

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

QUANTUM CORP /DE/

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2020**
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 001-13449

Quantum[®]

Quantum Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

94-2665054

(I.R.S. Employer Identification No.)

224 Airport Parkway Suite 550
San Jose CA

(Address of Principal Executive Offices)

95110

(Zip Code)

(408) 944-4000

Registrant's telephone number, including area code

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	QMCO	Nasdaq Global Market

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 check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised

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 26, 2020, there were 40,740,212 shares of Quantum Corporation's common stock issued and outstanding.

QUANTUM CORPORATION
QUARTERLY REPORT ON FORM 10-Q
For the Quarter Ended September 30, 2020

Table of Contents

	Page	
PART I		
Item 1.	Financial Statements:	
	Condensed Consolidated Balance Sheets	1
	Condensed Consolidated Statements of Operations and Comprehensive Loss	2
	Condensed Consolidated Statements of Cash Flows	3
	Condensed Consolidated Statements of Stockholders' Deficit	4
	Index to Notes to Condensed Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	30
Item 4.	Controls and Procedures	30
PART II		
Item 1.	Legal Proceedings	31
Item 1A.	Risk Factors	31
Item 6.	Exhibits	32
	Signatures	33

As used in this Quarterly Report on Form 10-Q (this "Quarterly Report"), the terms "Quantum," "we," "us," and "our" refer to Quantum Corporation and its subsidiaries taken as a whole, unless otherwise noted or unless the context indicates otherwise.

Note Regarding Forward-Looking Statements

This report contains forward-looking statements. All statements contained in this report other than statements of historical fact, including statements regarding COVID-19's anticipated impacts on our business, our future operating results and financial position, our business strategy and plans, our market growth and trends, and our objectives for future operations, are forward-looking statements. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," "could," "would," "project," "plan," "potentially," "preliminary," "likely," and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties, and assumptions, including those described under Item 1A. Moreover, we operate in a competitive and changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the effect of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties, and assumptions, the future events and trends discussed in this report may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. Accordingly, you should not rely on forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, performance, or events and circumstances reflected in the forward-looking statements will be achieved or occur. We do not intend to update any of these forward-looking statements for any reason after the date of this report or to conform these statements to actual results or revised expectations, except as required by law.

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

QUANTUM CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts, unaudited)

	September 30, 2020	March 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 12,517	\$ 6,440
Restricted cash	792	830
Accounts receivable, net of allowance for doubtful accounts of \$,399 and \$1,247 as of September 30, 2020 and March 31, 2020, respectively	62,712	70,370
Manufacturing inventories	35,882	29,196
Service parts inventories	23,211	20,502
Other current assets	8,330	8,489
Total current assets	143,444	135,827
Property and equipment, net	9,655	9,046
Restricted cash	5,000	5,000
Right-of-use assets, net	10,597	12,689
Other long-term assets	4,585	3,433
Total assets	\$ 173,281	\$ 165,995
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	\$ 37,834	\$ 36,949
Deferred revenue	73,101	81,492
Long-term debt, current portion	1,388	7,321
Accrued compensation	17,878	14,957
Other accrued liabilities	14,750	17,535
Total current liabilities	144,951	158,254
Deferred revenue	33,249	37,443
Long-term debt, net of current portion	171,010	146,847
Operating lease liabilities	9,114	10,822
Other long-term liabilities	11,197	11,154
Total liabilities	369,521	364,520
Commitments and contingencies (Note 9)		
Stockholders' deficit		
Preferred stock, 20,000 shares authorized; no shares issued as of September 30, 2020 and March 31, 2020, respectively	—	—
Common stock, \$0.01 par value; 125,000 shares authorized; 40,740 shares issued and outstanding as of September 30, 2020 and 39,905 as of March 31, 2020, respectively	408	399
Additional paid-in capital	522,357	505,762
Accumulated deficit	(718,492)	(703,164)
Accumulated other comprehensive loss	(513)	(1,522)
Total stockholders' deficit	(196,240)	(198,525)
Total liabilities and stockholders' deficit	\$ 173,281	\$ 165,995

See accompanying Notes to Condensed Consolidated Financial Statements.

QUANTUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in thousands, except per share amounts, unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Revenue:				
Product	\$ 50,850	\$ 68,130	\$ 90,537	\$ 133,926
Service	31,494	32,401	61,880	65,781
Royalty	3,477	5,258	6,709	11,712
Total revenue	<u>85,821</u>	<u>105,789</u>	<u>159,126</u>	<u>211,419</u>
Cost of revenue:				
Product	34,998	49,467	65,380	96,666
Service	12,089	12,799	24,160	25,404
Total cost of revenue	<u>47,087</u>	<u>62,266</u>	<u>89,540</u>	<u>122,070</u>
Gross profit	<u>38,734</u>	<u>43,523</u>	<u>69,586</u>	<u>89,349</u>
Operating expenses:				
Research and development	10,233	9,350	24,723	17,733
Sales and marketing	13,153	14,824	21,825	30,680
General and administrative	10,263	14,329	20,395	32,905
Restructuring charges	1,585	821	2,637	1,084
Total operating expenses	<u>35,234</u>	<u>39,324</u>	<u>69,580</u>	<u>82,402</u>
Income from operations	3,500	4,199	6	6,947
Other income (expense), net	(312)	76	(697)	165
Interest expense	(7,578)	(6,347)	(14,015)	(12,653)
Net loss before income taxes	(4,390)	(2,072)	(14,706)	(5,541)
Income tax provision	202	243	622	581
Net loss	<u>\$ (4,592)</u>	<u>\$ (2,315)</u>	<u>\$ (15,328)</u>	<u>\$ (6,122)</u>
Net loss per share - basic and diluted	\$ (0.11)	\$ (0.06)	\$ (0.38)	\$ (0.17)
Weighted average shares - basic and diluted	40,286	36,297	40,097	36,172
Net loss	\$ (4,592)	\$ (2,315)	\$ (15,328)	\$ (6,122)
Foreign currency translation adjustments, net	722	(474)	1,009	(390)
Total comprehensive loss	<u>\$ (3,870)</u>	<u>\$ (2,789)</u>	<u>\$ (14,319)</u>	<u>\$ (6,512)</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

QUANTUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, unaudited)

	Six Months Ended September 30,	
	2020	2019
Operating activities		
Net loss	\$ (15,328)	\$ (6,122)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation and amortization	2,580	2,034
Amortization of debt issuance costs	3,015	2,008
Long-term debt related costs	167	—
Provision for product and service inventories	3,588	3,442
Stock-based compensation	4,549	3,352
Bad debt expense	90	199
Deferred income taxes	(15)	—
Unrealized foreign exchange (gain) loss	1,193	(99)
Changes in assets and liabilities:		
Accounts receivable, net	7,568	15,239
Manufacturing inventories	(8,858)	(5,799)
Service parts inventories	(4,333)	(1,180)
Accounts payable	1,601	1,478
Accrued restructuring charges	240	(2,576)
Accrued compensation	2,922	(2,111)
Deferred revenue	(12,584)	(15,582)
Other assets and liabilities	(5,694)	(3,939)
Net cash used in operating activities	<u>(19,299)</u>	<u>(9,656)</u>
Investing activities		
Purchases of property and equipment	(1,434)	(1,315)
Net cash used in investing activities	<u>(1,434)</u>	<u>(1,315)</u>
Financing activities		
Borrowings of long-term debt, net of debt issuance costs	19,400	—
Repayments of long-term debt	—	(825)
Borrowings of credit facility	140,987	172,119
Repayments of credit facility	(144,058)	(165,143)
Borrowings of payment protection program	10,000	—
Payment of taxes due upon vesting of restricted stock	—	(171)
Proceeds from issuance of common stock	539	—
Net cash provided by financing activities	<u>26,868</u>	<u>5,980</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(96)	72
Net change in cash, cash equivalents and restricted cash	6,039	(4,919)
Cash, cash equivalents, and restricted cash at beginning of period	12,270	16,855
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 18,309</u>	<u>\$ 11,936</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 14,181	\$ 10,567
Cash received for income taxes, net of refunds	\$ (1,578)	\$ (51)
Non-cash transactions		
Purchases of property and equipment included in accounts payable	\$ 294	\$ 249
Purchases of property and equipment included in accrued liabilities	\$ 1,255	\$ —
Transfer of inventory to property and equipment	\$ 207	\$ 169
Payment of litigation settlements with insurance proceeds	\$ —	\$ 8,950
The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the statement of cash flows:		
Cash and cash equivalents	\$ 12,517	\$ 6,000
Restricted cash, current	792	936
Restricted cash, long-term	5,000	5,000
Total cash, cash equivalents and restricted cash at the end of period	<u>\$ 18,309</u>	<u>\$ 11,936</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

QUANTUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
(in thousands, unaudited)

Three Months Ended	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Deficit
	Shares	Amount				
Balance, June 30, 2019	36,046	\$ 360	\$ 500,211	\$ (701,761)	\$ (1,326)	\$ (202,516)
Net loss	—	—	—	(2,315)	—	(2,315)
Foreign currency translation adjustments, net	—	—	—	—	(474)	(474)
Shares issued under employee incentive plans, net	671	8	(178)	—	—	(170)
Stock-based compensation	—	—	2,365	—	—	2,365
Balance, September 30, 2019	36,717	\$ 368	\$ 502,398	\$ (704,076)	\$ (1,800)	\$ (203,110)
Balance, June 30, 2020	39,905	\$ 399	\$ 519,235	\$ (713,900)	\$ (1,235)	\$ (195,501)
Net loss	—	—	—	(4,592)	—	(4,592)
Foreign currency translation adjustments, net	—	—	—	—	722	722
Shares issued under employee stock purchase plan	133	2	537	—	—	539
Shares issued under employee incentive plans, net	702	7	(7)	—	—	—
Stock-based compensation	—	—	2,592	—	—	2,592
Balance, September 30, 2020	40,740	\$ 408	\$ 522,357	\$ (718,492)	\$ (513)	\$ (196,240)

See accompanying Notes to Condensed Consolidated Financial Statements.

