FORM 10-Q

ADAPTEC INC - ADPT

Filed: November 10, 2004 (period: September 30, 2004)

Quarterly report which provides a continuing view of a company's financial position

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PART I.

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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, 2004

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 0-15071

ADAPTEC, INC.
(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	**94-2748530** (I.R.S. Employer Identification No.)
691 S. MILPITAS BLVD., MILPITAS, CALIFORNIA (Address of principal executive offices)	**95035** (Zip Code)

(408) 945-8600
Registrant's telephone number, including area code

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

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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act)

Yes ☒ No ☐

The number of shares outstanding of Adaptec's common stock as of November 5, 2004 was 111,169,293.

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Source: ADAPTEC INC, 10-Q, November 10, 2004

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ADAPTEC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three-Month Period Ended		Six-Month Period Ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
	(in thousands, except per share amounts)			
Net revenues	$ 121,700	$ 109,192	$ 237,202	$ 216,485
Cost of revenues	68,274	62,795	133,408	124,274
Gross profit	53,426	46,397	103,794	92,211
Operating expenses:				
Research and development	32,016	25,203	57,404	51,384
Selling, marketing and administrative	23,129	19,355	42,065	39,838
Amortization of acquisition-related intangible assets	5,181	4,713	8,110	9,537
Write-off of acquired in-process technology	2,200	—	5,200	3,649
Restructuring charges	1,928	1,478	2,747	1,826
Total operating expenses	64,454	50,749	115,526	106,234
Loss from operations	(11,028)	(4,352)	(11,732)	(14,023)
Interest and other income	3,659	4,661	5,502	61,122
Interest expense	(1,145)	(2,490)	(2,267)	(5,688)
Income (loss) before income taxes	(8,514)	(2,181)	(8,497)	41,411
Provision for (benefit from) income taxes	(451)	(2,442)	(444)	348
Net income (loss)	$ (8,063)	$ 261	$ (8,053)	$ 41,063
Net income (loss) per share:				
Basic	$ (0.07)	$ 0.00	$ (0.07)	$ 0.38
Diluted	$ (0.07)	$ 0.00	$ (0.07)	$ 0.35
Shares used in computing net income (loss) per share:				
Basic	110,312	108,411	110,076	108,183
Diluted	110,312	110,219	110,076	126,400

See accompanying Notes to Condensed Consolidated Financial Statements.

Source: ADAPTEC INC, 10-Q, November 10, 2004

ADAPTEC, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

	September 30, 2004	March 31, 2004
	(in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 106,561	$ 119,113
Marketable securities	423,427	544,741
Restricted cash and marketable securities	2,289	2,815
Accounts receivable, net	76,954	51,562
Inventories	65,115	48,888
Deferred income taxes	57,673	55,678
Prepaid expenses	10,739	14,761
Other current assets	15,756	20,031
Total current assets	758,514	857,589
Property and equipment, net	60,044	58,435
Restricted marketable securities, less current portion	5,474	6,346
Goodwill	159,690	68,492
Other intangible assets, net	94,098	48,902
Other long-term assets	10,722	11,340
Total assets	$ 1,088,542	$ 1,051,104
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 48,850	$ 35,969
Accrued liabilities	125,349	106,392
Total current liabilities	174,199	142,361
3/4% Convertible Senior Subordinated Notes	225,000	225,000
3% Convertible Subordinated Notes	35,190	35,190
Other long-term liabilities	3,915	3,662
Deferred tax liabilities	9,631	—
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Common stock	111	110
Additional paid-in capital	161,902	153,174
Deferred stock-based compensation	(4,586)	(2,713)
Accumulated other comprehensive income (loss), net of taxes	(87)	3,000
Retained earnings	483,267	491,320
Total stockholders' equity	640,607	644,891
Total liabilities and stockholders' equity	$ 1,088,542	$ 1,051,104

See accompanying Notes to Condensed Consolidated Financial Statements.

Source: ADAPTEC INC, 10-Q, November 10, 2004

ADAPTEC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Six-Month Period Ended	
	September 30, 2004	**September 30, 2003**
	(in thousands)	
Cash Flows From Operating Activities:		
Net income (loss)	$ (8,053)	$ 41,063
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Non-cash restructuring charges	109	66
Write-off of acquired in-process technology	5,200	3,649
Stock-based compensation	1,678	2,352
Non-cash effect of tax settlement	(4,068)	—
Loss on extinguishment of debt	—	790
Non-cash portion of DPT settlement gain	—	(18,256)
Depreciation and amortization	22,603	26,629
Deferred income taxes	31	(5,535)
Other non-cash items	104	465
Changes in operating assets and liabilities (net of acquired businesses)	(17,593)	6,358
Net Cash Provided by Operating Activities	$ 11	$ 57,581
Cash Flows From Investing Activities:		
Payment of general holdback in connection with acquisition of Platys	—	(159)
Purchases of businesses, net of cash acquired	(123,978)	(29,884)
Maturities of restricted marketable securities	1,369	3,750
Purchases of property and equipment	(7,229)	(3,093)
Purchases of marketable securities	(199,241)	(393,994)
Sales of marketable securities	270,274	350,740
Maturities of marketable securities	42,777	31,063
Net Cash Used for Investing Activities	(16,028)	(41,577)
Cash Flows From Financing Activities:		
Repurchases and redemption of long-term debt	—	(83,010)
Proceeds from issuance of common stock	3,771	3,302
Installment payment on acquisition of software licenses	—	(2,422)
Net Cash Provided by (Used for) Financing Activities	3,771	(82,130)
Effect of Foreign Currency Translation on Cash and Cash Equivalents	(306)	52
Net Decrease in Cash and Cash Equivalents	(12,552)	(66,074)
Cash and Cash Equivalents at Beginning of Period	119,113	149,373
Cash and Cash Equivalents at End of Period	$ 106,561	$ 83,299

See accompanying Notes to Condensed Consolidated Financial Statements.

Source: ADAPTEC INC, 10-Q, November 10, 2004

ADAPTEC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Basis of Presentation

In the opinion of management ,the accompanying Unaudited Condensed Consolidated Interim Financial Statements ("financial statements") of Adaptec, Inc. and its wholly-owned subsidiaries (collectively, the "Company") have been prepared on a consistent basis with the March 31, 2004 audited consolidated financial statements and include all adjustments, consisting of only normal recurring adjustments, necessary to fairly present the information set forth therein. The financial statements have been prepared in accordance with the regulations of the SEC, and, therefore, omit certain information and footnote disclosure necessary to present the statements in accordance with generally accepted accounting principles. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended March 31, 2004, which were included in the Company's Current Report on Form 8-K, which was filed with the SEC on September 24, 2004. The second quarters of fiscal 2005 and 2004 ended October 1, 2004 and September 26, 2003, respectively. For presentation purposes, the accompanying financial statements have been shown as ending on the last day of the calendar month. Certain amounts reported in previous periods have been reclassified to conform to the current period presentation. The results of operations for the second quarter and first half of fiscal 2005 are not necessarily indicative of the results to be expected for the entire fiscal year. In the second quarter of fiscal 2005, the Company reorganized its reportable segments, which are described more fully in Note 16.

The glossary of acronyms and accounting rules and regulations referred to within this Quarterly Report on Form 10-Q is listed in alphabetical order in Note 19.

2. Recent Accounting Pronouncements

In September 2004, the EITF reached a consensus on EITF Issue 04-08, which requires the inclusion of shares related to contingently convertible debt instruments for computing diluted earnings per share using the if-converted method, regardless of whether the market price contingency has been met. EITF 04-08 will be effective for all periods ending after December 15, 2004 and includes retroactive adjustment to historically reported diluted earnings per share. There would have been no impact to basic and diluted earnings per share if EITF 04-08 had been applied by the Company during the second quarter and first half of fiscal 2005, as the Company was in a net loss position and the conversion would have been anti-dilutive related to the $^{3}/_{4}$% Convertible Senior Subordinated Notes ("$^{3}/_{4}$% Notes") that were issued in December 2003.

At its March 2004 meeting, the EITF reached a consensus on recognition and measurement guidance previously discussed under EITF 03-01. The consensus clarified the meaning of other-than-temporary impairment and its application to investments classified as either available-for-sale or held-to-maturity under SFAS No. 115 and investments accounted for under the cost method or the equity method. On September 30, 2004, the FASB delayed the recognition and measurement guidance to be applied to other-than-temporary impairment evaluations. The FASB expects to issue additional implementation guidance with respect to debt securities that are impaired solely due to interest rates and/or sector spreads.

3. Stock-Based Compensation

The Company accounts for stock-based compensation using the intrinsic-value-based method, which is in accordance with APB Opinion No. 25 as interpreted by FIN 44, and complies with the

Source: ADAPTEC INC, 10-Q, November 10, 2004

disclosure provisions of SFAS No. 148, an amendment of SFAS No. 123. The following table illustrates the effect on net income (loss) and earnings per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to employee and director stock option plans, including shares issued under the Company's ESPP, collectively called "options," for all periods presented:

	Three-Month Period Ended		Six-Month Period Ended	
	September 30, 2004	**September 30, 2003**	**September 30, 2004**	**September 30, 2003**
	(in thousands, except per share amounts)			
Net income (loss), as reported	$ (8,063)	$ 261	$ (8,053)	$ 41,063
Add: Deferred stock-based compensation expense included in reported net income (loss)	873	975	1,678	2,099
Deduct: Total stock-based compensation expense determined under the fair value-based method, net of tax	(2,589)	(8,270)	(6,086)	(15,161)
Pro forma net income (loss)	$ (9,779)	$ (7,034)	$ (12,461)	$ 28,001
Basic net income (loss) per share:				
As reported	$ (0.07)	$ 0.00	$ (0.07)	$ 0.38
Pro forma	$ (0.09)	$ (0.06)	$ (0.11)	$ 0.26
Diluted net income (loss) per share:				
As reported	$ (0.07)	$ 0.00	$ (0.07)	$ 0.35
Pro forma	$ (0.09)	$ (0.06)	$ (0.11)	$ 0.24

SFAS No. 123 requires the use of option pricing models that were not developed for use in valuing employee stock options. The Black-Scholes option pricing model, used by the Company, was developed for use in estimating the fair value of short-lived exchange traded options that have no vesting restrictions and are fully transferable. In addition, option pricing models require the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying stock. Because the Company's options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable measure of the fair value of options.

Source: ADAPTEC INC, 10-Q, November 10, 2004

The fair value of options granted in the second quarter and first half of fiscal 2005 and 2004, as reported, were estimated at the date of grant using the Black-Scholes valuation model with the following weighted average assumptions:

	Three-Month Period Ended		Six-Month Period Ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
Employee Stock Option Plans:				
Expected life (in years)	3	2.3	3	2.4
Risk-free interest rates	2.9%	1.5%	2.9%	1.5%
Expected volatility	56%	64%	56%	64%
Dividend yield	—	—	—	—
ESPP:				
Expected life (in years)	1.4	1.5	1.4	1.5
Risk-free interest rates	2.1%	1.5%	2.1%	1.5%
Expected volatility	50%	61%	50%	61%
Dividend yield	—	—	—	—

4. Business Acquisitions

Snap Appliance: On July 23, 2004, the Company completed the acquisition of Snap Appliance, Inc. ("Snap Appliance"), a provider of NAS solutions, to expand its product offerings in the external storage market and to deliver cost-effective, scalable and easy-to-use DAS, NAS, Fibre Channel and IP-based SAN solutions from the workgroup to the data center. The total purchase price was $84.4 million, consisting of $77.4 million in cash and transaction fees and $7.0 million related to the fair value of assumed stock options to purchase 1.2 million shares of our common stock. The assumed stock options were valued using the Black-Scholes valuation model with the following assumptions: volatility rate of 58%; a risk-free interest rate of 2.6%; and an estimated life of 2.25 years. Snap Appliance has been integrated into the Company's Channel segment (Note 16).

Of the total assumed stock options, stock options to purchase approximately 0.7 million shares of the Company's common stock, with exercise prices ranging between $1.42 and $5.66 per share, were unvested (the "Snap Unvested Options"). The Snap Unvested Options have a ten-year term and vest primarily over four years from the date of grant. The intrinsic value of the Snap Unvested Options of $3.6 million was accounted for as deferred stock-based compensation and is being recognized as compensation expense over their related vesting periods.

The preliminary allocation of the Snap Appliance purchase price to the tangible and identifiable intangible assets acquired and liabilities assumed is summarized below (in thousands). The preliminary allocation was based on an independent appraisal and management's estimates of fair value. The

Source: ADAPTEC INC, 10-Q, November 10, 2004

allocation of the purchase price may be subject to change based on final estimates of fair value; however, such changes are not expected to be material.

Cash	$	60
Accounts receivable		5,933
Inventory		3,316
Prepaid expenses		438
Property and equipment		1,379
Other long-term assets		163
Total assets acquired		11,289
Accounts payable		(4,254)
Current liabilities		(15,726)
Other long-term liabilities		(2,325)
Total liabilities assumed		(22,305)
Net tangible liabilities acquired	$	(11,016)

The allocation of the purchase price to the tangible and intangible assets acquired and liabilities assumed is as follows (in thousands):

Net tangible liabilities acquired	$	(11,016)
Acquired in-process technology		2,200
Deferred stock-based compensation		3,610
Deferred income tax liabilities		(11,640)
Goodwill		72,195
Other intangible assets:		
Core and existing technologies		19,000
Trade name		10,100
		29,100
Net assets acquired (Purchase Price)	$	84,449

The values allocated to the core and existing technologies and trade name created as a result of the acquisition of Snap Appliance are being amortized over an estimated weighted average useful life of 7 years. No residual value has been estimated for the intangible assets. In accordance with SFAS No. 142, the Company will not amortize the goodwill, but will evaluate it at least annually for impairment.

In addition, a management incentive program was established to pay former employees of Snap Appliance cash payments totaling $13.8 million, which will be paid, contingent upon their employment with the Company, over a two-year period through the second quarter of fiscal 2007. Payments under the management incentive program will be expensed as employees meet their employment obligations.

Acquisition-Related Restructuring: In the second quarter of fiscal 2005, the Company established a preliminary plan to integrate the Snap Appliance operations and, accordingly, recorded a liability of

Source: ADAPTEC INC, 10-Q, November 10, 2004

$6.0 million related to integrating certain duplicative resources related to both severance and benefits in connection with the involuntary termination of 7 employees, exiting facilities and completing other integration activities through fiscal 2005. The acquisition-related restructuring liabilities were accounted for under EITF 95-3 and therefore were included in the purchase price allocation of the cost to acquire Snap Appliance. Any changes to the Company's estimate will result in an increase or decrease to the accrued restructuring charges and a corresponding increase or decrease to goodwill. No payments have been made as of September 30, 2004 related to this plan.

IBM i/p Series RAID: On June 29, 2004, the Company completed the acquisition of IBM's i/p Series RAID component business line consisting of certain purchased RAID data protection intellectual property, semiconductor designs and assets, and licensed from IBM related RAID intellectual property (the "IBM i/p Series RAID" business). The licensing agreement grants the Company the right to use IBM's RAID technology and embedded Power PC technology for the Company's internal and external RAID products to be sold to IBM and other customers. In conjunction with the acquisition, the Company also entered into a three-year exclusive product supply agreement under which the Company will supply RAID software, firmware and hardware to IBM for use in IBM's iSeries and pSeries servers. The Company also entered into an agreement for IBM to provide silicon wafer manufacturing processing services to the Company for the term of the supply agreement at agreed upon rates.

The total purchase price is estimated at $49.5 million, which consists of a cash payment to IBM of $47.5 million, warrants valued at $1.1 million, net of registration costs, and transactions costs of $0.9 million. In connection with the acquisition, the Company issued a warrant to IBM to purchase 250,000 shares of the Company's common stock at an exercise price of $8.13 per share. The warrant has a term of 5 years from the date of issuance and is immediately exercisable. The warrant was valued using the Black-Scholes valuation model using a volatility rate of 62%, a risk-free interest rate of 3.9% and an estimated life of 5 years. The transaction costs consist primarily of legal, valuation and other fees. The IBM i/p Series RAID business is being included in the Company's OEM segment (Note 16).

The Company also entered into a service agreement for IBM to provide certain research and development services and to provide access to IBM's semiconductor design tools. The semiconductor design tools license agreement is for two years at a total cost of $9.9 million and is payable in quarterly installments; however, the agreement can be cancelled by the Company in any quarter, which termination would relieve any obligations for the Company to make future quarterly installment payments to IBM.

The IBM i/p Series RAID business was accounted for as a purchase business combination with the allocation of the purchase price to the tangible and intangible assets acquired summarized below (in

Source: ADAPTEC INC, 10-Q, November 10, 2004

thousands). The allocation was based on management's estimates of fair value, which included an independent appraisal.

Net property and equipment	$	635
Acquired in-process technology		3,000
Goodwill		18,915
Other intangible assets:		
Supply agreement		7,600
Patents and core technology		18,700
Foundry agreement		600
		26,900
Net assets acquired (Purchase Price)	$	49,450

The values allocated to the supply agreement, patents and core technology and foundry agreement are being amortized over estimated useful lives of 3 to 5 years. The estimated weighted average useful life of other intangible assets, created as a result of the acquisition of the IBM i/p Series RAID business, is approximately 5 years. No residual value has been estimated for the intangible assets. In accordance with SFAS No. 142, the Company will not amortize the goodwill, but will evaluate it at least annually for impairment.

The Company recognized $5.2 million of revenue with no associated cost of sales in the second quarter of fiscal 2005 related to the IBM i/p Series RAID business as a result of the ongoing integration process. Future revenue and related cost of sales is expected to be recognized when the acquisition integration process is complete.

Eurologic: On April 2, 2003, the Company completed the acquisition of Eurologic Systems Group Limited ("Eurologic"), a provider of external and networked storage solutions. The Company acquired Eurologic to further enhance its direct-attached and fibre-attached server storage capabilities by allowing it to provide end-to-end block- and file-based networked storage solutions. As consideration for the acquisition of all of the outstanding capital stock of Eurologic, the Company paid $25.6 million in cash, subject to a Holdback as described below, and assumed stock options to purchase 0.5 million shares of the Company's common stock, with a fair value of $1.6 million. The Company also incurred $1.1 million in transaction fees, including legal, valuation and accounting fees. The assumed stock options were valued using the Black-Scholes valuation model with the following assumptions: volatility rate ranging from 57% to 81%; a risk-free interest rate ranging from 1.1% to 2.5%; and an estimated life ranging from 0.08 to 4 years. As part of the Eurologic purchase agreement, $3.8 million of the cash payment was held back (the "Holdback") for unknown liabilities that may have existed as of the acquisition date. The Holdback, which was included as part of the purchase price, was included in "Accrued liabilities" in the Unaudited Condensed Consolidated Balance Sheet as of September 30, 2004 and was to have been paid to the former Eurologic stockholders 18 months after the acquisition closing date, except for funds necessary to provide for any unknown liabilities. The Company has asserted a claim against the full amount of the Holdback for such unknown liabilities of which it became aware following the consummation of the transaction. The former Eurologic stockholders have disputed this claim. The Company also agreed to pay the stockholders of Eurologic contingent consideration of up to

Source: ADAPTEC INC, 10-Q, November 10, 2004

$10.0 million in cash if certain revenue levels were achieved by the acquired Eurologic business in the period from July 1, 2003 through June 30, 2004. The milestone to achieve the contingent consideration was not attained as of June 30, 2004. As a result, no additional payments were made to the former stockholders of Eurologic. Eurologic's goodwill and amortizable intangible assets were allocated based on the relative fair values of the two segments, OEM and Channel (Note 16).

Acquisition-Related Restructuring: During the fourth quarter of fiscal 2004, the Company finalized its plans to integrate the Eurologic operations. The integration plan included the involuntary termination or relocation of approximately 110 employees, exiting duplicative facilities and the transition of all manufacturing operations from Dublin, Ireland to the Company's manufacturing facility in Singapore. The consolidation of the manufacturing operations as well as involuntary employee terminations was completed in the fourth quarter of fiscal 2004. The acquisition-related restructuring liabilities were accounted for under EITF 95-3 and therefore were included in the purchase price allocation of the cost to acquire Eurologic. The Company recorded a liability of $3.3 million in fiscal 2004 for these activities. As of September 30, 2004, the Company utilized approximately $3.1 million of these charges. The Company anticipates that the remaining restructuring reserve balance of $0.2 million will be paid out by the third quarter of fiscal 2006.

ICP vortex: On June 5, 2003, the Company completed the acquisition of ICP vortex Computersysteme GmbH ("ICP vortex"). ICP vortex was a wholly-owned subsidiary of Intel Corporation and provided a broad range of hardware and software RAID data protection solutions, including SCSI, Serial ATA and fibre channel products. The final purchase price was $14.5 million in cash, which includes $0.3 million in transaction fees, consisting of legal, valuation and accounting fees. This purchase price included a final adjustment of $0.1 million in the first quarter of fiscal 2005 to both goodwill and acquisitions costs. ICP vortex's goodwill and amortizable intangible assets were allocated based on the relative fair values of the two segments, OEM and Channel (Note 16).

During the first quarter of fiscal 2005, the Company finalized its plans to integrate the ICP vortex operations. The integration plan included the involuntary termination of 19 employees, the transfer of manufacturing operations to Singapore and the integration of certain duplicative resources. The acquisition-related restructuring liabilities were accounted for under EITF 95-3 and therefore were included in the purchase price allocation of the cost to acquire ICP vortex. In fiscal 2004, the Company recorded a liability of $0.4 million for severance and benefits, of which $0.3 million of these charges were utilized and $0.1 million was recorded as a reduction to the restructuring liability with a corresponding decrease to goodwill in the first quarter of fiscal 2005.

Elipsan: On February 13, 2004, the Company completed the acquisition of Elipsan Limited ("Elipsan"), a provider of networked storage infrastructure software. Elipsan's storage virtualization technology will enable the Company to make storage more cost-effective, easier to scale, and increase performance across multiple RAID subsystems. The total purchase price was $19.4 million in cash to acquire Elipsan, which includes $0.7 million in transaction fees, consisting of legal, valuation and accounting fees. In the first quarter of fiscal 2005, adjustments were made to both goodwill and the acquisition costs. Elipsan's goodwill and amortizable intangible assets were allocated based on the relative fair values of the two segments, OEM and Channel (Note 16).

Source: ADAPTEC INC, 10-Q, November 10, 2004

Acquisition-Related Restructuring: In connection with the acquisition, the Company initiated a plan to integrate the Elipsan operations. The plan included the integration of certain duplicative resources. The Company established a preliminary plan in the fourth quarter of fiscal 2004 and, accordingly, recorded $0.8 million related to both severance and benefits in connection with the involuntary termination of two employees on March 31, 2004 and other integration activities through fiscal 2005. The acquisition-related restructuring liabilities were accounted for under EITF 95-3 and therefore were included in the purchase price allocation of the cost to acquire Elipsan. Any changes to the Company's estimate will result in an increase or decrease to the accrued restructuring charges and a corresponding increase or decrease to goodwill. As of September 30, 2004, the Company made payments of approximately $25,000 under the plan.

In-process Technology

As part of the purchase agreements of Snap Appliance, the IBM i/p Series RAID business, Eurologic and Elipsan, certain amounts of the purchase price were allocated to acquired in-process technology which were determined through established valuation techniques in the high-technology computer industry and written off in the second quarter of fiscal 2005, first quarter of fiscal 2005, first quarter of fiscal 2004 and fourth quarter of fiscal 2004, respectively, because technological feasibility had not been established and no alternative future uses existed. The value was determined by estimating the net cash flows and discounting the estimated net cash flows to their present values. A summary of the amounts written off were as follows:

	Acquired In-Process Technology (in thousands)
Snap Appliance(1)	$ 2,200
IBM i/p Series RAID business(2)	3,000
Eurologic(3)	3,649
Elipsan(4)	4,000

(1) The identified in-process projects were related to operating system enhancements and system functionality improvements.

(2) The in-process projects were related to designing semiconductors and related boards and enhancements to RAID and firmware code.

(3) The Company acquired various external and networked storage products that enable organizations to install, manage and scale multiterabyte storage solutions. The identified projects focus on increasing performance while reducing the storage controller form factor.

(4) The in-process projects were related to the development of software modules to add additional functionality to the existing storage virtualization software as well as address specific customer needs.

The net cash flows from the identified projects were based on estimates of revenues, cost of revenues, research and development expenses, including costs to complete the projects, selling,

Source: ADAPTEC INC, 10-Q, November 10, 2004

marketing and administrative expenses, royalty expenses and income taxes from the projects. The Company believes the assumptions used in the valuations were reasonable at the time of the acquisitions. The estimated net revenues and gross margins were based on management's projections of the projects and were in line with industry averages. Estimated total net revenues from the projects of Snap Appliance, the IBM i/p Series RAID business, Eurologic and Elipsan were expected to grow through fiscal 2009, fiscal 2009, fiscal 2008 and fiscal 2007, respectively, and decline thereafter as other new products are expected to become available. Estimated operating expenses included research and development expenses and selling, marketing and administrative expenses based upon historical and expected direct expense levels and general industry metrics. Estimated research and development expenses include costs to bring the projects to technological feasibility and costs associated with activities undertaken to correct errors or keep products updated with current information (also referred to as "maintenance" research and development) after a product is available for general release to customers. These activities range from 0% to 5% of net revenues for the in-process technologies.

The effective tax rate utilized in the analysis of the in-process technologies reflects a combined historical industry specific average for the United States Federal and state statutory income tax rates. The cost of capital reflects the estimated time to complete the projects and the level of risk involved. The following discount rates were used in computing the present value of net cash flows for the acquired companies: approximately 24% for Snap Appliance, between 23% and 28% for the IBM i/p Series RAID business, approximately 27% for Eurologic and approximately 63% for Elipsan.

The percentage of completion was determined using costs incurred by Snap Appliance, the IBM i/p Series RAID business, Eurologic and Elipsan prior to their respective acquisition dates compared to the estimated remaining research and development to be completed to bring the projects to technological feasibility. The Company estimated, as of the acquisition date for Snap Appliance, the IBM i/p Series RAID business, Eurologic and Elipsan, that the projects were approximately 25% complete, 50% complete, 60% complete and 28% complete, respectively. All projects outstanding as of the acquisition date for Eurologic were completed as of March 31, 2004. The Company expects remaining costs of approximately $0.6 million, $26.0 million and $0.1 million, related to Snap Appliance, the IBM i/p Series RAID business and Elipsan, respectively, to bring the planned in-process projects to completion.

