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, 2007 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	**94-2748530**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
691 S. MILPITAS BLVD., MILPITAS, CALIFORNIA	**95035**
(Address of principal executive offices)	(Zip Code)

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

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ☐ Accelerated Filer ☒ Non-Accelerated Filer ☐

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

The number of shares of Adaptec's common stock outstanding as of November 2, 2007 was 121,072,883.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ADAPTEC, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three-Month Period Ended September 30,		Six-Month Period Ended September 30,	
	2007	**2006**	**2007**	**2006**
	(in thousands, except per share amounts)			
Net revenues	$ 43,974	$ 73,553	$ 86,361	$ 142,624
Cost of revenues	28,596	47,010	56,986	93,811
Gross profit	15,378	26,543	29,375	48,813
Operating expenses:				
Research and development	10,858	13,560	22,648	30,854
Selling, marketing and administrative	14,297	15,693	29,286	31,087
Amortization of acquisition-related intangible assets	720	1,470	1,453	3,056
Restructuring charges	3,428	1,085	4,954	4,096
Other charges (gains)	115	--	(5,799)	13,942
Total operating expenses	29,418	31,808	52,542	83,035
Loss from continuing operations	(14,040)	(5,265)	(23,167)	(34,222)
Interest and other income, net	7,797	5,825	14,518	11,728
Interest expense	(955)	(883)	(1,969)	(1,759)
Loss from continuing operations before income taxes	(7,198)	(323)	(10,618)	(24,253)
Provision for (benefit from) income taxes	290	(49,080)	505	(48,186)
Income (loss) from continuing operations, net of taxes	(7,488)	48,757	(11,123)	23,933
Discontinued operations, net of taxes				
Income (loss) from discontinued operations, net of taxes	--	(132)	--	132
Income (loss) from disposal of discontinued operations, net of taxes	(144)	2,440	(144)	3,730
Income (loss) from discontinued operations, net of taxes	(144)	2,308	(144)	3,862
Net income (loss)	$ (7,632)	$ 51,065	$ (11,267)	$ 27,795
Income (loss) per share:				
Basic				
Continuing operations	$ (0.06)	$ 0.42	$ (0.09)	$ 0.21
Discontinued operations	(0.00)	0.02	(0.00)	0.03
Net income (loss)	$ (0.06)	$ 0.44	$ (0.10)	$ 0.24
Diluted				
Continuing operations	$ (0.06)	$ 0.36	$ (0.09)	$ 0.19
Discontinued operations	(0.00)	0.02	(0.00)	0.03
Net income (loss)	$ (0.06)	$ 0.38	$ (0.10)	$ 0.22
Shares used in computing income (loss) per share:				
Basic	118,405	116,325	118,151	115,967
Diluted	118,405	136,735	118,151	135,991

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

ADAPTEC, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

	September 30, 2007	March 31, 2007
	(in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 178,777	$ 95,922
Marketable securities	418,821	476,501
Restricted marketable securities	1,665	1,660
Accounts receivable, net	26,672	34,127
Inventories	19,751	28,717
Prepaid expenses and other current assets	26,648	31,832
Assets held for sale	--	12,509
Total current assets	672,334	681,268
Property and equipment, net	14,297	15,852
Restricted marketable securities, less current portion	807	1,584
Other intangible assets, net	3,867	7,011
Other long-term assets	8,667	9,687
Total assets	$ 699,972	$ 715,402
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 19,585	$ 28,101
Accrued and other liabilites	32,697	37,134
Total current liabilities	52,282	65,235
3/4% Convertible Senior Subordinated Notes ("3/4% Notes")	225,161	225,000
Other long-term liabilities	6,255	3,009
Total liabilities	283,698	293,244
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Common stock	121	119
Additional paid-in capital	194,982	190,236
Accumulated other comprehensive income, net of taxes	5,130	3,178
Retained earnings	216,041	228,625
Total stockholders' equity	416,274	422,158
Total liabilities and stockholders' equity	$ 699,972	$ 715,402

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

ADAPTEC, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Six-Month Period Ended September 30,	
	2007	2006
	(in thousands)	
Cash Flows From Operating Activities:		
Net income (loss)	$ (11,267)	$ 27,795
Less: income (loss) from discontinued operations, net of taxes	(144)	3,862
Income (loss) from continuing operations, net of taxes	(11,123)	23,933
Adjustments to reconcile income (loss) from continuing operations, net of taxes, to net cash provided by (used in) operating activities:		
Stock-based compensation	2,612	4,566
Inventory-related charges	4,857	2,776
Depreciation and amortization	4,897	9,299
Impairment of long-lived assets	--	13,203
Gain on sale of long-lived assets	(6,735)	--
Non-cash effect of tax settlement	--	(45,955)
Other non-cash items	267	681
Changes in assets and liabilities	1,832	(18,173)
Net Cash Used in Operating Activities of Continuing Operations	(3,393)	(9,670)
Net Cash Provided by Operating Activities of Discontinued Operations	2,246	2,564
Net Cash Used in Operating Activities	(1,147)	(7,106)
Cash Flows From Investing Activities:		
Purchases of property and equipment	(473)	(1,845)
Proceeds from sale of long-lived assets	19,881	--
Purchases of marketable securities	(22,663)	(165,839)
Sales of marketable securities	54,780	111,337
Maturities of marketable securities	27,820	14,029
Maturities of restricted marketable securities	844	844
Payment of holdback in connection with acquisition of Platys	--	(1,507)
Net Cash Provided by (Used in) Investing Activities	80,189	(42,981)
Cash Flows From Financing Activities:		
Proceeds from issuance of common stock	2,571	4,272
Net Cash Provided by Financing Activities	2,571	4,272
Effect of Foreign Currency Translation on Cash and Cash Equivalents	1,242	1,030
Net Increase (Decrease) in Cash and Cash Equivalents	82,855	(44,785)
Cash and Cash Equivalents at Beginning of Period	95,922	131,373
Cash and Cash Equivalents at End of Period	$ 178,777	$ 86,588

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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, 2007 audited consolidated financial statements and include all adjustments, consisting of only normal recurring adjustments, necessary to fairly state 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 accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended on March 31, 2007, which was filed with the SEC on June 6, 2007. The second quarters of fiscal 2008 and 2007 ended on September 28, 2007 and September 29, 2006, respectively. For presentation purposes, the accompanying financial statements have been shown as ending on September 30. The results of operations for the second quarter and first half of fiscal 2008 are not necessarily indicative of the results to be expected for the entire fiscal year.