Six Months Ended	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Deficit
	Shares	Amount				
Balance, March 31, 2019	36,040	\$ 360	\$ 499,224	\$ (697,954)	\$ (1,410)	\$ (199,780)
Net loss	—	—	—	(6,122)	—	(6,122)
Foreign currency translation adjustments, net	—	—	—	—	(390)	(390)
Shares issued under employee incentive plans, net	677	8	(178)	—	—	(170)
Stock-based compensation	—	—	3,352	—	—	3,352
Balance, September 30, 2019	36,717	\$ 368	\$ 502,398	\$ (704,076)	\$ (1,800)	\$ (203,110)
Balance, March 31, 2020	39,905	\$ 399	\$ 505,762	\$ (703,164)	\$ (1,522)	\$ (198,525)
Net loss	—	—	—	(15,328)	—	(15,328)
Foreign currency translation adjustments	—	—	—	—	1,009	1,009
Shares issued under employee stock purchase plan	133	2	537	—	—	539
Shares issued under employee incentive plans, net	702	7	(7)	—	—	—
Warrants issued related to long-term debt	—	—	11,515	—	—	11,515
Stock-based compensation	—	—	4,550	—	—	4,550
Balance, September 30, 2020	40,740	\$ 408	\$ 522,357	\$ (718,492)	\$ (513)	\$ (196,240)

See accompanying Notes to Condensed Consolidated Financial Statements.

INDEX TO NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Page
Note 1: Description of Business and Summary of Significant Accounting Policies	7
Note 2: Revenue	8
Note 3: Inventories	10
Note 4: Long-Term Debt	11
Note 5: Leases	13
Note 6: Restructuring Charges	14
Note 7: Net Loss Per Share	14
Note 8: Income Taxes	15
Note 9: Commitments and Contingencies	15
Note 10: Fair Value of Financial Instruments	16

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1: DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Quantum Corporation, together with its consolidated subsidiaries (“Quantum” or the “Company”), was founded in 1980 and reincorporated in Delaware in 1987, and is headquartered in San Jose, California. The Company is a leader in storing and managing digital video and other forms of unstructured data, delivering top streaming performance for video and rich media applications, along with low-cost, long-term storage systems for data protection and archiving. The Company helps customers around the world capture, create and share digital data and preserve and protect it for decades. The Company’s software-defined, hyperconverged storage solutions span from non-volatile memory express (“NVMe”), to solid state drives, (“SSD”), hard disk drives, (“HDD”), tape and the cloud and are tied together leveraging a single namespace view of the entire data environment. The Company works 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.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information. All intercompany balances and transactions have been eliminated. Certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted. The Company believes the disclosures made are adequate to prevent the information presented from being misleading. However, the accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included within the Company’s most recent Annual Report on Form 10-K.

The unaudited consolidated interim financial statements reflect all adjustments, consisting only of normal and recurring items, necessary to present fairly our financial position as of September 30, 2020, the results of operations and comprehensive loss and changes in stockholder’s deficit for the three and six months ended September 30, 2020 and 2019, and the statement of cash flows for the six months ended September 30, 2020 and 2019. Interim results are not necessarily indicative of full year performance because of the impact of seasonal and short-term variations.

COVID-19 Risks and Uncertainties

Quantum is subject to the risks arising from COVID-19 which have caused substantial financial market volatility and have adversely affected both the U.S. and the global economy. For many of our customers, the COVID-19 pandemic has significantly affected their business. Movie and television production has decreased significantly, professional and collegiate sports seasons have been postponed or cancelled, and many corporations and enterprises have put information technology spending on hold while they assess the short- and long-term impact of the pandemic. While our supply chain remains intact and operating, we have experienced issues related to our logistics network. The reduced capacity within and across freight lanes (aircraft, personnel, customs clearance, etc.) has caused late deliveries from re-routes and mis-shipments, as well as increased expedite and other charges to deliver and receive products. To date, the Company has experienced minimal impact on product availability, although future capacity constraints across the network due to lost capacity from factory down time, closures, as well as reduced staff and demand signal fluctuations are expected to impact product availability in the months and possibly quarters to come.

Quantum believes that these social and economic impacts have had a negative effect on sales due to the decline in customers’ ability or willingness to purchase its products and services. The extent of the impact will depend, in part, on how long the negative trends in customer demand and supply chain levels will continue. The Company’s management continues to actively monitor the situation and may take further actions altering its business operations that are determined to be in the best interests of its employees, customers, partners, suppliers, and stakeholders, or as required by federal, state, or local authorities.

Use of Estimates

Company management has made estimates and assumptions relating to the reporting of certain assets and liabilities in conformity with GAAP. These estimates and assumptions have been applied using methodologies that are consistent throughout the periods presented with consideration given to the potential impacts of COVID-19 pandemic. However, actual results could differ materially from these estimates and be significantly affected by the severity and duration of the pandemic, the extent of actions to contain or treat COVID-19, how quickly and to what extent normal economic and operating activity can resume, and the severity and duration of the global economic downturn that may result from the pandemic.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To increase the comparability of fair value measures, the following hierarchy prioritizes the inputs to valuation methodologies used to measure fair value:

Level 1:	Unadjusted quoted prices in active markets for identical assets or liabilities.
Level 2:	Other than quoted prices that are observable in the market for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or model-derived valuations or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3:	Inputs are unobservable and reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

The categorization of a financial instrument within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Our financial instruments consist of Level 1 assets and Level 2 liabilities.

Recently Adopted Accounting Pronouncements

The Company adopted the guidance in ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326) - Measurement of Credit Losses of Financial Instruments* ("CECL") on April 1, 2020. The ASU requires entities to measure credit losses for financial assets measured at amortized cost based on expected losses over the lifetime of the asset rather than incurred losses. The adoption of ASU 2016-13 did not have a material impact on the condensed consolidated financial statements.

The Company adopted the guidance in ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract* on April 1, 2020. The ASU requires implementation costs incurred by customers in cloud computing arrangements (i.e., hosting arrangements) to be capitalized under the same premises of authoritative guidance for internal-use software, and deferred over the noncancelable term of the cloud computing arrangements plus any option renewal periods that are reasonably certain to be exercised by the customer or for which the exercise is controlled by the service provider. The adoption of ASU 2018-15 did not have a material impact on the condensed consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

In August 2020, the Financial Accounting Standards Board ("FASB") issued an accounting pronouncement (ASU 2020-06) related to the measurement and disclosure requirements for convertible instruments and contracts in an entity's own equity. The pronouncement simplifies and adds disclosure requirements for the accounting and measurement of convertible instruments and the settlement assessment for contracts in an entity's own equity. This pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2021. We plan to adopt this pronouncement for our fiscal year beginning March 31, 2021, and we do not expect it to have a material effect on our consolidated financial statements.

NOTE 2: REVENUE

Based on how the Company manages its business, the Company has determined that it currently operates in one reportable segment. The Company operates in three geographic regions: (a) Americas; (b) Europe, Middle East and Africa (“EMEA”); and (c) Asia Pacific (“APAC”). Revenue by geography is based on the location of the customer from which the revenue is earned.

In the following table, revenue is disaggregated by major product offering and geographies (in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019 ¹	2020	2019 ¹
Americas²				
Primary storage systems	\$ 16,933	\$ 16,352	\$ 23,792	\$ 25,771
Secondary storage systems	9,317	16,004	17,993	40,296
Device and media	6,069	9,348	12,431	18,019
Service	19,399	20,366	37,994	41,936
Total revenue	51,718	62,070	92,210	126,022
EMEA				
Primary storage systems	2,798	3,388	5,094	7,226
Secondary storage systems	6,352	8,079	12,968	17,976
Device and media	4,745	6,640	8,767	10,173
Service	10,227	9,828	20,042	19,051
Total revenue	24,122	27,935	46,871	54,426
APAC				
Primary storage systems	879	1,559	1,938	2,925
Secondary storage systems	3,234	4,721	6,434	8,244
Device and media	523	2,039	1,120	3,296
Service	1,868	2,207	3,844	4,794
Total revenue	6,504	10,526	13,336	19,259
Consolidated				
Primary storage systems	20,610	21,299	30,824	35,922
Secondary storage systems	18,903	28,804	37,395	66,516
Device and media	11,337	18,027	22,318	31,488
Service	31,494	32,401	61,880	65,781
Royalty ³	3,477	5,258	6,709	11,712
Total revenue	\$ 85,821	\$ 105,789	\$ 159,126	\$ 211,419

¹ Primary and Secondary storage system revenue has been adjusted for September 30, 2019 due to certain reclassifications from Primary to Secondary storage systems.

² Revenue for Americas geographic region outside of the United States is not significant.

³ Royalty revenue is not allocable to geographic regions.

Contract Balances

The following table presents the Company’s contract liabilities and certain information related to this balance as of and for the six months ended September 30, 2020 (in thousands):

September 30, 2020

Contract liabilities (deferred revenue)	\$	106,350
Revenue recognized in the period from amounts included in contract liabilities at the beginning of the period		51,542

Remaining Performance Obligations

Transaction price allocated to the remaining performance obligations represents contracted revenue that has not yet been recognized, which includes deferred revenue and contractually agreed upon amounts, yet to be invoiced, that will be recognized as revenue in future periods. Remaining performance obligations are subject to change and are affected by several factors, including terminations, changes in the scope of contracts, adjustments for revenue that have not materialized and foreign exchange adjustments. The Company applied the practical expedient in accordance within ASC 606, *Revenue from Contracts with Customers* ("ASC 606"), to exclude amounts for variable consideration constituting a sale- or usage-based royalty promised in exchange for a license of intellectual property from remaining performance obligations.