Pro Forma Results: The following unaudited pro forma financial information for the second quarter and first half of fiscal 2005 and 2004, presents the combined results of the Company and Snap Appliance, the IBM i/p Series RAID business, ICP vortex and Elipsan, as if the acquisitions had occurred at the beginning of the periods presented. Eurologic was not included in the calculation as the results of Eurologic have been included in the Company's financial statements from April 2, 2003. Certain adjustments have been made to the combined results of operations, including amortization of acquired other intangible assets; however, charges for purchased in-process technology were excluded as

Source: ADAPTEC INC, 10-Q, November 10, 2004

these items were non-recurring. The pro forma financial results for the second quarter and first half of fiscal 2005 and 2004 were as follows:

	Three-Month Period Ended		Six-Month Period Ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
	(in thousands, except per share amounts)			
Net revenues	$ 122,716	$ 129,997	$ 251,383	$ 263,342
Net income (loss)	(9,441)	(4,792)	(15,401)	26,936
Net income (loss) per share:				
Basic	$ (0.09)	$ (0.04)	$ (0.14)	$ 0.25
Diluted	$ (0.09)	$ (0.04)	$ (0.14)	$ 0.23

5. Balance Sheets Details

Inventories:

	September 30, 2004	March 31, 2004
	(in thousands)	
Raw materials	$ 22,107	$ 16,244
Work-in-process	9,935	6,210
Finished goods	33,073	26,434
Total	$ 65,115	$ 48,888

Accrued Liabilities:

	September 30, 2004	March 31, 2004
	(in thousands)	
Tax related	$ 71,027	$ 65,812
Acquisition related	13,928	8,200
Accrued compensation and related taxes	20,810	19,336
Other	19,584	13,044
Total	$ 125,349	$ 106,392

Source: ADAPTEC INC, 10-Q, November 10, 2004

6. Goodwill and Other Intangible Assets

Goodwill:

Goodwill allocated to the Company's reportable segments and changes in the carrying amount of goodwill for the first half of fiscal 2005 was as follows:

	SSG	SNG	OEM	Channel	Total
			(in thousands)		
Balance at March 31, 2004	$ 22,825	$ 45,667	$ —	$ —	$ 68,492
Reallocation (See Note 16)	(22,825)	(45,667)	30,326	38,166	—
Goodwill acquired (See Note 4)	—	—	18,915	72,195	91,110
Goodwill adjustments	—	—	58	30	88
Balance at September 30, 2004	$ —	$ —	$ 49,299	$ 110,391	$ 159,690

The goodwill reallocation shown in the table above relates to the reorganization of certain of the Company's reportable segments discussed in Note 16. The goodwill formerly included in the SSG and SNG segments was allocated between the OEM and Channel segments based on a relative fair value approach using an independent appraisal and management estimates of fair value of the two segments. No impairment was recorded as a result of the change in segments. In the first half of fiscal 2005, adjustments were made to goodwill for changes to the acquisition-related restructuring reserves and other purchase price adjustments for ICP vortex and Elipsan.

Other Intangible Assets:

	September 30, 2004		March 31, 2004	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
		(in thousands)		
Acquisition-related intangible assets:				
Patents, core and existing technologies	$ 112,630	$ (56,943)	$ 74,930	$ (50,898)
Supply agreement	7,600	(380)	—	—
Covenants-not-to-compete	4,818	(4,781)	4,818	(4,095)
Customer relationships	1,290	(469)	1,290	(308)
Trade name	12,406	(1,771)	2,306	(963)
Foundry agreement	600	(30)	—	—
Backlog and royalties	455	(455)	455	(455)
Subtotal	139,799	(64,829)	83,799	(56,719)
Intellectual property assets and warrants	44,868	(25,740)	43,892	(22,070)
Total	$ 184,667	$ (90,569)	$ 127,691	$ (78,789)

In August 2004, the Company entered into an agreement to sell external storage products to IBM. In connection with the agreement, the Company issued IBM a warrant to purchase 250,000 shares of the Company's common stock at an exercise price of $6.94 per share. The warrant has a term of five years from the date of issuance and was immediately exercisable. The warrant was valued at $1.0 million using the Black-Scholes valuation model using a volatility rate of 62%, a risk-free interest

Source: ADAPTEC INC, 10-Q, November 10, 2004

rate of 4.0% and an estimated life of 5 years. The value of the warrant will be amortized against "Net revenues" over a two and a half year period reflecting the pattern in which the economic benefits of the assets are expected to be realized and is included as part of "Intellectual property assets and warrants" in the table above. Other intangible assets increased by approximately $57.0 million in the first half of fiscal 2005 as a result of the Company's acquisitions of Snap Appliance and the IBM i/p Series RAID business and the warrants issued to IBM.

Amortization of other intangible assets was $7.1 million and $6.5 million in the second quarters of fiscal 2005 and 2004, respectively. Amortization of other intangible assets was $11.8 million and $13.1 million in the first half of fiscal 2005 and 2004, respectively.

The annual amortization expense of the other intangible assets that existed as of September 30, 2004 is expected to be as follows:

	Estimated Amortization Expense	
	Acquisition-related intangible assets	Intellectual property assets
	(in thousands)	
Fiscal Years:		
2005 (remaining six months)	$ 10,190	$ 3,636
2006	17,374	7,060
2007	14,591	6,641
2008	11,476	1,791
2009 and thereafter	21,339	—
Total	$ 74,970	$ 19,128

7. Lines of Credit

In connection with the acquisition of Snap Appliance, the Company acquired an available revolving line of credit of up to $7.5 million that bears interest at the greater of prime rate or 4.25% per annum. At September 30, 2004, the Company had no borrowings against this line. Borrowings are collateralized by accounts receivable balances of Snap Appliance. Under the terms of the line of credit, all financial covenants are waived through October 31, 2004.

8. Stock Plans

2004 Equity Incentive Plan

During the second quarter of fiscal 2005, the Company's Board of Directors and its stockholders approved the Company's 2004 Equity Incentive Plan and reserved for issuance thereunder 10,000,000 shares of our common stock plus shares reserved but not issued under the Company's 1999 Stock Option Plan and 2000 Nonstatutory Stock Option Plan. The 2004 Equity Incentive Plan provides for granting of nonstatutory stock options, restricted stock, stock awards, restricted stock units and stock appreciation rights to employees, employee directors and consultants. Incentive stock options may also be granted to the Company's employees under the 2004 Equity Incentive Plan.

Source: ADAPTEC INC, 10-Q, November 10, 2004

Snap Appliance Stock Option Plan

In connection with the acquisition of Snap Appliance in the second quarter of fiscal 2005 (Note 4), outstanding stock options under the Snap Appliance Stock Option Plan were converted into options to purchase 1,232,489 shares of the Company's common stock. No further options may be granted under the Snap Appliance Stock Option Plan.

9. Interest and Other Income

The components of interest and other income for the second quarter and first half of fiscal 2005 and 2004 were as follows:

	Three-Month Period Ended		Six-Month Period Ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
	(in thousands)			
Interest income	$ 3,034	$ 4,105	$ 5,760	$ 10,679
Gain on settlement with former president of DPT	—	—	—	49,256
Payment of license fee with NSE	—	—	(1,250)	—
Loss on redemption of debt	—	—	—	(790)
Foreign currency transaction gains	295	147	339	842
Other	330	409	653	1,135
Total	$ 3,659	$ 4,661	$ 5,502	$ 61,122

In June 2004, the Company, Nevada SCSI Enterprises, Inc. and Thomas A. Gafford (jointly, "NSE") entered into a license and release agreement, pursuant to which the Company paid NSE $1.3 million as a one-time, fully paid-up license fee to settle NSE's claims that some of the Company's products infringed certain patents. The license and release agreement expressly excludes any sales of products made by Eurologic prior to the Company's April 2003 acquisition. However, the Company has an option, exercisable no later than November 15, 2004, to secure a license and release with respect to such sales by payment to NSE of a royalty fee. If the Company elects to exercise its option, it may be required to make additional payments for a license and release agreement if the Eurologic acquisition Holdback is not sufficient to cover such claims or cannot be used for such purposes.

In December 1999, the Company purchased Distributed Processing Technology Corporation ("DPT"). As part of the purchase agreement, $18.5 million of the purchase price was held back ("Holdback Amount") from former DPT stockholders for unknown liabilities that may have existed as of the acquisition date. Subsequent to the date of purchase, the Company determined that certain representations and warranties made by the DPT stockholders were incomplete or inaccurate, which caused the Company to lose revenues and incur additional expenses. This caused the Company to file court proceedings against Steven Goldman, the principal shareholder and former president of DPT alleging causes of action for, amongst others, fraud, fraudulent inducement, and negligent misrepresentation. In May 2003, the Company entered into a written settlement and a mutual general

release agreement with Steven Goldman, on his own and on behalf of all the selling shareholders of DPT, pursuant to which it was agreed that the Company would retain the Holdback Amount and additionally, Steven Goldman would pay the Company $31.0 million. The Company received the $31.0 million payment in May 2003 and recorded a gain of approximately $49.3 million in the first quarter of fiscal 2004. The cash received from the DPT settlement of $31.0 million was included in cash provided from operating activities in the Unaudited Condensed Consolidated Statements of Cash Flows.

In the first quarter of fiscal 2004, the Company redeemed the outstanding $82.4 million balance of its 4 3/4% Convertible Subordinated Notes ("4 3/4% Notes") for an aggregate price of $83.0 million resulting in a loss on extinguishment of debt of $0.8 million (including unamortized debt issuance costs of $0.2 million). The loss on extinguishment of debt has been included in "Interest and other income" in the Company's Unaudited Condensed Consolidated Statements of Operations.

10. Restructuring Charges

The Company recorded restructuring charges of $1.9 million and $1.5 million for the second quarter of fiscal 2005 and 2004, respectively. The Company recorded restructuring charges of $2.7 million and $1.8 million for the first half of fiscal 2005 and 2004, respectively. The new restructuring plans are discussed in detail below. For a complete discussion of all restructuring actions that were implemented prior to fiscal 2004, please refer to the Notes to Consolidated Financial Statements included in the Company's Current Report on Form 8-K filed on September 24, 2004.

Second Quarter of Fiscal 2005 Restructuring Plan: In the second quarter of fiscal 2005, the Company initiated certain actions to consolidate duplicative resources in connection with the acquisition of Snap Appliance, primarily in selling, marketing and administrative functions, and recorded a restructuring charge of $0.7 million. The expenses associated with this restructuring plan were included in "Restructuring charges" in the Unaudited Condensed Consolidated Statements of Operations. The Company does not expect to incur any further charges in connection with this restructuring plan. Restructuring charges are not allocated to segments but rather managed at the corporate level. For the acquisition-related restructuring plan associated with the Snap Appliance acquisition, please see Note 4 for further details.

First Quarter of Fiscal 2005 Restructuring Plan: In the first quarter of fiscal 2005, the Company initiated certain actions to consolidate certain development and administrative functions in the United States and Europe, which were completed in the first half of fiscal 2005. The Company recorded a restructuring charge of $0.8 million in the first quarter of fiscal 2005 related to the involuntary termination of employees and the costs pertaining to estimated future obligations for non-cancelable lease payments for an excess facility in the United Kingdom. Additional charges of $1.4 million related to this plan associated with severance and benefits for employees primarily in the area of research and development were taken in the second quarter of fiscal 2005. Restructuring charges related to the first quarter restructuring plan total $2.2 million. The Company does not expect to incur any further charges in connection with this restructuring plan. Restructuring charges are not allocated to segments but rather managed at the corporate level.

Source: ADAPTEC INC, 10-Q, November 10, 2004

The activity in the accrued restructuring reserves related to all of the plans was as follows for the first half of fiscal 2005:

	Severance And Benefits	Other Charges	Total
	(in thousands)		
Reserve balance at March 31, 2004	$ 987	$ 1,773	$ 2,760
Q1'05 Restructuring Plan	1,657	540	2,197
Q2'05 Restructuring Plan	700	—	700
Provision adjustment	(150)	—	(150)
Cash paid	(2,038)	(554)	(2,592)
Non-cash charges	—	(109)	(109)
Reserve balance at September 30, 2004	$ 1,156	$ 1,650	$ 2,806

The provision adjustment of $0.2 million relates to the fiscal 2004 restructuring plan, as severance and benefits were lower than originally anticipated. The Company anticipates that the remaining restructuring reserve balance of $2.8 million will be substantially paid out by the first quarter of fiscal 2009, primarily attributable to longer term lease obligations,. The remaining restructuring reserve balance is reflected both in "Accrued liabilities" and "Other long-term liabilities" in the Unaudited Condensed Consolidated Balance Sheet.

11. Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income per share gives effect to all potentially dilutive common shares outstanding during the period, which include certain stock options and warrants, calculated using the treasury stock method, and convertible notes which are potentially dilutive at certain earnings levels, and are computed using the if-converted method.

Source: ADAPTEC INC, 10-Q, November 10, 2004

A reconciliation of the numerator and denominator of the basic and diluted net income (loss) per share computations are as follows:

	Three-Month Period Ended		Six-Month Period Ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
	(in thousands, except per share amounts)			
Numerators:				
Net income (loss)	$ (8,063)	$ 261	$ (8,053)	$ 41,063
Adjustment for interest expense on 3% Convertible Subordinated Notes ("3% Notes"), net of taxes	—	—	—	2,800
Adjusted net income (loss)	$ (8,063)	$ 261	$ (8,053)	$ 43,863
Denominators:				
Weighted average shares outstanding—basic	110,312	108,411	110,076	108,183
Effect of dilutive securities:				
Employee stock options	—	1,808	—	1,890
3% Notes	—	—	—	16,327
Weighted average shares and potentially dilutive common shares outstanding—diluted	110,312	110,219	110,076	126,400
Net income (loss) per share:				
Basic	$ (0.07)	$ 0.00	$ (0.07)	$ 0.38
Diluted	$ (0.07)	$ 0.00	$ (0.07)	$ 0.35

Diluted loss per share for the second quarter and first half of fiscal 2005 is based only on the weighted-average number of shares outstanding during each of the periods, as the inclusion of any common stock equivalents would have been anti-dilutive. In addition, certain potential common shares were excluded from the diluted computation for second quarter and first half of fiscal 2004 because

Source: ADAPTEC INC, 10-Q, November 10, 2004

their inclusion would have been anti-dilutive. The items excluded for the second quarter and first half of fiscal 2005 and 2004 were as follows:

	Three-Month Period Ended		Six-Month Period Ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
	(in thousands)			
Outstanding employee stock options	15,094	14,508	14,725	14,798
Warrants(2)	19,874	1,310	19,874	1,310
4 3/4% Notes	—	—	—	810
3% Notes	2,298	16,327	2,298	—
3/4% Notes(1,2)	19,224	—	19,224	—

(1) These Notes will not be dilutive until such time that the contingent conversion feature is exercisable.

(2) In connection with the issuance of its 3/4% Notes, the Company entered into a derivative financial instrument to repurchase up to 19,224,000 shares of its common stock, at the Company's option, at specified prices in the future to mitigate any potential dilution as a result of the conversion of the 3/4% Notes.

12. Comprehensive Income (Loss)

The Company's comprehensive income (loss), which consisted of net income and the changes in net unrealized gains (losses) on marketable securities, net of taxes and foreign currency translation adjustments, net of taxes, were as follows:

	Three-Month Period Ended		Six-Month Period Ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
	(in thousands)			
Net income (loss)	$ (8,063)	$ 261	$ (8,053)	$ 41,063
Net unrealized gains (losses) on marketable securities, net of taxes	60	1,085	(3,034)	(63)
Foreign currency translation adjustment, net of taxes	101	101	(53)	52
Comprehensive income (loss)	$ (7,902)	$ 1,447	$ (11,140)	$ 41,052

Source: ADAPTEC INC, 10-Q, November 10, 2004

The components of accumulated other comprehensive income (loss), net of income taxes, were as follows:

	September 30, 2004	March 31, 2004
	(in thousands)	
Unrealized gains (losses) on marketable securities, net of tax provision (benefit) of $(565) at September 30, 2004 and $1,443 at March 31, 2004	$ (848)	$ 2,186
Foreign currency translation, net of tax provision of $507 at September 30, 2004 and $543 at March 31, 2004	761	814
Total	$ (87)	$ 3,000

13. Income Taxes

Income tax provisions for interim periods are based on the Company's estimated annual income tax rate. In the second quarter and first half of fiscal 2005, the Company recorded an income tax benefit of $0.5 million and $0.4 million, respectively, on a pre-tax loss of $8.5 million. The estimated annual tax rate differs from the combined United States Federal and state statutory income tax rate of 40% partially due to certain acquisition related intangible assets, excluding goodwill, that are not fully deductible for tax purposes and changes to the Company's tax reserves. The Company is in ongoing negotiations with the IRS with regard to its various tax disputes that may result in settlement of certain issues. The Company's tax rate for the period in which a settlement is reached will be impacted if the settlement materially differs from the amounts previously accrued. The tax rate for second quarter and the first half of fiscal 2005 also differs from the combined United States Federal and state statutory income tax rate of 40% due to a benefit of $9.9 million from discrete events relating to the method and amount of settled controversies. As a result of the settlement, $4.1 million previously recorded as a tax provision has been reclassified as a reduction to additional paid-in capital, $1.8 million previously recorded as a tax provision has reversed, and a $4.0 million tax benefit associated with a refund claim has been recognized during the second quarter of fiscal 2005. The tax rate for the second quarter and first half of 2004 differed from the combined United States Federal and state statutory rate of 40% primarily due to the gain on settlement with the former president of DPT of $49.3 million which is treated as an adjustment to the tax basis in the acquired DPT common stock and does not result in taxable income.

14. Commitments and Contingencies

On June 27, 2000, the Company received a statutory notice of deficiency from the IRS with respect to its Federal income tax returns for fiscal 1994 to 1996. The Company filed a Petition with the United States Tax Court on September 25, 2000, contesting the asserted deficiencies. In December 2001, settlement agreements were filed with the United States Tax Court reflecting a total of $9.0 million of adjustments and an allowance of $0.5 million in additional tax credits. The outcome did not have a material adverse effect on the Company's financial position or results of operations, as sufficient tax provisions had been made. The final Tax Court stipulation will be filed when the

Source: ADAPTEC INC, 10-Q, November 10, 2004

subsequent audit cycles are completed. Tax credits that were generated but not used in subsequent years may be carried back to the fiscal 1994 to 1996 audit cycle.

On December 15, 2000, the Company received a statutory notice of deficiency from the IRS with respect to its Federal income tax return for fiscal 1997. The Company filed a Petition with the United States Tax Court on March 14, 2001 contesting the asserted deficiencies. Settlement agreements have been filed with the United States Tax Court on all but one issue. The Company believes that the final outcome of all issues will not have a material adverse impact on its financial position or results of operations, as the Company believes that it has meritorious defense against the asserted deficiencies and any proposed adjustments and that it has made sufficient tax provisions. However, the Company cannot predict with certainty how these matters will be resolved and whether it will be required to make additional payments.

In addition, the IRS is currently auditing the Company's Federal income tax returns for fiscal 1998 through fiscal 2001. The Company has settled all issues for fiscal 1998 and 1999 other than the rollover impact of any potential resolution on the remaining fiscal 1997 issue and tax credits that were generated but not used in subsequent years that may be carried back to fiscal 1998 and 1999. The fiscal 2000 and 2001 audit is ongoing. The Company believes that it has provided sufficient tax provisions for these years and the ultimate outcome of the IRS audits will not have a material adverse impact on its financial position or results of operations in future periods. However, the Company cannot predict with certainty how these matters will be resolved and whether it will be required to make additional tax payments.

The Company is a party to other litigation matters and claims, including those related to intellectual property, which are normal in the course of its operations, and while the results of such litigation matters and claims cannot be predicted with certainty, the Company believes that the final outcome of such matters will not have a material adverse impact on its financial position or results of operations. However, because of the nature and inherent uncertainties of litigation, the Company's business, financial condition, results of operations and cash flows could be materially and adversely affected by the outcome of these actions.

15. Guarantees

Intellectual Property Indemnification Obligations

The Company has entered into agreements with customers and suppliers that include intellectual property indemnification obligations. These indemnification obligations generally require the Company to compensate the other party for certain damages and costs incurred as a result of third party intellectual property claims arising from these transactions. In each of these circumstances, payment by the Company is conditional on the other party making a claim pursuant to the procedures specified in the particular contract, which procedures typically allow the Company to challenge the other party's claims. Further, the Company's obligations under these agreements may be limited in terms of time and/or amount, and in some instances, the Company may have recourse against third parties for certain payments made by it under these agreements. It is not possible to make a reasonable estimate of the maximum potential amount of future payments under these or similar agreements due to the conditional nature of the Company's obligations and the unique facts and circumstances involved in

Source: ADAPTEC INC, 10-Q, November 10, 2004

each particular agreement. Historically, the Company has not incurred significant costs to defend lawsuits or settle claims related to such agreements and no amount has been accrued in the accompanying financial statements with respect to these indemnification guarantees.

Letters of Credit

In connection with the acquisition of Snap Appliance, at September 30, 2004, the Company maintained an irrevocable standby letter of credit for $500,000 with an approved financial institution under an office lease term, which guarantees its performance to the landlord. The letter of credit required under the lease may be decreased annually through the end of the lease term. As of September 30, 2004, the Company was not subject to any draw against the letter of credit.

Product Warranty

The Company provides an accrual for estimated future warranty costs based upon the historical relationship of warranty costs to sales. The estimated future warranty obligations related to product sales are recorded in the period in which the related revenue is recognized. The estimated future warranty obligations are affected by product failure rates, material usage and replacement costs incurred in correcting a product failure. If actual product failure rates, material usage or replacement costs differ from the Company's estimates, revisions to the estimated warranty obligations would be required; however the Company made no adjustments to pre-existing warranty accruals in the first half of fiscal 2005. The Company has received communications from a customer alleging that the Company is in breach of certain contractual obligations that it assumed in conjunction with its acquisition of DPT. The Company recorded $0.4 million of warranty costs in the third quarter of fiscal 2004 associated with these claims.

	Six-Month Period Ended	
	September 30, 2004	September 30, 2003
	(in thousands)	
Balance at beginning of period	$ 1,598	$ 1,343
Warranties assumed	—	120
Warranties provided	2,574	1,987
Actual costs incurred	(2,783)	(2,091)
Balance at end of period	$ 1,389	$ 1,359

16. Segment Reporting

In the second quarter of fiscal 2005 and in response to the Snap Appliance acquisition in July 2004 (Note 4), the Company refined its internal organizational structure to operate in three reportable segments: OEM, Channel and DSG. Whereas historically the Company's former SSG and SNG segment each offered distinct products across its entire customer base, the new OEM and Channel segments offer an integrated set of products to customers that are specific to the segment. The Company believes that reorganizing its business in a customer-focused manner will enable it to concentrate on addressing the specific business needs of its customers and better coordinate product

Source: ADAPTEC INC, 10-Q, November 10, 2004

planning. A description of the types of customers or products and services provided by each reportable segment is as follows:

- OEM includes all OEM customers to which the Company sells a wide variety of its products.
- Channel includes the distribution channel customers and VARs that buy a wide variety of products.
- DSG provides high-performance I/O connectivity and digital media solutions for personal computing platforms, including notebook and desktop PCs, sold to consumers and small and midsize businesses.

Summarized financial information on the Company's reportable segments, under the new organizational structure, is shown in the following table. The segment financial data for the second quarter and first half of fiscal 2004 has been restated to reflect this change. Certain operating expenses, which are separately managed at the corporate level, are not allocated to segments. These unallocated corporate income and expenses, which are in the "Other" category, include restructuring charges, other charges, interest and other income, interest expense, substantially all administrative, research and development expenses and certain selling and marketing expenses. There were no inter-segment revenues for the periods shown below. The Company does not separately track all tangible assets or depreciation by operating segments nor are the segments evaluated under these criteria. Segment financial information is summarized as follows for the second quarter and first half of fiscal 2005 and 2004:

	OEM	Channel	DSG	Other	Total
			(in thousands)		
Three-Month Period Ended September 30, 2004:					
Net revenues	$ 75,560	$ 36,786	$ 9,354	$ —	$ 121,700
Segment income (loss)	21,685	6,461	2,258	(38,918)	(8,514)
Three-Month Period Ended September 30, 2003:					
Net revenues	$ 69,687	$ 29,895	$ 9,610	$ —	$ 109,192
Segment income	18,228	10,833	(750)	(30,492)	(2,181)
Six-Month Period Ended September 30, 2004:					
Net revenues	$ 142,625	$ 74,619	$ 19,958	$ —	$ 237,202
Segment income (loss)	37,140	22,477	4,502	(72,616)	(8,497)
Six-Month Period Ended September 30, 2003:					
Net revenues	$ 135,961	$ 59,004	$ 21,520	$ —	$ 216,485
Segment income	32,364	20,459	(654)	(10,758)	41,411

Source: ADAPTEC INC, 10-Q, November 10, 2004

The following table presents the details of unallocated corporate income and expenses for the second quarter and first half of fiscal 2005 and 2004:

	Three-Month Period Ended		Six-Month Period Ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
	(in thousands)			
Unallocated corporate expenses, net	$ (39,504)	$ (31,185)	$ (73,104)	$ (64,366)
Restructuring charges	(1,928)	(1,478)	(2,747)	(1,826)
Interest and other income	3,659	4,661	5,502	61,122
Interest expense	(1,145)	(2,490)	(2,267)	(5,688)
Total	$ (38,918)	$ (30,492)	$ (72,616)	$ (10,758)

17. Supplemental Disclosure of Cash Flows

	Six-Month Period Ended	
	September 30, 2004	September 30, 2003
	(in thousands)	
Non-cash investing and financial activities:		
Deferred stock-based compensation	$ 7,060	$ 1,582
Adjustment for deferred stock-based compensation	58	797
Unrealized loss on available-for-sale securities	(3,034)	(63)

18. Subsequent Events

On October 29, 2004, the Company completed the sale of certain properties in Milpitas, California previously classified as held for sale. Net proceeds for the sale of the properties aggregated approximately $9.6 million which exceeded the Company's estimated fair value of $6.7 million. A gain on the sale will be recorded in the third quarter of fiscal 2005 approximating $2.9 million.

19. Glossary

The following is a list of business related acronyms that are contained within this Quarterly Report on Form 10-Q. They are listed in alphabetical order.

- **ATA:** Advanced Technology Attachment
- **DAS:** Direct-Attached Storage
- **DSG:** Desktop Solutions Group
- **ESPP:** Employee Stock Purchase Plan
- **IC:** Integrated Circuit
- **I/O:** Input/Output

Source: ADAPTEC INC, 10-Q, November 10, 2004

- **IP:** Internet Protocol
- **IRS:** Internal Revenue Service
- **IPsec:** IP Security Protocol
- **iSCSI:** Internet Protocol SCSI
- **NAS:** Network Attached Storage
- **OEM:** Original Equipment Manufacturer
- **PC:** Personal Computer
- **PCI:** Peripheral Component Interconnect
- **RAID:** Redundant Array of Independent Disks
- **SAN:** Storage Area Networks
- **SCSI:** Small Computer System Interface
- **Serial ATA:** Serial Advanced Technology Attachment
- **SMI-S:** Storage Management Initiative Specification
- **SNG:** Storage Networking Group
- **SSG:** Storage Solutions Group
- **Ultra DMA:** Ultra Direct Memory Access
- **USB:** Universal Serial Bus
- **VAR:** Value Added Reseller

The following is a list of accounting rules and regulations and related regulatory bodies referred to within this Quarterly Report on Form 10-Q. They are listed in alphabetical order.