Unless otherwise indicated, the Notes to the Unaudited Condensed Consolidated Financial Statements relate to the discussion of the Company's continuing operations.

The glossary of key acronyms used in the Company's industry and accounting rules and regulations referred to within this Quarterly Report on Form 10-Q is listed in alphabetical order in Note 17.

2. Recent Accounting Pronouncements

In February 2006, the FASB issued SFAS No. 155, which permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS No. 155 also clarifies and amends certain other provisions of SFAS No. 133 and SFAS No. 140. SFAS No. 155 is effective for all hybrid financial instruments held, obtained or issued by the Company for fiscal years beginning with its fiscal 2008. The adoption of SFAS No. 155 did not have a material impact on the Company's results of operations and financial position.

In September 2006, the FASB issued SFAS No. 157, which defines fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 is effective beginning with the Company's fiscal 2009, and interim periods within that fiscal year. The Company is currently evaluating the impact that SFAS No. 157 will have on its results of operations and financial position.

In February 2007, FASB issued SFAS No. 159, which permits companies to choose to measure certain financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. SFAS No. 159 is effective beginning with the Company's fiscal 2009. The Company is currently evaluating the impact that SFAS No. 159 will have on its results of operations and financial position.

In June 2007, the FASB ratified EITF No. 07-3, which requires nonrefundable advance research and development payments for goods and services to be deferred and capitalized and subsequently expensed when the research and development activities are performed, subject to an assessment of recoverability. EITF No. 07-03 is effective for new contractual arrangements entered into beginning with the Company's fiscal 2009, and interim periods within that fiscal year. The Company does not believe EITF No. 07-03 will have a material effect on its results of operations and financial position.

3. Stock Benefit Plans and Stock-Based Compensation

Stock Benefit Plans

The Company grants stock options and other stock-based awards to employees, directors and consultants under two equity incentive plans, the 2004 Equity Incentive Plan and the 2006 Director Plan. In addition, the Company has outstanding options issued under equity incentive plans that have terminated and equity plans that it assumed in connection with acquisitions. The Company also enabled eligible employees to participate in its 1986 Employee Stock Purchase Plan, which expired in April 2006. For a complete discussion of these plans, please refer to the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended March 31, 2007.

The Company issued 0.4 million shares under the ESPP in the second quarter and first half of fiscal 2008. As of September 30, 2007, 2.6 million shares remained available to cover shares to be issued pursuant to one offering period that remains in effect even though the 1986 ESPP has expired. This offering period will terminate on February 14, 2008. As of September 30, 2007, the total unamortized stock-based compensation expense related to shares issuable under the ESPP was $0.1 million, and this expense is expected to be recognized over a remaining weighted-average period of 0.38 years.

As of September 30, 2007, the Company had an aggregate of 28.0 million shares of its common stock reserved for issuance under its 2004 Equity Incentive Plan, of which 11.1 million shares were subject to outstanding options and 16.9 million shares were available for future grants of options and other stock awards. As of September 30, 2007, the Company had an aggregate of 2.1 million shares of its common stock reserved for issuance under its 2006 Director Plan, of which 0.5 million shares were subject to outstanding options and 1.6 million shares were available for future grants of options and other stock awards. As of September 30, 2007, the Company had 0.1 million shares of common stock reserved that were subject to outstanding options under plans assumed by previous acquisitions.

Stock-Based Compensation

The Company measured and recognized compensation expense for all stock-based awards made to its employees and directors, including employee stock options, employee stock purchase plans, and other stock-based awards, based on estimated fair values using a straight-line amortization method over the respective requisite service period of the awards and adjusted it for estimated forfeitures. Stock-based compensation expense included in the Condensed Consolidated Statements of Operations for the second quarters and first halves of fiscal 2008 and 2007 was as follows:

	Three-Month Period Ended September 30,		Six-Month Period Ended September 30,	
	2007	2006	2007	2006
	(in thousands)			
Stock-based compensation expense by caption:				
Cost of revenues	$ 76	$ 141	$ 172	$ 329
Research and development	292	865	928	2,090
Selling, marketing and administrative	688	1,017	1,512	2,147
Stock-based compensation expense effect on income from continuing operations, net of taxes	$ 1,056	$ 2,023	$ 2,612	$ 4,566
Stock-based compensation expense by type of award:				
Stock options	$ 619	$ 1,642	$ 1,349	$ 3,546
Restricted stock awards and restricted stock units	1,022	263	1,664	306
Employee stock purchase plan (1)	(585)	118	(401)	714
Stock-based compensation expense effect on income from continuing operations, net of taxes	$ 1,056	$ 2,023	$ 2,612	$ 4,566

(1) The Company recorded a reduction to expense for the employee stock purchase plan in the second quarter and first half of fiscal 2008 based on (a) the actual purchase that occurred on August 14, 2007 and (b) no new offering period exists as the 1986 ESPP expired in April 2006, with exception to one offering period that remains in effect, which will close on February 14, 2008.

Stock-based compensation expense in the above table does not reflect any significant income taxes, which is consistent with the Company's treatment of income or loss from its U.S. operations. For the first halves of fiscal 2008 and 2007, there was no income tax benefit realized for the tax deductions from option exercises of the share-based payment arrangements. In addition, there was no stock-based compensation costs capitalized as part of an asset in the second quarter and first half of fiscal 2008 and during fiscal 2007.

