



Overland Storage Reports Record Revenue for Second Quarter of Fiscal 2003

January 23, 2003

SAN DIEGO, Jan. 23 /PRNewswire-FirstCall/ -- Overland Storage, Inc. (Nasdaq: OVRL) today reported fiscal 2003 second quarter and first half results. For the quarter ended Dec. 31, 2002, Overland reported record revenue of \$48.6 million compared to revenue of \$45.6 million in the second quarter of the prior fiscal year. Net income for the second quarter of fiscal 2003 totaled \$1.5 million, or \$0.13 per diluted share, compared to net income of \$2.0 million, or \$0.18 per diluted share, in the second quarter of the prior fiscal year.

Revenue for the six-month period ended Dec. 31, 2002 was \$83.2 million compared to revenue of \$85.6 million in the corresponding six-month period of the prior fiscal year. Net income for the first six-month period of fiscal 2003 totaled \$1.0 million, or \$0.08 per diluted share, compared to net income of \$3.0 million, or \$0.28 per diluted share in the first six-month period of fiscal 2002.

In early December, Overland announced that it expected both revenue and earnings for the quarter to reach or exceed the high end of its original guidance. Strong demand for the Company's products during the last month of the quarter pushed actual results significantly higher than anticipated. Sales to Overland's OEM customers were particularly strong, complemented by continued sequential growth and record revenue in the Company's branded sales channels. Improved royalty fees from the Company's VR(2) licensees enhanced margins and earnings.

The Company noted that its gross profit margin is normalizing as revenue recovers from two difficult transition quarters. Profitability for the second fiscal quarter was down in comparison to the prior fiscal year quarter as a result of increased operating expenses, primarily in the areas of sales and marketing. Over the past five quarters, in order to capitalize on the strength of its new Neo Series(TM) tape libraries, Overland substantially increased the size of its branded sales force and stepped up its marketing efforts. As a result, Overland continues to gain share in the mid-range tape automation market. Additionally, in June 2002 the Company launched a new line of software products.

Christopher Calisi, president and CEO of Overland Storage, said: "We are pleased that the transitional issues of the prior two quarters now appear to be behind us. Our largest OEM customer seems to be executing well in its post-merger environment, and we believe that its sales pipeline is now clear of the predecessor product. We entered the quarter tentatively, not being in a position to anticipate the timing of the renewal of product demand. By early December, it became clear that product was moving strongly, which we believe bodes well for the second half of our fiscal year.

"Adding to the strength of our OEM business was the commencement in November of shipments to IBM, our newest OEM customer. Sales to IBM during this fiscal quarter were much stronger than expected, and this business represents a potentially expanding opportunity for us. We look forward to providing our usual high level of service to this customer and to building the relationship in the months ahead.

"We were also pleased with another record revenue quarter in our branded business. Second quarter sales were strongest in the Americas region with sales growth of 45 percent over the prior fiscal year quarter. Our Asia Pacific office posted the largest single sale for the quarter, an especially gratifying development as our Singapore office was only opened in November 2001. The significant investments we have made in sales and marketing resources are paying off and we believe we are now positioned to leverage this channel for continued growth while slowing the relative growth of operating expenses.

"Since the summer, we have been marketing our Overland Storage Resource Manager software product. In mid-December we introduced a significant upgrade to this product; the early response it is receiving is positive. We exceeded our goal for the quarter, booking nine orders. Formal launch of the new version will occur in the next thirty days and, although the numbers are still small, our pipeline is encouraging. We understand that this is a nascent market, and it remains challenging.

"Royalties, chip sales and other VR(2)-related revenue reached a record high this quarter, due in large part to the successful launch of a new flagship product by one of our licensees. This too bodes well for future quarters. Although not significant to revenues, these high-margin royalties bolster our bottom line.

"Though we had anticipated revising our outlook for the remainder of fiscal 2003, we believe that, due to the traditional seasonality of the March quarter and the newness of our OEM relationships, it is more prudent to confirm the ranges we previously provided. Specifically, we anticipate third quarter revenue in the \$45 to \$50 million range with earnings per diluted share in the range of \$0.11 to \$0.17. By our fourth quarter, we hope to report record results with revenue in the \$54 to \$59 million range and earnings per diluted share of \$0.23 to \$0.28."