- **APB:** Accounting Principles Board
- **APB Opinion No. 25**—Accounting for Stock Issued to Employees
- **EITF:** Emerging Issues Task Force
- **EITF 95-3**—Recognition of Liabilities in Connection with Purchase Business Combinations
- **EITF 03-01**—The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments
- **EITF 04-08**—Accounting Issues Related to Certain Features of Contingently Convertible Debt and the Effect on Diluted Earnings per Share

- **FASB:** Financial Accounting Standards Board
- **FIN:** FASB Interpretation Number

Source: ADAPTEC INC, 10-Q, November 10, 2004

- **FIN 44**—Accounting for Certain Transactions Involving Stock Compensation
- **SEC:** Securities Exchange Commission
- **SFAS:** Statement of Financial Accounting Standards
- **SFAS No. 115**—Accounting for Certain Investments in Debt and Equity Securities
- **SFAS No. 123**—Accounting for Stock-Based Compensation
- **SFAS No. 142**—Goodwill and Other Intangible Assets
- **SFAS No. 148**—Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of SFAS No. 123

Source: ADAPTEC INC, 10-Q, November 10, 2004

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. The statements contained in this document that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitation, statements regarding our expectations, beliefs, intentions or strategies regarding our business, including, but not limited to, the level of our expenditures and savings for various expense items and our liquidity in future periods. We may identify these statements by the use of words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "might," "plan," "potential," "predict," "project," "should," "will," "would" and other similar expressions. All forward-looking statements included in this document are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements, except as may otherwise be required by law.

Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth in the "Risk Factors" section and elsewhere in this document. In evaluating our business, current and prospective investors should consider carefully these factors in addition to the other information set forth in this document.

While management believes that the discussion and analysis in this report is adequate for a fair presentation of the information presented, we recommend that you read this discussion and analysis in conjunction with our Current Report on Form 8-K filed on September 24, 2004. In the second quarter of fiscal 2005, we reorganized our reportable segments, which are described more fully in Note 16 to Notes to the Unaudited Condensed Consolidated Financial Statements.

For your convenience, we have included, in Note 19 to the Notes to the Unaudited Condensed Consolidated Financial Statements, a Glossary that contains a list of (1) key acronyms commonly used in our industry that are used in this Quarterly Report and (2) accounting rules and regulations that are also referred to herein. These acronyms and accounting rules and regulations are listed in alphabetical order.

Our critical accounting policies have not changed from our year ended March 31, 2004. For a complete discussion of our critical accounting policies, please refer to our Current Report on Form 8-K filed on September 24, 2004.

Results of Operations

Overview

In the second quarter of fiscal 2005, our revenues grew 11% as compared to the second quarter of fiscal 2004 primarily as a result of our recent acquisitions increasing both systems and component products sales and to a lesser extent new component technologies. Gross margins improved slightly in the second quarter of fiscal 2005 as compared to the second quarter of fiscal 2004 due to our component products. Operating expenses increased in the second quarter of fiscal 2005 as compared to the second quarter of fiscal 2004, primarily as a result of additional costs related to our acquisitions.

We have continued in our efforts to grow our business and expand our product offerings by entering into strategic alliances and making selective acquisitions.

- On June 29, 2004, we extended our strategic relationship with IBM to encompass RAID technology for IBM's entire eServer product line. We completed the acquisition of IBM's i/p Series RAID component business line consisting of certain purchased RAID data protection intellectual property, semiconductor designs and assets, and licensed from IBM related RAID intellectual property. This acquisition enables us to use IBM's eServer RAID technology for our internal and external RAID products. Additionally, it allows us to use IBM's technology to

Source: ADAPTEC INC, 10-Q, November 10, 2004

extend the features and performance of our RAID products to be delivered to both IBM and other customers. In conjunction with the acquisition, we also entered into a product supply agreement under which we will supply RAID software, firmware and hardware to IBM for use in IBM's iSeries and pSeries servers. These agreements build upon our existing relationship with IBM that focuses on data protection for IBM's xSeries servers. We began recognizing revenue and expenses from this transaction in the second quarter of fiscal 2005.

- On July 23, 2004, we acquired Snap Appliance, Inc., or Snap Appliance, a provider of NAS solutions. The acquisition of Snap Appliance allows us to expand our external-storage product portfolio by including network storage systems and to build upon our systems channel business. Results for the second quarter of fiscal 2005 include the full operations of Snap Appliance subsequent to the acquisition.

Our growth and future revenue remains largely dependent on the success of our external and networked storage solutions and, to a lesser extent, on our products addressing new technologies (i.e., Serial Attached SCSI, Serial ATA and iSCSI). We continue to invest in research and development to support key customer design wins for both component level and external storage related products. OEM design wins, channel acceptance of our products and overall profitability are key indicators management uses to evaluate the status of the business.

The following table sets forth the items in the Unaudited Condensed Consolidated Statements of Operations as a percentage of net revenues:

	Three-Month Period Ended		Six-Month Period Ended	
	September 30, 2004(2)	September 30, 2003(2)	September 30, 2004(3)	September 30, 2003(3)
Net revenues	100%	100%	100%	100%
Cost of revenues(1)	56	57	56	57
Gross margin	44	43	44	43
Operating expenses:				
Research and development(1)	26	23	24	24
Selling, marketing and administrative(1)	19	18	18	18
Amortization of acquisition-related intangible assets	4	5	4	4
Write-off of acquired in-process technology	2	—	2	2
Restructuring charges	2	1	1	1
Other charges	—	—	—	—
Total operating expenses	53	47	49	49
Income (loss) from operations	(9)	(4)	(5)	(6)
Interest and other income(1)	3	4	2	28
Interest expense	(1)	(2)	(1)	(3)
Income (loss) before income taxes	(7)	(2)	(4)	19
Provision for (benefit from) income taxes	0	(2)	0	0
Net income (loss)	(7)%	0%	(4)%	19%

(1) Prior period financial statements have been reclassified to conform to current period presentation.

Source: ADAPTEC INC, 10-Q, November 10, 2004

(2) In the second quarter of fiscal 2005, we purchased Snap Appliance (Note 4), implemented a restructuring plan (Note 10) and made acquisition related cash payments to former employees of Snap Appliance. In the second quarter of fiscal 2004, we implemented a restructuring plan to consolidate our research and development resources. These transactions affect the comparability of this data.

(3) In the first half of fiscal 2005, we purchased Snap Appliance and the IBM i/p Series RAID component business line (Note 4), made a payment of $1.3 million to Nevada SCSI Enterprises, Inc., or NSE, in the form of a license fee (Note 9), implemented restructuring plans in the first quarter and second quarter of fiscal 2005 (Note 10) and made acquisition related cash payments to former employees of Snap Appliance. In the first half of fiscal 2004, we purchased Eurologic Systems Group Limited, or Eurologic, and ICP vortex Computersysteme GmbH, or ICP vortex (Note 4), implemented a restructuring plan to consolidate our research and development resources and recorded a gain of $49.3 million related to the settlement with the former president of Distributed Processing Technology Corporation, or DPT (Note 9). These transactions affect the comparability of this data.

Net Revenues.

	Three-Month Period Ended			Six-Month Period Ended		
	September 30, 2004	September 30, 2003	Percentage Change	September 30, 2004	September 30, 2003	Percentage Change
	(in millions, except percentages)					
Segment Net Revenues:						
OEM	$ 75.5	$ 69.7	8%	$ 142.6	$ 136.0	5%
Channel	36.8	29.9	23%	74.6	59.0	26%
DSG	9.4	9.6	(3)%	20.0	21.5	(7)%
Total Net Revenues	121.7	109.2	**11**%	237.2	216.5	**10**%

Net revenues from our OEM segment increased by $5.8 million and $6.6 million in the second quarter and first half of fiscal 2005, respectively, as compared to corresponding periods of fiscal 2004. The increase was primarily a result of our component products, which included revenue of $5.2 million from our acquisition of the IBM i/p Series RAID business and sales from products based on next generation Serial ATA technology that launched in the first quarter of fiscal 2004. This was partially offset by a decline in sales volumes of our SCSI products primarily attributable to the transition from our Ultra 160 to Ultra 320 products in which we have a lower market share.

Net revenues from our Channel segment increased by $6.9 million and $15.6 million in the second quarter and first half of fiscal 2005, respectively, as compared to corresponding periods of fiscal 2004. This was primarily due to sales of our systems products, which included second quarter revenues of $3.1 million from our acquisition of Snap Appliance and increased sales of our existing external storage and components products.

Net revenues from our DSG segment decreased by $0.2 million and $1.5 million in the second quarter and first half of fiscal 2005, respectively, as compared to corresponding periods of fiscal 2004. This was due to a decline in sales volumes of our SCSI-based desktop computer solutions and sales of digital media products, offset partially by increased sales of non-SCSI based connectivity products. We

Source: ADAPTEC INC, 10-Q, November 10, 2004

expect revenues from our SCSI-based desktop computer solutions to continue to decline as OEMs are incorporating connectively technologies directly into their products.

	Three-Month Period Ended		Six-Month Period Ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
Geographical Revenues:				
North America	42%	41%	41%	44%
Europe	30%	30%	31%	30%
Pacific Rim	28%	29%	28%	26%
Total Geographical Revenues	100%	100%	100%	100%

Our international revenues remained relatively flat as a percentage of our total gross revenues in the second quarter of fiscal 2005 as compared to the second quarter of fiscal 2004 primarily as a result of increased sales in North America related to the acquisition of Snap Appliance offset by increased sales of our existing systems products in the Pacific Rim. Our international revenues grew as a percentage of our total gross revenues in the first half of fiscal 2005 as compared to the first half of fiscal 2004 primarily as a result of increased sales of our systems products in the Pacific Rim.

A small number of our customers account for a substantial portion of our net revenues, and we expect that a limited number of customers will continue to represent a substantial portion of our net revenues for the foreseeable future. IBM and Dell accounted for 24% and 11% of our total net revenues, respectively, in the second quarter of fiscal 2005, and accounted for 19% and 12% of our total net revenues, respectively, in the second quarter of fiscal 2004. IBM, Dell and Synnex accounted for 20%, 12% and 10% of our total net revenues, respectively, in the first half of fiscal 2005, and accounted for 17%, 11% and 0% of our total net revenues, respectively, in the first half of fiscal 2004. We expect IBM to represent a larger percentage of our total net revenues in future periods as a result of our acquisition of the IBM i/p Series RAID business.

Gross Margin.

	Three-Month Period Ended			Six-Month Period Ended		
	September 30, 2004	September 30, 2003	Percentage Change	September 30, 2004	September 30, 2003	Percentage Change
	(in millions, except percentages)					
Gross Profit	$ 53.4	$ 46.4	15%	$ 103.8	$ 92.2	13%
Gross Margin	44%	43%		44%	43%	

The improvement in gross margin in the second quarter and first half of fiscal 2005 compared to the corresponding periods of fiscal 2004 was primarily due to revenue earned of $5.2 million from our acquisition of the IBM i/p Series RAID business for which there were no associated costs. We expect gross margins to decline in future periods for products sold related to the IBM i/p Series RAID business as we complete the acquisition integration process and recognize both revenue and related costs. The improvement in gross margin was partially offset by changes in our product mix from higher margin to lower margin products.

Source: ADAPTEC INC, 10-Q, November 10, 2004

Research and Development Expense.

	Three-Month Period Ended			Six-Month Period Ended		
	September 30, 2004	September 30, 2003	Percentage Change	September 30, 2004	September 30, 2003	Percentage Change
	(in millions, except percentages)					
Research and Development	$ 32.0	$ 25.2	27%	$ 57.4	$ 51.4	12%

The increase in research and development expense in the second quarter and first half of fiscal 2005 compared to the corresponding periods of fiscal 2004 was primarily a result of increased headcount from the acquisitions of Snap Appliance and the IBM i/p Series RAID business and compensation of $0.8 million related to a management incentive program established for former Snap Appliance employees pursuant to the Snap Appliance acquisition agreement. This was offset by decreased infrastructure spending and reduced headcount as a result of restructuring programs implemented in fiscal 2004 and the first quarter of fiscal 2005 and decreased deferred compensation charges of $0.5 million and $1.0 million in the second quarter and first half of fiscal 2005, respectively, compared to the corresponding periods of fiscal 2004. Deferred compensation charges represented the vesting of restricted stock, unvested cash and assumed stock options in connection with our Platys Communications, Inc., or Platys, acquisition and assumed stock options in connection with our Snap Appliance acquisition.

Our investment in research and development primarily focuses on developing new products for the external storage, IP storage, server storage and networking markets. A portion of our research and development expense fluctuates depending on the timing of major project costs such as prototype costs. We expect to invest more than $5 million in research and development in fiscal 2005 to support our expanded relationship with IBM with respect to our systems' products. We invest in research and development of new technologies, including iSCSI, Serial ATA and Serial Attached SCSI.

Selling, Marketing and Administrative Expense.

	Three-Month Period Ended			Six-Month Period Ended		
	September 30, 2004	September 30, 2003	Percentage Change	September 30, 2004	September 30, 2003	Percentage Change
	(in millions, except percentages)					
Selling, Marketing and Administrative	$ 23.1	$ 19.4	20%	$ 42.1	$ 39.8	6%

The increase in selling, marketing and administrative expense in the second quarter and first half of fiscal 2005 compared to the corresponding periods of fiscal 2004 was primarily a result of increased headcount from the acquisition of Snap Appliance, compensation of $2.1 million related to a management incentive program established for former Snap Appliance employees pursuant to the Snap Appliance acquisition agreement and increased deferred compensation charges. This was partially offset by decreased spending due to reductions of our workforce and infrastructure spending as a result of the restructuring plans implemented in fiscal 2004 and the first and second quarters of fiscal 2005, and the integration and consolidation of Eurologic's operations, which was completed in the fourth quarter of fiscal 2004. Deferred compensation charges represented the vesting of assumed stock options in connection with our Platys and Snap Appliance acquisitions and increased $0.2 million and $0.1 million in the second quarter and first half of fiscal 2005, respectively, compared to the corresponding periods of fiscal 2004.

As our selling, marketing and administrative expense consist primarily of salaries, including commissions, our selling, marketing and administrative expense may fluctuate based on changes to our

Source: ADAPTEC INC, 10-Q, November 10, 2004

revenue levels. We will focus on controlling our selling, marketing and administrative spending in a way that allows our revenues to rise faster than our expenses.

Amortization of Acquisition-Related Intangible Assets.

	Three-Month Period Ended			Six-Month Period Ended		
	September 30, 2004	September 30, 2003	Percentage Change	September 30, 2004	September 30, 2003	Percentage Change
	(in millions, except percentages)					
Amortization of Acquisition-Related Intangible Assets	$ 5.2	$ 4.7	10%	$ 8.1	$ 9.5	(15)%

Acquisition-related intangible assets include patents, core and existing technologies, covenants-not-to-compete, supply agreement, foundry agreement, customer relationships, trade name, backlog and royalties. We amortize the acquisition-related intangible assets over periods which reflect the pattern in which the economic benefits of the assets are expected to be realized, which is primarily using the straight-line method over their estimated useful lives, ranging from three months to seven years.

The increase in amortization of acquisition-related intangible assets in the second quarter of fiscal 2005 compared to the second quarter of fiscal 2004 is due to the amortization of $3.0 million of purchased intangible assets related to the acquisitions of Elipsan Limited, or Elipsan, in February 2004, the IBM i/p Series RAID business in June 2004 and Snap Appliance in July 2004. This was partially offset by acquisition-related intangible assets that became fully amortized in December 2003 associated with our DPT acquisition.

The decrease in amortization of acquisition-related intangible assets in the first half of fiscal 2005 compared to the first half of fiscal 2004 is due to the acquisition-related intangible assets that become fully amortized in December 2003 associated with our DPT acquisition. This was partially offset by amortization of purchased intangible assets related to the acquisitions of Elipsan, the IBM i/p Series RAID business and Snap Appliance.

Write-off of Acquired In-Process Technology.

	Three-Month Period Ended		Six-Month Period Ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
	(in millions)			
Snap Appliance	$ 2.2	$ —	$ 2.2	$ —
IBM i/p Series RAID business	—	—	3.0	—
Eurologic	—	—	—	3.6

Projects that qualify as acquired in-process technology represent those in which technological feasibility had not been established and no alternative future uses existed. The amounts allocated to acquired in-process technology was determined through established valuation techniques in the high-technology computer industry.

The net cash flows from the identified projects were based on estimates of revenues, cost of revenues, research and development expenses, including costs to complete the projects, selling, marketing and administrative expenses, royalty expenses and income taxes from the projects. We believe the assumptions used in the valuations were reasonable at the time of the acquisitions. The estimated net revenues and gross margins were based on management's projections of the projects and were in line with industry averages. Estimated total net revenues from the projects of Snap Appliance,

Source: ADAPTEC INC, 10-Q, November 10, 2004

the IBM i/p Series RAID business, Eurologic and Elipsan were expected to grow through fiscal 2009, fiscal 2009, fiscal 2008 and fiscal 2007, respectively, and decline thereafter as other new products are expected to become available. Estimated operating expenses included research and development expenses and selling, marketing and administrative expenses based upon historical and expected direct expense levels and general industry metrics. Estimated research and development expenses include costs to bring the projects to technological feasibility and costs associated with activities undertaken to correct errors or keep products updated with current information (also referred to as "maintenance" research and development) after a product is available for general release to customers. These activities range from 0% to 5% of net revenues for the in-process technologies.

The effective tax rate utilized in the analysis of the in-process technologies reflects a combined historical industry specific average for the United States Federal and state statutory income tax rates. The cost of capital reflects the estimated time to complete the projects and the level of risk involved. The following discount rates were used in computing the present value of net cash flows from the acquired companies: approximately 24% for Snap Appliance, between 23% and 28% for the IBM i/p Series RAID business, approximately 27% for Eurologic and approximately 63% for Elipsan.

The percentage of completion was determined using costs incurred by Snap Appliance, the IBM i/p Series RAID business, Eurologic and Elipsan prior to their respective acquisition dates compared to the estimated remaining research and development to be completed to bring the projects to technological feasibility. We estimated, as of the acquisition date for Snap Appliance, the IBM i/p Series RAID business, Eurologic and Elipsan, that the projects were approximately 25% complete, 50% complete, 60% complete and 28% complete, respectively. All projects outstanding as of the acquisition date for Eurologic were completed as of March 31, 2004. We expect remaining costs of approximately $0.6 million, $26.0 million and $0.1 million, related to Snap Appliance, the IBM i/p Series RAID business and Elipsan, respectively, to bring the planned in-process projects to completion.

Restructuring Charges.

	Three-Month Period Ended			Six-Month Period Ended		
	September 30, 2004	**September 30, 2003**	**Percentage Change**	**September 30, 2004**	**September 30, 2003**	**Percentage Change**
			(in millions, except percentages)			
Restructuring Charges	$ 1.9	$ 1.5	30%	$ 2.7	$ 1.8	50%

The restructuring plans entered into in the first half of fiscal 2005 are discussed in detail below. For a complete discussion of all restructuring actions that were implemented prior to fiscal 2004, please refer to the Notes to Consolidated Financial Statements included in our Current Report on Form 8-K filed on September 24, 2004.

Second Quarter of Fiscal 2005 Restructuring Plan: In the second quarter of fiscal 2005, we initiated certain actions to consolidate duplicative resources in connection with the acquisition of Snap Appliance, primarily in selling, marketing and administrative functions and recorded a restructuring charge of $0.7 million. The expenses associated with this restructuring plan are included in "Restructuring charges" in the Unaudited Consolidated Statements of Operations. We do not expect to incur any further charges in connection with this restructuring plan. Restructuring charges are not allocated to segments but rather managed at the corporate level. For the acquisition-related restructuring plan associated with the Snap Appliance acquisition, please see Note 4 for further details.

As a result of our second quarter of fiscal 2005 restructuring plan, we expect to reduce our annual infrastructure spending by approximately $2 million, of which approximately 19% and 81% will be reflected as a reduction in cost of revenues and selling, marketing and administrative expense, respectively.

Source: ADAPTEC INC, 10-Q, November 10, 2004

First Quarter of Fiscal 2005 Restructuring Plan: In the first quarter of fiscal 2005, we initiated certain actions to consolidate certain development and administrative functions in the United States and Europe, which were completed in the first half of fiscal 2005. We recorded a restructuring charge of $0.8 million in the first quarter of fiscal 2005 related to the involuntary termination of employees and the costs pertaining to estimated future obligations for non-cancelable lease payments for an excess facility in the United Kingdom. Additional charges of $1.4 million related to this plan associated with severance and benefits for employees primarily in the area of research and development were taken in the second quarter of fiscal 2005. Restructuring charges related to the first quarter restructuring plan total $2.2 million. We do not expect to incur any further charges in connection with this restructuring plan. Restructuring charges are not allocated to segments but rather managed at the corporate level.

As a result of our first quarter of fiscal 2005 restructuring plan, we expect to reduce our annual infrastructure spending by approximately $5 million, of which approximately 78% and 22% will be reflected as a reduction in research and development expense and selling, marketing and administrative expense, respectively.

Additionally, in the first half of fiscal 2005, we recorded a net reduction of $0.2 million to the fiscal 2004 restructuring plan as severance and benefits were lower than originally anticipated.

Interest and Other Income.

	Three-Month Period Ended			Six-Month Period Ended		
	September 30, 2004	**September 30, 2003**	**Percentage Change**	**September 30, 2004**	**September 30, 2003**	**Percentage Change**
			(in millions, except percentages)			
Interest and Other Income:						
Interest income	$ 3.0	$ 4.1	(26)%	$ 5.8	$ 10.6	(46)%
Gain on settlement with former president of DPT	—	—	—	—	49.3	(100)%
Payment of license fee with NSE	—	—	—	(1.3)	—	100%
Loss on redemption of debt	—	—	—	—	(0.8)	(100)%
Other	0.7	0.6	12%	1.0	2.0	(50)%
Total Interest and Other Income	3.7	4.7	**(22)**%	5.5	61.1	**(91)**%

Interest and other income is primarily attributable to interest income earned on our cash, cash equivalents and marketable securities, loss from the redemption of our $4^3/_4$% Subordinated Convertible Notes, or $4\ ^3/_4$% Notes, fluctuations in foreign currency gains or losses and lease income received from third parties.

The decrease in interest and other income in the second quarter of fiscal 2005 compared to the second quarter of fiscal 2004 was primarily due to lower interest income earned on our cash, cash equivalents and marketable securities related to lower average cash balances, slightly offset by increased interest rates. The decrease in interest and other income in the first half of fiscal 2005 compared to the first half of fiscal 2004 was primarily due to a gain recorded in the first half of fiscal 2004 of $49.3 million in relation to a settlement with the former president of DPT, lower interest income earned on our cash, cash equivalents and marketable securities related to lower average cash balances, realized losses on our cash, cash equivalents and marketable securities, a one-time fully paid-up license fee of $1.3 million to NSE, which was recorded in the first half of fiscal 2005, primarily for historical products that incorporated certain technology, and a loss of $0.8 million on the redemption of $82.4 million in principal amount of our $4^3/_4$% Notes. For further discussion on the settlement with

Source: ADAPTEC INC, 10-Q, November 10, 2004

former president of DPT and NSE, please refer to Note 9 to the Notes to Unaudited Condensed Consolidated Financial Statements.

Interest Expense.

	Three-Month Period Ended			Six-Month Period Ended		
	September 30, 2004	September 30, 2003	Percentage Change	September 30, 2004	September 30, 2003	Percentage Change
	(in millions, except percentages)					
Interest Expense	$ (1.1)	$ (2.5)	(54)%	$ (2.3)	$ (5.7)	(60)%

Interest expense is primarily associated with our 3/4% Convertible Senior Notes, or 3/4% Notes, and 3% Convertible Subordinated Notes, or 3% Notes, issued in December 2003 and March 2002, respectively. The decrease in interest expense for the second quarter of fiscal 2005 compared to the second quarter of fiscal 2004 was primarily due to the reduction in the outstanding balances of the 3% Notes, partially offset by interest expense related to our 3/4% Notes. The decrease in interest expense for the first half of fiscal 2005 compared to the first half of fiscal 2004 was primarily due to the reduction in the outstanding balances of the 3% Notes and 4 3/4% Notes, partially offset by interest expense related to our 3/4% Notes. We expect future interest expense to remain relatively constant with the second quarter of fiscal 2005 based upon our outstanding debt obligations of $260.2 million at September 30, 2004.

Income Taxes.

	Three-Month Period Ended			Six-Month Period Ended		
	September 30, 2004	September 30, 2003	Percentage Change	September 30, 2004	September 30, 2003	Percentage Change
	(in millions, except percentages)					
Provision for (Benefit from) Income Taxes	$ (0.5)	$ (2.4)	(82)%	$ (0.4)	$ 0.3	(228)%

Income tax provisions for interim periods are based on our estimated annual income tax rate. The estimated annual tax rate for the second quarter and first half of 2005 differs from the combined United States Federal and state statutory income tax rate of 40% partially due to certain acquisition related intangible assets, excluding goodwill, that are not fully deductible for tax purposes and changes to our tax reserves. We are in ongoing negotiations with the IRS with regard to its various tax disputes that may result in settlement of certain issues. Our tax rate for the period in which a settlement is reached will be impacted if the settlement materially differs from the amounts previously accrued. The tax rate for second quarter and the first half of fiscal 2005 also differs from the combined United States Federal and state statutory income tax rate of 40% due to a benefit of $9.9 million from discrete events relating to the method and amount of settled controversies. As a result of the settlement, $4.1 million previously recorded as a tax provision has been reclassified as a reduction to additional paid in capital, $1.8 million previously recorded as a tax provision has reversed, and a $4.0 million tax benefit associated with a refund claim has been recognized during the second quarter of fiscal 2005. The tax rate for the second quarter and first half of 2004 differed from the combined United States Federal and state statutory rate of 40% primarily due to the gain on settlement with the former president of DPT of $49.3 million which is treated as an adjustment to the tax basis in the acquired DPT common stock and does not result in taxable income.

The American Jobs Creation Act of 2004 became effective after the close of the second quarter of fiscal 2005. We are currently evaluating the effect of the new legislation and how it may impact future periods. Until such evaluation is complete, we have not accrued income taxes on the accumulated undistributed earnings of our Singapore subsidiary, as these earnings are currently expected to be reinvested indefinitely.

Source: ADAPTEC INC, 10-Q, November 10, 2004

Liquidity and Capital Resources

Key Components of Cash Flows

Cash provided by operations decreased to $0.01 million in the first half of fiscal 2005 as compared to $57.6 million in the first half of fiscal 2004 primarily driven by a decrease from net income of $41.1 million in the first half of fiscal 2004 to a net loss of $8.1 million in the first half of fiscal 2005. Operating cash flow for the first half of fiscal 2005 was also impacted unfavorably by an increase in accounts receivable and inventory offset by the benefit of non-cash items included in operating results. Non-cash items primarily consisted of depreciation and amortization of intangible assets and property and equipment of $22.6 million, write-off of acquired in process technology of $5.2 million and amortization of deferred stock-based compensation of $1.7 million. Operating cash for the first half of fiscal 2004 resulted primarily from our net income of $41.1 million, offset by non-cash items of $10.2 million and changes to working capital assets and liabilities, excluding the impact of balances acquired from Eurologic and ICP vortex, of $6.4 million. Non-cash items primarily consisted of the non-cash portion of the gain on settlement with the former president of DPT of $18.3 million, offset by depreciation and amortization of intangible assets and property and equipment of $26.6 million and write-off of acquired in process technology of $3.6 million.

Days sales outstanding increased to 58 at September 30, 2004 as compared to 48 at September 30, 2003 due to the timing of our shipments in the quarter and the integration of Snap Appliance and the IBM i/p Series RAID business; the increase was not due to the result of changes in the credit quality of our customers. Annualized inventory turns decreased to 4.5 at September 30, 2004 as compared to 7.0 at September 30, 2003. Overall inventory levels were higher at the end of the second quarter and first half of fiscal 2005 compared to the corresponding periods of fiscal 2004 due to our beginning to manufacture certain products that were previously outsourced to subcontractors, our Snap Appliance acquisition and increased inventory levels related to new system products.