Valuation Assumptions

The Company used the Black-Scholes option pricing model for determining the estimated fair value for stock options and stock-based awards. The fair value of stock options and other stock-based awards granted in the second quarters and first halves of fiscal 2008 and 2007 was estimated using the following weighted-average assumptions:

	Three-Month Period Ended September 30, 2007	Three-Month Period Ended September 30, 2006	Six-Month Period Ended September 30, 2007	Six-Month Period Ended September 30, 2006
Equity Incentive Plans:				
Expected life (in years)	4.27	3.87 - 4.22	4.27	3.87 - 4.22
Risk-free interest rates	4.38 - 4.99%	4.60 - 4.89%	4.38 - 4.99%	4.60 - 5.11%
Expected volatility	39%	44%	39 - 40%	44%
Dividend yield	--	--	--	--
Weighted average fair value	$ 3.37	$ 2.38	$ 3.27	$ 2.65
ESPP:				
Expected life (in years)	n/a	1.00 - 1.25	n/a	1.00 - 1.25
Risk-free interest rates	n/a	5.07 - 5.11%	n/a	5.07 - 5.11%
Expected volatility	n/a	44%	n/a	44%
Dividend yield	n/a	--	n/a	--
Weighted average fair value	n/a	$ 1.11	n/a	$ 1.11

Stock Benefit Plans Activities

Equity Incentive Plans: A summary of option activity under all of the Company's equity incentive plans as of September 30, 2007 and changes during the first half of fiscal 2008 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
	(in thousands, except exercise price and contractual terms)			
Outstanding at March 31, 2007	12,992	$ 7.11		
Granted	225	3.82		
Exercised	(435)	3.25		
Forfeited and cancelled	(1,283)	8.98		
Outstanding at September 30, 2007	11,499	$ 6.98	3.60	$ 1,162
Options vested and expected to vest at September 30, 2007	10,919	$ 7.10	3.49	$ 1,151
Options exercisable at September 30, 2007	8,867	$ 7.60	3.00	$ 1,119

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the price of the Company's common stock on The NASDAQ Global Market for the 3.0 million shares subject to options that were in-the-money at September 30, 2007. During the second quarters of fiscal 2008 and 2007, the aggregate intrinsic value of options exercised under the Company's equity incentive plans was $0.2 million and $0.3 million, respectively, determined as of the date of option exercise. During the first halves of fiscal 2008 and 2007, the aggregate intrinsic value of options exercised under the Company's equity incentive plans was $0.2 million and $0.7 million, respectively, determined as of the date of option exercise. As of September 30, 2007, the total unamortized stock-based compensation expense related to non-vested stock options, net of estimated forfeitures, was $3.7 million, and this expense is expected to be recognized over a remaining weighted-average period of 2.42 years.

Restricted Stock Awards and Restricted Stock Units: Restricted stock awards and restricted stock units were granted under the Company's 2004 Equity Incentive Plan and 2006 Director Plan. The restricted stock awards and restricted stock units are converted into shares of the Company's common stock upon vesting. As of September 30, 2007, there were 2.2 million shares of service-based restricted stock awards and 0.3 million restricted stock units outstanding, all of which are subject to forfeiture if employment terminates prior to the release of restrictions. Under the 2004 Equity Incentive Plan, restrictions lapse either (1) 50% one year from the date of grant and the remainder at the second anniversary or (2) 100% one year from the date of grant. Under the 2006 Director Plan, restrictions lapse one year from the date of grant. The cost of these awards, determined to be the fair market value of the shares at the date of grant, is expensed ratably over the period the restrictions lapse.

A summary of activity for restricted stock awards and restricted stock units as of September 30, 2007 and changes during the first half of fiscal 2008 was as follows:

	Shares	Weighted Average Grant-Date Fair Value
	(in thousands, except weighted average grant-date fair value)	
Nonvested stock at March 31, 2007	1,179	$ 4.37
Granted	1,799	3.50
Vested	(325)	4.29
Forfeited	(205)	4.13
Nonvested stock at September 30, 2007	2,448	$ 3.76

As of September 30, 2007, the total unrecognized compensation expense related to non-vested restricted stock awards and restricted stock units that are expected to vest, net of estimated forfeitures, was $6.2 million. This expense is expected to be recognized over a remaining weighted-average period of 1.16 years.

4. Business Dispositions

IBM i/p Series RAID: On September 30, 2005, the Company entered into a series of arrangements with IBM pursuant to which the Company sold its IBM i/p Series RAID business to IBM. Under the terms of the agreements, the Company granted IBM a nonexclusive license to certain intellectual property and sold to IBM substantially all of the assets dedicated to the engineering and manufacturing of RAID controllers and connectivity products for the IBM i/p Series RAID business. Under the terms of the nonexclusive license, IBM paid royalties to the Company for the sale of its board-level products on a quarterly basis through March 31, 2007, which were recognized as contingent consideration in discontinued operations when earned. In the second quarter and first half of fiscal 2007, the Company recorded royalties, net of taxes, of $2.4 million and $3.7 million, respectively, which the Company recorded in "Income from disposal of discontinued operations, net of taxes," in the Condensed Consolidated Statements of Operations.

OEM Block-based Portion of Its Systems Business: On January 31, 2006, the Company signed a definitive agreement with Sanmina-SCI Corporation and its wholly owned subsidiary, Sanmina-SCI USA, Inc., for the sale of the Company's OEM block-based portion of its systems business for $14.5 million, of which $2.5 million will be received by March 2008. In addition, Sanmina-SCI USA agreed to pay the Company contingent consideration of up to an additional $12.0 million if certain revenue levels are achieved over a three-year period. As of September 30, 2007, the Company believes that it is unlikely that revenue levels to earn this contingent consideration will be achieved.

Net revenues and the components of income (loss) related to the OEM block-based portion of the Company's systems business included in discontinued operations, were as follows:

	Three-Month Period Ended September 30, 2006	Six-Month Period Ended September 30, 2006
	(in thousands)	
Net revenues (1)	$ 418	$ 2,036
Income (loss) from discontinued operations before income taxes	(181)	149
Provision for (benefit from) income taxes	(49)	17
Income (loss) from discontinued operations, net of taxes	$ (132)	$ 132

(1) The Company received revenue from one customer that remained with the Company after the divestiture of the OEM block-based systems business.