Mr. Calisi concluded, "Transition always presents challenge. During the prior two quarters, we faced a lower level of business that we believed would be temporary. We held our course and prepared for the ramp-up of sales we are now seeing. With that transition essentially behind us, we believe that the current levels of demand are more typical of what we will see in the coming quarters. Although these remain challenging economic times, we are cautiously optimistic about achieving a record year in both revenue and earnings."

About Overland Storage

Overland Storage, Inc. (Nasdaq: OVRL) is a leading global supplier of innovative hardware and software storage solutions for mid-range computer networks. The company's reputation for delivering high availability products, including its award-winning automated storage libraries and the industry's first family of fully open storage management software solutions, sets the standard for intelligent, automated and scalable storage. Overland sells its products worldwide through leading OEMs, commercial distributors, storage integrators and value-added resellers. For more information, visit Overland's Web site at www.overlandstorage.com.

Except for the factual statements made herein, the information contained in this news release consists of forward-looking statements that involve risks, uncertainties and assumptions that are difficult to predict. Words and expressions reflecting optimism and satisfaction with current prospects, as well as words such as "believe," "intends," "expects," "plans," "anticipates" and variations thereof, identify forward-looking statements, but their absence does not mean that a statement is not forward looking. Such forward-looking statements are not guarantees of performance and the company's actual results could differ materially from those contained in such statements. Factors that could cause or contribute to such differences include continuing transitional issues at the Company's major OEM customer, technology spending levels, unexpected shortages of critical components, rescheduling or cancellation of customer orders, loss of a major customer, the timing and market acceptance of new product introductions by the company, including the launch of the company's new software products, its competitors or its licensees, the timing and amount of licensing royalties, general competition and price pressures in the marketplace, the company's ability to control costs and expenses and economic conditions. Reference is also made to other factors set forth in the company's filings with the Securities and Exchange Commission, including the "Risk Factors," "Management's Discussion and Analysis" and other sections of the company's Form 10-K for the most recently completed fiscal year. These forward-looking statements speak only as of the date of this release and the company undertakes no obligation to publicly update any forward-looking statements to reflect new information, events or circumstances after the date of this release.

Webcast: A live audio Webcast of Overland's management conference call discussing second quarter 2003 results and the outlook for the remainder of the fiscal year will be held beginning at 10:30 a.m. EST, Jan. 23, 2003, and will be posted at www.overlandstorage.com. Please provide adequate time to log on. Following the broadcast, the conference call will be archived for future access on Overland's Web site.

OVERLAND STORAGE, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
(In thousands, except per share data)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2002	2001	2002	2001
	(Unaudited)		(Unaudited)	
Net revenues	\$48,611	\$45,615	\$83,151	\$85,588
Cost of revenues	35,448	33,818	60,976	64,468
Gross profit	13,163	11,797	22,175	21,120
Operating expenses:				
Sales and marketing	6,707	4,717	12,759	8,924
Research and development	1,729	1,886	3,423	3,513
General and administrative	2,375	2,076	4,526	4,202
Total expenses	10,811	8,679	20,708	16,639
Operating income	2,352	3,118	1,467	4,481
Interest income, net	26	77	94	184
Other (expense) income, net	(51)	(23)	(85)	199
Income before income taxes	2,327	3,172	1,476	4,864
Income taxes	803	1,205	509	1,848
Net income	\$1,524	\$1,967	\$967	\$3,016
Earnings per share:				
Basic	\$0.14	\$0.19	\$0.09	\$0.29
Diluted	\$0.13	\$0.18	\$0.08	\$0.28
Shares used in computing earnings per share:				
Basic	11,049	10,580	11,037	10,553
Diluted	11,940	10,936	11,884	10,848

OVERLAND STORAGE, INC.
SELECTED BALANCE SHEET INFORMATION
(In thousands)

	December 31, 2002	June 30, 2002
	(unaudited)	
ASSETS		
Cash and equivalents	\$27,520	\$26,884

Accounts receivable, net	29,547	21,391
Inventories	19,699	17,503
Other current assets	6,283	5,555
 Total current assets	 83,049	 71,333
Property, plant and equipment, net	8,675	9,171
Other assets	620	499
Total assets	\$92,344	\$81,003
 LIABILITIES & EQUITY		
Current liabilities	\$26,757	\$16,870
Long-term debt	3,491	3,879
Other long-term liabilities	1,342	988
Shareholders' equity	60,754	59,266
 Total liabilities and equity	 \$92,344	 \$81,003

SOURCE Overland Storage, Inc.

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