Cash used for investing activities was $16.0 million in the first half of fiscal 2005, which was primarily related to our acquisitions of Snap Appliance and the IBM i/p Series RAID business of $124.0 million, offset by sales and maturities of restricted marketable securities and marketable securities, net of purchases, of $115.2 million. Cash used for investing activities of $41.6 million in the first half of fiscal 2004 primarily related to our acquisitions of Eurologic and ICP vortex of $29.9 million, offset by sales and maturities of restricted marketable securities and marketable securities, net of purchases, of $8.4 million.

Cash provided by financing activities was $3.8 million in the first half of fiscal 2005, which related to net proceeds received from our issuance of common stock in connection with purchases made under our employee stock purchase plan and the exercise of stock options. Cash used for financing activities of $82.1 million in the first half of fiscal 2004 was primarily driven by the repurchase of our $4^3/4$% Notes for $83.0 million.

Liquidity. At September 30, 2004, we had $530.0 million in cash, cash equivalents and marketable securities of which approximately $427.6 million was held by our Singapore subsidiary. Although we do not have any current plans to repatriate cash from our Singapore subsidiary to our United States parent company, if we were to do so, additional income taxes up to the combined United States Federal and state statutory rate of approximately 40% could be incurred from the repatriation. In October 2004, the American Jobs Creation Act of 2004 (formerly the Homeland Investment Act), became effective that lowers the United States federal rate on repatriated funds to approximately 5.25% for a limited time period and based upon a qualifying plan. We are currently evaluating the effect of this legislation on our liquidity requirements, and we may elect to repatriate a portion of our offshore funds to the United States and pay the reduced taxes on these funds.

Source: ADAPTEC INC, 10-Q, November 10, 2004

We also acquired an available revolving line of credit of up to $7.5 million through the acquisition of Snap Appliance, of which no borrowings were drawn against the line at September 30, 2004. Under the terms of the line of credit, all financial covenants are waived through October 31, 2004.

At September 30, 2004, we had $260.2 million of aggregate principal amount in convertible notes outstanding, consisting of $35.2 million in aggregate principal amount of our 3% Notes that are due in March 2007 and $225.0 million in aggregate principal amount of our $^{3}/_{4}$% Notes that are due in December 2023.

We are required to maintain restricted cash or investments to serve as collateral for the first six scheduled interest payments and the first ten scheduled interest payments on our 3% Notes and $^{3}/_{4}$% Notes, respectively. As of September 30, 2004, we had $7.8 million of restricted cash and restricted marketable securities, consisting of United States government securities, of which $2.3 million was classified as short-term and $5.5 million was long-term.

The IRS is currently auditing our tax return for fiscal 1997 and final settlement agreements have been filed with the United States Tax Court on all but one issue. In addition, the IRS is auditing our Federal income tax returns for fiscal 1998 through fiscal 2001. We have settled all issues for fiscal 1998 and 1999 other than the rollover impact of any potential resolution on the remaining fiscal 1997 issue and tax credits that were generated but not used in subsequent years that may be carried back to fiscal 1998 and 1999. The fiscal 2000 and 2001 audit is ongoing. We believe that we have sufficient tax provisions for these years. We believe the final outcome of the IRS audits will not have a material adverse impact on our liquidity.

We invest in technology companies through two venture capital funds, Pacven Walden Venture V Funds and APV Technology Partners II, L.P. At September 30, 2004, the carrying value of such investments aggregated $3.2 million. We have also committed to provide additional funding of up to $0.6 million.

We believe that liquidity provided by our existing working capital, together with expected cash flows from operations and available sources of bank, equity and equipment financing, will be sufficient to support our operations through at least the next twelve months. However, should prevailing economic conditions and/or financial, business and other factors beyond our control adversely affect our estimates of our future cash requirements, we would be required to fund our cash requirements by alternative financing. There can be no assurance that additional financing, if needed, would be available on terms acceptable to us or at all.

As of September 30, 2004, we did not have any material changes to our contractual obligations, other than our acquisition of Snap Appliance, which increased our operating lease commitments by $9.6 million over the next seven years related to leased facilities.

In connection with the acquisition of Snap Appliance, at September 30, 2004, we maintained an irrevocable standby letter of credit for $500,000 with an approved financial institution under an office lease term, which guarantees its performance to the landlord. The letter of credit required under the lease may be decreased annually through the end of the lease term. As of September 30, 2004, we were not subject to any draw against the letter of credit.

Recent Accounting Pronouncements

In September 2004, the EITF reached a consensus on EITF Issue 04-08, which requires the inclusion of shares related to contingently convertible debt instruments for computing diluted earnings per share using the if-converted method, regardless of whether the market price contingency has been met. EITF 04-08 will be effective for all periods ending after December 15, 2004 and includes retroactive adjustment to historically reported diluted earnings per share. There would have been no impact to basic and diluted earnings per share if EITF 04-08 had been applied by us during the second

Source: ADAPTEC INC, 10-Q, November 10, 2004

quarter and first half of fiscal 2005, as we were in a net loss position and the conversion would have been anti-dilutive related to the 3/4% Notes that were issued in December 2003.

At its March 2004 meeting, the EITF reached a consensus on recognition and measurement guidance previously discussed under EITF 03-01. The consensus clarified the meaning of other-than-temporary impairment and its application to investments classified as either available-for-sale or held-to-maturity under SFAS No. 115 and investments accounted for under the cost method or the equity method. On September 30, 2004, the FASB delayed the recognition and measurement guidance to be applied to other-than-temporary impairment evaluations. The FASB expects to issue additional implementation guidance with respect to debt securities that are impaired solely due to interest rates and/or sector spreads.

Acquisitions

Snap Appliance: On July 23, 2004, we completed the acquisition of Snap Appliance, a provider of NAS solutions, to expand its product offerings in the external storage market and to deliver cost-effective, scalable and easy-to-use DAS, NAS, Fibre Channel and IP-based SAN solutions from the workgroup to the data center. The total purchase price was $84.4 million, consisting of $77.4 million in cash and transaction fees and $7.0 million related to the fair value of assumed stock options to purchase 1.2 million shares of our common stock. The assumed stock options were valued using the Black-Scholes valuation model with the following assumptions: volatility rate of 58%; a risk-free interest rate of 2.6%; and an estimated life of 2.25 years. Snap Appliance has been integrated into our Channel segment (Note 16).

Of the total assumed stock options, stock options to purchase approximately 0.7 million shares of our common stock, with exercise prices ranging between $1.42 and $5.66 per share, were unvested, which is also known as the Snap Unvested Options. The Snap Unvested Options have a ten-year term and vest primarily over four years from the date of grant. The intrinsic value of the Snap Unvested Options of $3.6 million was accounted for as deferred stock-based compensation and is being recognized as compensation expense over their related vesting periods.

In addition, a management incentive program was established to pay former employees of Snap Appliance cash payments totaling $13.8 million, which will be paid, contingent upon their employment with us, over a two-year period through the second quarter of fiscal 2007. Payments under the management incentive program will be expensed as employees meet their employment obligations.

Acquisition-Related Restructuring: In the second quarter of fiscal 2005, we established a preliminary plan to integrate the Snap Appliance operations and, accordingly, recorded $6.0 million related to integrating certain duplicative resources related to both severance and benefits in connection with the involuntary termination of 7 employees, exiting duplicative facilities and completing other integration activities through fiscal 2005. The acquisition-related restructuring liabilities were accounted for under EITF 95-3 and therefore were included in the purchase price allocation of the cost to acquire Snap Appliance. Any changes to our estimate will result in an increase or decrease to the accrued restructuring charges and a corresponding increase or decrease to goodwill. No payments have been made as of September 30, 2004 related to this plan.

The acquisition of Snap Appliance is being accounted for as a purchase business combination with the allocation of the purchase price to the tangible and intangible assets acquired. The allocation was based on an independent appraisal and management's estimates of fair value. Approximately $2.2 million of the purchase price was allocated to acquired in-process technology and was written off in the second quarter of fiscal 2005. The in-process projects were related to operating system enhancements and system functionality improvements.

Source: ADAPTEC INC, 10-Q, November 10, 2004

IBM i/p Series RAID: On June 29, 2004, we completed the acquisition of IBM's i/p Series RAID component business line consisting of certain purchased RAID data protection intellectual property, semiconductor designs and assets, and licensed from IBM related RAID intellectual property. The licensing agreement grants us the right to use IBM's RAID technology and embedded Power PC technology for our internal and external RAID products to be sold to IBM and other customers. In conjunction with the acquisition, we also entered into a three-year exclusive product supply agreement under which we will supply RAID software, firmware and hardware to IBM for use in IBM's iSeries and pSeries servers. We also entered into an agreement for IBM to provide silicon wafer manufacturing processing services to us for the term of the supply agreement at agreed upon rates.

The total purchase price is estimated at $49.5 million, which consists of a cash payment to IBM of $47.5 million, warrants valued at $1.1 million, net of registration costs, and transactions costs of $0.9 million. In connection with the acquisition, we issued to IBM a warrant to purchase 250,000 shares of our common stock at an exercise price of $8.13 per share. The warrant has a term of 5 years from the date of issuance and is immediately exercisable. The warrant was valued using the Black-Scholes valuation model using a volatility rate of 62%, a risk-free interest rate of 3.9% and an estimated life of 5 years. The transaction costs consist primarily of legal, valuation and other fees. The IBM i/p Series RAID business is being included in our OEM segment (Note 16).

We also entered into a service agreement for IBM to provide certain research and development services and to provide access to IBM's semiconductor design tools. The semiconductor design tools license agreement is for two years at a total cost of $9.9 million and is payable in quarterly installments; however, the agreement can be cancelled by us in any quarter, which termination would relieve any obligations for us to make future quarterly installment payments to IBM.

We recognized $5.2 million of revenue with no associated cost of sales in the second quarter of fiscal 2005 related to the IBM i/p Series RAID business as a result of the ongoing integration process. Future revenue and related cost of sales is expected to be recognized when the acquisition integration process is complete.

Eurologic: On April 2, 2003, we completed the acquisition of Eurologic, a provider of external and networked storage solutions. We acquired Eurologic to further enhance our direct-attached and fibre-attached server storage capabilities by allowing us to provide end-to-end block- and file-based networked storage solutions. As consideration for the acquisition of all of the outstanding capital stock of Eurologic, we paid $25.6 million in cash, subject to a Holdback as described below, and assumed stock options to purchase 0.5 million shares of our common stock, with a fair value of $1.6 million. We also incurred $1.1 million in transaction fees, including legal, valuation and accounting fees. The assumed stock options were valued using the Black-Scholes valuation model with the following assumptions: volatility rate ranging from 57% to 81%; a risk-free interest rate ranging from 1.1% to 2.5%; and an estimated life ranging from 0.08 to 4 years. As part of the Eurologic purchase agreement, $3.8 million of the cash payment was held back, also known as the Holdback, for unknown liabilities that may have existed as of the acquisition date. The Holdback, which was included as part of the purchase price, was included in "Accrued liabilities" in the Unaudited Condensed Consolidated Balance Sheet as of September 30, 2004 and was to have been paid to the former Eurologic stockholders 18 months after the acquisition closing date, except for funds necessary to provide for any unknown liabilities. We have asserted a claim against the full amount of the Holdback for such unknown liabilities of which we became aware following the consummation of the transaction. The former Eurologic stockholders have disputed this claim. We also agreed to pay the stockholders of Eurologic contingent consideration of up to $10.0 million in cash if certain revenue levels were achieved by the acquired Eurologic business in the period from July 1, 2003 through June 30, 2004. The milestone to achieve the contingent consideration was not attained as of June 30, 2004. As a result, no additional payments were made to former stockholders of Eurologic. Eurologic's goodwill and amortizable

Source: ADAPTEC INC, 10-Q, November 10, 2004

intangible assets were allocated based on the relative fair values of our two segments, OEM and Channel (Note 16).

Acquisition-Related Restructuring: During the fourth quarter of fiscal 2004, we finalized our plans to integrate the Eurologic operations. The integration plan included the involuntary termination or relocation of approximately 110 employees, exiting duplicative facilities and the transition of all manufacturing operations from Dublin, Ireland to our manufacturing facility in Singapore. The consolidation of the manufacturing operations as well as involuntary employee terminations was completed in the fourth quarter of fiscal 2004. The acquisition-related restructuring liabilities were accounted for under EITF No. 95-3 and therefore were included in the purchase price allocation of the cost to acquire Eurologic. We recorded a liability of $3.3 million in fiscal 2004 for these activities. As of September 30, 2004, we utilized approximately $3.1 million of these charges. We anticipate that the remaining restructuring reserve balance of $0.2 million will be paid out by the third quarter of fiscal 2006.

ICP vortex: On June 5, 2003, we completed the acquisition of ICP vortex. ICP vortex was a wholly-owned subsidiary of Intel Corporation and provided a broad range of hardware and software RAID data protection solutions, including SCSI, Serial ATA and fibre channel products. The final purchase price was $14.5 million in cash, which includes $0.3 million in transaction fees, consisting of legal, valuation and accounting fees. This purchase price included a final adjustment of $0.1 million in the first quarter of fiscal 2005 to both goodwill and acquisitions costs. ICP vortex's goodwill and amortizable intangible assets were allocated based on the relative fair values of our two segments, OEM and Channel (Note 16).

During the first quarter of fiscal 2005, we finalized our plans to integrate the ICP vortex operations. The integration plan included the involuntary termination of 19 employees, the transfer of manufacturing operations to Singapore and the integration of certain duplicative resources. The acquisition-related restructuring liabilities were accounted for under EITF 95-3 and therefore were included in the purchase price allocation of the cost to acquire ICP vortex. In fiscal 2004, we recorded a liability of $0.4 million for severance and benefits, of which $0.3 million of these charges were utilized and $0.1 million was recorded as a reduction to the restructuring liability with a corresponding decrease to goodwill in the first quarter of fiscal 2005.

Elipsan: On February 13, 2004, we completed the acquisition of Elipsan, a provider of networked storage infrastructure software. Elipsan's storage virtualization technology will enable us to make storage more cost-effective, easier to scale, and increase performance across multiple RAID subsystems. The total purchase price was $19.4 million in cash to acquire Elipsan, which includes $0.7 million in transaction fees, consisting of legal, valuation and accounting fees. In the first quarter of fiscal 2005, adjustments were made to both goodwill and the acquisition costs. Elipsan's goodwill and amortizable intangible assets were allocated based on the relative fair values of our two segments, OEM and Channel (Note 16).

In-process Technology: As part of the Elipsan purchase agreement, $4.0 million was allocated to acquired in-process technology and written off in the fourth quarter of fiscal 2004 because technological feasibility had not been established and no alternative future uses existed. The in-process projects were related to the development of software modules to add additional functionality to the existing storage virtualization software as well as address specific customer needs. The value for the identifiable intangible was determined by estimating the net cash flows and discounting the estimated net cash flows to their present value.

The percentage of completion of the acquired projects was determined using costs incurred by Elipsan prior to the acquisition date compared to the estimated remaining research and development to be completed to bring the projects to technological feasibility. We estimated, as of the acquisition date,

Source: ADAPTEC INC, 10-Q, November 10, 2004

the projects were approximately 28% complete. We expect remaining costs of approximately $0.1 million to bring the planned in-process projects to completion.

Acquisition-Related Restructuring: In connection with the acquisition, we initiated a plan to integrate the Elipsan operations. The plan included the integration of certain duplicative resources. We established a preliminary plan in the fourth quarter of fiscal 2004 and, accordingly, recorded $0.8 million related to both severance and benefits in connection with the involuntary termination of two employees on March 31, 2004 and other integration activities through fiscal 2005. The acquisition-related restructuring liabilities were accounted for under EITF 95-3 and therefore were included in the purchase price allocation of the cost to acquire Elipsan. Any changes to our estimate will result in an increase or decrease to the accrued restructuring charges and a corresponding increase or decrease to goodwill. As of September 30, 2004, we made payments of approximately $25,000 under the plan.

RISK FACTORS

Our business faces significant risks. The risks described below may not be the only risks we face. Additional risks that we do not yet know of or that we currently think are immaterial may also impair our business operations. If any of the events or circumstances described in the following risks actually occur, our business, financial condition or results of operations could suffer, and the trading price of our common stock could decline.

Our operating results have fluctuated in the past, and are likely to continue to fluctuate, and if our future results are below the expectations of investors or securities analysts, the market price of our common stock would likely decline significantly.

Our quarterly operating results have fluctuated in the past, and are likely to vary significantly in the future, based on a number of factors related to our industry and the markets for our products. Factors that are likely to cause our operating results to fluctuate include those discussed in the risk factors below. In addition, in the first half of fiscal 2005, our operating results were materially affected by unusual charges, including the write-off of acquired in-process technology from the acquisitions of the i/p Series RAID business from IBM and Snap Appliance.

Our operating expenses are largely based on anticipated revenues, and a large portion of our expenses, including those related to rent and salaries, are fixed in the short term. As a result, lower than anticipated revenues for any reason could cause significant variations in our operating results from quarter to quarter.

Due to the factors summarized above, and the other risks described in this section, we believe that you should not rely on period-to-period comparisons of our financial results as an indication of our future performance. In the event that our operating results fall below the expectations of market analysts or investors, the market price of our common stock could decline substantially.

Our operating results may be adversely affected by the uncertain geopolitical environment and unfavorable economic and market conditions.

Adverse economic conditions in some markets have contributed to the slowdown in the information technology industry and may continue to impact our business, resulting in:

- Reduced demand for our products as a result of a decrease in capital spending by our customers;
- Increased price competition for our products;
- Increased risk of excess and obsolete inventories;
- Excess facilities and manufacturing capacity; and

Source: ADAPTEC INC, 10-Q, November 10, 2004

- Higher overhead costs as a percentage of revenues.

Political turmoil in many parts of the world, including terrorist and military actions, may continue to put pressure on global economic conditions. If the conditions do not improve in affected markets, or if conditions deteriorate further, our business, operating results and financial condition may be adversely affected. We do not expect the trend of lower capital spending among our customers to reverse itself in the near term.

Demand for our products would likely be negatively affected if demand in the server and network storage markets declines. Our business or operating results would be adversely affected by a decline in demand for our products. For example, demand in the server market declined slightly in fiscal 2002 and fiscal 2003, which contributed to a decline in our net revenues. It is difficult to predict future server sales growth, if any. In addition, other technologies may replace the technologies used in our existing products and the acceptance of our products using new technologies in the market may not be widespread, which could adversely affect our revenues.

Because our sales are made by means of standard purchase orders rather than long-term contracts, if demand for our customers' products declines or if our customers do not control their inventories effectively, they may cancel or reschedule shipments previously ordered from us or reduce their levels of purchases from us.

The volume and timing of orders received during a quarter are difficult to forecast. Our customers generally order based on their forecasts and they frequently encounter uncertain and changing demand for their products. If demand falls below such forecasts or if our customers do not control their inventories effectively, they may cancel or reschedule shipments previously ordered from us. Our customers have from time to time in the past canceled or rescheduled shipments previously ordered from us, and we cannot assure you that they will not do so in the future. In addition, because our sales are made by means of standard purchase orders rather than long-term contracts, we cannot assure you that these customers will continue to purchase quantities of our products at current levels, or at all. Historically, we have set our operating budget based on forecasts of future revenues because we do not have significant backlog. Because much of our operating budget is relatively fixed in the short-term, if revenues do not meet our expectations, then our financial results will be adversely affected.

We expect that the products we are developing for the network storage marketplace will be an important component of our future growth, and these products may not be accepted by the market or reach the market in a timely fashion.

We believe that developing products for the network storage marketplace will be an important component of our future growth, and we have attempted to accelerate such product development efforts through acquisitions. For example, in July 2004, we acquired Snap Appliance, Inc., a provider of NAS solutions, in February 2004, we acquired Elipsan, a network storage software provider, and in April 2003, we acquired Eurologic, a provider of external and networked storage solutions. The marketplace for advanced storage products is highly competitive. While we are focusing on solutions employing iSCSI technology for this market, other companies are also focusing on network storage solutions based on identified technologies that include, but are not limited to, iSCSI. As a result, our technology may never be broadly adopted. Even if iSCSI technology achieves broad market acceptance, our early technological advantage in this field may not afford us the advantages we had anticipated if such acceptance continues to be delayed. In addition, there are substantial risks that known and unknown challenges to successful deployment of our products, and of products incorporating our products, will cause delays in their reaching the market. If iSCSI technology and our network storage products, and our customers' products using our technology, do not achieve a broad level of market acceptance, or if we encounter substantial delays in entering the market, our growth will likely be impaired.

Source: ADAPTEC INC, 10-Q, November 10, 2004

If we do not provide adequate support during our customers' design and development stage, or if we are unable to provide such support in a timely manner, we may lose revenues to our competition.

Certain of our products are designed to meet our customers' specifications and, to the extent we are not able to meet these expectations in a timely manner or provide adequate support during our customers' design and development stage, our customers may choose to buy similar products from another company. If this were to occur we may lose revenues and market share to our competitors.

Our reliance on industry standards and technological changes in the marketplace may cause our net revenues to fluctuate or decline.

The computer industry is characterized by various, evolving standards and protocols. We design our products to conform to certain industry standards and protocols such as the following:

Technologies:

- ATA
- Serial ATA
- Fibre channel
- FireWire/1394
- IPsec
- iSCSI
- PCI
- PCI-X
- PCI-Express
- RAID
- SCSI
- Serial Attached SCSI
- SMI-S
- Ultra DMA
- USB

Operating Systems:

- Linux
- Macintosh
- Netware
- OS/2
-

UNIX

- Windows

If consumer acceptance of these standards declines, or if new standards emerge, and if we do not anticipate these changes and develop new products, these changes could adversely affect our business and financial results.

Source: ADAPTEC INC, 10-Q, November 10, 2004

If we lose the cooperation of other hardware and software producers whose products are integral to ours, our ability to sustain or grow our revenues could be adversely affected.

We must design our products to operate effectively with a variety of hardware and software products supplied by other manufacturers, including the following:

- Microprocessors;
- Peripherals; and
- Operating system software.

We depend on significant cooperation from these manufacturers to achieve our design objectives and develop products that operate successfully with their products. These companies could, from time to time, elect to make it more difficult for us to design our products for successful operability with their products. For example, if one or more of these companies were to determine that as a result of competition or other factors our technology or products would not be broadly accepted by the markets we target, these companies may no longer work with us to plan for new products and new generations of our products, which would make it more difficult to introduce products on a timely basis or at all. Further, some of these companies might decide not to continue to offer products that are compatible with our technology and our markets could contract. If any of these events were to occur, our revenue could be adversely affected.

Our dependence on new products may cause our net revenues to fluctuate or decline.

Our future success significantly depends upon our completing and introducing enhanced and new products at competitive prices and performance levels in a timely manner. The success of new product introductions depends on several factors, including the following:

- Designing products to meet customer needs;
- Product costs;
- Timely completion and introduction of new product designs;
- Quality of new products;
- Differentiation of new products from those of our competitors; and
- Market acceptance of our products.

Our product life cycles in each of our segments may be as brief as 12 months. As a result, we believe that we will continue to incur significant expenditures for research and development in the future. We may fail to identify new product opportunities and may not develop and bring new products to market in a timely manner. In addition, products or technologies developed by others may render our products or technologies obsolete or noncompetitive, or our targeted customers may not select our products for design or integration into their products. The failure of any of our new product development efforts could have an adverse effect on our business and financial results.

We have introduced RAID-enabled products based on the next generation Serial ATA technology and delivered our products based on Serial Attached SCSI technology to certain major OEMs for testing and integration. We will not succeed in generating significant revenues from our new Serial ATA and Serial Attached SCSI technology products if the market does not adapt to these new technologies, which would, over time, adversely affect our net revenues and operating results.

Source: ADAPTEC INC, 10-Q, November 10, 2004

If we are unable to compete effectively, our net revenues could be adversely affected.

The markets for all of our products are intensely competitive and are characterized by the following:

- Rapid technological advances;
- Frequent new product introductions;
- Evolving industry standards; and
- Price erosion.

Consequently, we must continue to enhance our products on a timely basis to keep pace with market demands. If we do not do so, or if our competition is more effective in developing products that meet the needs of our existing and potential customers, we may lose market share and not participate in the future growth of our target markets. For example, intense competition in the transition from products employing Ultra 160 technology to solutions employing Ultra 320 technology has adversely affected revenues from our SCSI products. Our future success will depend on the level of acceptance of our external storage products and products based on the next generation Serial ATA and Serial Attached SCSI technologies by new and existing customers. In addition, we expect that our future success will depend significantly on our ability to participate in the ongoing development of the network storage market in which we face intense competition from other companies that are also focusing on networked storage solutions.

We cannot assure you that we will have sufficient resources to accomplish all of the following:

- Satisfy any growth in demand for our products;
- Make timely introductions of new products;
- Compete successfully in the future against existing or potential competitors;
- Provide OEMs with design specifications in a timely manner; and
- Prevent price competition from eroding margins.

Costs associated with acquisitions or strategic alliances may adversely affect our results of operations, which could be exacerbated if we are unable to integrate the acquired companies, products or technologies.

In the first quarter of fiscal 2005, we acquired the i/p Series RAID business from IBM, and in the second quarter of fiscal 2005, we acquired Snap Appliance, a provider of NAS solutions. In fiscal 2004, we acquired Elipsan, a network storage software provider, ICP vortex, a provider of a broad range of hardware and software RAID data protection solutions, and Eurologic, a provider of external and networked storage solutions. In addition, we enter into strategic alliances from time to time with other companies. For example, we entered into a technology licensing agreement with IBM in fiscal 2002. As part of our overall strategy, we may continue to acquire or invest in complementary companies, products or technologies and enter into strategic alliances with other companies. In order to be successful in these activities, we must:

- Conduct acquisitions that are timely, relative to existing business opportunities;
- Successfully prevail over competing bidders for target acquisitions at an acceptable price;
- Invest in companies and technologies that contribute to the growth of our business;
- Incorporate acquired operations into our business and maintain uniform standards, controls and procedures;

- Retain the key employees of the acquired operation; and
- Develop the capabilities necessary to exploit newly acquired technologies.

The benefits of acquisitions or strategic alliances may prove to be less than anticipated and may not outweigh the costs reported in our financial statements. Completing any potential future acquisitions or strategic alliances could cause significant diversions of management time and resources. If we acquire new businesses, products or technologies in the future, we may be required to assume warranty claims or other contingent liabilities, including liabilities unknown at the time of acquisition, and amortize significant amounts of other intangible assets and, over time, recognize significant charges for impairment of goodwill, other intangible assets or other losses. If we consummate any potential future acquisitions in which the consideration consists of stock or other securities, our existing stockholders' ownership may be significantly diluted. If we proceed with any potential future acquisitions in which the consideration is cash, we may be required to use a substantial portion of our available cash. In addition, we may be required to invest significant resources in order to perform under a strategic alliance or to complete an acquisition, which could adversely affect our results of operations, at least in the short-term, even if we believe the strategic alliance or acquisition will benefit us in the long-term. We may not be successful in overcoming these risks or any other problems encountered in connection with these or other business combinations, investments or strategic alliances. These transactions may adversely affect our business, financial position and operating results.

Product quality problems could lead to reduced revenues and gross margins.