5. Balance Sheets Details

Inventories:

	September 30, 2007	March 31, 2007
	(in thousands)	
Raw materials	$ 169	$ 390
Work-in-process	1,389	3,536
Finished goods	18,193	24,791
Total	$ 19,751	$ 28,717

Accrued and Other Liabilities:

	September 30, 2007	March 31, 2007
	(in thousands)	
Tax related	$ 810	$ 6,266
Net deferred tax liability	3,755	3,324
Acquisition related	2,377	2,123
Accrued compensation and related taxes	10,141	7,672
Deferred margin	4,541	5,265
Other	11,073	12,484
Total	$ 32,697	$ 37,134

6. Other Intangible Assets, Net

The components of other intangible assets, net at September 30, 2007 and March 31, 2007 were as follows:

	September 30, 2007			March 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(in thousands)				
Acquisition-related intangible assets:						
Patents, core and existing technologies	$ 43,545	$ (39,911)	$ 3,634	$ 43,545	$ (38,539)	$ 5,006
Customer relationships	1,047	(1,047)	--	1,047	(1,034)	13
Trade name	10,774	(10,541)	233	10,774	(10,474)	300
Subtotal	55,366	(51,499)	3,867	55,366	(50,047)	5,319
Intellectual property assets and warrants	40,242	(40,242)	--	40,242	(38,550)	1,692
Total	$ 95,608	$ (91,741)	$ 3,867	$ 95,608	$ (88,597)	$ 7,011

Amortization of other intangible assets was $1.0 million and $3.0 million in the second quarters of fiscal 2008 and 2007, respectively. Amortization of other intangible assets was $3.2 million and $6.2 million in the first halves of fiscal 2008 and 2007, respectively.

The Company regularly performs reviews to determine if facts or circumstances are present, either internal or external, which would indicate that the carrying values of its long-lived assets are impaired. If an asset is determined to be impaired, the loss is measured based on the difference between the asset's fair value and its carrying value. The estimate of fair value of the assets is based on discounting estimated future cash flows using a discount rate commensurate with the risks inherent in the Company's current business model. The estimation of the impairment involves numerous assumptions that require judgment by the Company, including, but not limited to, future use of the assets for the Company's operations versus sale or disposal of the assets and future selling prices for the Company's products.

At the end of the first quarter of fiscal 2007, with the decision to retain and operate the Snap Server portion of the systems business, the Company performed an impairment analysis of this business that indicated that the carrying amount of the long-lived assets exceeded their estimated fair value. This was due in part to the limited cash flows of the business and a number of uncertainties, which included the significant research and development expenditures necessary to grow the revenue of the Snap Server portion of the systems business and the significant uncertainties associated with achieving such growth in revenue. This resulted in an impairment charge of $13.2 million, which was recorded in "Other charges (gains)" in the Condensed Consolidated Statements of

Operations in the first half of fiscal 2007, of which $5.6 million, $3.1 million and $4.5 million related to the Company's acquisition-related intangible assets for existing technology, core technology, and trade name, respectively.

The annual amortization expense of the other intangible assets that existed as of September 30, 2007 is expected to be as follows:

		Estimated Amortization Expense
		(in thousands)
Fiscal Years:		
2008 (remaining six months)	$	1,440
2009		2,394
2010 and thereafter		33
Total	$	3,867

7. Interest and Other Income, Net

The components of interest and other income, net for the second quarters and first halves of fiscal 2008 and 2007 were as follows:

	Three-Month Period Ended September 30,				Six-Month Period Ended September 30,			
		2007		2006		2007		2006
	(in thousands)							
Interest income	$	7,042	$	5,813	$	13,717	$	11,506
Realized currency transaction gains (losses)		668		(45)		678		134
Other		87		57		123		88
Total	$	7,797	$	5,825	$	14,518	$	11,728

8. Restructuring Charges

In the first quarter of fiscal 2008, management approved and initiated a plan to restructure the Company's operations to reduce its operating expenses due to a declining revenue base by eliminating duplicative resources in all functions of the organization worldwide, resulting in a restructuring charge of $1.5 million. In addition, in the second quarter of fiscal 2008, the Company initiated additional actions in an effort to better align its cost structure with its anticipated OEM revenue stream and to improve its results of operations and cash flows. The total cost the Company expects to incur for this restructuring plan is approximately $5.0 million, of which the Company recorded approximately $3.5 million in the second quarter of fiscal 2008. Of the $3.5 million recorded in the second quarter of fiscal 2008, $3.4 million related to severance and benefits for employee reductions primarily related to its OEM engineering resources and related support and service organizations worldwide and $0.1 million related to vacating redundant facilities, and contract termination costs. The Company also recorded minimal accrual adjustments in the second quarter and first half of fiscal 2008 primarily related to severance and benefits as actual costs were lower than anticipated. These accrual adjustments related to the restructuring plans that the Company implemented in the first and second quarters of fiscal 2007 and the first quarter of fiscal 2008. All expenses, including adjustments, associated with the Company's restructuring plans are included in "Restructuring charges" in the Condensed Consolidated Statements of Operations and are not allocated to segments but rather managed at the corporate level. For a complete discussion of all restructuring actions that were implemented prior to fiscal 2008, please refer to the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended March 31, 2007.

The activity in the accrued restructuring reserves, excluding acquisition-related restructuring, was as follows for the first half of fiscal 2008:

	Severance and Benefits	Other Charges	Total
		(in thousands)	
Accrual balance at March 31, 2007	$ 260	$ 510	$ 770
Q1'08 Restructuring Plan	1,526	--	1,526
Q2'08 Restructuring Plan	3,395	149	3,544
Accrual adjustments	(116)	--	(116)
Non-cash charges	--	(35)	(35)
Cash paid	(4,042)	(328)	(4,370)
Accrual balance at September 30, 2007	$ 1,023	$ 296	$ 1,319

The activity in the accrued restructuring reserves, excluding acquisition-related restructuring, was as follows for the first half of fiscal 2007:

	Severance and Benefits	Other Charges	Total
		(in thousands)	
Accrual balance at March 31, 2006	$ 1,185	$ 1,586	$ 2,771
Q1'07 Restructuring Plan	2,927	101	3,028
Q2'07 Restructuring Plan	881	--	881
Provision adjustments	(101)	288	187
Non-cash charges	--	(225)	(225)
Cash paid	(4,334)	(540)	(4,874)
Accrual balance at September 30, 2006	$ 558	$ 1,210	$ 1,768

The Company anticipates that the remaining restructuring severance and benefits accrual balance of $1.0 million at September 30, 2007 will be substantially paid out by the fourth quarter of fiscal 2008 while the remaining restructuring other charges accrual balance of $0.3 million, relating primarily to long-term leases, will be paid out through the first quarter of fiscal 2011. The remaining restructuring accrual balance is reflected in “Accrued and other liabilities” and “Other long-term liabilities” in the Condensed Consolidated Balance Sheets.