Remaining performance obligations consisted of the following (in thousands):

	Current	Non-Current	Total
As of September 30, 2020	\$ 86,653	\$ 42,598	\$ 129,251

The Company's non-current remaining performance obligations are expected to be recognized in the next 13 to 60 months.

NOTE 3: INVENTORIES

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

Manufacturing inventories

	September 30, 2020	March 31, 2020
Finished goods:		
Manufactured finished goods	\$ 20,223	\$ 15,790
Distributor inventory	286	504
Total finished goods	20,509	16,294
Work in progress	2,833	1,001
Raw materials	12,540	11,901
Total manufacturing inventories	\$ 35,882	\$ 29,196

Service parts inventories

	September 30, 2020	March 31, 2020
Finished goods	\$ 17,924	\$ 15,845
Component parts	5,287	4,657
Total service parts inventories	\$ 23,211	\$ 20,502

NOTE 4: LONG-TERM DEBT

The Company's long-term debt consisted of the following (in thousands):

	September 30, 2020	March 31, 2020
Senior Secured Term Loan	\$ 185,208	\$ 165,208
Amended PNC Credit Facility	—	2,620
Paycheck Protection Program Loan	10,000	—
Less: current portion	(1,388)	(7,321)
Less: unamortized debt issuance costs ⁽¹⁾	(22,810)	(13,660)
Long-term debt, net	<u>\$ 171,010</u>	<u>\$ 146,847</u>

⁽¹⁾ The unamortized debt issuance costs related to the Senior Secured Term Loan are presented as a reduction of the carrying amount of the corresponding debt balance on the accompanying condensed consolidated balance sheets. Unamortized debt issuance costs related to the Amended PNC Credit Facility are presented within other assets on the accompanying condensed consolidated balance sheets.

Senior Secured Term Loan

On December 27, 2018, the Company entered into a senior secured term loan totaling \$ 165.0 million with U.S. Bank, National Association (the "Senior Secured Term Loan"). In connection with the Senior Secured Term Loan, the Company amended its existing Revolving Credit Facility with PNC, providing for borrowing under loans up to a maximum principal amount of the lesser of: (a) \$45.0 million or (b) the amount of the borrowing base (the "Amended PNC Credit Facility"). The maturity date under the Senior Secured Term Loan and the Amended PNC Credit Facility (collectively, the "Credit Agreements") is December 27, 2023.

On March 30, 2020, the Company entered into an amendment to the Senior Secured Term Loan (the "March 30, 2020 Amendment") which included deferral of payment of the scheduled amortization payment of \$0.4 million due on March 31, 2020 to April 1, 2020; and, (b) deferral of payment of the interest due on March 31, 2020 to April 1, 2020. On March 31, 2020, the Company entered into an additional amendment to the Senior Secured Term Loan (the "March 31, 2020 Amendment") which, among other things, included (a) payment deferral of the scheduled amortization payment of \$0.4 million due on April 1, 2020 to June 30, 2020; (b) payment of \$1.9 million of the interest due on April 1, 2020 (of the total interest due of \$ 5.0 million) in kind rather than in cash; and (c) the waiver of compliance with the total net leverage ratio covenant, as defined in the Senior Secured Term Loan agreement.

On June 16, 2020, the Company entered into an amendment to the Senior Secured Term Loan (the "June 2020 Amendment" and collectively with the March 30, 2020 Amendment and March 31, 2020 Amendment, (the "Term Loan Amendments"). The June 2020 Amendment provided an additional borrowing of \$20.0 million which was immediately drawn in full. The amendment also (a) waived the excess cash flow payment (the "ECF Payment"), as defined in the Senior Secured Term Loan agreement, of \$5.3 million for the year ended March 31, 2020; (b) deferred payment of the scheduled amortization payments due on June 30, 2020, September 30, 2020, and December 31, 2020 until the maturity date; (c) amended the definition of "EBITDA" to, among other things, add an add-back for certain costs, expenses and fees incurred in connection with the transactions contemplated by the amendment; (d) waived compliance with the total net leverage ratio, fixed charge coverage ratio, minimum liquidity and minimum EBITDA financial covenants for the quarters ending on June 30, 2020, September 30, 2020, December 31, 2020, and March 31, 2021; (e) added a financial covenant that requires a minimum monthly average undrawn availability of \$7.0 million under the Amended PNC Credit Facility during the period from June 30, 2020 through and including May 31, 2021; and (f) amended the covenant levels for the total net leverage ratio, fixed charge coverage ratio, and minimum EBITDA financial covenants, commencing with the quarter ending June 30, 2021. The June 2020 Amendment modified the equity clawback provision to allow the Company to prepay up to 50% of the aggregate principal amount of the outstanding Senior Secured Term Loan balance with cash proceeds of a public offering of the Company's common stock at a prepayment premium of 5% of the principal amount being repaid (the "Equity Clawback"). The amendment also added an exit fee of 2% of the aggregate principal amount repaid excluding amounts repaid that are subject to the Equity Clawback.

In connection with the June 2020 Term Loan Amendment, the Company issued to the lenders warrants (the "2020 Term Loan Warrants") to purchase 3,400,000 shares of the Company's common stock, at an exercise price of \$3.00 per share. The exercise price and the number of shares underlying the 2020 Term Loan Warrants are subject to adjustment in the event of specified events, including dilutive issuances of common stock linked equity instruments at a price lower than the exercise price of the warrants, a subdivision or combination of the Company's common

stock, a reclassification of the Company's common stock or specified dividend payments. The 2020 Term Loan Warrants are exercisable until June 16, 2030. Upon exercise, the aggregate exercise price may be paid, at each warrant holder's election, in cash or on a net issuance basis, based upon the fair market value of the Company's common stock at the time of exercise.

The Company accounted for the Term Loan Amendments as modifications of the Senior Secured Term Loan. In connection with the modifications, the Company incurred \$11.9 million in costs including \$11.3 million related to the value of the 2020 Term Loan Warrants and \$0.6 million in fees paid to the lenders. These debt issuance costs are reflected as a reduction to the carrying amount of the Senior Secured Term Loan and are amortized to interest expense over the remaining loan term. Approximately \$0.8 million in third party costs were expensed related to the Term Loan Amendments.

Amended PNC Credit Facility

On April 3, 2020, the Company entered into an amendment to the Amended PNC Credit Facility (the "April 2020 PNC Amendment"), which amended certain terms, including to waive compliance with the total net leverage ratio and total leverage ratio covenants for the quarter ending March 31, 2020.

On June 16, 2020, the Company entered into an amendment to the Amended PNC Credit Facility (the "June 2020 PNC Amendment" and collectively with the April 2020 PNC Amendment, the "PNC Amendments" and including the Term Loan Amendments, the "Amendments"). The amendment amended certain terms, including: (a) the definition of "EBITDA" to, among other things, add an add-back for certain costs, expenses and fees incurred in connection with the transactions contemplated by the amendment; (b) waived compliance with the total net leverage ratio, total leverage ratio, fixed charge coverage ratio, minimum liquidity and minimum EBITDA financial covenants for the quarters ending on June 30, 2020, September 30, 2020, December 31, 2020, and March 31, 2021; (c) added a financial covenant that requires a minimum monthly average undrawn availability level of \$7.0 million for the period from June 30, 2020 through and including May 31, 2021; (d) added a financial covenant that requires a minimum liquidity of not less than \$10.0 million at the end of each quarter and a minimum average liquidity level \$10.0 million for the ninety days preceding the last day of each quarter, beginning with the quarter ending June 30, 2021; (e) amended the covenant levels for the total net leverage ratio, total leverage ratio, fixed charge coverage ratio, and minimum EBITDA financial covenants, commencing with the quarter ending June 30, 2021; and (f) continued to include a covenant that requires a minimum of \$5.0 million of PNC qualified cash at all times. The June 2020 PNC Amendment also adjusted the applicable margin for advances under the Amended PNC Credit Facility such that (i) advances designated as "Domestic Rate Loans" and "Swing Loans" will have an applicable margin of (a) 4.50% for the period from the June 16, 2020 until the date quarterly financial statements are delivered to PNC for the fiscal quarter ending June 30, 2021 and (b) thereafter, ranging from 3.50% to 4.50% based on the Company's applicable total leverage ratio and (ii) advances designated as "LIBOR Rate Loans" will have an applicable margin of (a) 5.50% for the period from June 16, 2020, until the date quarterly financial statements are delivered to PNC for the fiscal quarter ending June 30, 2021 and (b) thereafter, ranging from 4.50% to 5.50% based on the Company's applicable total leverage ratio.

The Company accounted for the PNC Amendments as modifications of the Amended PNC Credit Facility. In connection with the modifications, the Company incurred \$0.5 million in fees paid to the lenders which was recorded to other assets and is amortized to interest expense over the remaining term of the Amended PNC Credit Facility.

Registration Rights Agreement

In connection with the June 2020 Term Loan Amendment, the Company entered into an amended and restated registration rights agreement (the "Amended Registration Rights Agreement") with the holders of the warrants previously issued to the Senior Secured Term Loan lenders in December 2018 and the 2020 Term Loan Warrants (collectively, the "Term Loan Warrants"). The Amended Registration Rights Agreement grants the holders of the Term Loan Warrants certain registration rights for the shares of common stock issuable upon the exercise of the applicable Term Loan Warrants, including (a) the ability of a holder to request that the Company file a Form S-1 registration statement with respect to at least 40% of the registrable securities held by such holder as of the issuance date of the applicable Term Loan Warrants; (b) the ability of a holder to request that the Company file a Form S-3 registration statement with respect to outstanding registrable securities if at any time the Company is eligible to use a Form S-3 registration statement; and (c) certain piggyback registration rights related to potential future equity offerings of the Company, subject to certain limitations.

As of September 30, 2020, the interest rates on the Senior Secured Term Loan and the Amended PNC Credit Facility were 12.0% and 7.8%, respectively. As of September 30, 2020, the Amended PNC Credit Facility had a borrowing base of \$23.6 million, of which \$21.8 million was available at that date.