We produce highly complex products that incorporate leading-edge technology, including both hardware and software. Software often contains "bugs" which can interfere with expected operations. We cannot assure you that our pre-shipment testing programs will be adequate to detect all defects which might interfere with customer satisfaction, reduce sales opportunities, or affect our gross margins if the cost of remedying the problems exceed reserves established for that purpose. An inability to cure a product defect could result in the failure of a product line, and withdrawal, at least temporarily, from a product or market segment, damage to our reputation, inventory costs, product reengineering expenses, and a material impact on revenues and margins.

If there is a shortage of components used in our customers' products, our sales may decline, which could adversely affect our results of operations and financial position.

If our customers are unable to purchase certain components which are embedded into their products, their demand for our products may decline. For example, beginning in the fourth quarter of fiscal 2000, we experienced the impact of other companies' chip supply shortages, which reduced the demand for certain of our products. This negatively affected our revenues in the first half of fiscal 2001. Similar shortages of components used in our customers' products could adversely affect our net revenues and financial results in future periods.

The manufacture and introduction of our products is highly complex.

We confront challenges in the manufacturing process that require us to:

- Maintain a competitive manufacturing cost structure;
- Implement the latest process technologies required to manufacture new products;
- Exercise stringent quality control measures to ensure high yields;
- Effectively manage inventory levels;
- Effectively manage the subcontractors engaged in the wafer fabrication, test and assembly of products; and

Source: ADAPTEC INC, 10-Q, November 10, 2004

- Update equipment and facilities as required for leading edge production capabilities.

We cannot assure you that problems with our manufacturing process may not occur in the future. If any such problems with our manufacturing process were to occur, we might not be able to meet the demands of our customers, which could harm our reputation, result in the loss of customers and adversely affect our net revenues and financial results in future periods.

We currently purchase all of the finished production silicon wafers used in our products from wafer suppliers, and if they fail to meet our manufacturing needs, it would delay our production and our product shipments to customers and negatively affect our operations.

Independent foundries manufacture to our specifications all of the finished silicon wafers used for our products. We currently purchase finished production silicon wafers used in our products through our agreements with Taiwan Semiconductor Manufacturing Company, or TSMC, and IBM. The manufacture of semiconductor devices is sensitive to a wide variety of factors, including the following:

- The availability of raw materials;
- The availability of manufacturing capacity;
- Transition to smaller geometries of semiconductor devices;
- The level of contaminants in the manufacturing environment;
- Impurities in the materials used; and
- The performance of personnel and equipment.

We cannot assure you that manufacturing problems may not occur in the future. A shortage of raw materials or production capacity could lead our wafer suppliers to allocate available capacity to other customers. Any prolonged inability to obtain wafers with competitive performance and cost attributes, adequate yields or timely deliveries would delay our production and our product shipments, and could have an adverse effect on our business and financial results. We expect that our wafer suppliers will continually seek to convert their processes for manufacturing wafers to more advanced process technologies. Such conversions entail inherent technological risks that can affect yields and delivery times. If for any reason the wafer suppliers we use are unable or unwilling to satisfy our wafer needs, we will be required to identify and qualify additional suppliers. Additional wafer suppliers may be unavailable, may take significant amounts of time to qualify or may be unable to satisfy our requirements on a timely basis.

If our manufacturing demand for silicon wafers falls below our projections, we may not be able to fully utilize our prepayments to TSMC, which could adversely affect our results of operations and financial position.

From time to time, we have entered into "take or pay" contracts that have committed us to purchase specific wafer quantities over extended periods based on our projected needs. In addition, we have made advance payments to TSMC in order to secure guaranteed wafer capacity. If our demand for wafer units falls below our projections, we may not be able to fully utilize our advance payments. The unused portion of the advance payments may be impaired and written off as an asset impairment charge, which would adversely affect our financial results.

We depend on subcontractors, and if they fail to meet our manufacturing needs, it could delay shipments of our products and result in the loss of customers.

We rely on subcontractors for the assembly and packaging of the integrated circuits included in our products and for the assembly and manufacturing of a portion of our system products. We have no

Source: ADAPTEC INC, 10-Q, November 10, 2004

long-term agreements with our assembly and packaging subcontractors. We have, from time to time, used board subcontractors to better balance production runs and capacity. For example, we employ Quanta Computer, Inc. and Sanmina-SCI Corporation to manufacture certain Snap Appliance related products. We also employ Celestica, Inc. and Jabil Circuit, Inc. to manufacture products related to the IBM i/p Series RAID business. We cannot assure you these subcontractors will continue to be able and willing to meet our requirements for these components or services. Any significant disruption in supplies from, or degradation in the quality of components or services supplied by, these subcontractors could delay shipments and result in the loss of customers or revenues, which could have an adverse effect on our financial results.

We depend on the efforts of our distributors, which if reduced, could result in a loss of sales of our products in favor of competitive offerings.

We derived approximately 40% of our gross revenues for the first half of fiscal 2005 from independent distributor and reseller channels. Our financial results could be adversely affected if our relationships with these distributors or resellers were to deteriorate or if the financial condition of these distributors or resellers were to decline. Given the current economic environment, the risk of distributors and resellers going out of business has increased significantly.

Our distributors generally offer a diverse array of products from several different manufacturers. Accordingly, we are at risk that these distributors may give higher priority to selling products from other suppliers. A reduction in sales efforts by our current distributors could adversely affect our business and financial results. Our distributors build inventories in anticipation of future sales, and if such sales do not occur as rapidly as they anticipate, our distributors will decrease the size of their product orders. If we decrease our price protection or distributor-incentive programs, our distributors may also decrease their orders from us. In addition, we have from time to time taken actions to reduce levels of products at distributors and may do so in the future. These actions may affect our net revenues and negatively affect our financial results.

We depend on a few key customers and the loss of any of them could significantly reduce our revenues.

Historically, a small number of our customers has accounted for a significant portion of our revenues. During the first half of fiscal 2005, sales to the ten customers from which we received the greatest revenues accounted for approximately 72% of our total gross revenues. In addition, IBM represented 20% of our total net revenues in the first half of fiscal 2005 and Dell represented 12% of our total net revenues in the first half of fiscal 2005. We expect IBM to represent an even larger percentage of our total net revenues in future periods as a result of our acquisition of the IBM i/p Series RAID business and our recently announced supply agreement with IBM. We believe that our major customers continually evaluate whether or not to purchase products from alternate or additional sources. Additionally, customers' economic and market conditions frequently change. Accordingly, we cannot assure you that a major customer will not reduce, delay or eliminate its purchases from us, which would likely cause our revenues to decline. In addition, we do not carry credit insurance on our accounts receivables and any difficulty in collecting outstanding amounts due from our customers, particularly customers that place larger orders or experience financial difficulties, could adversely affect our revenues and our net income. Because our sales are made by means of standard purchase orders rather than long-term contracts, we cannot assure you that these customers will continue to purchase quantities of our products at current levels, or at all.

Source: ADAPTEC INC, 10-Q, November 10, 2004

We reorganized our business segments to be focused on customers and have planned significant system enhancements and improvements and these changes could adversely impact our business if not adequately managed and controlled.

In the second quarter of fiscal 2005 and in response to the Snap Appliance acquisition in July 2004, we refined our internal organizational structure to operate in three reportable segments: OEM, Channel and DSG. Whereas historically our former SSG and SNG segments each offered distinct products across our entire customer base, the new OEM and Channel segments offer an integrated set of products to customers that are specific to the segment. The reorganization has placed demands on our management, operational and financial infrastructure. In addition, management is in the process of enhancing certain systems and processes, such as in the supply chain area. These system enhancements and improvements require expenditures and allocation of management resources. If these improvements are not implemented successfully, our ability to manage our new organization could be impaired. In addition, we may be required to incur additional expenditures to address these issues, which could harm our financial position.

If we do not meet our restructuring objectives, we may have to implement additional plans in order to reduce our operating costs and may, as a result, incur additional material restructuring charges.

We have implemented several restructuring plans to reduce our operating costs, including in the first and second quarter of fiscal 2005, fiscal 2004 and fiscal 2003, and recorded related restructuring charges of $2.7 million, $4.3 million and $14.3 million in the first half of fiscal 2005, fiscal 2004 and 2003, respectively. The plans included primarily the reduction of our workforce and the consolidation of our manufacturing operations in Singapore. The goals of these plans were to support future growth opportunities, focus on investments that grow revenues and increase operating margins. If we do not meet our restructuring objectives, we may have to implement additional restructuring plans to reduce our operating costs, which could cause us to incur material restructuring charges. Further, these restructuring plans may not achieve the goals we had in implementing them due to such factors as significant costs or restrictions that may be imposed in some international locales on workforce reductions and a potential adverse effect on employee morale that could harm our efficiency and our ability to act quickly and effectively in the rapidly changing technology markets in which we sell our products.

Our operations depend on key personnel, the loss of whom could affect the growth and success of our business.

In order to be successful, we must retain and motivate our executives, the general managers of our business segments, our principal engineers and other key employees, including those in managerial, technical, marketing and information technology support positions. In particular, our product generation efforts depend on hiring and retaining qualified engineers. Competition for experienced management, technical, marketing and support personnel remains intense. For example, we transitioned certain research and development efforts to India, where we have experienced significant competition in our efforts to attract and retain qualified engineers. In addition, with the exception of a few employees with whom we entered into employment agreements in connection with acquisition transactions, we do not have employment contracts with our key employees, including any of our executive officers. The loss of any of these key employees could have a significant impact on our operations. We also must continue to motivate employees and keep them focused on our strategies and goals, which may be particularly difficult due to morale challenges posed by workforce reductions and general uncertainty.

Source: ADAPTEC INC, 10-Q, November 10, 2004

Our international operations involve risks, and may be subject to political or other non-economic barriers to our being able to sell our products in certain countries, local economic conditions that reduce demand for our products among our target market, and potential disruption in the supply of necessary components.

Many of our subcontractors are primarily located in Asia and we have sales offices and customers located throughout Europe, Japan and other countries. Our international operations and sales are subject to political and economic risks, including political instability, currency controls, changes in import/export regulations, tariffs and freight rates. In addition, because our primary wafer supplier, TSMC, is located in Taiwan, we may be subject to certain risks resulting from political instability in Taiwan, including conflicts between Taiwan and the People's Republic of China. These and other international risks could result in the creation of political or other non-economic barriers to our being able to sell our products in certain countries, create local economic conditions that reduce demand for our products among our target market or expose us to potential disruption in the supply of necessary components or otherwise adversely affect our ability to generate revenue and operate effectively.

We depend on third parties to transport our products.

We rely on independent freight forwarders to move our products between manufacturing plants and our customers. Any transport or delivery problems because of their errors, or because of unforeseen interruptions in their activities due to factors such as strikes, political instability, terrorism, natural disasters and accidents, could adversely affect our business, financial condition and results of operations and ultimately impact our relationship with our customers.

If the carrying value of our long-lived assets is not recoverable, an impairment loss must be recognized which would adversely affect our financial results.

Certain events or changes in circumstances would require us to assess the recoverability of the carrying amount of our long-lived assets. In fiscal 2004, we recorded an impairment charge of $5.0 million related to certain properties classified as held-for sale and a charge of $1.0 million relating to the decline in value of a minority investment. In fiscal 2003, we recorded an impairment charge of $1.5 million relating to the decline in value of minority investments. In fiscal 2002, we recorded impairment charges of $77.6 million relating to technology acquired in a prior acquisition and the decline in value of minority investments. We will continue to evaluate the recoverability of the carrying amount of our long-lived assets, and we may incur substantial impairment charges which could adversely affect our financial results.

If actual results or events differ materially from those contemplated by us in making estimates and assumptions, our reported financial condition and results of operations for future periods could be materially affected.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Note 1 of the Notes to Consolidated Financial Statements in our Current Report on Form 8-K filed on September 24, 2004 describes the significant accounting policies essential to preparing our consolidated financial statements. The preparation of these financial statements requires estimates and assumptions that affect the reported amounts and disclosures. Although we believe that our judgments and estimates are appropriate and correct, actual future results may differ materially from our estimates.

Source: ADAPTEC INC, 10-Q, November 10, 2004

If we are unable to protect and enforce our intellectual property rights, we may be unable to compete effectively.

Although we actively maintain and defend our intellectual property rights, we may be unable to adequately protect our proprietary rights. In addition, the laws of certain territories in which our products are or may be developed, manufactured or sold, including Asia and Europe, may not protect our products and intellectual property rights to the same extent as the laws of the United States. Because we conduct a substantial portion of our operations in Singapore and other locations outside of the United States and sell to a worldwide customer base, we are more dependent on our ability to protect our intellectual property in international environments than would be the case if a larger portion of our operations were domestic.

Despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property, which could harm our business and ability to compete effectively. We have from time to time discovered counterfeit copies of our products being manufactured or sold by others. Although we have programs to detect and deter the counterfeiting of our products, significant availability of counterfeit products could reduce our revenues and damage our reputation and goodwill with customers.

Third parties may assert infringement claims against us, which may be expensive to defend and could divert our resources.

From time to time, third parties assert exclusive patent, copyright and other intellectual property rights to our key technologies, and we expect to continue to receive such claims in the future. For example, we entered into a patent cross-license agreement with IBM in May 2000. Under this agreement, which was amended in March 2002, we received a release from infringement claims prior to January 1, 2000 and received the right to use certain of IBM's patents through June 30, 2007. In consideration, we are paying, in annual installments, an aggregate patent fee of $13.3 million, and we granted IBM a license to use all of our patents for the same period. The risks of our receiving additional claims from third parties may be enhanced in periods such as the one that we are currently entering where we are beginning to offer product lines employing new technologies relative to our existing products.

We cannot assure you that third parties will not assert other infringement claims against us, directly or indirectly, in the future, that assertions by third parties will not result in costly litigation or that we would prevail in such litigation or be able to license any valid and infringed intellectual property from third parties on commercially reasonable terms. These claims may be asserted in respect of intellectual property that we own or that we license from others. In addition to claims brought against us by third parties, we may also bring litigation against others to protect our rights. Intellectual property litigation, regardless of the outcome, could result in substantial costs to us and diversion of our resources, and could adversely affect our business and financial results.

We may be subject to a higher effective tax rate that could negatively affect our results of operations and financial position.

Our effective tax rate is benefited by a Singapore tax holiday relating to certain of our products. The tax holiday package, which is effective until fiscal 2010, provides that profits derived from certain products will be exempt from tax, subject to certain conditions. If we do not meet the conditions and requirements of the tax holiday in Singapore, our effective tax rate will increase, which would adversely affect our financial results. Additionally, we held $427.6 million of cash, cash equivalents and marketable securities at our subsidiary in Singapore at September 30, 2004. From time to time we may need to repatriate our cash from Singapore to the United States. If we do so, we could incur additional income taxes at up to the combined United States Federal and state statutory rate of approximately

Source: ADAPTEC INC, 10-Q, November 10, 2004

40% from the repatriation, which would negatively affect our results of operations and financial condition.

We may be required to pay additional federal income taxes which could negatively affect our results of operations and financial position.

On December 15, 2000, we received a statutory notice of deficiency from the IRS with respect to our Federal income tax return for fiscal 1997. We filed a Petition with the United States Tax Court on March 14, 2001 contesting the asserted deficiencies and settlement agreements have been filed with the United States Tax Court on all but one issue. In addition, the IRS is currently auditing our Federal income tax returns for fiscal 1998 through fiscal 2001. We have settled all issues for fiscal 1998 and 1999 other than the rollover impact of any potential resolution on the remaining fiscal 1997 issue and tax credits that were generated but not used in subsequent years that may be carried back to fiscal 1998 and 1999. The fiscal 2000 and 2001 audit is ongoing. While we believe we have meritorious defenses against the asserted deficiencies and any proposed adjustments, and that sufficient taxes have been provided, we cannot predict the final outcome of these matters, and the final resolution could adversely affect our results of operations and financial position.

We may be engaged in legal proceedings that could cause us to incur unforeseen expenses and could occupy a significant amount of our management's time and attention.

From time to time we are subject to litigation or claims that could negatively affect our business operations and financial position. Such disputes could cause us to incur unforeseen expenses, could occupy a significant amount of our management's time and attention, and could negatively affect our business operations and financial position.

We have entered into an expanded relationship with IBM and if we do not fulfill our responsibilities under this agreement, it could result in a loss of revenues.

In the first quarter of fiscal 2005, we entered into an expanded relationship with IBM to supply external storage products. We may encounter challenges in fulfilling our responsibilities under this expanded relationship such as, timely completion and introduction of product designs to meet the specifications of IBM, quality of new products introduced, sales forecasting, material planning and inventory management to meet its demand forecast. If we are not successful in managing this relationship, product shipments could be delayed, which could result in delayed or lost revenues and customer dissatisfaction.

We finance our capital expenditure needs from operating cash flows and capital market financing, and if we need to seek additional financing, it may not be available on favorable terms.

In order to finance strategic acquisitions, capital asset acquisitions and other general corporate needs, we rely, in part, on operating cash flows and capital markets. Historically, we have been able to access capital markets, but this does not necessarily guarantee that we will be able to access these markets in the future or at terms that are acceptable to us. The availability of capital in these markets is affected by several factors, including geopolitical risk, the interest rate environment and the condition of the economy as a whole. In addition, our own operating performance, capital structure and expected future performance impacts our ability to raise capital. We believe that our current cash, cash equivalents, short-term investments and future cash provided by operations will be sufficient to fund our needs for at least the next twelve months. However, if our operating performance falls below expectations, we may need additional funds, which may not be available on favorable terms, if at all.

Source: ADAPTEC INC, 10-Q, November 10, 2004

We are exposed to fluctuations in foreign currency exchange rates.

Because a significant portion of our business is conducted outside the United States, we face exposure to adverse movements in non-United States currency exchange rates. These exposures may change over time as business practices evolve and could have an adverse impact on our financial results and cash flows. Historically, our exposures have related to non-dollar-denominated operating expenses in Europe and Asia. We began Euro-denominated sales to our distribution customers in the European Union in the fourth quarter of fiscal 2003. Additionally, we purchase a substantial portion of our raw materials and manufacturing equipment from foreign suppliers, and incur labor and other operating costs in foreign currencies, particularly in our Singapore manufacturing facility. An increase in the value of the dollar could increase the real cost to our customers of our products in markets outside the United States where we sell in dollars, and a weakened dollar could increase the cost of local operating expenses and procurement of raw materials to the extent we must purchase components in foreign currencies.

We hold minority interests in privately held venture funds, and if these venture funds face financial difficulties in their operations, our investments could be impaired.

We continue to hold minority interests in privately held venture funds. These investments are inherently risky because these venture funds invest in companies that may still be in the development stage or depend on third parties for financing to support their ongoing operations. In addition, the markets for the technologies or products of these companies are typically in the early stages and may never develop. If these companies do not have adequate cash funding to support their operations, or if they encounter difficulties developing their technologies or products, the venture funds' investment in these companies may be impaired, which in turn, could result in impairment of our investment in these venture funds.

Our spin-off of Roxio may have potential subsequent tax liabilities that could negatively affect our results of operations.

Pursuant to our distribution of the Roxio, Inc. common stock, we received an opinion from PricewaterhouseCoopers LLP, or PwC, regarding the tax-free nature of the transaction to us and to our stockholders under Section 355 of the Internal Revenue Code. The validity of the PwC opinion relating to the qualification of the distribution as a tax-free transaction is subject to factual representations and assumptions. We are not aware of any facts or circumstances that would cause such representations and assumptions to be untrue. In addition, the opinion of PwC is not binding on the IRS. If Roxio or we fail to conform to the requirements set forth in the IRS regulations, it could cause the distribution to be taxable to us and to our stockholders, and our financial results could be adversely affected.

We may have potential business conflicts of interest with Roxio with respect to our past and ongoing relationships, and we may not resolve these conflicts on terms favorable to us.

Conflicts of interest may arise between Roxio and us in areas relating to our past and ongoing relationship, including:

- Tax, indemnification and other matters arising from the separation; and
- Intellectual property matters.

These and other business conflicts could adversely affect the growth of our business in the future.

Source: ADAPTEC INC, 10-Q, November 10, 2004

Recently enacted and proposed changes in securities laws and regulations are likely to increase our costs.

Recently enacted and proposed changes in the laws and regulations affecting public companies, including the provisions of the Sarbanes-Oxley Act of 2002, will increase our expenses as we evaluate the implications of new rules and devote resources to respond to the new requirements. The Sarbanes-Oxley Act mandates, among other things, that companies adopt new corporate governance measures and imposes comprehensive reporting and disclosure requirements, sets stricter independence and financial expertise standards for audit committee members and imposes increased civil and criminal penalties for companies, their chief executive officers and chief financial officers and directors for securities law violations. In particular, we expect to incur additional administrative expense as we implement Section 404 of the Sarbanes-Oxley Act, which requires management to report on, and our Independent Registered Public Accounting Firm to attest to, our internal control over financial reporting. We are in the process of completing the documentation of our controls and testing their effectiveness and expect that our management will be able to provide a favorable assessment and that our auditors will concur with this assessment. However, this evaluation and attestation process is new and neither our auditors nor we have significant experience with it, and we cannot be assured that our auditors and we will reach a favorable conclusion under Section 404. If our auditors or we fail to do so on a timely basis, investor confidence in us could be adversely affected and our results of operations could be adversely affected as we seek to address any shortcomings, and as a result our stock price could decline.

In addition, The Nasdaq National Market, on which our common stock is listed, has also adopted comprehensive rules and regulations relating to corporate governance. These laws, rules and regulations have increased and will continue to increase the scope, complexity and cost of our corporate governance, reporting and disclosure practices. We also expect these developments to make it more difficult and more expensive for us to obtain director and officer liability insurance in the future, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. Further, our board members, Chief Executive Officer and Chief Financial Officer could face an increased risk of personal liability in connection with the performance of their duties. As a result, we may have difficultly attracting and retaining qualified board members and executive officers, which would adversely affect our business.

We may encounter natural disasters, which could cause disruption to our employees or interrupt the manufacturing process for our products.

Our operations could be subject to natural disasters and other business disruptions, which could seriously harm our revenues and financial condition and increase our costs and expenses. Our corporate headquarters are located in California, near major earthquake faults. Additionally, our primary wafer supplier, TSMC, is located in Taiwan, which has experienced significant earthquakes in the past. A severe earthquake could cause disruption to our employees or interrupt the manufacturing process, which could affect TSMC's ability to supply wafers to us, which would negatively affect our business and financial results. The ultimate impact on us and our general infrastructure of being located near major earthquake faults is unknown, but our net revenues and financial condition and our costs and expenses could be significantly impacted in the event of a major earthquake.

Manmade problems such as computer viruses or terrorism may disrupt our operations and harm our operating results.

Despite our implementation of network security measures, our servers are vulnerable to computer viruses, break-ins, and similar disruptions from unauthorized tampering with our computer systems. Any such event could have an adverse effect on our business, operating results, and financial condition. In addition, the effects of war or acts of terrorism could have an adverse effect on our business,

Source: ADAPTEC INC, 10-Q, November 10, 2004

operating results, and financial condition. In addition, as a multi-national company with headquarters and significant operations located in the United States, we may be impacted by actions against the United States. We are predominantly uninsured for losses and interruptions caused by terrorist acts and acts of war.

If we account for employee stock options using the fair value method, it could adversely impact our net income.

There has been ongoing public debate whether stock options granted to employees should be treated as a compensation expense and, if so, how to properly value such charges. On March 31, 2004 and subsequently amended, the FASB issued an Exposure Draft, Share-Based Payment: an amendment of FASB statements No. 123 and 95, which would require a company to recognize, as an expense, the fair value of stock options and other stock-based compensation to employees for fiscal years beginning after June 15, 2005 and subsequent reporting periods. If we elect or are required to record an expense for our stock-based compensation plans using the fair value method as described in the Exposure Draft, we could have significant and ongoing accounting charges. See Note 3 of Notes to Unaudited Condensed Consolidated Financial Statements for a more detailed presentation of accounting for stock-based compensation plans.

We may experience significant fluctuations in our stock price, which may, in turn, significantly affect the trading price of our convertible notes.

Our stock has experienced substantial price volatility, particularly as a result of quarterly variations in our operating results, the published expectations of analysts, and as a result of announcements by our competitors and us. In addition, the stock market has experienced price and volume fluctuations that have affected the market price of many technology companies, in particular, and that have often been unrelated to the operating performance of such companies. In addition, the price of our securities may also be affected by general global, economic and market conditions, and the cost of operations in one or more of our product markets. While we cannot predict the individual effect that these factors may have on the price or our securities, these factors, either individually or in the aggregate, could result in significant variations in the price of our common stock during any given period of time. These fluctuations in our stock price also impact the price of our outstanding convertible securities and the likelihood of the convertible securities being converted into our common stock.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For financial market risks related to changes in interest rates, equity price and foreign currency exchange rates, reference is made to Item 7A "Quantitative and Qualitative Disclosures About Market Risk" contained in Part II of our Annual Report on Form 10-K for the year ended March 31, 2004. Our exposure to market risk has not changed materially since March 31, 2004.

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer (CEO) and our Chief Financial Officer (CFO), we conducted an evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (Exchange Act)), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, our CEO and our CFO have concluded that the design and operation of our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Source: ADAPTEC INC, 10-Q, November 10, 2004

There has been no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

While we believe our disclosure controls and procedures and our internal control over financial reporting are adequate, no system of controls can prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. 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. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is 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 deterioration in the degree of compliance with its policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Source: ADAPTEC INC, 10-Q, November 10, 2004

PART II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On June 29, 2004, we acquired IBM's i/p Series RAID component business to expand and enhance our RAID product offerings. In connection with this transaction, we issued IBM a warrant to purchase 250,000 shares of our common stock at an exercise price of $8.13 per share. The issuance and sale of the warrant to IBM was exempt from the registration provisions of the Securities Act of 1933 pursuant to Section 4(2) of such Act. We did not engage any underwriters in connection with this transaction.

On August 10, 2004, we entered into a supply agreement with IBM with respect to our external storage products. In connection with this transaction, we issued IBM a warrant to purchase 250,000 shares of our common stock at an exercise price of $6.94 per share. The issuance and sale of the warrant to IBM was exempt from the registration provisions of the Securities Act of 1933 pursuant to Section 4(2) of such Act. We did not engage any underwriters in connection with this transaction.

Item 4. Submission of Matters to a Vote of Security Holders

Our Annual Meeting of Stockholders was held on August 26, 2004, in our principal executive offices located in Milpitas, California. Of the total 109,865,868 shares of our common stock outstanding as of the record date, 99,460,863 shares (91%) were present or represented by proxy at the meeting. The table below presents the voting results of election of our Board of Directors.

	Votes	Votes Withheld
Carl J. Conti	90,985,768	8,475,095
Lucie J. Fjeldstad	93,685,969	5,774,894
Joseph S. Kennedy	95,464,051	3,996,812
Ilene H. Lang	94,154,824	5,306,039
Robert J. Loarie	89,756,186	9,704,677
D. Scott Mercer	93,701,700	5,759,163
Robert N. Stephens	91,007,886	8,452,977
Douglas E. Van Houweling	95,466,983	3,993,880

The stockholders approved our 2004 Equity Incentive Plan and reserved for issuance thereunder 10,000,000 shares of our common stock plus shares reserved but not issued under our 1999 Stock Option Plan and 2000 Nonstatutory Stock Option Plan. The 2004 Equity Incentive Plan provides for granting of nonstatutory stock options, restricted stock, stock awards, restricted stock units and stock appreciation rights to employees, employee directors and consultants. Incentive stock options may also be granted to our employees under the 2004 Equity Incentive Plan. The proposal received 40,098,225 affirmative votes, 32,177,761 negative votes, 1,600,180 abstentions and 25,584,697 broker non-votes.