Acquisition-Related Restructuring: During the first quarter of fiscal 2006, the Company finalized its Snap Appliance integration plan to eliminate certain duplicative resources, including severance and benefits in connection with the involuntary termination of approximately 24 employees, exiting duplicative facilities and disposing of duplicative assets. The acquisition-related restructuring liabilities of $6.7 million were accounted for under EITF No. 95-3 and therefore were included in the purchase price allocation. Any further changes to the Company’s finalized plan will be accounted for under SFAS No. 146 and will be recorded in “Restructuring charges” in the Condensed Consolidated Statements of Operations. In the third quarter of fiscal 2006, the Company recorded additional adjustments of $0.2 million due to additional estimated loss related to the facilities that the Company subleased. As of September 30, 2007, the Company had utilized $4.9 million of these charges. The Company anticipates that the remaining restructuring accrual balance of $2.0 million will be paid out by the third quarter of fiscal 2012, related to long-term lease obligations

9. Other Charges (Gains)

In fiscal 2007, the Company decided to consolidate its properties in Milpitas, California to better align its business needs with existing operations and to provide more efficient use of its facilities. As a result, three owned buildings, including associated building improvements and property, plant and equipment, were classified as assets held for sale and were included in “Assets held for sale” in the Consolidated Balance Sheets at March 31, 2007 at the Company's carrying value of $12.5 million. In May 2007, the Company completed the sale of the three buildings with proceeds aggregating to $19.9 million, which exceeded the Company's carrying value of $12.5 million. Net of selling costs, the Company recorded a gain on the sale of the properties of $6.7 million in the first half of fiscal 2008 to “Other charges (gains)” in the Condensed Consolidated Statements of Operations.

In the first half of fiscal 2007, the Company recorded asset impairment charges of $13.2 million related to certain acquisition-related intangible assets (Note 6), which was recorded in “Other charges (gains)” in the Condensed Consolidated Statements of Operations.

10. 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 (loss) per share gives effect to all potentially dilutive common shares outstanding during the period, which include certain stock–based awards 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.

A reconciliation of the numerator and denominator of the Company's basic and diluted income (loss) per share computations was as follows:

	Three-Month Period Ended September 30,		Six-Month Period Ended September 30,	
	2007	2006	2007	2006
	(in thousands, except per share amounts)			
Numerators:				
Income (loss) from continuing operations - basic	$ (7,488)	$ 48,757	$ (11,123)	$ 23,933
Income (loss) from discontinued operations - basic	(144)	2,308	(144)	3,862
Net income (loss) - basic	$ (7,632)	$ 51,065	$ (11,267)	$ 27,795
Adjustments:				
Adjustment for interest expense on 3/4% Notes, net of taxes	$ --	$ 762	$ --	$ 1,524
Adjustment for interest expense on 3% Notes, net of taxes	--	100	--	--
Total adjustments for interest expense on convertible notes, net of taxes	$ --	$ 862	$ --	$ 1,524
Adjusted income (loss) from continuing operations - diluted	$ (7,488)	$ 49,619	$ (11,123)	$ 25,457
Adjusted income (loss) from discontinued operations - diluted	(144)	2,308	(144)	3,862
Adjusted net income (loss) - diluted	$ (7,632)	$ 51,927	$ (11,267)	$ 29,319
Denominators:				
Weighted average shares outstanding - basic	118,405	116,325	118,151	115,967
Effect of dilutive securities:				
Stock options	--	491	--	800
3/4% Notes	--	19,224	--	19,224
3% Notes	--	695	--	--
Weighted average shares and potentially dilutive common shares outstanding - diluted	118,405	136,735	118,151	135,991
Income (loss) per share:				
Basic				
Continuing operations	$ (0.06)	$ 0.42	$ (0.09)	$ 0.21
Discontinued operations	$ (0.00)	$ 0.02	$ (0.00)	$ 0.03
Net income (loss)	$ (0.06)	$ 0.44	$ (0.10)	$ 0.24
Diluted				
Continuing operations	$ (0.06)	$ 0.36	$ (0.09)	$ 0.19
Discontinued operations	$ (0.00)	$ 0.02	$ (0.00)	$ 0.03
Net income (loss)	$ (0.06)	$ 0.38	$ (0.10)	$ 0.22

Diluted loss per share from continuing operations, discontinued operations and net loss for the second quarter and first half of fiscal 2008 was based only on the weighted-average number of shares outstanding during these periods, as the inclusion of any common stock equivalents would have been anti-dilutive. In addition, certain potentially issuable common shares were excluded from the diluted computation from continuing operations, discontinued operations and net income for the second quarter and first half of fiscal 2007 because their inclusion would have been anti-dilutive. The items excluded for the second quarters and first halves of fiscal 2008 and 2007 were as follows:

	Three-Month Period Ended September 30,		Six-Month Period Ended September 30,	
	2007	2006	2007	2006
	(in thousands)			
Outstanding employee stock options	12,108	12,552	12,474	12,825
Outstanding restricted stock awards and units	1,556	8	1,338	4
Warrants(1)	19,724	19,874	19,724	19,874
3/4% Notes	19,224	--	19,224	--
3% Notes	--	--	--	695

(1)) 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. For further discussion on this derivative financial instrument, please refer to Note 7 of the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended March 31, 2007.

