, or the services they provide, for us. Because we are relying on one supplier, we are at greater risk of experiencing shortages, reduced production capacity or other delays in customer deliveries that could result in customer dissatisfaction, lost sales and increased expenses, each of which could materially damage customer relationships and result in lost revenue.

• Cost and purchase commitments

We may not be able to control the costs for the products our business partners manufacture for us or the services they provide to us. They procure inventory to build our products based upon a forecast of customer demand that we provide. We could be responsible for the financial impact on the contract manufacturer, supplier or service provider of any reduction or product mix shift in the forecast relative to materials that they had already purchased under a prior forecast. Such a variance in forecasted demand could require us to pay them for finished goods in excess of current customer demand or for excess or obsolete inventory and generally incur higher costs. As a result, we could experience reduced gross margins and operating losses based on these purchase commitments. With respect to service providers, although we have contracts for most of our third party repair service vendors, the contract period may not be the same as the underlying service contract with our customer. In such cases, we face risks that the third party service provider may increase the cost of providing services over subsequent periods contracted with our customer.

• Financial condition and stability

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

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Quality and supplier conduct

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

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

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

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

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

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

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

Our level of indebtedness presents risks to investors, both in terms of the constraints that it places on our ability to operate our business and because of the possibility that we may not generate sufficient cash to pay the principal and interest on our indebtedness as it becomes due. For a description of our outstanding debt, see Liquidity and Capital Resources in Management's Discussion and Analysis of Financial Condition and Results of Operations.

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As a result of our indebtedness:

We must dedicate a portion of our cash flow from operations and other capital resources to debt service, thereby reducing our ability to fund working capital, capital expenditures, research and development and other cash requirements;

Our flexibility in planning for, or reacting to, changes and opportunities in the markets in which we compete may be limited, including our ability to engage in mergers and acquisitions activity, which may place us at a competitive disadvantage;

We are subject to mandatory field audits and control of cash receipts by the lender if we do not maintain liquidity above certain thresholds;

We may be more vulnerable to adverse economic and industry conditions;

We may be unable to make payments on other indebtedness or obligations; and

We may be unable to incur additional debt on acceptable terms, if at all.

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

Incur debt;

Incur liens;

Make acquisitions of businesses or entities or sell certain assets;

Make investments, including loans, guarantees and advances;

Engage in transactions with affiliates;

Pay dividends or engage in stock repurchases; and

Enter into certain restrictive agreements.

Our ability to comply with covenants contained in this credit agreement may be affected by events beyond our control, including prevailing economic, financial and industry conditions.

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

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

A small number of institutional investors have owned a significant portion of our common stock at various times in recent years. If any or all of these investors were to decide to purchase significant additional shares or to sell significant amounts or all of the common shares they currently own, or if there is a perception that those sales may occur, that may cause our stock price to be more volatile. For example, there have been instances in the past where a shareholder with a significant equity position began to sell shares, putting downward pressure on our stock price for the duration of their selling activity. In these situations, selling pressure outweighed buying demand and our stock price declined. This situation has occurred due to our stock price falling below institutional investors' price thresholds and our volatility increasing beyond investors' volatility parameters causing even greater selling pressure.

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

General economic conditions;

Changes in interest rates;

Fluctuations in the stock market in general and market prices for technology companies in particular;

Quarterly variations in our operating results;

New products, services, innovations and strategic developments by our competitors or us, or business combinations and investments by our competitors or us;

Changes in financial estimates by us or securities analysts and recommendations by securities analysts;

Changes in our capital structure, including issuance of additional debt or equity to the public; and

Strategic acquisitions.