As of September 30, 2020, the Company was required to maintain a \$ 5.0 million restricted cash reserve as part of the Amended PNC Credit Facility. This balance is presented as long-term restricted cash within the accompanying condensed consolidated balance sheet as of September 30, 2020.

Paycheck Protection Program

On April 13, 2020, the Company entered into a Paycheck Protection Program (“PPP”) Term Loan (“PPP Loan”) effective April 11, 2020 with PNC in an aggregate principal amount of \$10.0 million pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act. The PPP Loan bears interest at a fixed rate of 1% per annum, with interest deferred up to a maximum of 10 months after the expiration of the covered period, as defined in the PPP Loan agreement, payable monthly thereafter. The PPP Loan has an initial term of two years and is unsecured and guaranteed by the Small Business Administration. Under the terms of the PPP Note, the Company may apply for forgiveness of the amount due on the PPP Loan. The Company used the proceeds from the PPP Loan for qualifying expenses as defined in the PPP and has applied for forgiveness of the PPP Loan in accordance with the terms of the CARES Act. However, the Company cannot assure at this time that the PPP Loan will be forgiven partially or in full.

NOTE 5: LEASES

Supplemental balance sheet information related to leases is as follows (in thousands):

Operating leases	September 30, 2020		March 31, 2020	
Operating lease right-of-use asset	\$	10,597	\$	12,689
Other accrued liabilities		2,720		3,065
Operating lease liability		9,114		10,822
Total operating lease liabilities	\$	11,834	\$	13,887

Components of lease cost were as follows (in thousands):

Lease Cost	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Operating lease cost	\$ 1,338	\$ 1,304	\$ 2,669	\$ 2,576
Variable lease cost	211	147	423	212
Short-term lease cost	39	29	92	31
Total lease cost	\$ 1,588	\$ 1,480	\$ 3,184	\$ 2,819

Maturity of Lease Liabilities	Operating Leases	
For the fiscal year ended March 31,		
2021, excluding the six months ended September 30, 2020	\$	2,099
2022		3,813
2023		2,763
2024		2,598
2025		2,310
Thereafter		2,935
Total lease payments	\$	16,518
Less: imputed interest		(4,684)
Present value of lease liabilities	\$	11,834

Lease Term and Discount Rate	September 30, 2020	March 31, 2020
Weighted average remaining operating lease term (years)	4.82	4.99
Weighted average discount rate for operating leases	13.96 %	13.91 %

Operating cash outflows related to operating leases totaled \$ 1.3 million for the six months ended September 30, 2020 and 2019.

NOTE 6: RESTRUCTURING CHARGES

Costs accrued related to restructuring are classified within accrued liabilities on the condensed consolidated balance sheets. The following table summarizes the restructuring activities for the six months ended September 30, 2020 and 2019 (in thousands):

	Severance and Benefits	Facilities	Total
Balance as of March 31, 2020	\$ —	\$ —	\$ —
Restructuring costs	2,637	—	2,637
Cash payments	(2,397)	—	(2,397)
Balance as of September 30, 2020	\$ 240	\$ —	\$ 240
Balance as of March 31, 2019	\$ —	\$ 2,876	\$ 2,876
Restructuring costs	—	826	826
Adjustments to prior estimates	—	258	258
Cash payments	—	(3,661)	(3,661)
Balance as of September 30, 2019	\$ —	\$ 299	\$ 299

NOTE 7: NET LOSS PER SHARE

The following outstanding stock-based instruments which are comprised of performance share units, restricted stock units, stock options and warrants were excluded from the calculation of diluted net income (loss) per share because their effect would have been anti-dilutive (in thousands):

Three Months Ended September 30,		Six Months Ended September 30,	
2020	2019	2020	2019
8,020	8,625	7,180	6,860

The dilutive impact related to common shares from restricted stock units, stock options and warrants is determined by applying the treasury stock method of determining value to the assumed vesting of outstanding restricted stock units and the exercise of outstanding options and warrants. The dilutive impact related to common shares from contingently issuable performance share units is determined by applying a two-step approach using both the contingently issuable share guidance and the treasury stock method.

For the three and six months ended September 30, 2020, there were 1.6 million and 0.5 million contingently issuable market based and performance based restricted stock units, respectively, excluded from the calculation of diluted net income (loss) per share, as their market and performance conditions had not yet been achieved. These shares will be earned based on the Company's achievement of certain average stock price and performance targets in addition to a time-based vesting period.

NOTE 8: INCOME TAXES

The effective tax rate for the three and six months ended September 30, 2020 was - 4.6% and -4.2%, respectively as compared to - 11.7% and -10.5% in the three and six months ended September 30, 2019. Income tax provisions for each of these periods reflect expenses for foreign and state taxes and differed from the federal statutory tax rate of 21% in both periods due primarily to unbenefited losses experienced in jurisdictions with valuation allowances on deferred tax assets as well as the forecasted mix of earnings in domestic and international jurisdictions.

As of September 30, 2020, including interest and penalties, the Company had \$ 109.8 million of unrecognized tax benefits, \$91.5 million of which, if recognized, would favorably affect the effective tax rate without consideration of the valuation allowance. As of September 30, 2020, the Company had accrued interest and penalties related to these unrecognized tax benefits of \$1.2 million. The Company recognizes interest and penalties related to income tax matters in the income tax provision in the condensed consolidated statements of operations. As of September 30, 2020, \$103.2 million of unrecognized tax benefits were recorded as a contra deferred tax asset in other long-term assets in the condensed consolidated balance sheets and \$6.6 million (including interest and penalties) were recorded in other long-term liabilities in the condensed consolidated balance sheets. During the next 12 months, it is reasonably possible that approximately \$9.2 million of tax benefits, inclusive of interest and penalties, that are currently unrecognized could be recognized as a result of the expiration of applicable statutes of limitations.

NOTE 9: COMMITMENTS AND CONTINGENCIES

Commitments to Purchase Inventory

The Company uses contract manufacturers for its manufacturing operations. Under these arrangements, the contract manufacturer procures inventory to manufacture products based upon the Company's forecast of customer demand. The Company has similar arrangements with certain other suppliers. The Company is responsible for the financial impact on the supplier or contract manufacturer of any reduction or product mix shift in the forecast relative to materials that the third party had already purchased under a prior forecast. Such a variance in forecasted demand could require a cash payment for inventory in excess of current customer demand or for costs of excess or obsolete inventory. As of September 30, 2020, the Company had issued non-cancelable commitments for \$21.3 million to purchase inventory from its contract manufacturers and suppliers.

Legal Proceedings

On July, 22 2016, Realtime Data LLC d/b/a IXO ("Realtime Data") filed a patent infringement lawsuit against the Company in the U.S. District Court for the Eastern District of Texas, alleging infringement of U.S. Patents Nos.

7,161,506, 7,378,992, 7,415,530, 8,643,513, 9,054,728, and 9,116,908. The lawsuit has been transferred to the U.S. District Court for the Northern District of California for further proceedings. Realtime Data asserts that the Company has incorporated Realtime Data's patented technology into its compression products and services. Realtime Data seeks unspecified monetary damages and other relief that the Court deems appropriate. On July 31, 2017, the District Court stayed proceedings in this litigation pending decision in Inter Partes Review proceedings before the Patent Trial and Appeal Board relating to the Realtime patents. In those proceedings the asserted claims of the '506 patent, the '992 patent, and the '513 patent were found unpatentable. In addition, on July 19, 2019, all claims of the '728 patent, the '530 patent, and the '908 patent were found invalid under 35 U.S.C. § 101. The stay remains in effect pending Realtime's appeal of those rulings. The Company believes the probability that this lawsuit will have a material adverse effect on our business, operating results or financial condition is remote.

On July 14, 2020, Starboard Value LP, Starboard Value and Opportunity Master Fund Ltd., Starboard Value and Opportunity S LLC, and Starboard Value and Opportunity C LP (collectively, "Starboard") filed a lawsuit against Quantum Corporation, Quantum's former CEO and board member Jon Gacek, and former Quantum board member Paul Auvil in the California Superior Court in Santa Clara County. The complaint alleges that between 2012 and 2014, Starboard purchased a large number of shares of Quantum's common stock, obtained three seats on Quantum's board of directors and then, in July 2014, entered into an agreement with Quantum whereby Starboard would not seek control of Quantum's board but would instead support Quantum's slate of board nominees so long as Quantum met certain performance objectives by the end of fiscal 2015. The complaint further alleges that Quantum did not meet those performance objectives but hid that by improperly recognizing revenue in fiscal 2015, with the alleged objective of entrenching Messrs. Gacek and Auvil and then-current management. Mr. Gacek resigned from the board effective May 1, 2017 and as CEO effective November 7, 2017; Mr. Auvil resigned from the board effective November 8, 2017. The complaint's accounting allegations largely repeat allegations made in now-concluded shareholder class actions, shareholder derivative actions and SEC investigation, the settlement of which we previously reported in the Company's Form 10-Q filed with the SEC on January 29, 2020 and Form 10-K filed with the SEC on August 6, 2019 (among other SEC filings). Based on these allegations, the complaint asserts putative claims for intentional misrepresentation/fraud in the inducement, intentional misrepresentation/fraud and negligent misrepresentation against Quantum, Gacek and Auvil, false promise/promissory fraud and unjust enrichment against Quantum and breach of fiduciary duty against Gacek and Auvil. Starboard is demanding a jury trial, and seeks unspecified damages including punitive damages, an award of rescission or rescissory damages, and award of restitution in an amount necessary to compensate for the alleged unjust enrichment of Quantum, attorney fees and costs and other relief deemed just or appropriate by the court. On September 14, 2020, all defendants filed a joint motion to dismiss this action on grounds of forum non conveniens and the mandatory Delaware forum selection clauses set forth in the contracts between Starboard and Quantum. The parties have filed a stipulation, which is currently under review by the Court; if approved, the stipulation would provide for a briefing schedule on the motion to continue through December 4, 2020, with oral argument on the motion to be held the week of December 14, 2020. At this time, the Company is unable to estimate the range of possible outcomes with respect to this matter.