11. Comprehensive Income (Loss), Net of Taxes

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

	Three-Month Period Ended September 30,		Six-Month Period Ended September 30,	
	2007	2006	2007	2006
	(in thousands)			
Net income (loss)	$ (7,632)	$ 51,065	$ (11,267)	$ 27,795
Net unrealized gains on marketable securities, net of taxes	1,649	3,222	406	2,569
Foreign currency translation adjustment, net of taxes	1,318	182	1,546	1,055
Comprehensive income (loss), net of taxes	$ (4,665)	$ 54,469	$ (9,315)	$ 31,419

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

	September 30, 2007	March 31, 2007
	(in thousands)	
Unrealized losses on marketable securities	$ 965	$ 559
Foreign currency translation	4,165	2,619
Total	$ 5,130	$ 3,178

12. Income Taxes

Income tax provisions for interim periods are based on the Company's estimated annual income tax rate for entities that were profitable. Entities that had operating losses with no tax benefit were excluded. The estimated annual tax for fiscal 2008 includes foreign taxes related to the Company's foreign subsidiaries, certain state minimum taxes and interest accrued on prior years' tax disputes. This resulted in a tax provision of $0.3 million for the second quarter of fiscal 2008. The estimated annual tax for fiscal 2007 consisted of a discrete tax benefit attributable to settling certain tax disputes, foreign taxes related to the Company's foreign subsidiaries, certain state minimum taxes and interest accrued on prior years' tax disputes. This resulted in a tax benefit of $49.1 million for the second quarter of fiscal 2007, of which $46.0 million was attributable to the discrete tax benefit. The Company is in ongoing negotiations with the IRS taxing authorities with regard to its tax disputes, as discussed below in Note 13. 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.

On April 1, 2007, the Company adopted FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. FIN 48 requires a two-step process to determine the amount of tax benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination. If the tax position is deemed "more-likely-than-not" to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the Company's financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50 percent likelihood of being realized upon ultimate settlement. Prior to the adoption of

FIN 48, the Company's policy was to classify accruals for uncertain positions as a current liability unless it was highly probable that there would not be a payment or settlement for such identified risks for a period of at least a year.

As a result of implementing FIN 48 on April 1, 2007, the Company recognized a cumulative effect adjustment of $1.3 million as a reduction to “Retained earnings” on its Condensed Consolidated Balance Sheets at that date. Following the adoption of FIN 48, the Company elected to recognize interest and/or penalties related to uncertain tax positions as income tax expense in its Condensed Consolidated Statements of Operations. To the extent that accrued interest and penalties do not ultimately become payable, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision in the period that such determination is made. The amount of interest and penalties accrued at April 1, 2007, upon the adoption of FIN 48, was immaterial. In addition, no material amount was accrued during the first half of fiscal 2008.

As of September 30, 2007, the Company's total gross unrecognized tax benefits were $20.3 million, of which $6.2 million if recognized, would affect the effective tax rate.

The Company is subject to U.S. federal income tax as well as income taxes in many U.S. states and foreign jurisdictions. As of the date of adoption of FIN 48, tax years 1994 through 2007 remained open to examination by the U.S. taxing authorities, tax years 1998 through 2007 remained open to examination in Singapore and tax years 2001 through 2007 remained open to examination in various foreign jurisdictions. There was no material change to the Company's unrecognized tax benefits during the first half of fiscal 2008. Management believes that events that could occur in the next 12 months and cause a material change in unrecognized tax benefits include, but are not limited to, the following:

- completion of examinations of the Company's tax returns by the U.S. or foreign tax authorities; and
- expiration of statue of limitations on the Company's tax returns

Management believes that it is reasonably possible that the Company's U.S. income tax audit for fiscal 2004 will conclude during the next twelve months due to the expectation that the Statute of Limitations will expire in September 2008. The Company does not anticipate the recognition of any material previously unrecognized tax benefits as the result of the conclusion of this audit.

The calculation of unrecognized tax benefits involves dealing with uncertainties in the application of complex global tax regulations. Management regularly assesses the Company's tax positions in light of legislative, bilateral tax treaty, regulatory and judicial developments in the countries in which the Company does business. Other than the matter discussed above, management determined that an estimate of the range of reasonably possible material changes in the unrecognized tax benefits within the next 12 months cannot be made.

13. Commitments and Contingencies

The Company was subject to IRS audits for its fiscal years 1994 through 2003. During the third quarter of fiscal 2007, the Company reached resolution with the United States taxing authorities on all outstanding audit issues relating to those fiscal years. However, the Company’s tax provision continues to reflect judgment and estimation regarding components of the settlement such as interest calculations and the application of the settlements to state and local taxing jurisdictions. Although the Company believes its tax estimates are reasonable, the ultimate tax outcome may materially differ from the tax amounts recorded in its condensed consolidated financial statements and may cause a higher effective tax rate that could materially affect its income tax provision, results of operations or cash flows in the period or periods for which such determination is made. The IRS is currently auditing the Company's Federal income tax returns for the fiscal 2004 through 2006 audit cycle. 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, should the outcome of these actions be unfavorable, the Company’s business, financial condition, results of operations and cash flows could be materially and adversely affected.

In connection with the Company’s acquisition of Eurologic, a portion of the purchase price totaling $3.8 million was held back (the “Eurologic Holdback”) for unknown liabilities that may have existed as of the acquisition date. As of September 30, 2007, the Company asserted claims against the Eurologic Holdback totaling $1.5 million.

14. Guarantees

Intellectual Property and Other 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. In addition, the Company has agreements whereby it indemnifies its directors and certain of its officers for certain events or occurrences while the officer or director is, or was, serving at the Company's request in such capacity. These indemnification agreements are not subject to a maximum loss clause; however, the Company maintains a director and officer insurance policy which may cover all or a portion of the liabilities arising from its obligation to indemnify its directors and officers. 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 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.

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 halves of fiscal 2008 and 2007.

A reconciliation of the changes to the Company's warranty accrual for the first halves of fiscal 2008 and 2007 was as follows:

	Six-Month Period Ended September 30, 2007	2006
	(in thousands)	
Balance at beginning of period	$ 950	$ 2,051
Warranties provided	1,782	2,086
Actual costs incurred	(1,660)	(2,561)
Balance at end of period	$ 1,072	$ 1,576

15. Segment Reporting

With OEMs incorporating other connectivity technologies directly into their products, the increased level of competition entering the market, and the complexities of the retail channel, the Company decided in fiscal 2007 not to invest further in its DSG segment. The Company's DSG segment provided high-performance I/O connectivity and digital media products for personal computing platforms, including notebook and desktop PCs, which were sold to retailers, OEMs and distributors. The Company wound down the DSG business throughout fiscal 2007 and exited it at March 31, 2007. As a result, in the first quarter of fiscal 2008, the Company revised its internal reporting structure by including the remaining SCSI products from its previous DSG segment into its DPS segment. The remainder of the DSG segment is included in the "Other" category, as it represents a reconciling item to its consolidated results of operations. Following the revision to its internal reporting structure, the Company operates in two segments, DPS and SSG. A description of the types of customers or products and services provided by each segment is as follows:

- DPS provides data protection storage products and its associated storage technologies, including ASICs, board-level products, RAID controllers, internal enclosures and stand-alone software. The Company sells these products directly to OEMs, ODMs that supply OEMs, system integrators, VARs and end users through its network of distribution and reseller channels.