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

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Our design 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 as well as the safety of our employees and the public. Current regulations in the U.S. and various international jurisdictions restrict the use of certain potentially hazardous materials used in electronic products and components (including lead and some flame retardants), impose a “take back” obligation on manufacturers for the financing of the collection, recovery and disposal of electrical and electronic equipment and require extensive investigation into and disclosure regarding certain minerals used in our supply chain. 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 costs or product sales by requiring us to acquire costly equipment or materials, redesign processes or to incur other significant expenses in adapting our 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, and requirements including laws applicable to U.S. government contractors. In addition, the SEC has adopted disclosure rules related to the supply of certain minerals originating from the conflict zones of the Democratic Republic of Congo or adjoining countries, and we may incur costs to comply with such regulations and may realize other costs relating to the sourcing and availability of minerals used in our products. 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. If we were to be subject to a compliance investigation, we may incur increased personnel and legal costs. 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.

A cybersecurity breach could adversely affect our ability to conduct our business, harm our reputation, expose us to significant liability or otherwise damage our financial results.

A cybersecurity breach could negatively affect our reputation as a trusted provider of scale-out storage, archive and data protection products by adversely affecting the market’s perception of the security or reliability of our products and services. Many of our customers and partners store sensitive data on our products, and a cybersecurity breach related to our products could harm our reputation and potentially expose us to significant liability.

We also maintain sensitive data related to our employees, strategic partners and customers, including intellectual property, proprietary business information and personally identifiable information on our own systems. We employ sophisticated security measures; however, we may face threats across our infrastructure including unauthorized access, security breaches and other system disruptions.

It is critical to our business that our employees’, strategic partners’ and customers’ sensitive information remains secure and that our customers perceive that this information is secure. A cybersecurity breach could result in unauthorized access to, loss of, or unauthorized disclosure of such information. A cybersecurity breach could expose us to litigation, indemnity obligations, government investigations and other possible liabilities. Additionally, a cyber attack, whether actual or perceived, could result in negative publicity which could harm our reputation and reduce our customers’ confidence in the effectiveness of our solutions, which could materially and adversely affect our business and operating results. A breach of our security systems could also expose us to increased costs including remediation costs, disruption of operations or increased cybersecurity protection costs that may have a material adverse effect on our business.

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

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

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

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

As a part of our business strategy, we have in the past and may make acquisitions in the future, subject to certain debt covenants. We may also make significant investments in complementary companies, products or technologies. If we fail to successfully integrate such acquisitions or significant investments, it could harm our business, financial condition and operating results. Risks that we may face in our efforts to integrate any recent or future acquisitions include, among others:

- Failure to realize anticipated synergies 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.

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

During the first six months of fiscal 2015, the closing price of our common stock ranged between a low of \$0.99 on May 7, 2014 and a high of \$1.31 on July 3, 2014. If the average closing price of our common stock does not exceed \$1.00 per share over a consecutive thirty trading-day period, we would be non-compliant with NYSE continued listing standards. Once notified of such non-compliance by the NYSE, we would need to bring our share price and consecutive thirty trading-day average share price back above \$1.00 per share within six months or the NYSE would commence suspension and delisting procedures. In addition, if our common stock price falls below the \$1.00 threshold to the point where the NYSE considers the stock price to be “abnormally low,” the NYSE has the discretion to begin delisting proceeding immediately with respect to our common stock. There is no formal definition of “abnormally low” in the NYSE rules. If our common stock were delisted, the ability of our stockholders to sell any of our common stock at all would be severely, if not completely, limited, causing our stock price to decline further.

If the future outcomes related to the estimates used in recording tax liabilities to various taxing authorities result in higher tax liabilities than estimated, then we would have to record tax charges, which could be material.

We have provided amounts and recorded liabilities for probable and estimable tax adjustments that may be proposed by various taxing authorities in the U.S. and foreign jurisdictions. If events occur that indicate payments of these amounts will be less than estimated then reversals of these liabilities would create tax benefits recognized in the periods when we determine the liabilities have reduced. Conversely, if events occur which indicate that payments of these amounts will be greater than estimated, then tax charges and additional liabilities would be recorded. In particular, various foreign jurisdictions could challenge the characterization or transfer pricing of certain intercompany transactions. In the event of an unfavorable outcome of such challenge, there exists the possibility of a material tax charge and adverse impact on the results of operations in the period in which the matter is resolved or an unfavorable outcome becomes probable and estimable.