Other Commitments

Additionally, from time to time, the Company is a party to various legal proceedings and claims arising from the normal course of business activities. Based on current available information, the Company does not expect that the ultimate outcome of any of these other currently pending unresolved matters, individually or in the aggregate, will have a material adverse effect on the Company's results of operations, cash flows or financial position.

NOTE 10: FAIR VALUE OF FINANCIAL INSTRUMENTS

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

No impairments charges were recognized for non-financial assets in the six months ended September 30, 2020 and 2019. The Company has no non-financial liabilities measured and recorded at fair value on a non-recurring basis.

Long-term Debt

The table below represents the carrying value and total estimated fair value of long-term debt as of September 30, 2020 and 2019. The fair value has been classified as Level 2 within the fair value hierarchy.

	September 30,					
	2020		2019			
	Carrying Value	Fair Value	Carrying Value	Fair Value		
Senior Secured Term Loan	\$ 185,208	\$ 185,208	\$ 170,739	\$ 170,764		

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

The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements, the accompanying notes, and other information included in this quarterly report and our annual report for the year ended March 31, 2020. In particular, the disclosure contained in Item 1A in our annual report, as updated by Part II, Item 1A in this quarterly report, may reflect trends, demands, commitments, events, or uncertainties that could materially impact our results of operations and liquidity and capital resources.

The following discussion contains forward-looking statements, such as statements regarding COVID-19's anticipated impacts on our business, our future operating results and financial position, our business strategy and plans, and our objectives for future operations. Please see "Note Regarding Forward-Looking Statements" for more information about relying on these forward-looking statements.

OVERVIEW

We are a leader in storing and managing digital video and other forms of unstructured data. We help customers around the world to ingest, process, and analyze digital data at high speed, and preserve and protect it for decades. Our customers include some of the world's largest corporations, government agencies, service providers, broadcasters, movie studios, sports leagues and teams, and enterprises in all industries. We work closely with a broad network of distributors, VARs, DMRs, OEMs and other suppliers to solve our customers most pressing business challenges.

We earn our revenue from the sale of products and services through our channel partners and our sales force. Our products are sold under both the Quantum brand name and the names of various OEM providers. Our portfolio of solutions includes:

- **StorNext scale out file storage:** We offer a line of products designed for the highest speed ingest, processing, and analysis of video and other forms of unstructured data. Powered by the StorNext file system software and data management platform, this product line includes new NVMe flash storage servers (F-series) and hybrid SSD/HDD storage arrays.
- **Video Surveillance Systems:** We offer a broad portfolio of solutions designed for video surveillance and physical security, including network video recording servers (NVRs), hyperconverged (HCI) storage servers to host multiple physical security workloads, GPU-based analytics servers, and file and object storage systems for large scale surveillance archives.
- **ActiveScale Object Storage:** We also sell massively scalable object storage systems used to preserve and protect data with high levels of data durability.
- **Tape Storage:** We provide low cost, secure storage systems for long term archiving and ransomware protection. We provide both the storage systems and sells tape media under the Quantum brand.
- **Backup Storage Systems:** We offer high-performance, scalable storage for backup and multi-site disaster recovery.
- **Quantum Services:** We offer a full line of services including managed services and Storage-as-a-Service offerings, as well as maintenance, implementation, training and consulting services.

COVID-19 IMPACT AND ASSOCIATED ACTIONS

Since the beginning of March 2020, COVID-19 has led governments and other authorities around the world, including federal, state and local authorities in the United States, to impose measures intended to reduce its spread, including restrictions on freedom of movement and business operations such as travel bans, border closings, business limitations and closures (subject to exceptions for essential operations and businesses), quarantines and shelter-in-place orders. These measures may remain in place for a significant period of time.

In light of these events, we have taken actions to protect the health and safety of our employees while continuing to serve our global customers as an essential business. We have implemented more thorough sanitation practices as outlined by health organizations and instituted social distancing policies at our locations around the world, including working from home, limiting the number of employees attending in person meetings, reducing the number of people in our sites at any one time, and suspending employee travel.

For many of our customers, the COVID-19 pandemic has significantly affected their business. Movie and television production has been paused, professional and collegiate sports seasons have been postponed or cancelled, and many corporations and enterprises have put information technology spending on hold while they assess the short- and long-term impact of the pandemic. While our supply chain remains intact and operating, we have experienced issues related to our logistics network. The reduced capacity within and across freight lanes (aircraft, personnel, customs clearance, etc.) has caused late deliveries from re-routes and mis-shipments, as well as increased expedite and other charges to deliver and receive products. To date, we have experienced minimal impact on product availability, although future capacity constraints across the network due to lost capacity from factory down time, closures, as well as reduced staff and demand signal fluctuations are expected to impact product availability in the months and possibly quarters to come.

We believe that these social and economic impacts have had a negative effect on sales due to the decline in our customers' ability or willingness to purchase our products and services. The extent of the impact will depend, in part, on how long the negative trends in customer demand and supply chain levels will continue. We expect COVID-19 to significantly impact our financial condition, results of operations, and liquidity through at least our third quarter and likely much longer.

We will continue to actively monitor the situation and may take further actions altering our business operations that we determine are in the best interests of our employees, customers, partners, suppliers, and stakeholders, or as required by federal, state, or local authorities. See "The recent COVID-19 pandemic could adversely affect our business, results of operations and financial condition" in Part II, Item 1A, Risk Factors, of our most recent Annual Report on Form 10-K for more information regarding the risks we face as a result of the COVID-19 pandemic.

NON-U.S. GAAP FINANCIAL MEASURES

To provide investors with additional information regarding our financial results, we have presented Adjusted EBITDA and Adjusted Net Income (Loss), non-U.S. GAAP financial measures defined below.

Adjusted EBITDA is a non-U.S. GAAP financial measure defined by us as net loss before interest expense (net), provision for income taxes, depreciation and amortization expense, stock-based compensation expense, restructuring charges, long-term debt related costs, costs related to the financial restatement and related activities described in the Explanatory Paragraph and Note 2: – Restatement in our Annual Report on Form 10-K for the year ended March 31, 2019, and other non-recurring expenses.

Adjusted Net Income (Loss) is a non-U.S. GAAP financial measure defined by us as net loss before restructuring charges, stock-based compensation expense, long-term debt related costs, costs related to the financial restatement and related activities described in the Explanatory Paragraph and Note 2: – Restatement in the Annual Report on Form 10-K for the year ended March 31, 2019 and other non-recurring (income) expenses. The Company calculates Adjusted Net Income (Loss) per Basic and Diluted share using the Company's above-referenced definition of Adjusted Net Income (Loss).

The Company considers non-recurring expenses to be expenses that have not been incurred within the prior two years and are not expected to recur within the next two years. Such expenses include certain strategic and financial restructuring expenses.

We have provided below a reconciliation of Adjusted EBITDA and Adjusted Net Income (Loss) to Net Income (Loss), the most directly comparable U.S. GAAP financial measure. We have presented Adjusted EBITDA because it is a key measure used by our management and the board of directors to understand and evaluate our core operating performance and trends, to prepare and approve our annual budget and to develop short and long-term operating plans. In particular, we believe that the exclusion of the amounts eliminated in calculating Adjusted EBITDA can provide a useful measure for period-to-period comparisons of our core business performance. We believe Adjusted Net Income (Loss) and Adjusted Net Income (Loss) per Basic and Diluted Share serve as appropriate measures to be used in evaluating the performance of our business and help our investors better compare our operating performance over multiple periods. Accordingly, we believe that Adjusted EBITDA and Adjusted Net Income (Loss) provide useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and our board of directors.

Our use of Adjusted EBITDA and Adjusted Net Income (Loss) have limitations as analytical tools, and you should not consider them in isolation or as a substitute for analysis of our financial results as reported under U.S. GAAP. Some of these limitations are as follows:

- Although depreciation and amortization expense are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- Adjusted EBITDA does not reflect: (1) interest and tax payments that may represent a reduction in cash available to us; (2) capital expenditures, future requirements for capital expenditures or contractual commitments; (3) changes in, or cash requirements for, working capital needs; (4) the potentially dilutive impact of stock-based compensation expense; (5) potential future costs related to our long-term debt; (6) potential future restructuring expenses; or (6) potential future costs related to our financial statement restatement and other related activities;
- Adjusted Net Income (Loss) does not reflect: (1) potential future restructuring activities; (2) the potentially dilutive impact of stock-based compensation expense; (3) potential future costs related to our long-term debt; or (4) potential future costs related to our financial statement restatement and other related activities; and
- Other companies, including companies in our industry, may calculate Adjusted EBITDA, Adjusted Net Income (Loss) or similarly titled measures differently, which reduces its usefulness as a comparative measure.

Because of these and other limitations, you should consider Adjusted EBITDA and Adjusted Net Income (Loss) along with other U.S. GAAP-based financial performance measures, including various cash flow metrics and our U.S. GAAP financial results.