- SSG provides storage systems for the protection of both file and block data, which are known as "Snap Server by Adaptec" products, including NAS hardware and related backup, replication, and management software. The Company sells these products to VARs and end users through its network of distribution partners, solution providers and VARs.

Summarized financial information on the Company's reportable segments, under the revised internal reporting structure, is shown in the following table. The segment financial data for historical periods has been restated to reflect this change. 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 quarters and first halves of fiscal 2008 and 2007:

	DPS	SSG	Other	Total
		(in thousands)		
Three-Month Period Ended September 30, 2007:				
Net revenues	$ 37,587	$ 6,387	$ --	$ 43,974
Segment income (loss)	6,250	(802)	--	5,448
Three-Month Period Ended September 30, 2006:				
Net revenues	$ 64,219	$ 6,074	$ 3,260	$ 73,553
Segment income (loss)	17,573	(3,604)	(15)	13,954
Six-Month Period Ended September 30, 2007:				
Net revenues	$ 73,689	$ 12,672	$ --	$ 86,361
Segment income (loss)	8,891	(1,106)	--	7,785
Six-Month Period Ended September 30, 2006:				
Net revenues	$ 121,463	$ 13,834	$ 7,327	$ 142,624
Segment income (loss)	25,558	(4,698)	189	21,049

A reconciliation of the Company's "Loss from continuing operations before income taxes" on the Condensed Consolidated Statements of Operations, which consisted of its segment income (loss) and the details of unallocated corporate income and expenses for the second quarters and first halves of fiscal 2008 and 2007, was as follows:

	Three-Month Period Ended September 30,		Six-Month Period Ended September 30,	
	2007	2006	2007	2006
		(in thousands)		
Total segment income	$ 5,448	$ 13,954	$ 7,785	$ 21,049
Unallocated corporate expenses, net	(15,945)	(18,134)	(31,797)	(37,233)
Restructuring charges	(3,428)	(1,085)	(4,954)	(4,096)
Other gains (charges)	(115)	--	5,799	(13,942)
Interest and other income, net	7,797	5,825	14,518	11,728
Interest expense	(955)	(883)	(1,969)	(1,759)
Total	$ (7,198)	$ (323)	$ (10,618)	$ (24,253)

(1) The unallocated corporate expenses, net included all administrative expenses, certain research and development and selling and marketing expenses, stock-based compensation expense and amortization of acquisition-related intangible assets.

16. Supplemental Disclosure of Cash Flows

	Six-Month Period Ended September 30,	
	2007	2006
	(in thousands)	
Noncash investing and financing activities:		
Net unrealized gains on marketable securities, net of taxes	406	2,569

17. 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.

- **AFP:** Apple Filing Protocol
- **ASIC:** Application Specific Integrated Circuit
- **ATA:** Advanced Technology Attachment
- **CIFS:** Common Internet File System
- **DPS:** Data Protection Solutions
- **DSG:** Desktop Solutions Group
- **ESPP:** Employee Stock Purchase Plan
- **FTP:** File Transfer Protocol
- **HTTP:** Hypertext Transfer Protocol
- **I/O:** Input/Output
- **IPsec:** Internet Protocol Security
- **IRS:** Internal Revenue Service
- **iSCSI:** Internet SCSI
- **NAS:** Network Attached Storage
- **NFS:** Network File System
- **ODM:** Original Design Manufacturers
- **OEM:** Original Equipment Manufacturer
- **PC:** Personal Computer
- **PCI:** Peripheral Component Interconnect
- **PCIe:** Peripheral Component Interconnect Express
- **PCI-X:** Peripheral Component Interconnect Extended
- **RAID:** Redundant Array of Independent Disks
- **SAS:** Serial Attached SCSI
- **SATA:** Serial Advanced Technology Attachment
- **SCSI:** Small Computer System Interface
- **SMI-S:** Storage Management Initiative Specification
- **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 No. 95-3:** Recognition of Liabilities in Connection with Purchase Business Combinations
- **EITF No. 07-3:** Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities
- **FASB:** Financial Accounting Standards Board
- **FIN:** FASB Interpretation Number
- **FIN 48:** Accounting for Certain Transactions involving Stock Compensation – an interpretation of APB Opinion No. 25
- **SEC:** Securities Exchange Commission
- **SFAS:** Statement of Financial Accounting Standards
- **SFAS No. 109:** Accounting for Income Taxes
- **SFAS No. 123(R):** Share Based Payment
- **SFAS No. 133:** Accounting for Derivative Instruments and Hedging Activities
- **SFAS No. 140:** Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities
- **SFAS No. 146:** Accounting for Costs Associated with Exit or Disposal Activities
- **SFAS No. 155:** Accounting for Certain Hybrid Financial Instruments –an amendment of FASB Statements No. 133 and 140
- **SFAS No.157:** Fair Value Measurements
- **SFAS No. 159:** The Fair Value Option for Financial Assets and Financial Liabilities

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 anticipated impact of the restructuring plans that were implemented in the first and second quarters of fiscal 2008, our anticipated declines in revenues from our parallel SCSI products and our SATA products sold to our OEM customers, the expected impact on our future revenues, and the timing of such impact, of our failure to receive design wins for the next generation serial products from a significant customer, 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 report.

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 Annual Report on Form 10-K for the year ended March 31, 2007. Unless otherwise indicated, the following discussion pertains only to our continuing operations.

For your convenience, we have included, in Note 17 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 in this report. These key acronyms and accounting rules and regulations are listed in alphabetical order.