In addition, our stockholders ratified and approved the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ended March 31, 2005. The proposal received 91,024,669 affirmative votes, 7,820,870 negative votes, 615,324 abstentions and no broker non-votes.

Item 6. Exhibits

Exhibit Number	Description
Exhibit 10.01*	2004 Equity Incentive Plan
Exhibit 10.02	Form of Stock Option Agreement under the 2004 Equity Incentive Plan
Exhibit 10.03	Form of Restricted Stock Purchase Agreement under the 2004 Equity Incentive Plan

Source: ADAPTEC INC, 10-Q, November 10, 2004

Exhibit 10.04	Form of Restricted Stock Unit Agreement under the 2004 Equity Incentive Plan
Exhibit 10.05	Adaptec Variable Incentive Plan
Exhibit 10.06	Adaptec Deferred Compensation Plan
Exhibit 31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1**	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Incorporated by reference to Exhibit 4.3 to our Registration Statement on Form S-8 filed with the Commission on September 24, 2004.

** These certifications are not deemed filed by the SEC and are not to be incorporated by reference in any filing we make under the Securities Act of 1933 or the Securities Exchange Act of 1934, irrespective of any general incorporation language in any filings.

Source: ADAPTEC INC, 10-Q, November 10, 2004

SIGNATURE

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

ADAPTEC, INC.

By: /s/ MARSHALL L. MOHR

Marshall L. Mohr
Vice President and Chief Financial Officer
(principal financial and accounting officer)

Date: November 10, 2004

Source: ADAPTEC INC, 10-Q, November 10, 2004

EXHIBIT INDEX

Exhibit Number	Description
Exhibit 10.01*	2004 Equity Incentive Plan
Exhibit 10.02	Form of Stock Option Agreement under the 2004 Equity Incentive Plan
Exhibit 10.03	Form of Restricted Stock Purchase Agreement under the 2004 Equity Incentive Plan
Exhibit 10.04	Form of Restricted Stock Unit Agreement under the 2004 Equity Incentive Plan
Exhibit 10.05	Adaptec Variable Incentive Plan
Exhibit 10.06	Adaptec Deferred Compensation Plan
Exhibit 31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1**	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Incorporated by reference to Exhibit 4.3 to our Registration Statement on Form S-8 filed with the Commission on September 24, 2004.

** These certifications are not deemed filed by the SEC and are not to be incorporated by reference in any filing of the Registrant under the Securities Act of 1933 or the Securities Exchange Act of 1934, irrespective of any general incorporation language in any filings.

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Exhibit 10.02

ADAPTEC, INC.

STOCK OPTION AGREEMENT
(Stock Award Documentation for Options)

1. ***Grant of Option***. The Plan Administrator of Adaptec, Inc., a Delaware corporation (the "Company"), hereby grants to the Participant named in the Notice of Grant, an option (the "Option") to purchase a total number of shares of Common Stock (the "Shares") set forth in the Notice of Grant, at the exercise price per share set forth in the Notice of Grant (the "Exercise Price") subject to the terms, definitions and provisions of the Adaptec, Inc. 2004 Equity Incentive Plan (the "Plan") adopted by the Company, which is incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Option.

If designated an Incentive Stock Option, this Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code. However, if this Option is intended to be an Incentive Stock Option, to the extent that it exceeds the $100,000 rule of Code Section 422(d) it shall be treated as a Nonstatutory Stock Option ("NSO").

2. ***Exercise of Option***. This Option shall be exercisable during its term in accordance with the Vesting Schedule set out in the Notice of Grant and with the provisions of the Plan as follows:

(i) ***Right to Exercise***.

(a) Subject to subsection 2(i)(b) below, this Option shall be exercisable cumulatively as follows:

[Salaried—Subject to Participant's continuous service as a Service Provider throughout, six and one-quarter percent (6.25%) of the shares subject to this Option shall become exercisable at the end of each consecutive three (3) months period (with the first such period commencing from the date of grant).]

[Non-Salaried—Subject to Participant's continuous service as a Service Provider throughout, one hundred percent (100%) of the shares subject to this Option shall become exercisable on the second anniversary of the Date of Grant.]

[**Alternative Vesting Schedule 1]** If Participant has continuously been a Service Provider at all times from the Effective Date until the first anniversary of the Date of Grant (the "***First Vesting Date***"), then on the First Vesting Date 20% of the Shares will become Vested Shares; and thereafter, for so long (and only for so long) as Participant is a Service Provider at all times after the First Vesting Date, an additional 5% of the Shares will become Vested Shares at the end of each consecutive period of three months after the First Vesting Date.

[**Alternative Schedule 2]** If Participant has continuously been a Service Provider at all times from the Effective Date until the first anniversary of the Date of Grant (the "***First Vesting Date***"), then on the First Vesting Date 25% of the Shares will become Vested Shares; and thereafter, for so long (and only for so long) as Participant is a Service Provider at all times after the First Vesting Date, an additional 6.25% of the Shares will become Vested Shares at the end of each consecutive period of three months after the First Vesting Date.

[OTHER VESTING SCHEDULE AS APPROVED FROM TIME TO TIME]

(b) This Option may not be exercised for a fraction of a share.

(c) In the event of Participant's death, disability or other termination of status as a Service Provider, the exercisability of this Option is governed by Sections 7, 8 and 9 below, subject to the limitation contained in subsection 2(i)(d).

(d) In no event may this Option be exercised after the earlier to occur of the date of expiration of the term of this Option as set forth in (i) the Notice of Grant, or (ii) Section 11 below.

(ii) ***Method of Exercise***. This Option shall be exercisable by notice (which may be written or electronic as then established by the Company in its sole discretion) which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised, and such other representations and agreements as to the Participant's investment intent with respect to such shares of Common Stock as may be required by the Company pursuant to the provisions of the Plan. Such written notice shall be signed by the Participant and shall be delivered in person or by certified mail to the Secretary of the Company. The written notice shall be accompanied by payment of the exercise price. This Option shall be deemed exercised upon receipt by the Company of such written notice accompanied by the Exercise Price.

No shares will be issued pursuant to the exercise of this Option unless such issuance and such exercise shall comply with all relevant provisions of law and the requirements of any stock exchange upon which the Shares may then be listed. Assuming such compliance, for income tax purposes the Shares shall be considered transferred to the Participant on the date on which this Option is exercised with respect to such Shares.

3. ***Participant's Representations***. In the event the Shares purchasable pursuant to the exercise of this Option have not been registered under the Securities Act of 1933, as amended, at the time this Option is exercised, Participant shall, if required by the Company, concurrently with the exercise of all or any portion of this Option, deliver to the Company his Investment Representation Statement.

4. ***Method of Payment***. Payment of the Exercise Price shall be by any of the following, or a combination thereof, at the election of the Participant:

i. check;

ii. surrender of other shares of Common Stock of the Company which (A) either have been owned by the Participant for more than six (6) months on the date of surrender or were not acquired, directly or indirectly, from the Company and (B) have a fair market value on the date of surrender equal to the Exercise Price of the Shares as to which the Option is being exercised; or

iii. delivery of a notice, acceptable in form to the Company, through a delivery method established by the Company for this purpose, together with irrevocable instructions to a broker to promptly deliver to the Company the amount required to pay the exercise price.

5. ***Restrictions on Exercise***. This Option may not be exercised until such time as the Plan has been approved by the shareholders of the Company, or if the issuance of such Shares upon such exercise or the method of payment of consideration for such shares would constitute a violation of any applicable federal or state securities or other law or regulation, including any rule under Part 207 of Title 12 of the Code of Federal Regulations ("Regulation G") as promulgated by the Federal Reserve Board. As a condition to the exercise of this Option, the Company may require Participant to make any representation and warranty to the Company as may be required by any applicable law or regulation.

6. ***Section 16 Restrictions***. If Participant is subject to Section 16 of the Exchange Act ("Section 16")), then Shares received from exercise of this Option generally may not be resold within six (6) months of a purchase of securities that may be matched with such sale under Section 16.

7. ***Termination of Relationship***. In the event Participant's status as a Service Provider terminates, Participant may, to the extent otherwise so entitled at the date of such termination (the "Termination Date"), exercise this Option for a period of three (3) months after the Termination Date. To the extent that Participant was not entitled to exercise this Option at the date of such termination, or if Participant does not exercise this Option within the time specified herein, the Option shall terminate.

Source: ADAPTEC INC, 10-Q, November 10, 2004

8. ***Disability of Participant***. Notwithstanding the provisions of Section 7 above, in the event Participant's status as a Service Provider terminates as a result of Disability, Participant may, but only within six (6) months from the date of such termination (but in no event later than the date of expiration of the term of this Option as set forth in Section 11 below), exercise this Option to the extent otherwise so entitled at the date of such termination. To the extent that Participant was not entitled to exercise this Option at the date of termination, or if Participant does not exercise this Option (to the extent otherwise so entitled) within the time specified herein, this Option shall terminate.

9. ***Death of Participant***. The Option may be exercised at any time within twelve (12) months after the Participant's death (but in no event later than the date of expiration of the term of the Option as set forth in Section 11 below) by the Participant's estate or by a person who acquires the right to exercise the Option by bequest or inheritance. At such time the Option shall be exercisable, in addition to Shares for which the Option was otherwise exercisable on the date of death, for the lesser of the full number of Shares covered by the Option or 50,000 Shares; provided, however, that if on the date of death the Participant holds more than one option, the number of additional Shares for which this Option shall become exercisable pursuant to this Section 9 shall not cause the aggregate number of shares that become vested under all Participant's options due to Participant's death to exceed 50,000 Shares.

10. ***Non-Transferability of Option***. This Option may not be transferred or assigned in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Participant only by him or her. The terms of this Option shall be binding upon the executors, administrators, heirs, successors and assigns of the Participant.

11. ***Term of Option***. This Option may be exercised only within seven (7) years of the date of grant, and may be exercised during such term only in accordance with the Plan and the terms of this Option.

12. ***Withholding***. Participant must make arrangements, satisfactory to the Company, for satisfaction of any applicable foreign, federal, state or local income tax withholding requirements or social security requirements related to the receipt of Shares. Participant may elect (a "Withholding Election") to pay the minimum statutory withholding tax obligation by the withholding of Shares from the total number of Shares deliverable to the Participant in accordance with rules and procedures established by the Administrator. All Withholding Elections are subject to the approval of the Administrator and must be made in compliance with rules and procedures established by the Administrator. The Administrator may require, in its discretion, that some portion of vested Shares be retained by (or returned to) the Company to satisfy such withholding requirements. In the absence of such arrangements Participant hereby authorizes the Administrator to withhold the required minimum amount from Participant's other sources of compensation from the Company or any Affiliate.

13. ***Tax Consequences***. Set forth below is a brief summary as of the date of this Option of some of the federal tax consequences of exercise of this Option and disposition of the Shares. THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. PARTICIPANT SHOULD CONSULT A TAX ADVISER BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.

(i) ***Exercise of ISO***. If this Option qualifies as an ISO, there will be no regular federal income tax liability upon the exercise of the Option, although the excess, if any, of the fair market value of the Shares on the date of exercise over the Exercise Price will be treated as an adjustment to the Participant's alternative minimum taxable income for federal tax purposes and may subject the Participant to the alternative minimum tax.

(ii) ***Exercise of Nonqualified Stock Option***. If this Option does not qualify as an ISO, there may be a regular federal income tax liability upon the exercise of the Option. The Participant will be

Source: ADAPTEC INC, 10-Q, November 10, 2004

treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the fair market value of the Shares on the date of exercise over the Exercise Price. If Participant is an employee, the Company will be required to withhold from Participant's compensation or collect from Participant and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income at the time of exercise.

(iii) ***Disposition of Shares***. In the case of an NSO, if Shares are held for at least one year, any gain realized on disposition of the Shares will be treated as long-term capital gain for federal income tax purposes. In the case of an ISO, if Shares transferred pursuant to the Option are held for at least one year after exercise and are disposed of at least two years after the Date of Grant, any gain realized on disposition of the Shares will also be treated as long-term capital gain for federal income tax purposes. If Shares purchased under an ISO are disposed of within such one year period or within two years after the Date of Grant, any gain realized on such disposition will be treated as compensation income (taxable at ordinary income rates) to the extent of the excess, if any, of the fair market value of the Shares on the date of exercise over the Exercise Price.

(iv) ***Notice of Disqualifying Disposition of ISO Shares***. If this Option is an ISO, and if Participant sells or otherwise disposes of any of the Shares acquired pursuant to the ISO on or before the later of (1) the date two years after the date of grant of this Option, or (2) the date one year after transfer of such Shares to the Participant upon exercise of the ISO, the Participant shall immediately notify the Company in writing of such disposition unless such disposition occurs through the Company's designated broker. Participant agrees that Participant may be subject to income tax withholding by the Company on the compensation income recognized by the Participant from the early disposition by payment in cash or out of the current earnings paid to the Participant.

PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE OPTION HEREOF IS EARNED ONLY BY CONTINUING CONSULTANCY OR EMPLOYMENT AT THE WILL OF THE COMPANY (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS OPTION OR ACQUIRING SHARES HEREUNDER). PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT NOTHING IN THIS OPTION, NOR IN THE PLAN, WHICH IS INCORPORATED HEREIN BY REFERENCE, SHALL CONFER UPON PARTICIPANT ANY RIGHT WITH RESPECT TO CONTINUATION OF STATUS AS A SERVICE PROVIDER, NOR SHALL IT INTERFERE IN ANY WAY WITH PARTICIPANT'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE PARTICIPANT'S STATUS AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

Participant acknowledges receipt of a copy of the Plan and certain information related thereto and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions of the Plan. Participant has reviewed the Plan and this Option in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option, and fully understands all provisions relating to this Option. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Board upon any questions arising under the Plan or this Option.

Source: ADAPTEC INC, 10-Q, November 10, 2004

QuickLinks

Exhibit 10.02
ADAPTEC, INC. STOCK OPTION AGREEMENT (Stock Award Documentation for Options)

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 10.03

No. ______

ADAPTEC, INC.

2004 EQUITY INCENTIVE PLAN

RESTRICTED STOCK PURCHASE AGREEMENT
(Stock Award Documentation)

This Restricted Stock Purchase Agreement (the "***Agreement***") is made and entered into as of ____________, ______ (the "***Effective Date***") by and between Adaptec, Inc., a Delaware corporation (the "***Company***"), and the purchaser-participant named below (the "***Participant***"). Capitalized terms not defined herein shall have the meaning ascribed to them in the Company's 2004 Equity Incentive Plan (the "***Plan***").

Participant:	______________________
Social Security Number:	______________________
Address:	______________________
	______________________
Total Number of Shares:	______________________
Purchase Price Per Share:	______________________
Total Purchase Price:	______________________

1. ***Purchase of Shares***.

1.1 *Purchase of Shares*. On the Effective Date and subject to the terms and conditions of this Agreement and the Plan, Participant hereby purchases from the Company, and the Company hereby sells to Participant, the Total Number of Shares set forth above (the "***Shares***") of the Company's Common Stock at the Purchase Price Per Share as set forth above (the "***Purchase Price Per Share***") for a Total Purchase Price as set forth above (the "***Purchase Price***"). As used in this Agreement, the term "***Shares***" includes the Shares purchased under this Agreement and all securities received (i) in replacement of the Shares, (ii) as a result of stock dividends or stock splits with respect to the Shares, and (iii) in replacement of the Shares in a merger, recapitalization, reorganization or similar corporate transaction. The Purchase Price Per Share shall not be less than $0.001 per Share (each Share's par value).

1.2 *Title to Shares*. The exact spelling of the name (names if Participant is married) under which Participant will take title to the Shares is: _______________.

1.3 *Payment*. The Company hereby acknowledges Participant's payment of the Purchase Price by check for $____________ and/or aggregate payroll deductions of $______ that were earmarked for this purchase.

2. ***Deliveries by Participant.*** Participant hereby delivers to the Company (i) a duly executed copy of this Agreement, (ii) two (2) copies of a blank Stock Power and Assignment Separate from Stock Certificate in the form of *Exhibit 1* attached hereto (the "***Stock Powers***"), both executed by Participant (and Participant's spouse, if any), (iii) if Participant is married, a Consent of Spouse in the form of *Exhibit 2* attached hereto (the "***Spouse Consent***") executed by Participant's spouse, and (iv) payment of

Source: ADAPTEC INC, 10-Q, November 10, 2004

the Purchase Price (if by delivery of a check, then a copy of the check is attached hereto as *Exhibit 4*). Participant hereby agrees that the Company may satisfy Participant's obligation to pay to the Company each Share's par value by making appropriate payroll deductions from funds due the Participant.

3. ***Company's Repurchase Option for Unvested Shares.*** The Company, or its assignee, shall have the option to repurchase all or a portion of the Participant's Unvested Shares (as defined in Section 3.2 below) on the terms and conditions set forth in this Section (the "***Repurchase Option***") if Participant's status as a Service Provider terminates for any reason, or no reason, including without limitation Participant's death, Disability (as defined in the Plan), voluntary resignation or termination by the Company with or without cause.

3.1 *Termination and Termination Date*. In case of any dispute as to whether Participant's status as a Service Provider has terminated, the Administrator shall have sole discretion to determine whether Participant's status as a Service Provider has terminated and the effective date of such termination (the "***Termination Date***").

3.2 *Unvested and Vested Shares*. Shares that are vested pursuant to the schedule set forth in this Section 3.2 are "***Vested Shares.***" Shares that are not vested pursuant to the schedule set forth in this Section 3.2 are "***Unvested Shares***." Unvested Shares may not be sold or otherwise transferred by Participant without the Company's prior written consent. On the Effective Date all of the Shares will be Unvested Shares.

(a) **[Vesting Schedule 1]** Subject to Participant's continuous service as a Service Provider throughout, 100% of the Shares shall become exercisable on the first anniversary of the Effective Date.**] [OTHER VESTING SCHEDULE AS APPROVED FROM TIME TO TIME]**.

(b) If the application of the vesting percentage causes a fractional share, such share shall be rounded down to the nearest whole share except for the last installment in such vesting period, at the end of which the balance of Unvested Shares shall become Vested Shares. No Shares will become Vested Shares after the Termination Date. The number of Shares that are Vested Shares or Unvested Shares will be proportionally adjusted for any stock split or similar change in the capital structure of the Company as set forth in Section 13(a) of the Plan.

3.3 *Exercise of Repurchase Option*. At any time within ninety (90) days after the Termination Date, the Company, or its assignee(s), may elect to repurchase any or all of the Participant's Unvested Shares by giving Participant written notice of exercise of the Repurchase Option.

3.4 *Calculation of Repurchase Price*. The Company or its assignee(s) shall have the option to repurchase from Participant (or from Participant's personal representative as the case may be) the Participant's Unvested Shares at the Participant's original Purchase Price Per Share (as adjusted to reflect any stock split or similar change in the capital structure of the Company as set forth in Section 13(a) of the Plan) (the "***Repurchase Price***").

3.5 *Payment of Repurchase Price*. The Repurchase Price shall be payable, at the option of the Company or its assignee(s), by check or by cancellation of all or a portion of any outstanding purchase money indebtedness owed by Participant to the Company, or such assignee, or by any combination thereof. The Repurchase Price shall be paid without interest within sixty (60) days after exercise of the Repurchase Option.

3.6 *Right of Termination Unaffected*. Nothing in this Agreement shall be construed to limit or otherwise affect in any manner whatsoever the right or power of the Company (or any Parent or Subsidiary of the Company) to terminate Participant's status as a Service Provider at any time for any reason or no reason, with or without cause.

Source: ADAPTEC INC, 10-Q, November 10, 2004

4. ***Restrictions on Transfers.*** Purchaser shall not transfer, assign, grant a lien or security interest in, pledge, hypothecate, encumber or otherwise dispose of any of the Shares that are subject to the Repurchase Option.

5. ***Rights as a Stockholder.*** Subject to the terms and conditions of this Agreement, Participant will have all of the rights of a stockholder of the Company with respect to the Shares from and after the date that Participant delivers payment of the Purchase Price until such time as Participant disposes of the Shares or the Company and/or its assignee(s) exercise(s) the Repurchase Option. Upon an exercise of the Repurchase Option, Participant will have no further rights as a holder of the Shares so purchased upon such exercise, other than the right to receive payment for the Shares so purchased in accordance with the provisions of this Agreement, and Participant will promptly surrender the stock certificate(s) evidencing the Shares so purchased to the Company for transfer or cancellation.

6. ***Escrow.*** As security for Participant's faithful performance of this Agreement, Participant agrees, immediately upon receipt of the stock certificate(s) evidencing the Shares, to deliver such certificate(s), together with the Stock Powers executed by Participant and by Participant's spouse, if any (with the date and number of Shares left blank), to the Secretary of the Company or other designee of the Company (the "***Escrow Holder***"), who is hereby appointed to hold such certificate(s) and Stock Powers in escrow and to take all such actions and to effectuate all such transfers and/or releases of such Shares as are in accordance with the terms of this Agreement. Escrow Holder will act solely for the Company as its agent and not as a fiduciary. Participant and the Company agree that Escrow Holder will not be liable to any party to this Agreement (or to any other party) for any actions or omissions unless Escrow Holder is grossly negligent or intentionally fraudulent in carrying out the duties of Escrow Holder under this Agreement. Escrow Holder may rely upon any letter, notice or other document executed with any signature purported to be genuine and may rely on the advice of counsel and obey any order of any court with respect to the transactions contemplated by this Agreement. The Shares will be released from escrow upon termination of the Repurchase Option.

7. ***Restrictive Legends and Stop-Transfer Orders***.

7.1 *Legends*. Participant understands and agrees that the Company will place the legends set forth below or similar legends on any stock certificate(s) evidencing the Shares, together with any other legends that may be required by state or federal securities laws, the Company's Certificate of Incorporation or Bylaws, any other agreement between Participant and the Company or any agreement between Participant and any third party:

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS ON TRANSFER, INCLUDING THE RIGHT OF REPURCHASE HELD BY THE ISSUER AND/OR ITS ASSIGNEE(S) AS SET FORTH IN A RESTRICTED STOCK PURCHASE AGREEMENT BETWEEN THE ISSUER AND THE ORIGINAL HOLDER OF THESE SHARES, A COPY OF WHICH MAY BE OBTAINED AT THE PRINCIPAL OFFICE OF THE ISSUER. SUCH TRANSFER RESTRICTIONS, INCLUDING THE RIGHT OF REPURCHASE ARE BINDING ON TRANSFEREES OF THESE SHARES.

7.2 *Stop-Transfer Instructions*. Participant agrees that, to ensure compliance with the restrictions imposed by this Agreement, the Company may issue appropriate "stop-transfer" instructions to its transfer agent, if any, and if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

7.3 *Refusal to Transfer*. The Company will not be required (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Agreement or (ii) to treat as owner of such Shares, or to accord the right to vote or pay dividends to any participant or other transferee to whom such Shares have been so transferred.

Source: ADAPTEC INC, 10-Q, November 10, 2004

8. ***Tax Consequences*.** PARTICIPANT UNDERSTANDS THAT PARTICIPANT MAY SUFFER ADVERSE TAX CONSEQUENCES AS A RESULT OF PARTICIPANT'S PURCHASE OR DISPOSITION OF THE SHARES. PARTICIPANT REPRESENTS (i) THAT PARTICIPANT HAS CONSULTED WITH ANY TAX ADVISER THAT PARTICIPANT DEEMS ADVISABLE IN CONNECTION WITH THE PURCHASE OR DISPOSITION OF THE SHARES AND (ii) THAT PARTICIPANT IS NOT RELYING ON THE COMPANY FOR ANY TAX ADVICE. Participant hereby acknowledges that Participant has been informed that, unless an election is filed by the Participant with the Internal Revenue Service (and, if necessary, the proper state taxing authorities) *within 30 days of the purchase* of the Shares to be effective, electing pursuant to Section 83(b) of the Internal Revenue Code (and similar state tax provisions, if applicable) to be taxed currently on any difference between the Purchase Price of the Shares and their Fair Market Value on the date of purchase, there will be a recognition of taxable income to the Participant, measured by the excess, if any, of the Fair Market Value of the Vested Shares, at the time they cease to be Unvested Shares, over the Purchase Price for such Shares. Participant represents that Participant has consulted any tax advisers Participant deems advisable in connection with Participant's purchase of the Shares and the filing of the election under Section 83(b) and similar tax provisions. A form of Election under Section 83(b) is attached hereto as *Exhibit 3* for reference. **PARTICIPANT HEREBY ASSUMES ALL RESPONSIBILITY FOR FILING SUCH ELECTION AND PAYING ANY TAXES RESULTING FROM SUCH ELECTION OR FROM FAILURE TO FILE THE ELECTION AND PAYING TAXES RESULTING FROM THE LAPSE OF THE REPURCHASE RESTRICTIONS ON THE UNVESTED SHARES.**

9. ***Withholding***. Participant must make arrangements, satisfactory to the Company, for satisfaction of any applicable foreign, federal, state or local income tax withholding requirements or social security requirements related to the receipt of Shares. Participant may elect (a "***Withholding Election***") to pay the minimum statutory withholding tax obligation by the withholding of Shares from the total number of Shares deliverable to the Participant in accordance with rules and procedures established by the Administrator. All Withholding Elections are subject to the approval of the Administrator and must be made in compliance with rules and procedures established by the Administrator. The Administrator may require, in its discretion, that some portion of Vested Shares be retained by (or returned to) the Company to satisfy such withholding requirements. In the absence of such arrangements Participant hereby authorizes the Administrator to withhold the required minimum amount from Participant's other sources of compensation from the Company or any Affiliate.

10. ***Compliance with Laws and Regulations*.** The issuance and transfer of the Shares will be subject to and conditioned upon compliance by the Company and Participant with all applicable state and federal laws and regulations and with all applicable requirements of any stock exchange or automated quotation system on which the Company's Common Stock may be listed or quoted at the time of such issuance or transfer.

11. ***Successors and Assigns*.** The Company may assign any of its rights under this Agreement, including its rights to repurchase Shares under the Repurchase Option. This Agreement shall be binding upon and inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Agreement will be binding upon Participant and Participant's heirs, executors, administrators, legal representatives, successors and assigns.

12. ***Governing Law; Severability*.** This Agreement shall be governed by and construed in accordance with the internal laws of the State of California as such laws are applied to agreements between California residents entered into and to be performed entirely within California, excluding that body of laws pertaining to conflict of laws. If any provision of this Agreement is determined by a court of law to be illegal or unenforceable, then such provision will be enforced to the maximum extent possible and the other provisions will remain fully effective and enforceable.

Source: ADAPTEC INC, 10-Q, November 10, 2004

13. ***Notices.*** Any notice required to be given or delivered to the Company shall be in writing and addressed to the Stock Administration Manager of the Company at its principal corporate offices. Any notice required to be given or delivered to Participant shall be in writing and addressed to Participant at the address indicated above or to such other address as Participant may designate in writing from time to time to the Company. All notices shall be deemed effectively given upon personal delivery, (i) three (3) days after deposit in the United States mail by certified or registered mail (return receipt requested), (ii) one (1) business day after its deposit with any return receipt express courier (prepaid), or (iii) one (1) business day after transmission by rapifax or telecopier.