The following is a reconciliation of Adjusted EBITDA to the most comparable U.S. GAAP financial measure, Net Loss (in thousands):

	Three Months Ended		Six Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Net loss	\$ (4,592)	\$ (2,315)	\$ (15,328)	\$ (6,122)
Interest expense, net	7,578	6,347	14,015	12,653
Provision for income taxes	202	243	622	581
Depreciation and amortization expense	1,295	1,013	2,580	2,034
Stock-based compensation expense	2,591	2,365	4,549	3,352
Long-term debt related costs	203	—	1,169	—
Restructuring charges	1,585	821	2,637	1,084
Cost related to financial restatement and related activities	—	4,188	—	12,179
Adjusted EBITDA	\$ 8,862	\$ 12,662	\$ 10,244	\$ 25,761

The following is a reconciliation of Adjusted Net Income (Loss) to the most comparable U.S. GAAP financial measure, Net Loss (in thousands):

	Three Months Ended		Six Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Net loss	\$ (4,592)	\$ (2,315)	\$ (15,328)	\$ (6,122)
Restructuring charges	1,585	821	2,637	1,084
Stock-based compensation	2,591	2,365	4,549	3,352
Long-term debt related costs	203	—	1,169	—
Cost related to financial restatement and related activities	—	4,188	—	12,179
Adjusted net income (loss)	\$ (213)	\$ 5,059	\$ (6,973)	\$ 10,493
Adjusted net income (loss) per share:				
Basic	\$ (0.01)	\$ 0.14	\$ (0.17)	\$ 0.29
Diluted	\$ (0.01)	\$ 0.11	\$ (0.17)	\$ 0.24
Weighted average shares outstanding:				
Basic	40,286	36,297	40,097	36,172
Diluted	40,286	44,923	40,097	43,032

RESULTS OF OPERATIONS

(in thousands)	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Total revenue	\$ 85,821	\$ 105,789	\$ 159,126	\$ 211,419
Total cost of revenue ⁽¹⁾	47,087	62,266	89,540	122,070
Gross profit	38,734	43,523	69,586	89,349
Operating expenses				
Research and development ⁽¹⁾	10,233	9,350	24,723	17,733
Sales and marketing ⁽¹⁾	13,153	14,824	21,825	30,680
General and administrative ⁽¹⁾	10,263	14,329	20,395	32,905
Restructuring charges	1,585	821	2,637	1,084
Total operating expenses	35,234	39,324	69,580	82,402
Income from operations	3,500	4,199	6	6,947
Other income (expense)	(312)	76	(697)	165
Interest expense	(7,578)	(6,347)	(14,015)	(12,653)
Loss before income taxes	(4,390)	(2,072)	(14,706)	(5,541)
Income tax provision	202	243	622	581
Net loss	\$ (4,592)	\$ (2,315)	\$ (15,328)	\$ (6,122)

⁽¹⁾ Includes stock-based compensation as follows:

(in thousands)	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Cost of revenue	\$ 227	\$ 81	\$ 396	\$ 173
Research and development	591	143	1,062	265
Sales and marketing	495	291	832	408
General and administrative	1,278	1,850	2,259	2,506
Total	\$ 2,591	\$ 2,365	\$ 4,549	\$ 3,352

Comparison of the Three Months Ended September 30, 2020 and 2019

Revenue

(dollars in thousands)	Three Months Ended September 30,		2019 ¹		\$ Change	% Change
	2020	% of revenue	2019 ¹	% of revenue		
Product revenue						
Primary storage systems	\$ 20,610	24 %	\$ 21,299	20 %	\$ (689)	(3) %
Secondary storage systems	18,903	22	28,804	27	(9,901)	(34)
Devices and media	11,337	13	18,027	17	(6,690)	(37)
Total product revenue	\$ 50,850	59 %	\$ 68,130	64 %	\$ (17,280)	(25)
Service revenue	31,494	37	32,401	31	(907)	(3)
Royalty revenue	3,477	4	5,258	5	(1,781)	(34)
Total revenue	\$ 85,821	100 %	\$ 105,789	100 %	\$ (19,968)	(19)

¹ Primary and Secondary storage system revenue has been adjusted for the three months ended September 30, 2019 due to certain reclassifications from Primary to Secondary storage systems.

Product revenue

In the three months ended September 30, 2020, product revenue decreased \$17.3 million, or 25%, as compared to the same period in 2019. Primary storage systems represented \$0.7 million of the decrease, driven by declines in the media and entertainment industry as a result of the COVID-19 pandemic. Secondary storage systems represented \$9.9 million of the decrease, driven primarily by fluctuating purchase cycles with our hyperscale customers. Devices and media represented \$6.7 million of the decrease, driven by a lower volume of LTO media sold through our high-volume channel partners. The prior year included a spike in volume as supply issues were resolved between two major vendors in the market.

Service revenue

We offer a broad range of services including maintenance, implementation and training. Service revenue is primarily comprised of customer field support contracts which provide standard support services for our hardware. Standard service contracts may be extended or include enhanced service, such as faster service response times.

Service revenue decreased 3% in the three months ended September 30, 2020 compared to the same period in 2019 due to a combination of reduced new customer installations and reduced support renewals from our legacy customers.

Royalty revenue

We receive royalties from third parties that license our LTO media patents through our membership in the LTO consortium. Royalty revenue decreased \$1.8 million, or 34%, in the three months ended September 30, 2020 compared to the same period in 2019 due to lower overall market volume.

Gross Profit and Margin

(dollars in thousands)	Three Months Ended September 30,					
	2020	Gross margin %	2019	Gross margin %	\$ Change	Basis point change
Product gross profit	\$ 15,852	31.2 %	\$ 18,663	27.4 %	\$ (2,811)	380
Service gross profit	19,405	61.6	19,602	60.5	(197)	110
Royalty gross profit	3,477	100.0	5,258	100.0	(1,781)	—
Gross profit	\$ 38,734	45.1 %	\$ 43,523	41.1 %	\$ (4,789)	400

Product Gross Margin

Product gross margin increased 380 basis points for the three months ended September 30, 2020, as compared with the same period in 2019. This increase was due primarily to a more favorable mix of enterprise products sold, along with a relatively flat operations departmental expense.

Service Gross Margin

Service gross margin increased 110 basis points for the three months ended September 30, 2020, as compared with the same period in 2019. This increase was primarily the effect of reduced repair costs.

Royalty Gross Margin

Royalties do not have significant related cost of sales.

Operating expenses

	Three Months Ended September 30,					
	2020	% of revenue	2019	% of revenue	\$ Change	% Change
Research and development	\$ 10,233	11.9 %	\$ 9,350	8.8 %	\$ 883	9 %
Sales and marketing	13,153	15.3	14,824	14.0	(1,671)	(11)
General and administrative	10,263	12.0	14,329	13.5	(4,066)	(28)
Restructuring charges	1,585	1.8	821	0.8	764	93
Total operating expenses	\$ 35,234	41.1 %	\$ 39,324	37.2 %	\$ (4,090)	(10)

In the three months ended September 30, 2020, research and development expense increased \$0.9 million, or 9%, as compared with the same period in 2019. This increase was due in part to an increase in personnel costs due to increased headcount focused on new product development.

In the three months ended September 30, 2020, sales and marketing expenses decreased \$1.7 million, or 11%, as compared with the same period in 2019. This decrease was largely driven by an overall decrease in compensation and benefits as the result of lower headcount, a decrease in marketing programs and professional services costs, and suspended travel and entertainment expense due to current COVID-19 related restrictions.

In the three months ended September 30, 2020, general and administrative expenses decreased \$4.1 million, or 28% as compared with the same period in 2019. This decrease was due primarily to higher costs in 2019 related to the financial restatement and related activities.

In the three months ended September 30, 2020, restructuring expenses increased \$0.8 million, or 93% as compared with the same period in 2019. The increase was the result of a reduction in workforce to improve operational efficiency and rationalize our cost structure.

Other Income (Expense)

	Three Months Ended September 30,					
	2020	% of revenue	2019	% of revenue	\$ Change	% Change
Other income (expense)	\$ (312)	0 %	\$ 76	— %	\$ (388)	511 %
Interest expense	(7,578)	(9)	(6,347)	6	(1,231)	19

Other income (expense), net during the three months ended September 30, 2020 and 2019 were related primarily to fluctuations in foreign currency exchange rates.

In the three months ended September 30, 2020, interest expense increased \$1.2 million, or 19%, as compared with the same period in 2019 due primarily to a higher principal balance.

Income Taxes

	Three Months Ended September 30,					
	2020	% of revenue	2019	% of revenue	\$ Change	% Change
Income tax provision	\$ 202	1 %	\$ 243	— %	\$ (41)	(17) %

The income tax provision for the three months ended September 30, 2020 and 2019 is primarily influenced by foreign and state income taxes. Due to our history of net losses in the United States, the protracted period for utilizing tax attributes in certain foreign jurisdictions, and the difficulty in predicting future results, we believe that we cannot rely on projections of future taxable income to realize most of our deferred tax assets. Accordingly, we have established a full valuation allowance against our U.S. and certain foreign net deferred tax assets. Significant management judgement is required in 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 its reversal.

Our income tax expense recorded in the future will be reduced to the extent that sufficient positive evidence materializes to support a reversal of, or decrease in, our valuation allowance.

Comparison of the Six Months Ended September 30, 2020 and 2019

Revenue

(dollars in thousands)	Six Months Ended September 30,					
	2020	% of revenue	2019 ¹	% of revenue	\$ Change	% Change
Product revenue						
Primary storage systems	\$ 30,824	19 %	\$ 35,922	17 %	\$ (5,098)	(14) %
Secondary storage systems	37,395	24	66,516	31	(29,121)	(44)
Devices and media	22,318	14	31,488	15	(9,170)	(29)
Total product revenue	\$ 90,537	57 %	\$ 133,926	63 %	\$ (43,389)	(32)
Service revenue	61,880	39	65,781	31	(3,901)	(6)
Royalty revenue	6,709	4	11,712	6	(5,003)	(43)
Total revenue	\$ 159,126	100 %	\$ 211,419	100 %	\$ (52,293)	(25)

¹ Primary and Secondary storage system revenue has been adjusted for the six months ended September 30, 2019 due to certain reclassifications from Primary to Secondary storage systems.

Product revenue

In the six months ended September 30, 2020, product revenue decreased \$43.4 million, or 32%, as compared to the same period in 2019. Secondary storage systems represented \$29.1 million of the decrease, driven primarily by fluctuating purchase cycles with our hyperscale customers. Devices and media represented \$9.2 million of the decrease, driven by lower volume of LTO media sold through our high-volume channel partners. The prior year included a spike in volume as supply issues were resolved between two major vendors in the market. Primary storage systems represented \$5.1 million of the decrease, driven by declines in the media and entertainment industry as a result of the COVID-19 pandemic.