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

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

We do not currently use derivative financial instruments for foreign currency hedging or speculative purposes. We have used in the past, and may use in the future, foreign currency forward contracts to hedge our exposure to foreign currency exchange rates. To the extent that we have assets or liabilities denominated in a foreign currency that are inadequately hedged or not hedged at all, we may be subject to foreign currency losses, which could be significant. Our international operations can act as a natural hedge when both operating expenses and sales are denominated in local currencies. In these instances, although an unfavorable change in the exchange rate of a foreign currency against the U.S. dollar would result in lower sales when translated to U.S. dollars, operating expenses would also be lower in these circumstances. An increase in the rate at which a foreign currency is exchanged for U.S. dollars would require more of that particular foreign currency to equal a specified amount of U.S. dollars than before such rate increase. In such cases, and if we were to price our products and services in that particular foreign currency, we would receive fewer U.S. dollars than we would have received prior to such rate increase for the foreign currency. Likewise, if we were to price our products and services in U.S. dollars while competitors priced their products in a local currency, an increase in the relative strength of the U.S. dollar would result in our prices being uncompetitive in those markets. Such fluctuations in currency exchange rates could materially and adversely affect our business, financial condition and results of operations.

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Pursuant to a settlement agreement we entered into with respect to a potential proxy contest for the election of directors at our 2014 annual meeting, our failure to achieve certain operating metrics could result in a change in our Board of Directors and may constitute a change of control under certain contracts with third parties.

In connection with a potential proxy contest related to the election of directors to the Board of Directors (“Board”) at the 2014 annual meeting of stockholders (“2014 Annual Meeting”), we entered into a settlement agreement (“Settlement Agreement”) with Starboard Value LP and certain of its affiliates (“Starboard”). Pursuant to the Settlement Agreement, we agreed to nominate four candidates proposed by Starboard for election at our 2014 Annual Meeting. In addition, if we do not achieve certain objectives under our fiscal 2015 business plan previously agreed between Quantum and Starboard, then Starboard will be entitled to nominate two additional directors to the Board as of the first business day following the date that we fail to achieve any of the agreed business plan objectives, which will be determined as of the date we publicly announce earnings results for the applicable period. If Starboard exercises this right, we will increase the size of the Board by two directors, and Starboard will propose two candidates, each of whom will be appointed to the Board within ten business days of being proposed, so long as such candidate qualifies as “independent” pursuant to NYSE listing standards and does not otherwise have any material conflicts with Quantum or its businesses. These rights expire in certain circumstances.

Under certain circumstances, a change in a majority of the Board may result in a change of control under the severance and change of control agreements we have with our management. Pursuant to the severance and change in control agreements, certain severance payments may be triggered following a change of control, but only upon there being a qualifying termination that occurs within twelve months of any such change of control. A change in a majority of the Board may also result in a change of control under certain contracts with third parties, including our directors’ and officers’ liability insurance and our Wells Fargo credit agreement, if we are unable to secure appropriate waivers or amendments to any such contracts. The occurrence of any of the foregoing events could adversely affect our business.

ITEM 6. EXHIBITS

The Exhibit Index beginning on page 40 of this report sets forth a list of exhibits and is hereby incorporated by reference.

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SIGNATURE

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

QUANTUM CORPORATION

/s/ LINDA M. BREARD

Linda M. Breard

Chief Financial Officer

(Principal Financial and Chief Accounting Officer)

Date: November 7, 2014

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EXHIBIT INDEX

Exhibit Number	Exhibit Description
10.1	Agreement, dated as of July 28, 2014, by and among Quantum Corporation, Starboard Value LP, and certain of its affiliates (incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K filed on July 29, 2014).
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.

‡ Filed herewith.

† Furnished herewith.