14. ***Further Instruments.*** The parties agree to execute such further instruments and to take such further action as may be reasonably necessary to carry out the purposes and intent of this Agreement.

15. ***Headings.*** The captions and headings of this Agreement are included for ease of reference only and will be disregarded in interpreting or construing this Agreement.

16. ***Entire Agreement.*** The Plan and this Agreement, together with all its Exhibits, constitute the entire agreement and understanding of the parties with respect to the subject matter of this Agreement, and supersede all prior understandings and agreements, whether oral or written, between the parties hereto with respect to the specific subject matter hereof.

[Remainder of this Page Intentionally Left Blank, Signature Page Follows]

Source: ADAPTEC INC, 10-Q, November 10, 2004

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized representative, and Participant has executed this Agreement, **in duplicate** as of the Effective Date.

ADAPTEC, INC.		**PARTICIPANT**	
By:	______________________	______________________	
		(Signature)	
______________________		______________________	
(Please print name)		(Please print name)	
______________________			
(Please print title)			
Address:	______________________	Address:	______________________
______________________		______________________	
______________________		______________________	
Fax No.:	______________________	Fax No.:	______________________
Phone No.	______________________	Phone No.:	______________________

[Signature page to Adaptec, Inc. Restricted Stock Purchase Agreement]

Source: ADAPTEC INC, 10-Q, November 10, 2004

LIST OF EXHIBITS

Exhibit 1: Stock Power and Assignment Separate from Stock Certificate

Exhibit 2: Spouse Consent

Exhibit 3: Election Under Section 83(b) of the Internal Revenue Code

Exhibit 4: Copy of Participant's Check

EXHIBIT 1

STOCK POWER AND ASSIGNMENT
SEPARATE FROM STOCK CERTIFICATE

Stock Power and Assignment
Separate from Stock Certificate

FOR VALUE RECEIVED and pursuant to that certain Restricted Stock Purchase Agreement No. __ **[*COMPLETE AT THE TIME OF EXERCISE*]** dated as of ____________, ______, **[*COMPLETE AT THE TIME OF EXERCISE*]** (the "***Agreement***"), the undersigned hereby sells, assigns and transfers unto ____________, ____________ shares of the Common Stock ____________, par value per share, of Adaptec, Inc.**,** a Delaware corporation (the "***Company***"), standing in the undersigned's name on the books of the Company represented by Certificate No(s). ______ **[*COMPLETE AT THE TIME OF EXERCISE*]** delivered herewith, and does hereby irrevocably constitute and appoint the Secretary of the Company as the undersigned's attorney-in-fact, with full power of substitution, to transfer said stock on the books of the Company. THIS ASSIGNMENT MAY ONLY BE USED AS AUTHORIZED BY THE AGREEMENT AND ANY EXHIBITS THERETO.

Dated: ______________________________, ____

PARTICIPANT

____
(Signature)

____
(Please Print Name)

____
(Spouse's Signature, if any)

____
(Please Print Spouse's Name)

Instructions to Participant: Please do not fill in any blanks other than the signature line. The purpose of this Stock Power and Assignment is to enable the Company and/or its assignee(s) to acquire the shares upon exercise of its "Repurchase Option" set forth in the Agreement without requiring additional signatures on the part of the Participant or Participant's Spouse, if any.

EXHIBIT 2

SPOUSE CONSENT

Spouse Consent

The undersigned spouse of ____________ (the "***Participant***") has read, understands, and hereby approves the Restricted Stock Purchase Agreement between Participant and the Company (the "***Agreement***"). In consideration of the Company's granting my spouse the right to purchase the Shares as set forth in the Agreement, the undersigned hereby agrees to be irrevocably bound by the Agreement and further agrees that any community property interest shall similarly be bound by the Agreement. The undersigned hereby appoints Participant as my attorney-in-fact with respect to any amendment or exercise of any rights under the Agreement.

Date: ____________________ ____________________

Print Name of Participant's Spouse

____________________ ____________________

(Please print name) Signature of Participant's Spouse

Address:

____________________ ____________________

(Please print title)

____

____

____

[ ] Participant, initial this box if you do not have a spouse.

Source: ADAPTEC INC, 10-Q, November 10, 2004

EXHIBIT 3

ELECTION UNDER SECTION 83(b) OF THE INTERNAL REVENUE CODE

Election Under Section 83(b) of the Internal Revenue Code

The undersigned Taxpayer hereby elects, pursuant to Section 83(b) of the Internal Revenue Code, as amended, to include in gross income for the Taxpayer's current taxable year the excess, if any, of the fair market value of the property described below at the time of transfer over the amount paid for such property, as compensation for services.

1. TAXPAYER'S NAME: ____________________

   TAXPAYER'S ADDRESS: ____________________

   ____

   SOCIAL SECURITY NUMBER: ____________________

2. The property with respect to which the election is made is described as follows: ____________ shares of Common Stock of ____________ Adaptec, Inc., a Delaware corporation (the "***Company***"), which is Taxpayer's employer or the corporation for whom the Taxpayer performs services.

3. The date on which the shares were purchased was ____________, ______ and this election is made for calendar year ______.

4. The shares are subject to the following restrictions: The Company may repurchase all or a portion of the shares at the Taxpayer's original purchase price under certain conditions at the time of Taxpayer's termination of employment or services.

5. The fair market value of the shares (without regard to restrictions other than restrictions which by their terms will never lapse) was $____________ per share at the time of purchase.

6. The amount paid for such shares was $____________ per share.

7. The Taxpayer has submitted a copy of this statement to Stock Administration at the Company.

THIS ELECTION MUST BE FILED WITH THE INTERNAL REVENUE SERVICE ("*IRS*"), AT THE OFFICE WHERE THE TAXPAYER FILES ANNUAL INCOME TAX RETURNS, ***WITHIN 30 DAYS*** AFTER THE DATE OF TRANSFER OF THE PROPERTY, AND MUST ALSO BE FILED WITH THE TAXPAYER'S INCOME TAX RETURNS FOR THE CALENDAR YEAR. THE ELECTION CANNOT BE REVOKED WITHOUT THE CONSENT OF THE IRS.

Dated: ____________________________, ______

____

Taxpayer's Signature

EXHIBIT 4

COPY OF PARTICIPANT'S CHECK

QuickLinks

Exhibit 10.03
ADAPTEC, INC. 2004 EQUITY INCENTIVE PLAN RESTRICTED STOCK PURCHASE AGREEMENT (Stock Award Documentation)

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 10.04

No. ______

ADAPTEC, INC.

2004 EQUITY INCENTIVE PLAN

RESTRICTED STOCK UNIT AGREEMENT
(Stock Award Documentation for RSUs)

The Board of Directors of Adaptec, Inc. has approved a grant to you (the "***Participant***" named below) of [______] Restricted Stock Units ("***RSUs***") pursuant to the Adaptec, Inc. 2004 Equity Incentive Plan (the "***Plan***"), as described below. Capitalized terms not defined herein shall have the meaning ascribed to them in the Company's 2004 Equity Incentive Plan (the "***Plan***").

Participant:	
Number of RSUs:	
Fair Market Value/RSU:	$ per RSU as of Date of Grant
Date of Grant:	
First Vesting Date:	First anniversary of the Date of Grant
Expiration Date:	The date on which settlement of all RSUs granted hereunder occurs, with earlier expiration upon termination of Participant's status as a Service Provider.
Vesting Schedule:	The RSUs will vest as follows:

[Schedule 1]

(a) None of the RSUs shall vest prior to the First Vesting Date; and

(b) 100% of the RSUs shall vest on the First Vesting Date, subject to your having been in continuous status as a Service Provider from the Date of Grant to the First Vesting Date.

[OTHER VESTING SCHEDULE AS APPROVED FROM TIME TO TIME]

1. ***Settlement.*** Settlement of vested RSUs shall occur on vesting. Settlement of vested RSUs shall be in Shares. The Participant shall pay to the Company the aggregate par value of the Shares issued prior to their issuance (par value being $0.001 per Share). Participant hereby agrees that the Company may satisfy Participant's obligation to pay to the Company each Share's par value by making appropriate payroll deductions from funds due the Participant.

2. ***No Stockholder Rights.*** Unless and until such time as Shares are issued in settlement of vested RSUs, the Participant shall have no ownership of the Shares allocated to the RSUs and shall have no right to vote such Shares, subject to the terms, conditions and restrictions described in the Plan and herein.

3. ***No Transfer.*** The RSUs and any interest therein: (i) shall not be sold, assigned, transferred, pledged, hypothecated, or otherwise disposed of, and (ii) shall, if the Participant's continuous employment with the Company or any of its affiliates shall terminate for any reason (except as otherwise provided in the Plan or herein), be forfeited to the Company forthwith, and all the rights of the Participant to such RSUs shall immediately terminate.

4. ***Termination of Status as a Service Provider.*** If Participant's status as a Service Provider terminates, then the Administrator shall settle, in Shares, the value of any vested RSUs (based on the

then Fair Market Value of Shares deemed allocated to such vested RSUs on the date of such termination of status as a Service Provider) as soon as practicable thereafter. In case of any dispute as to whether Participant's status as a Service Provider has terminated, the Administrator shall have sole discretion to determine whether Participant's status as a Service Provider has terminated and the effective date of such termination (the "***Termination Date***").

5. ***Acknowledgement.*** By their signatures below, the Company and the Participant agree that the RSUs are granted under and governed by this Restricted Stock Unit Agreement and by the provisions of the Plan (incorporated herein by reference). The Participant: (i) acknowledges receipt of a copy of the Plan and the Plan prospectus, (ii) represents that the Participant has carefully read and is familiar with their provisions, and (iii) hereby accepts the RSUs subject to all of the terms and conditions set forth herein and those set forth in the Plan.

6. ***Tax Consequences.*** The Participant acknowledges that there may be adverse tax consequences upon settlement of the RSUs or disposition of the Shares, if any, received in connection therewith and that Participant should consult a tax adviser prior to such settlement or disposition. In particular, Participant must make arrangements, satisfactory to the Company, for satisfaction of any applicable foreign, federal, state or local income tax withholding requirements or social security requirements related to the grant of the RSUs or Participant's receipt of Shares in settlement thereof, including, in either case, any dividend paid in respect thereof. In the event settlement of the RSUs is made in Shares, such arrangements may include, with the consent of the Administrator, an election by Participant (a "Withholding Election") to pay the minimum statutory withholding tax obligation by the withholding of Shares from the total number of Shares deliverable to the Participant in accordance with rules and procedures established by the Administrator. The Withholding Election must be made prior to the date on which the amount to be withheld is determined. All Withholding Elections are subject to the approval of the Administrator and must be made in compliance with rules and procedures established by the Administrator. The Administrator may require, in its discretion, that some portion of vested Shares be retained by (or returned to) the Company to satisfy such withholding requirements. In the absence of such arrangements Participant hereby authorizes the Administrator to withhold the required minimum amount from Participant's other sources of compensation from the Company or any Affiliate.

7. ***Compliance with Laws and Regulations.*** The issuance of Shares will be subject to and conditioned upon compliance by the Company and Participant with all applicable state and federal laws and regulations and with all applicable requirements of any stock exchange or automated quotation system on which the Company's Common Stock may be listed or quoted at the time of such issuance or transfer.

8. ***Successors and Assigns.*** The Company may assign any of its rights under this Agreement. This Agreement shall be binding upon and inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Agreement will be binding upon Participant and Participant's heirs, executors, administrators, legal representatives, successors and assigns.

9. ***Governing Law; Severability.*** This Agreement shall be governed by and construed in accordance with the internal laws of the State of California as such laws are applied to agreements between California residents entered into and to be performed entirely within California, excluding that body of laws pertaining to conflict of laws. If any provision of this Agreement is determined by a court of law to be illegal or unenforceable, then such provision will be enforced to the maximum extent possible and the other provisions will remain fully effective and enforceable.

10. ***Notices.*** Any notice required to be given or delivered to the Company shall be in writing and addressed to the Corporate Secretary of the Company at its principal corporate offices. Any notice required to be given or delivered to Participant shall be in writing and addressed to Participant at the address indicated above or to such other address as Participant may designate in writing from time to time to the Company. All notices shall be deemed effectively given upon personal delivery, (i) three (3) days after deposit in the United States mail by certified or registered mail (return receipt

requested), (ii) one (1) business day after its deposit with any return receipt express courier (prepaid), or (iii) one (1) business day after transmission by rapifax or telecopier.

11. ***Further Instruments.*** The parties agree to execute such further instruments and to take such further action as may be reasonably necessary to carry out the purposes and intent of this Agreement.

12. ***Headings.*** The captions and headings of this Agreement are included for ease of reference only and are to be disregarded in interpreting or construing this Agreement.

13. ***Entire Agreement.*** The Plan and this Stock Award Documentation for these RSUs constitute the entire agreement and understanding of the parties with respect to the subject matter herein and supersede all prior understandings and agreements, whether oral or written, between the parties hereto with respect to the specific subject matter hereof.

Please sign your name in the space provided below on this Restricted Stock Unit Agreement and return an executed copy to: Stock Administrator c/o Adaptec, Inc., 691 South Milpitas Boulevard, Milpitas, California, 95035.

ADAPTEC, INC.		**PARTICIPANT**
By:	____________________	____________________
		Signature
Its:	____________________	

QuickLinks

Exhibit 10.04
ADAPTEC, INC. 2004 EQUITY INCENTIVE PLAN RESTRICTED STOCK UNIT AGREEMENT (Stock Award Documentation for RSUs)

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Exhibit 10.05

ADAPTEC, INC.

Adaptec Variable Incentive Plan

November 1, 2004

1. Plan Name

The name of the plan is the Variable Incentive Plan (the "Plan") of Adaptec, Inc. (the "Company").

2. Purpose

The purpose of the Plan is to provide a direct financial incentive for eligible employees in order to assist the Company's stockholders realize increased value from their investment.

3. Eligibility

Full-time employees, as designated by the Company, are eligible to participate in the Plan ("Participants").

4. Funding of the Plan

The target award is 4% of each eligible employee's quarterly base salary. The actual award may be between 0 to 5% of an employee's quarterly base salary.

5. Plan Payments

Payment of awards under the Plan for non-Section 16 Officers will be determined in the sole discretion of the Company's Chief Executive Officer. Payments of awards under the Plan for Section 16 Officers will be determined in the sole discretion of the Compensation Committee after consultation with the Company's Chief Executive Officer, except in the case of an award payable to the Chief Executive Officer, which shall be determined in the sole discretion of the Compensation Committee. A Section 16 Officer shall not be entitled to receive any payment of an award until it is approved by the Compensation Committee.

6. Administration of the Plan

The Plan, as it applies to Section 16 Officers, shall be administered by the Compensation Committee of the Company. The Plan, as it applies to Section 16 Officers, shall be interpreted by the Compensation Committee in its sole discretion, which such determinations shall be final and binding on all Participants.

7. Source of Payments

All payments shall be made from the general assets of the Company.

8. Governing Law

The Plan shall be governed by the laws of the State of California.

Source: ADAPTEC INC, 10-Q, November 10, 2004

9. No Right to Employment

Employees shall have no right to continued employment and shall be considered to be "at-will" employees of the Company.

10. Withholding

The Company may withhold federal, state and local taxes in connection with any benefit realized by a Participant as a condition of making payment of any award under the Plan.

11. Amendment or Termination of the Plan

The Plan may be amended or terminated by the Chief Executive Officer with respect to all non-Section 16 Officers and by the Board of Directors of the Company or the Compensation Committee with respect to all Section 16 Officers, in either case at any time without the consent of any Section 16 Officer.

Source: ADAPTEC INC, 10-Q, November 10, 2004

QuickLinks

Exhibit 10.05
ADAPTEC, INC. Adaptec Variable Incentive Plan November 1, 2004

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Exhibit 10.06

ADAPTEC

DEFERRED COMPENSATION PLAN

(As Amended and Restated Effective July 21, 2004)

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Source: ADAPTEC INC, 10-Q, November 10, 2004

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Source: ADAPTEC INC, 10-Q, November 10, 2004

ADAPTEC
DEFERRED COMPENSATION PLAN

(As Amended and Restated Effective July 21, 2004)

Adaptec, Inc. adopted a deferred compensation plan, effective April 1, 1994, entitled the Adaptec 1994 Deferred Compensation Plan (the "Prior Plan"). The Prior Plan was amended and restated in its entirety, effective April 1, 1996, and renamed the Amended and Restated Deferred Compensation Plan (the "Plan"). The Plan has been amended from time to time, most recently, effective April 1, 2004, at which time it was renamed the Adaptec Deferred Compensation Plan. The Plan is hereby amended and restated in its entirety, effective July 21, 2004.

The purpose of the Plan is to provide deferred compensation for a select group of management or highly compensated employees of Adaptec and its subsidiaries. The Plan is intended to be a nonqualified deferred compensation plan. Accordingly, it is intended that the Plan be exempt from the requirements of Parts II, III and IV of Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") pursuant to Sections 201(2), 301(a)3) and 401(a)(1) of ERISA.

ARTICLE I

DEFINITIONS

Whenever used herein, the masculine pronoun shall be deemed to include the feminine, and the singular to include the plural, unless the context clearly indicates otherwise, and the following definitions shall govern the Plan:

1.1 "*Account and Sub Account*" "Account" means the book entry account established under the Plan for each Participant to which the Participant's Salary Deferral Amounts, AIP Deferral Amounts, VIP Deferral Amounts, MIP Deferral Amounts, any Additional Contributions made by the Employer pursuant to Article III, and the Interest with respect thereto shall be credited. Such Account balance shall be reduced by any distributions made to the Participant or the Participant's Beneficiary(ies) and any charges that may be imposed on such Account pursuant to the terms of the Plan.

In addition, a "Sub Account" may be established under the Plan for each Participant who is (i) actively employed by the Employer, (ii) receiving distributions pursuant to a Benefit Distribution Election, and (iii) elects to make salary deferrals and/or deferrals of amounts payable under the AIP, VIP and/or MIP to this Plan or is receiving Additional Contributions. Such "Sub Account" shall be a book entry account established under the Plan for each such Participant to which the Participant's Salary Deferral Amounts, AIP Deferral Amounts, VIP Deferral Amounts, MIP Deferral Amounts, any Additional Contributions made by the Employer pursuant to Article III, and the Interest with respect thereto shall be credited. Such Sub Account balance shall separately be reduced by any distributions made to the Participant or the Participant's Beneficiary(ies) and any charges that may be imposed on such Sub Account pursuant to the terms of the Plan.

Account and Sub Account may be referred to herein collectively as "Accounts."

1.2 "*Adaptec*" means Adaptec, Inc., a Delaware corporation and any successor organization thereto.

1.3 "*AIP*" means the Adaptec Incentive Plan, as amended from time to time.

1.4 "*Additional Contribution*" means an Additional Contribution, contributed by the Employer on behalf of a Participant pursuant to Article III.

1.5 "*AIP Deferral Amount*" means the amount or percentage of bonus or incentive payments that an Eligible Employee is entitled to under the AIP and elects to contribute to the Plan pursuant to Article III.

Source: ADAPTEC INC, 10-Q, November 10, 2004

1.6 "*Benchmark Fund*" means one or more of the mutual funds or contracts selected by the Deferred Compensation Committee pursuant to Section 4.3(a).

1.7 "*Beneficiary*" means one, some, or all (as the context shall require) of those persons, trusts or other entities designated by a Participant to receive the undistributed portion of his/her Accounts following the Participant's death.

1.8 "*Benefit Distribution Election*" means the form of election, as prescribed by the Plan Administrator and as may be modified from time to time, upon which a Participant shall designate his/her Distribution Date.

1.9 "*Benefits*" means the amount(s) credited to Participant's Accounts.

1.10 "*Board of Directors*" or "*Board*" means the Board of Directors of Adaptec.

1.11 "*Change of Control*" means (a) the purchase or other acquisition by any person(s) or entity(ies), within the meaning of Section 13(d) or 14(d) of the Securities Exchange Act of 1934 (the "Act") or any comparable successor provisions, of beneficial ownership (within the meaning of Rule 13d-3 under the Act) of thirty percent (30%) or more of the outstanding shares of common stock or the combined voting power of Adaptec's outstanding voting securities; (b) the approval by Adaptec's stockholders of a reorganization, merger or consolidation transaction when after such transaction Adaptec's stockholders own less than fifty percent (50%) of the combined voting power owned before such transaction; (c) a dissolution or liquidation of Adaptec; or (d) the sale of at least eighty-five percent (85%) Adaptec's assets.

1.12 "*Code*" means the Internal Revenue Code of 1986, as amended.

1.13 "*Deferred Compensation Committee*" means the committee appointed by the Board which shall function as the Plan Administrator and which shall be composed of the individuals serving the Company in the following positions:

(a) Chief Executive Officer of Adaptec

(b) The senior executive of Adaptec responsible for Human Resources

(c) Manager, Employee Benefits

1.14 "*Distribution Date*" means the date on which distribution of a Participant's Benefits is made or commenced pursuant to Article V.

1.15 "*Effective Date of Amended and Restated Plan*" means July 21, 2004.

1.16 "*Election*" means the form on which a Participant elects to make salary deferrals and/or deferrals of amounts payable under the AIP, VIP and/or MIP to this Plan. Such Election shall be in a form prescribed by the Plan Administrator and may be modified from time to time.

1.17 "*Eligible Employee*" means an employee of the Employer who is a member of a select group of management or highly compensated employees as more particularly described in Article II and who has been designated by the Plan Administrator, in the Plan Administrator's sole discretion, to be eligible to participate in the Plan and shall also include every non-employee member of the Board of Directors.

1.18 "*Employer*" means Adaptec or a subsidiary thereof that has adopted this Plan.

1.19 "*Entry Date*" shall mean April 1 of each year.

1.20 "*Initial Entry Date*" means the first day that an individual becomes an Eligible Employee and is eligible to participate in the Plan. A Participant's initial Election shall take effect as soon as administratively feasible after this Initial Entry Date.

Source: ADAPTEC INC, 10-Q, November 10, 2004

1.21 "*Interest*" means the investment return or loss determined in accordance with Article IV, which shall be credited to the Participant's Accounts.

1.22 "*Interest Rate*" shall have the meaning set forth in Section 4.3(c).

1.23 "*MIP*" means the Management Incentive Plan adopted by the Company in July 2004, as it may be amended from time to time.

1.24 "*MIP Deferral Amount*" means the amount or percentage of bonus or incentive payments that an Eligible Employee is entitled to under the MIP and elects to contribute to the Plan pursuant to Article III.

1.25 "*Participant*" means an Eligible Employee who has elected to participate in the Plan by executing an Election. A Participant shall also mean an Eligible Employee for whom Additional Contributions are made, regardless of whether such Eligible Employee has executed an Election.

1.26 "*Plan*" means this Adaptec Deferred Compensation Plan, as amended and restated in its entirety effective July , 2004, as it may be amended from time to time in the future.

1.27 "*Plan Administrator*" means the Deferred Compensation Committee selected to administer this Plan and to take such other actions as may be specified herein.

1.28 "*Plan Year*" means the 12-month period beginning on April 1 and ending on March 31 of the following calendar year.

1.29 "*Prior Plan*" means the Adaptec 1994 Deferred Compensation Plan adopted effective April 1, 1994, as amended.

1.30 "*Salary Deferral Amount*" means the Salary Deferral Amount which the Participant elects to contribute pursuant to Article III.

1.31 "*Termination Event*" means the termination of the Participant's employment with the Employer or ceasing to be a member of the Board for any reason other than the Participant's Retirement with the Consent of the Employer, as that term is defined in Article 5.1(b), including termination or cessation in the event of death or Total Disability. A Participant's employment with the Employer shall not be deemed to have terminated because the Participant transfers his or her employment to a subsidiary of Adaptec, regardless of whether such subsidiary has adopted this Plan, or, except as Adaptec shall otherwise elect in its sole discretion, because the subsidiary by which the Participant is employed ceases to be a subsidiary of Adaptec ("former subsidiary"). In such case, Participant's employment shall terminate when Participant's employment with the former subsidiary terminates.

1.32 "*Total Disability*" means a Participant's total and permanent disability which renders the Participant unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or that satisfies the definition of "Total Disability" set forth in Adaptec's Long Term Disability Plan. Whether or not a Participant has incurred a Total Disability shall be determined by the Plan Administrator in the Plan Administrator's sole discretion.

1.33 "*Trust*" means the legal entity created by the Trust Agreement.

1.34 "*Trust Agreement*" means that trust agreement entered into between Adaptec and Putnam Fiduciary Trust Company, effective April 1, 2002, and any amendments thereto.

1.35 "*Trustee*" means the original Trustee(s) named in the Trust Agreement and any duly appointed successor(s) thereto.

Source: ADAPTEC INC, 10-Q, November 10, 2004

1.36 "*VIP*" means the Variable Incentive Plan maintained by Adaptec, as it may be amended from time to time.

1.37 "*VIP Deferral Amount"* means the amount or percentage of bonus or incentive payments that an Eligible Employee is entitled to under the VIP and elects to contribute to the Plan pursuant to Article III.

ARTICLE II

ELIGIBILITY

2.1 *Eligibility*. Eligibility for participation in the Plan shall be limited to non-employee members of the Board and to key management or highly compensated employees of the Employer who are selected by the Plan Administrator, in its sole discretion, to participate in the Plan. Individuals who are in this select group shall be notified as to their eligibility to participate in the Plan. For purposes of the Plan, the phrase "select group of management or highly compensated employees" shall include those individuals employed as directors and those individuals employed in positions at a higher level, all as determined by the Plan Administrator.

2.2 *Commencement of Participation*. An Eligible Employee may begin participation in the Plan upon the Eligible Employee's Initial Entry Date or any Entry Date thereafter, subject to the submission of an Election pursuant to Article III. In order to commence salary deferrals and/or deferrals of amounts payable under the AIP, VIP and/or MIP as of the Initial Entry Date, the Election must be returned to the Plan Administrator within 60 days of the date an individual first becomes an Eligible Employee; otherwise the Election must be returned to the Plan Administrator in advance of the next subsequent Entry Date, in accordance with rules and procedures established by the Plan Administrator.

2.3 *Cessation of Participation*. Active participation in the Plan shall end when a Participant's employment terminates for any reason. No contributions to the Plan shall be made with respect to compensation paid after such termination date. Upon termination of employment, a Participant shall remain an inactive participant in the Plan until all of the Benefits to which he or she is entitled under this Plan have been paid in full.

2.4 *Suspension of Participation*. A Participant who is employed by a subsidiary which has not adopted the Plan or a former subsidiary shall be a suspended Participant. No contributions to the Plan shall be made on behalf of a suspended Participant. Except as otherwise provided in this Article II, a suspended Participant shall continue to participate in the Plan in accordance with its terms.

ARTICLE III

DEFERRALS AND CONTRIBUTIONS

3.1 *Salary Deferrals*.