Service revenue

We offer a broad range of services including maintenance, implementation, and training. Service revenue is primarily comprised of customer field support contracts which provide standard support services for our hardware. Standard service contracts may be extended or include enhanced service, such as faster service response times.

Service revenue decreased 6% in the six months ended September 30, 2020 compared to the same period in 2019 due to a combination of reduced new customer installations and reduced support renewals from our legacy customers.

Royalty revenue

We receive royalties from third parties that license our LTO media patents through our membership in the LTO consortium. Royalty revenue decreased \$5.0 million, or 43%, in the six months ended September 30, 2020 compared to the same period in 2019 due to lower overall market volume.

Gross Profit and Margin

(dollars in thousands)	Six Months Ended September 30,					
	2020	Gross margin %	2019	Gross margin %	\$ Change	Basis point change
Product gross profit	\$ 25,157	27.8 %	\$ 37,260	27.8 %	\$ (12,103)	—
Service gross profit	37,720	61.0	40,377	61.4	(2,657)	(40)
Royalty gross profit	6,709	100.0	11,712	100.0	(5,003)	—
Gross profit	<u>\$ 69,586</u>	43.7 %	<u>\$ 89,349</u>	42.3 %	<u>\$ (19,763)</u>	140

Product Gross Margin

Product gross margin was flat for the six months ended September 30, 2020, as compared with the same period in 2019.

Service Gross Margin

Service gross margin decreased 40 basis points for the six months ended September 30, 2020, as compared with the same period in 2019. This decrease was due primarily to total service revenue decreases of 6% with relatively flat corresponding departmental expense.

Royalty Gross Margin

Royalties do not have significant related cost of sales.

Operating expenses

(dollars in thousands)	Six Months Ended September 30,					
	2020	% of revenue	2019	% of revenue	\$ Change	% Change
Research and development	\$ 24,723	15.5 %	\$ 17,733	8.4 %	\$ 6,990	39 %
Sales and marketing	21,825	13.7	30,680	14.5	(8,855)	(29)
General and administrative	20,395	12.8	32,905	15.6	(12,510)	(38)
Restructuring charges	2,637	1.7	1,084	0.5	1,553	143
Total operating expenses	<u>\$ 69,580</u>	43.7 %	<u>\$ 82,402</u>	39.0 %	<u>\$ (12,822)</u>	(16)

In the six months ended September 30, 2020, research and development expense increased \$7.0 million, or 39%, as compared with the same period in 2019. This increase was due in part to an increase in personnel costs due to increased headcount focused on new product development.

In the six months ended September 30, 2020, sales and marketing expenses decreased \$8.9 million, or 29%, as compared with the same period in 2019. This decrease was due primarily to a decrease in personnel costs due to lower headcount, a decrease in marketing programs and professional services costs, and suspended travel and entertainment expense due to current COVID-19 related restrictions.

In the six months ended September 30, 2020, general and administrative expenses decreased \$12.5 million, or 38% as compared with the same period in 2019. This decrease was due primarily to higher costs in 2019 related to the financial restatement and related activities.

In the six months ended September 30, 2020, restructuring expenses increased \$1.6 million, or 143% as compared with the same period in 2019. The increase was the result of a reduction in workforce to improve operational efficiency and rationalize our cost structure.

Other Income (Expense)

	Six Months Ended September 30,					
	2020	% of revenue	2019	% of revenue	\$ Change	% Change
(dollars in thousands)						
Other income (expense)	\$ (697)	0 %	\$ 165	— %	\$ (862)	522 %
Interest expense	(14,015)	(9)	(12,653)	6	(1,362)	11

Other income (expense), net during the six months ended September 30, 2020 and 2019 were related primarily to fluctuations in foreign currency exchange rates.

In the six months ended September 30, 2020, interest expense increased \$1.4 million, or 11%, as compared with the same period in 2019 due primarily to a higher principal balance.

Income Taxes

	Six Months Ended September 30,					
	2020	% of revenue	2019	% of revenue	\$ Change	% Change
(dollars in thousands)						
Income tax provision	\$ 622	— %	\$ 581	— %	\$ 41	7 %

The income tax provision for the six months ended September 30, 2020 and 2019 is primarily influenced by foreign and state income taxes. Due to our history of net losses in the United States, the protracted period for utilizing tax attributes in certain foreign jurisdictions, and the difficulty in predicting future results, we believe that we cannot rely on projections of future taxable income to realize most of our deferred tax assets. Accordingly, we have established a full valuation allowance against our U.S. and certain foreign net deferred tax assets. Significant management judgement is required in 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 its reversal. Our income tax expense recorded in the future will be reduced to the extent that sufficient positive evidence materializes to support a reversal of, or decrease in, our valuation allowance.

LIQUIDITY AND CAPITAL RESOURCES

We consider liquidity in terms of the sufficiency of internal and external cash resources to fund our operating, investing and financing activities. Our principal sources of liquidity include cash from operating activities, cash and cash equivalents on our balance sheet and amounts available under our Amended PNC Credit Facility (as defined below). We require significant cash resources to meet obligations to pay principal and interest on our outstanding debt, provide for our research and development activities, fund our working capital needs, and make capital expenditures. Our future liquidity requirements will depend on multiple factors, including our research and development plans and capital asset needs. We are subject to the risks arising from COVID-19 which have caused substantial financial market volatility and have adversely affected both the U.S. and the global economy. We believe that these social and economic impacts have had a negative effect on sales due to the decline in our customers' ability or willingness to purchase our products and services. The extent of the impact will depend, in part, on how long the negative trends in customer demand and supply chain levels will continue. We expect the impact of COVID-19 to have a significant impact on our liquidity and capital resources.

We had cash and cash equivalents of \$12.5 million as of September 30, 2020, compared to \$6.4 million as of March 31, 2020. These amounts exclude, as of both dates, \$5.0 million in restricted cash that we are required to maintain under the Credit Agreements (as defined below), and \$0.8 million of short-term restricted cash.

Our outstanding long-term debt amounted to \$171.0 million as of September 30, 2020, net of \$22.8 million in unamortized debt issuance costs and \$1.4 million in current portion of long-term debt, and \$146.8 million as of March 31, 2020, net of \$13.7 million in unamortized debt issuance costs and \$7.3 million in current portion of long-term debt. Included in long-term debt as of September 30, 2020 is \$10.0 million borrowed under the Paycheck Protection Program which was included in the Coronavirus Aid, Relief, and Economic Security (CARES) Act. As of

September 30, 2020, we had \$21.8 million of borrowing availability on our Amended PNC Credit Facility (subject to change based on certain financial metrics). See “—Debt Profile and Covenants” and “—Contractual Obligations” below for further information about our outstanding debt.

We are subject to various debt covenants under our Credit Agreements (as defined below). Our failure to comply with our debt covenants could materially and adversely affect our financial condition and ability to service our obligations. For additional information about our debt, see the sections entitled “Risk Factors—Risks Related to Our Business Operations” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” in our Annual Report on Form 10-K for the fiscal year ended March 31, 2020.

Cash Flows

The following table summarizes our consolidated cash flows for the periods indicated.

(Dollars in thousands)	Six Months Ended September 30,	
	2020	2019
Cash provided by (used in):		
Operating activities	\$ (19,299)	\$ (9,656)
Investing activities	(1,434)	(1,315)
Financing activities	26,868	5,980
Effect of exchange rate changes	(96)	72
Net increase (decrease) in cash and cash equivalents and restricted cash	\$ 6,039	\$ (4,919)

Cash Used In Operating Activities

Net cash used in operating activities was \$19.3 million for the six months ended September 30, 2020. This use of cash is primarily attributable to changes in working capital of \$20.0 million driven by the increase in manufacturing and service inventory of \$13.6 million and a decrease in deferred revenue of \$12.6 million. These were partially offset by an increase in accounts receivable of \$7.6 million. The decrease in deferred revenue reflects the seasonal nature of service contract renewals which peak in the fourth fiscal quarter.

Net cash used in operating activities was \$9.7 million for the six months ended September 30, 2019 which is primarily attributable to a decrease in deferred revenue related to the timing of service contract renewals which are historically more heavily weighted to our third and fourth fiscal quarters.

Cash Used in Investing Activities

Net cash used in investing activities was \$1.4 million in the six months ended September 30, 2020, which was mostly flat compared to the same period in the prior year. Our capital expenditures in both periods consisted primarily of tooling purchases and leasehold improvements.

Cash Provided by Financing Activities

Net cash provided by financing activities was \$26.9 million in the six months ended September 30, 2020 which included Senior Secured Term Loan borrowings of \$19.4 million (net of lender fees of \$0.6 million), \$10.0 million in borrowings under the Paycheck Protection Program and the net pay-down of our Amended PNC Credit Facility.

Net cash provided by financing activities was \$6.0 million in the six months ended September 30, 2019 related primarily to borrowings under our credit facility.

Debt Profile and Covenants

PNC Credit Facility

We are party to the Amended PNC Credit Agreement, a senior secured revolving credit facility in an available principal amount equal to the lesser of (i) \$45.0 million and (ii) the "borrowing base" (as defined under the Amended PNC Credit Agreement). The Amended PNC Credit Facility had a borrowing base of \$23.6 million as of September 30, 2020, \$21.8 million of which was available to us at that date.

On June 16, 2020, we entered into an amendment to the Amended PNC Credit Facility. The amendment, among other things, waived compliance with the total net leverage ratio, total leverage ratio, fixed charge coverage ratio, minimum average liquidity and minimum EBITDA financial covenants for the quarters ending on June 30, 2020, September 30, 2020, December 31, 2020, and March 31, 2021, added a financial covenant that requires a minimum monthly average undrawn availability level of \$7.0 million for the period from June 30, 2020 through and including May 31, 2021, added a financial covenant that requires a minimum liquidity of not less than \$10.0 million at the end of each quarter, beginning with the quarter ending June 30, 2021 and amended the covenant levels for the total net leverage ratio, total leverage ratio, fixed charge coverage ratio, and minimum EBITDA financial covenants, commencing with the quarter ending June 30, 2021. The Amended PNC Credit Facility continues to include a covenant that requires a minimum of \$5.0 million of PNC qualified cash at all times.

Senior Secured Term Loan

We are also party to a senior secured term loan facility in an aggregate principal amount of \$185.2 million as of September 30, 2020 (the "Senior Secured Term Loan" and together with the Amended PNC Credit Agreement, the "Credit Agreements"). The Senior Secured Term Loan initially provided for borrowings of \$165.0 million. The proceeds of the Senior Secured Term Loan were used to repay our previously outstanding long-term debt and fund our working capital requirements.

On June 16, 2020, we entered into an amendment to the Senior Secured Term Loan (the "June 2020 Term Loan Amendment"). The amendment provides an additional borrowing of \$20.0 million which was immediately drawn in full. The amendment, among other things, waived compliance with the total net leverage ratio, fixed charge coverage ratio, minimum liquidity and minimum EBITDA financial covenants for the quarters ending on June 30, 2020, September 30, 2020, December 31, 2020, and March 31, 2021, added a financial covenant that requires a minimum monthly average undrawn availability of \$7.0 million under the Amended PNC Credit Facility during the period from June 30, 2020 through and including May 31, 2021 and amended the covenant levels for the total net leverage ratio, fixed charge coverage ratio, and minimum EBITDA financial covenants, commencing with the quarter ending June 30, 2021.

Paycheck Protection Program

On April 13, 2020, we entered into a Paycheck Protection Program (the "PPP") Term Loan (the "PPP Loan") effective April 11, 2020 with PNC in an aggregate principal amount of \$10.0 million pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act). The PPP Loan bears interest at a fixed rate of 1% per annum, with interest deferred up to a maximum of 10 months after the expiration of the covered period, as defined in the PPP Loan agreement, payable monthly thereafter. The PPP Loan has an initial term of two years and is unsecured and guaranteed by the Small Business Administration. Under the terms of the PPP Note, we may apply for forgiveness of the amount due on the PPP Loan. We used the proceeds from the PPP Loan for qualifying expenses and have applied for forgiveness of the PPP Loan in accordance with the terms of the CARES Act. However, we cannot assure at this time that the PPP Loan will be forgiven partially, or in full.

Commitments and Contingencies

Our contingent liabilities consist primarily of certain financial guarantees, both express and implied, related to product liability and potential infringement of intellectual property. We have little history of costs associated with such indemnification requirements and contingent liabilities associated with product liability may be mitigated by our insurance coverage. In the normal course of business to facilitate transactions of our services and products, we indemnify certain parties with respect to certain matters, such as intellectual property infringement or other claims. We also have indemnification agreements with our current and former officers and directors. It is not possible to determine the maximum potential amount under these indemnification agreements due to the limited history of our indemnification claims, and the unique facts and circumstances involved in each particular agreement. Historically, payments made by us under these agreements have not had a material impact on our operating results, financial position or cash flows.

We are also subject to ordinary course litigation and potential costs related to our financial statement restatement activities and related legal costs.

Off Balance Sheet Arrangements

Except for the indemnification commitments described under “—Commitments and Contingencies” above, we do not currently have any other off-balance sheet arrangements and do not have any holdings in variable interest entities.

Contractual Obligations

We have contractual obligations and commercial commitments, some of which, such as purchase obligations, are not recognized as liabilities in our financial statements. There have not been any other material changes to the contractual obligations disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2020.

Critical Accounting Estimates and Policies

The preparation of our consolidated financial statements in accordance with generally accepted accounting principles requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes included elsewhere in this Quarterly Report on Form 10-Q. On an ongoing basis, we evaluate estimates, which are based on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. We consider certain accounting policies to be critical to understanding our financial statements because the application of these policies requires significant judgment on the part of management, which could have a material impact on our financial statements if actual performance should differ from historical experience or if our assumptions were to change. Our accounting policies that include estimates that require management’s subjective or complex judgments about the effects of matters that are inherently uncertain are summarized in our most recently filed Annual Report on Form 10-K for the fiscal year ended March 31, 2020 under the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Critical Accounting Policies.” For additional information on our significant accounting policies, see Note 1 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Recently Issued and Adopted Accounting Pronouncements

See Note 1 to the notes to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q and in our most recently filed Annual Report on Form 10-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to our quantitative and qualitative disclosures about market risk from those described under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our most recent Annual Report on Form 10-K, which such section is incorporated herein by reference.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive and principal financial officers, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934), as of the end of the period covered by this quarterly report. Based on such evaluation, our principal executive and principal financial officers have concluded that as of such date, our disclosure controls and procedures were effective at the reasonable assurance level described below.

Changes in Internal Control

In connection with the evaluation required by Rule 13a-15(d) under the Securities Exchange Act of 1934, there were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2020 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls

Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See [Note 9, Commitments and Contingencies](#), of the notes to the unaudited consolidated financial statements for a discussion of our legal matters.

ITEM 1A. RISK FACTORS

There have been no material changes to the previously disclosed risk factors discussed in Part 1 “Part I, Item 1A, Risk Factors” in our Annual Report on Form 10-K for the year ended March 31, 2020. You should consider carefully these factors, together with all of the other information in this Quarterly Report on Form 10-Q, including our unaudited condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q, before making an investment decision.

ITEM 6. EXHIBITS

The exhibits required to be filed or furnished as part of this Quarterly Report are listed below. Notwithstanding any language to the contrary, exhibits 32.1 and 32.2 shall not be deemed to be filed as part of this Quarterly Report for purposes of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act") or deemed to be incorporated by reference into any filing under the Exchange Act or the Securities Act of 1933, except to the extent that The Company specifically incorporates it by reference.

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed or Furnished Herewith
		Form	Filing Date	Exhibit	
4.1	Warrant to Purchase Common Stock, dated June 16, 2020, Warrant No. B-1	8-K	6/16/2020	4.1	
4.2	Warrant to Purchase Common Stock, dated June 16, 2020, Warrant No. B-2	8-K	6/16/2020	4.2	
4.3	Warrant to Purchase Common Stock, dated June 16, 2020, Warrant No. B-3	8-K	6/16/2020	4.3	
4.4	Warrant Agreement, dated June 16, 2020	8-K	6/16/2020	4.4	
4.5	Amended and Restated Registration Rights Agreement, dated June 16, 2020, between the Company, OC II FIE V LP, Blue Torch Credit Opportunities Fund I LP and BTC Holdings SC Fund LLC	8-K	6/16/2020	4.5	
10.1	Amendment No. 4 To Term Loan Credit and Security Agreement, dated June 16, 2020, between the Company, Quantum LTO Holdings, LLC, the lenders party thereto, and U.S. Bank National Association, as disbursing and collateral agent	8-K	6/16/2020	10.1	
10.2	Third Amendment to Amended and Restated Revolving Credit and Security Agreement, dated June 16, 2020, between the Company, Quantum LTO Holdings, LLC, the lenders party thereto, and PNC Bank, National Association, as administrative agent	8-K	6/16/2020	10.2	
10.3	Payment Protection Program Term Note, effective as of April 11, 2020, in favor of PNC Bank, National Association.	8-K	4/16/2020	10.1	
10.4	Amendment Number 3 to the Term Loan Credit and Security Agreement, dated as of December 27, 2018, as amended on April 13, 2020, among the Company, Quantum LTO Holdings, LLC, the lenders from time to time party thereto, and U.S. Bank National Association, as disbursing and collateral agent for such lenders	8-K	4/16/2020	10.2	
10.5	Second Amendment to the Amended and Restated Revolving Credit and Security Agreement, dated as of December 27, 2018, amended as of April 11, 2020 among the Company, Quantum LTO Holdings, LLC, the lenders from time to time party thereto, and PNC Bank, National Association, as administrative agent for such lenders.	8-K	4/16/2020	10.3	
10.6	First Amendment to Amended and Restated Revolving Credit and Security Agreement, dated as of December 27, 2018, as amended on April 3, 2020 among the Company, Quantum LTO Holdings, LLC, the lenders from time to time party thereto, and PNC Bank, National Association, as administrative agent for such lenders.	8-K	4/6/2020	10.2	
31.1	Certification of the Principal Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002				X
31.2	Certification of the Principal Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002				X
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley act of 2002				X
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley act of 2002				X
101	Interactive data files				X
104	Cover page interactive data file, submitted using inline XBRL (contained in Exhibit 101)				X

SIGNATURES

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.

October 28, 2020
(Date)

Quantum Corporation
(Registrant)

/s/ J. Michael Dodson
J. Michael Dodson
Chief Financial Officer
(Principal Financial Officer)

33

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

PURSUANT TO RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, James J. Lerner, certify that:

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

Date: October 28, 2020

/s/ James J. Lerner

James J. Lerner

Chairman of the Board of Directors,
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

PURSUANT TO RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, J. Michael Dodson, certify that:

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

Date: October 28, 2020

/s/ J. Michael Dodson

J. Michael Dodson

Chief Financial Officer

(Principal Financial Officer)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

PURSUANT TO 18 U.S.C. SECTION 1350

I, James J. Lerner, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Quantum Corporation, on Form 10-Q for the quarterly period ended September 30, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Quantum Corporation.

Date: October 28, 2020

/s/ James J. Lerner

James J. Lerner

Chairman of the Board of Directors,
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF CHIEF FINANCIAL OFFICER

PURSUANT TO 18 U.S.C. SECTION 1350

I, J. Michael Dodson, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Quantum Corporation, on Form 10-Q for the quarterly period ended September 30, 2020, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Quantum Corporation.

Date: October 28, 2020

/s/ J. Michael Dodson
J. Michael Dodson
Chief Financial Officer
(Principal Financial Officer)