(a) As of the Participant's Initial Entry Date through and until the time that Participant elects otherwise in accordance with the provisions of Sections 3.1(b) and 3.1(c), the Participant may elect to reduce his or her salary by the amount (or percentage) set forth in a written and signed Election filed with the Plan Administrator. A Participant who is a non-employee member of the Board may elect to reduce his or her salary by 50% or 100% as set forth in a written Election filed with the Plan Administrator. Such Election shall be subject to the provisions of Section 3.5 below. A salary deferral Election filed within 60 days of the Participant's Initial Entry Date shall be effective as soon as administratively feasible following the filing of such salary deferral Election. A salary deferral Election filed at least 20 days (or such lesser number of days as the Plan Administrator may specify) before any subsequent Entry Date shall be effective on such subsequent Entry Date. The Salary Deferral Amount shall not be paid to the Participant, but shall be withheld from the Participant's salary and an amount equal to the Salary Deferral Amount shall be credited to the Participant's Account or Sub Account (as appropriate).

Source: ADAPTEC INC, 10-Q, November 10, 2004

(b) Participant's salary deferral Election shall be irrevocable throughout the Plan Year for which it was made. An Election to stop salary deferrals or to change the salary deferral amount will take effect on the Entry Date that is at least 20 days (or such lesser number of days as the Plan Administrator may specify) after the date the new Election is filed with the Plan Administrator.

(c) Unless amended to cease or modify salary deferrals, the Participant's salary deferral Election shall continue in effect until the Participant terminates employment with the Employer, subject, however, to the provisions of Sections 5.3 and 5.4, below.

(d) Each Election to make or stop salary deferrals shall apply only to salary earned after the effective date of such Election.

(e) For the purpose of determining an Eligible Employee's Salary Deferral Amount, "salary" shall mean the base salary paid by the Employer, but shall not include any other form of compensation, whether taxable or non-taxable, including, but not limited to, bonuses, commissions, overtime, incentive payments, non-monetary awards and other forms of additional compensation. In the case of a Participant who is a non-employee member of the Board, "salary" shall mean all cash compensation for service as a member of the Board.

3.2 *AIP Deferrals*.

(a) In addition to the salary deferral Election described above, each Eligible Employee may elect to defer all or a part of each payment payable under the AIP to which such Eligible Employee becomes entitled after his or her Initial Entry Date or subsequent Entry Date. The AIP Deferral Amount shall not be paid to the Participant, but shall be withheld from the Participant's AIP payment and an amount equal to the AIP Deferral Amount shall be credited to the Participant's Account or Sub Account (as appropriate).

(b) An Eligible Employee's election to defer all or part of his or her payment payable under the AIP shall be made by a written and signed Election filed with the Plan Administrator. An AIP deferral Election filed within 60 days before the Participant's Initial Entry Date shall be effective on the Initial Entry Date. An AIP deferral Election filed at least 20 days (or such lesser number of days as the Plan Administrator may specify) before any subsequent Entry Date shall be effective on such subsequent Entry Date. The AIP deferral Election shall be irrevocable for the Plan Year for which it was made, and shall continue in effect until revoked or amended, as provided in Section 3.2(c), below.

(c) A Participant's AIP deferral Election may be amended or revoked as of any subsequent Entry Date by filing a new Election at least 20 days (or such lesser number of days the Plan Administrator may specify) prior to such Entry Date.

3.3 *VIP Deferrals*.

(a) In addition to the salary deferral and/or AIP Deferral Elections described above, each Eligible Employee may elect to defer all or a part of each payment payable under the VIP to which such Eligible Employee becomes entitled after his or her Initial Entry Date or subsequent Entry Date. The VIP Deferral Amount shall not be paid to the Participant, but shall be withheld from the Participant's VIP payment and an amount equal to the VIP Deferral Amount shall be credited to the Participant's Account or Sub Account (as appropriate).

(b) An Eligible Employee's election to defer all or part of his or her payment payable under the VIP shall be made by a written and signed Election filed with the Plan Administrator. A VIP deferral Election filed within 60 days before the Participant's Initial Entry Date shall be effective on the Initial Entry Date. A VIP deferral Election filed at least 20 days (or such lesser number of days as the Plan Administrator may specify) before any subsequent Entry Date shall be effective

Source: ADAPTEC INC, 10-Q, November 10, 2004

on such subsequent Entry Date. The VIP deferral Election shall be irrevocable for the Plan Year for which it was made, and shall continue in effect until revoked or amended, as provided in Section 3.3(c), below.

(c) A Participant's VIP deferral Election may be amended or revoked as of any subsequent Entry Date by filing a new Election at least 20 days (or such lesser number of days the Plan Administrator may specify) prior to such Entry Date.

3.4 *MIP Deferrals*.

(a) In addition to the salary deferral, AIP Deferral Elections and/or VIP Deferral Elections described above, each Eligible Employee may elect to defer all or a part of each payment payable under the MIP to which such Eligible Employee becomes entitled after his or her Initial Entry Date or subsequent Entry Date. The MIP Deferral Amount shall not be paid to the Participant, but shall be withheld from the Participant's MIP payment and an amount equal to the MIP Deferral Amount shall be credited to the Participant's Account or Sub Account (as appropriate).

(b) An Eligible Employee's election to defer all or part of his or her payment payable under the MIP shall be made by a written and signed Election filed with the Plan Administrator. A MIP deferral Election filed within 60 days before the Participant's Initial Entry Date shall be effective on the Initial Entry Date. A MIP deferral Election filed at least 20 days (or such lesser number of days as the Plan Administrator may specify) before any subsequent Entry Date shall be effective on such subsequent Entry Date. The MIP deferral Election shall be irrevocable for the Plan Year for which it was made, and shall continue in effect until revoked or amended, as provided in Section 3.4(c), below.

(c) A Participant's MIP deferral Election may be amended or revoked as of any subsequent Entry Date by filing a new Election at least 20 days (or such lesser number of days the Plan Administrator may specify) prior to such Entry Date

3.5 *Limitations on Deferrals*. A Participant's Salary, AIP, VIP, and/or MIP Deferral Amount shall be limited as follows:

(a) The Salary, AIP, VIP, and/or MIP Deferral Amount elected by the Participant shall be reduced by the amount(s), if any, which may be necessary:

(i) To satisfy all applicable income and employment tax withholding and FICA contributions;

(ii) To pay all contributions elected by the Participant pursuant to the Adaptec employee stock purchase plan, and other fringe benefit programs; and

(iii) To satisfy all garnishments or other amounts required to be withheld by applicable law or court order.

(b) Any withholding or salary deferral elections made under a 401(k) Plan shall be determined based on the Participant's compensation after reduction for the Salary Deferral, AIP, VIP, and/or MIP Deferral Amounts contributed to this Plan.

3.6 *Additional Contributions*. Additional Contributions may be credited to a Participant's Account or Sub Account (as appropriate) in such amounts and at such times as the Employer may, in its sole discretion, determine and communicate to the Participant. The Employer shall be under no obligation to continue to credit Additional Contributions and may discontinue or change the amount or method of calculating the amount of such Additional Contributions at any time.

3.7 *No Withdrawal*. Except as provided in Sections 5.3 and 5.4 below, amounts credited to a Participant's Accounts may not be withdrawn by a Participant and shall be paid only in accordance with the provisions of this Plan.

Source: ADAPTEC INC, 10-Q, November 10, 2004

ARTICLE IV

ACCOUNTS

4.1 *Account and/or Sub Account*. An Account shall be established and maintained for each Participant. The Participant's Account shall be credited with the Participant's Salary Deferral Amount, AIP Deferral Amount, VIP Deferral Amount, MIP Deferral Amount and Additional Contributions, if any, made on behalf of each Participant. The Participant's Account shall be credited (debited) with the applicable Interest, as set forth in Section 4.2. The Participant's Account shall be reduced by distributions therefrom and any charges which may be imposed on the Account pursuant to the terms of the Plan.

A "Sub Account" may be established under the Plan for each Participant who is (i) actively employed by the Employer, (ii) receiving distributions pursuant to a Benefit Distribution Election, and (iii) elects to make salary deferrals and/or deferrals of amounts payable under the AIP, VIP and/or MIP to this Plan or is receiving Additional Contributions. The Participant's Sub Account shall be credited (debited) with all applicable Interest, as set forth in Section 4.2. The Participant's Sub Account shall separately be reduced by any distributions therefrom and any charges that may be imposed on such Sub Account pursuant to the terms of the Plan.

4.2 *Interest Credited to Accounts at Least Monthly*. Each Account or Sub Account (as appropriate) shall be credited (debited) monthly, or more frequently as the Committee may specify, in an amount equal to the Account or Sub Account (as appropriate) balance on the last day of the prior accounting period multiplied by the Interest Rate.

4.3 *Determination of Interest Rate*.

(a) The Deferred Compensation Committee shall designate the particular funds or contracts which shall constitute the Benchmark Funds, and may, in its sole discretion, change or add to the Benchmark Funds; provided, however, that the Deferred Compensation Committee shall notify the Participants of any such change prior to the effective date thereof.

(b) Each Participant may select among the Benchmark Funds and specify the manner in which his or her Accounts shall be deemed to be invested, solely for purposes of determining the Participant's Interest Rate. The Deferred Compensation Committee shall establish and communicate the rules, procedures and deadlines for making and changing Benchmark Fund selections. The Employer shall have no obligation to acquire investments corresponding to the Participant's Benchmark Fund selections.

(c) The Interest Rate is the investment return, net of administrative fees and investment management fees and other applicable fees or charges for a specified accounting period, of the Benchmark Fund(s) designated by Participant and other applicable fees or charges. The Interest Rate may be negative if the applicable Benchmark Fund(s) sustained a loss during the specified accounting period.

ARTICLE V

BENEFITS

5.1 *Distributions*.

(a) *Timing of Distribution*. The amounts credited to a Participant's Account or Sub Account shall be paid (or payment shall commence) within a reasonable time after the *earlier* to occur of:

(i) If the Participant is currently employed by the Employer the Benefit Distribution Date, as defined in Article 5.1(c), on which the Participant elected to receive a distribution of Benefits from his/her Account or Sub Account; or

Source: ADAPTEC INC, 10-Q, November 10, 2004

(ii) If the Participant has retired with the Consent of the Employer, the Benefit Distribution Date, as defined in Article 5.1(c), on which the Participant elected to receive a distribution of Benefit, or, if no such election is then in effect, the date of such Retirement with the Consent of Employer; or

(iii) The date of a Termination Event; or

(iv) The date that the Plan is terminated following a Change of Control Event.

(b) *Retirement with the Consent of the Employer*. A Participant's voluntary termination of employment or ceasing to serve as a non-employee member of the Board shall be treated as "Retirement with the Consent of the Employer" if prior to the date employment is terminated or Board membership ceases the Participant completed at least five years of service for the Employer (or such shorter period of service as determined in the Plan Administrators sole discretion), including service for any subsidiary or former subsidiary either as an Employee or member of the Board.

(c) *Benefit Distribution Date*.

(i) *One-Year Advance Election*. A Participant may elect a Distribution Date by filing a Benefit Distribution Election at such time and in such manner as the Plan Administrator shall specify. Such Benefit Distribution Election shall specify a Distribution Date which shall be at least one year from the date the Benefit Distribution Election is delivered to the Plan Administrator. Except as otherwise provided in this Article V, the Benefit Distribution Election shall apply to all amounts credited to a Participant's Account on the Distribution Date designated therein, or to such lesser dollar amount as may be specified in the Benefit Distribution Election. A separate Benefit Distribution Election must be made with respect to any Sub Account. Except as otherwise provided in this Article V, a Benefit Distribution Election made with respect to a Participant's Account shall *not* apply to the Participant's Sub Account.

(ii) *Revocation or Amendment of Benefit Distribution Election*. A Participant may revoke and/or amend a Benefit Distribution Election by filing a new written Benefit Distribution Election at least twelve months before the Distribution Date specified in the prior Benefit Distribution Election. Any amendment to a Benefit Distribution Election shall satisfy the requirements of Article 5.1(c)(i). A Participant who has incurred a Termination Event may amend a Benefit Distribution Election as provided in this subparagraph but may not revoke a Benefit Distribution Election.

(d) *Termination Event*. Notwithstanding any prior Benefit Distribution Election, if the Participant has a Termination Event, distribution of the Participant's Accounts shall commence as soon as administratively feasible after the Termination Event.

(e) *Change of Control Event*. In the event of a Change of Control, as defined in Section 1.10, the Plan Administrator may decide, in its sole discretion, that the Plan shall be terminated and all Accounts shall be distributed as soon as administratively feasible after the termination date of the Plan

5.2 *Methods of Distribution*.

(a) *Method of Distribution While Actively Employed or Following a Retirement with the Consent of the Company*. If a distribution of the Participant's Benefits commences while he or she is actively employed by the Employer pursuant to the Participant's Benefit Distribution Election or because the Participant's termination of employment satisfies the requirements for Retirement with the Consent of the Company, then such Participant's Accounts shall be paid in one of the

Source: ADAPTEC INC, 10-Q, November 10, 2004

following methods specified in his or her most recent Election filed with the Plan Administrator at least one year before the Distribution Date:

(i) a single lump sum payment;

(ii) two payments, on the dates and in the amounts specified in the Participant's Election;

(iii) in twenty (20) substantially equal quarterly payments; or

(iv) in forty (40) substantially equal quarterly payments.

For purposes of this provision, substantially equal payments shall be determined by dividing the Participant's Account balance by the number of payments remaining.

(b) *Method of Distribution Following a Termination Event*. Generally, if a distribution of Benefits is made on account of a Termination Event, the Participant's Accounts shall be distributed in a lump sum payment. Notwithstanding the foregoing, if the Participant voluntarily terminates employment and if the Participant has specified the method of distribution in his or her Benefit Distribution Election, then the Participant's Accounts may be paid out in a lump sum or in one of the forms of distribution specified in subparagraph (a), above, in accordance with the Participant's Benefit Distribution Election; the form of distribution shall be determined by the Plan Administrator in its sole discretion.

(c) *Method of Distribution Following Plan Termination*. Generally, all Accounts shall be paid in a lump sum payment following termination of the Plan. Notwithstanding the foregoing, if a lump sum payment will result in an "excess parachute payment", as that term is defined in the Code, the Plan Administrator, in its sole discretion, may determine that payment shall be made by some other method.

5.3 *Financial Hardship Withdrawal*. With the consent of the Plan Administrator, a Participant may withdraw up to one hundred percent (100%) of the amount credited to his or her Accounts as may be required to meet a sudden unforeseeable financial emergency of the Participant. Such hardship distribution shall be subject to the following provisions.

(a) The hardship withdrawal must be necessary to satisfy the unforeseeable emergency and no more may be withdrawn from the Participant's Accounts than is required to relieve the financial need after taking into account other resources that are reasonably available to the Participant for this purpose.

(b) The Participant must certify that the financial need cannot be relieved: (i) through reimbursement or compensation by insurance or otherwise; (ii) by reasonable liquidation of the Participant's assets, to the extent such liquidation would not itself cause an immediate and heavy financial need; (iii) by discontinuing the Participant's salary deferrals and deferrals of amounts payable under the AIP, VIP and MIP; or (iv) by borrowing from commercial sources on reasonable commercial terms.

(c) An unforeseeable financial emergency is a severe financial hardship to Participant resulting from a sudden and unexpected illness or accident of Participant or of a dependent of Participant (as defined in section 152(a) of the Code), loss of Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of Participant. Neither the need to pay tuition expenses on behalf of the Participant or the Participant's spouse or children nor the desire to purchase a home shall be considered an unforeseeable emergency.

Source: ADAPTEC INC, 10-Q, November 10, 2004

(d) The Plan Administrator, in its sole discretion, shall determine if there is an unforeseeable financial emergency, if the Participant has other resources to satisfy such emergency and the amount of the hardship withdrawal that is required to alleviate the Participant's financial hardship.

(e) A Participant shall be prohibited from making any further salary deferrals or deferrals of amounts payable under the AIP, VIP or MIP and the Employer shall not make any Additional Contributions pursuant to the Plan for the remainder of the Plan Year in which a financial hardship withdrawal occurs.

5.4 *Early Withdrawal*.

(a) Notwithstanding any other provision of the Plan, a Participant may withdraw up to 90% of the total amount credited to his or her Accounts, and the amount so withdrawn shall be paid to the Participant in a single lump sum payment. Upon such withdrawal, ten percent (10%) of the total Accounts, determined prior to the Early Withdrawal, shall be forfeited and the Participant shall have no further right thereto. Any Participant who makes an early withdrawal shall be prohibited from making any further salary deferrals or deferrals of amounts payable under the AIP, VIP or MIP pursuant to the Plan and no Additional Contributions shall be credited to the Participant's Accounts for the remainder of the Plan Year in which an early withdrawal occurs.

5.5 *Limitation on Distributions to Covered Employees*. Notwithstanding any other provision of this Article V, in the event that the Participant is a "covered employee" as defined in section 162(m)(3) of the Code, or would be a covered employee if the Benefits were distributed in accordance with his or her Benefit Distribution Election or hardship or early withdrawal request, the maximum amount which may be distributed from the Participant's Accounts, in any Plan Year, shall not exceed one million dollars ($1,000,000) less the amount of compensation paid to the Participant in such Plan Year which is not "performance-based" (as defined in Code section 162(m)(4)(C)), which amount shall be reasonably determined by the Plan Administrator at the time of the proposed distribution. Any amount which is not distributed to the Participant in a Plan Year as a result of this limitation shall be distributed to the Participant in the next Plan Year, subject to compliance with the foregoing limitation set forth in this Section 5.5.

5.6 *Tax Withholding*. All payments under this Article V shall be subject to all applicable withholding for state and federal income tax and to any other federal, state or local tax which may be applicable to such payments.

ARTICLE VI

BENEFICIARIES

6.1 *Designation of Beneficiary*. The Participant shall have the right to designate on such form as may be prescribed by the Plan Administrator, one or more Beneficiaries to receive any Benefits due under Article V which may remain unpaid on the date of the Participant's death. The Participant shall have the right at any time to revoke such designation and to substitute one or more other Beneficiaries.

6.2 *No Designated Beneficiary*. If, upon the death of the Participant, there is no valid Beneficiary designation, the Beneficiary shall be the Participant's surviving spouse. In the event there is no surviving spouse, then the Participant's Beneficiary shall be the Participant's estate.

ARTICLE VII

TRUST OBLIGATION TO PAY BENEFITS

7.1 *Deferrals Held in Trust*. An amount equal to the Salary Deferral Amount, AIP Deferral Amount, VIP Deferral Amount, MIP Deferral Amount and Additional Contributions, if any, made by

Source: ADAPTEC INC, 10-Q, November 10, 2004

or on behalf of the Participant shall be transferred to the Trustee within 30 days after the applicable pay period to be held pursuant to the terms of the Trust Agreement.

7.2 *Benefits Paid From Trust*. All benefits payable to a Participant hereunder shall be paid by the Trustee to the extent of the assets held in the Trust by the Trustee, and by the Employer to the extent the assets in the Trust are insufficient to pay a Participant's Benefits as provided under this Plan.

7.3 *Trustee Investment Discretion*. The Benchmark Funds established pursuant to Section 4.3 shall be for the sole purpose of determining the Interest and neither the Trustee nor the Employer shall have any obligation to invest the Participant's Accounts in the deemed investment options or in any other investment.

7.4 *No Secured Interest*. Except as otherwise provided by the Trust Agreement, the assets of the Trust, shall be subject to the claims of creditors of the Employer. Except as provided in the Trust Agreement, the Participant (or the Participant's Beneficiary) shall be a general unsecured creditor of the Employer with respect to the payment of Benefits under this Plan.

ARTICLE VIII

PLAN ADMINISTRATION, AMENDMENT AND TERMINATION

8.1 *Plan Administration*. As Plan Administrator, the Deferred Compensation Committee shall have complete control of the administration of the Plan herein set forth with all powers necessary to enable it properly to carry out its duties in that respect. Not in limitation, but in amplification of the foregoing, the Deferred Compensation Committee shall have the power and authority to:

(a) Construe the Plan and to determine all questions that shall arise as to interpretations of the Plan's provisions, including determination of Eligible Employees, amounts of credits, allocation of assets, method of payment, and participation and benefits under the terms of the Plan;

(b) Establish reasonable rules and procedures which shall be applied in a uniform and nondiscriminatory manner with respect to Elections and Benefit Distribution Elections;

(c) Establish the rules and procedures by which the Plan will operate;

(d) Construe and interpret the Plan and Trust Agreement and adopt rules for Plan administration that are consistent with the terms of the Plan documents;

(e) Compile and maintain all records it determines to be necessary, appropriate or convenient in connection with the administration of the Plan;

(f) Adopt amendments to the Plan document and/or the Trust Agreement which are deemed necessary or desirable to facilitate administration of the Plan and/or to bring these documents into compliance with all applicable laws and regulations, provided that the Deferred Compensation Committee shall not have the authority to adopt any Plan amendment that will result in increased Employer contributions or substantially increased administrative costs unless such amendment is contingent upon ratification by the Board before becoming effective;

(g) Employ such persons or organizations to render service or perform services with respect to the administrative responsibilities of the Deferred Compensation Committee under the Plan as the Deferred Compensation Committee determines to be necessary and appropriate, including but not limited to actuaries, attorneys, accountants, and benefit, financial and administrative consultants.

Source: ADAPTEC INC, 10-Q, November 10, 2004

8.2 *Investment Powers and Responsibilities*. In the exercise of its power and responsibilities, the Deferred Compensation Committee shall have the power, authority and responsibility to:

(a) Establish an investment policy and select, review and retain or change the investment funds in which Accounts shall be invested under the Plan;

(b) Review the performance of the Trustee with respect to the Trustee's duties, responsibilities and obligations under the Plan and Trust Agreement;

(c) Select, review and retain or change the Benchmark Funds which are used for determining the Interest Rate under the Plan;

(d) Select, review and retain or change the Benchmark Funds used to determine the Interest Rate;

(e) Direct the investment of the assets of the Trust;

(f) Take such other action as may be necessary or appropriate to the management and investment of the Plan assets;

(g) In its sole discretion, delegate the power, authority and responsibility set forth in this Section 8.2 (except for the power set forth in this Section 8.2(g)) to the Investment Committee appointed pursuant to the Adaptec, Inc. Savings and Retirement Plan.

8.3 *Decisions of the Deferred Compensation Committee*. Decisions of the Deferred Compensation Committee made in good faith upon any matter within the scope of its authority shall be final, conclusive and binding upon all persons, including Participants and their legal representatives or Beneficiaries.

8.4 *Exclusive Benefit*. The Deferred Compensation Committee shall perform its duties under the Plan solely in the interest of the Participants and their Beneficiaries. Any discretion granted to the Deferred Compensation Committee shall be exercised in accordance with rules and policies established by the Deferred Compensation Committee.

8.5 *Plan Amendment*. This Plan may be amended by Adaptec at any time in its sole discretion upon an action of at least two-thirds (2/3) of the members of the Deferred Compensation Committee; provided, however, that no amendment may be made which would alter the nature of a deferral Election or Benefit Distribution Election or which would reduce the amount credited to a Participant's Accounts on the date of such amendment; and provided further that no amendment which would affect the Trustee's obligation may be made without the Trustee's consent.

8.6 *Plan Termination*. Adaptec, by action of its Board and with the approval of two-thirds (2/3) of the members of the Deferred Compensation Committee reserves the right to terminate the Plan in its entirety at any time upon fifteen (15) days notice to the Participants. The termination of the Plan shall automatically revoke all outstanding Benefit Distribution Elections and all elections to have Benefits paid in installments. If the Plan is terminated, all benefits shall be paid as set forth in Sections 5.1 and/or 5.2. Any amounts remaining in the Trust after all benefits have been paid shall revert to the Employer. Notwithstanding the foregoing, in the event of a Change of Control the Plan may be terminated in the sole discretion of a majority of the Deferred Compensation Committee.

8.7 *Additional Power and Responsibility Following a Change of Control*. In the event of a Change of Control, the Plan may be amended and/or terminated only by a majority vote of the Deferred Compensation Committee. Additionally, the successor to Adaptec shall have no right to dismiss any member of the Deferred Compensation Committee or add members to the Deferred Compensation Committee without the express consent of a majority of the Deferred Compensation Committee members. Such limitations on the rights of any successor corporation or business entity shall take effect on the date of the Change of Control and shall remain in effect for a period of 12 months following

Source: ADAPTEC INC, 10-Q, November 10, 2004

the Change of Control unless a majority of the members of the Deferred Compensation Committee agrees to withdraw these limitations earlier.

ARTICLE IX

MISCELLANEOUS

9.1 *No Assignment*. The right of any Participant, any Beneficiary, or any other person to the payment of any benefits under this Plan shall not be assigned, transferred, pledged or encumbered.

9.2 *Successors*. This Plan shall be binding upon and inure to the benefit of the Employer, its successors and assigns and the Participant and his or her heirs, executors, administrators and legal representatives.

9.3 *No Employment Agreement*. Nothing contained herein shall be construed as conferring upon any Participant the right to continue in the employ of the Employer as an employee.

9.4 *Attorneys' Fees*. If the Employer, the Participant, any Beneficiary, the Trustee and/or a successor in interest to any of the foregoing, brings legal action to enforce any of the provisions of this Plan, the prevailing party in such legal action shall be reimbursed by the other party, the prevailing party's costs of such legal action including, without limitation, reasonable fees of attorneys, accountants and similar advisors and expert witnesses.

9.5 *Arbitration*. Any dispute or claim relating to or arising out of this Plan shall be fully and finally resolved by binding arbitration conducted by the American Arbitration Association in Alameda County, California.

9.6 *Governing Law*. This Plan shall be construed in accordance with and governed by the laws of the State of California.

9.7 *Entire Agreement*. This Plan constitutes the entire understanding and agreement with respect to the subject matter contained herein, and there are no agreements, understandings, restrictions, representations or warranties among any Participant and the Employer other than those as set forth or provided for herein.

IN WITNESS WHEREOF, the undersigned certifies that the foregoing is the Adaptec Deferred Compensation Plan as amended and restated effective July 21, 2004.

ADAPTEC, INC.

Dated: July 21, 2004

By: /s/ KERSTIN AIELLO

Title: Benefits Manager

Source: ADAPTEC INC, 10-Q, November 10, 2004

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ADAPTEC DEFERRED COMPENSATION PLAN (As Amended and Restated Effective July 21, 2004)
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Exhibit 31.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Robert N. Stephens, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Adaptec, Inc.;

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-14(e)) for the registrant and we 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) 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

c) 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 registrant's board of directors (or persons performing the equivalent function):

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.

/s/ ROBERT N. STEPHENS

Robert N. Stephens
Chief Executive Officer

Date: November 10, 2004

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CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

Exhibit 31.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Marshall L. Mohr, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Adaptec, Inc.;

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-14(e)) for the registrant and we 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) 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

c) 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 registrant's board of directors (or persons performing the equivalent function):

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.

/s/ MARSHALL L. MOHR

Marshall L. Mohr
Chief Financial Officer

Date: November 10, 2004

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CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert N. Stephens, certify to the best of my knowledge based upon a review of the Quarterly Report on Form 10-Q of Adaptec, Inc. for the quarter ended June 30, 2004 (the "*Form 10-Q*"), that the Form 10-Q 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 the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Adaptec, Inc. for the quarterly periods covered by the Form 10-Q.

By: /s/ ROBERT N. STEPHENS

Robert N. Stephens
Chief Executive Officer

Date: November 10, 2004

I, Marshall L. Mohr, certify to the best of my knowledge based upon a review of the Form 10-Q, that the Form 10-Q 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 the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Adaptec, Inc. for the periods covered by the Form 10-Q.

By: /s/ MARSHALL L. MOHR

Marshall L. Mohr
Chief Financial Officer

Date: November 10, 2004

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CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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