Results of Operations

Overview

In the second quarter of fiscal 2008, our revenues decreased by $29.6 million compared to the second quarter of fiscal 2007 due primarily to the declining revenue base of our parallel products and slower adoption of our newer generation of serial products. Our revenues were further impacted from our inability to obtain design wins from our OEM customers, primarily for our next generation serial products. The slight decline in gross margin in the second quarter of fiscal 2008 compared to the second quarter of fiscal 2007 was primarily due to certain manufacturing-related costs that are relatively fixed being spread over a smaller revenue base, which was offset by our improved standard product contributions due to our continued focus on improving product component costs. Operating expenses also decreased in the second quarter of fiscal 2008 compared to the second quarter of fiscal 2007 primarily as a result of cost reductions and restructuring efforts that were initiated in previous quarters.

Our future revenue growth in our DPS segment remains largely dependent on the success of our new products addressing serial technologies (for example, SAS and SATA), channel growth and our ability to develop new products in other markets, which includes both strengthening our partnerships in silicon-based technology and broadening our silicon-based intellectual property to improve our business opportunities, primarily for OEM customers. Our future revenue growth in our SSG segment remains largely dependent on the successful development and marketing of new products and our ability to expand our presence in the reseller channel.

The growth of our new generation of serial products is not keeping pace with the decline in revenues from our parallel products and from our OEM customers. In light of this situation, we believe we may seek growth opportunities beyond those presented by our existing product lines by entering into strategic alliances, partnerships or acquisitions in order to scale our business. This includes both strengthening our partnerships in silicon-based technology and broadening our silicon-based intellectual property to improve our business opportunities, primarily for OEM customers. We also continue to review and evaluate our existing product portfolio, operating structure and markets to determine the future viability of our existing products and market positions.

In the first quarter of fiscal 2008, we revised our internal reporting structure by including the remaining SCSI products from our previous DSG segment into our DPS segment as we wound down the DSG business throughout fiscal 2007 and exited it at March 31, 2007. The remainder of the DSG segment is included in the “Other” category, as it represents a reconciling item to our consolidated results of operations. We decided not to invest further in our DSG segment due to OEMs incorporating other connectivity technologies directly into their products, the increased level of competition entering the market and the complexities of the retail channel. Our DSG segment provided high-performance I/O connectivity and digital media products for personal computing platforms, including notebook and desktop PCs, which were sold to retailers, OEMs and distributors. We also implemented two restructuring plans: (1) in the first quarter of fiscal 2008 by eliminating duplicative resources to reduce our operating expenses due to a declining revenue base and (2) beginning in the second quarter of fiscal 2008 by reducing our workforce by approximately 20% in an effort to better align our cost structure with our anticipated revenue stream and to improve our results of operations and cash flows.

The following table sets forth the items in the Unaudited Condensed Consolidated Statements of Operations as a percentage of net revenues (references to notes in the footnotes to this table are to the Notes to Unaudited Condensed Consolidated Financial Statements appearing in this report):

	Three-Month Period Ended September 30,		Six-Month Period Ended September 30,	
	2007 (1)	2006 (2)	2007 (3)	2006 (4)
Net revenues	100 %	100 %	100 %	100 %
Cost of revenues	65	64	66	66
Gross margin	35	36	34	34
Operating expenses:				
Research and development	25	18	26	21
Selling, marketing and administrative	33	21	34	22
Amortization of acquisition-related intangible assets	1	2	2	2
Restructuring charges	8	2	6	3
Other charges (gains)	0	--	(7)	10
Total operating expenses	67	43	61	58
Loss from continuing operations	(32)	(7)	(27)	(24)
Interest and other income, net	18	8	17	8
Interest expense	(2)	(1)	(2)	(1)
Loss from continuing operations before income taxes	(16)	(0)	(12)	(17)
Provision for (benefit from) income taxes	1	(67)	1	(34)
Income (loss) from continuing operations, net of taxes	(17)	67	(13)	17
Discontinued operations, net of taxes				
Income (loss) from discontinued operations, net of taxes	--	(0)	--	0
Income (loss) from disposal of discontinued operations, net of taxes	(0)	3	(0)	3
Income (loss) from discontinued operations, net of taxes	(0)	3	(0)	3
Net income (loss)	(17)%	70 %	(13)%	20 %

(1) In the second quarter of fiscal 2008, we implemented a restructuring plan. This action affects the comparability of this data.

(2) In the second quarter of fiscal 2007, we implemented a restructuring plan and received a discrete tax benefit of $46.0 million from the settlement of certain tax disputes with the U.S. and Singapore taxing authorities. These actions affect the comparability of this data.

(3) In the first half of fiscal 2008, we recorded a gain of $6.7 million on the sale of certain properties and implemented restructuring plans. These actions affect the comparability of this data.

(4) In the first half of fiscal 2007, we recorded an impairment charge of $13.2 million related to the Snap server portion of our systems business, implemented restructuring plans and received a discrete tax benefit of $46.0 million from the settlement of certain tax disputes with the U.S. and Singapore taxing authorities. These actions affect the comparability of this data.

Net Revenues.

	Three-Month Period Ended September 30,			Six-Month Period Ended September 30,		
	2007	2006	Percentage Change	2007	2006	Percentage Change
	(in millions, except percentages)					
Segment Net Revenues:						
DPS	$ 37.6	$ 64.2	(41)%	$ 73.7	$ 121.5	(39)%
SSG	6.4	6.1	5 %	12.7	13.8	(8)%
Other	--	3.3	(100)%	--	7.3	(100)%
Total Net Revenues	44.0	73.6	(40)%	86.4	142.6	(39)%

Revenues from our DPS segment decreased by $26.6 million and $47.8 million in the second quarter and first half of fiscal 2008, respectively compared to the corresponding periods of fiscal 2007, primarily due to a decline in unit sales of our parallel SCSI products of $26.1 million and $50.6 million, respectively, which was partially offset by an increase in sales of our serial products of $0.2 million and $3.8 million, respectively. The decline in sales volumes of our parallel SCSI products was primarily attributable to the industry transition from parallel to serial products, in which we have a lower market share. We expect revenues for our parallel SCSI products to continue to decline. The DPS segment was also negatively impacted by a decline in sales of our legacy SATA products sold primarily to OEM customers, which are a part of our serial products. We expect revenues for our SATA products sold to our OEM customers to continue to decline, as certain of our customers have moved to other suppliers to obtain next generation SATA technologies. For example, in the second quarter of fiscal 2008, a significant customer notified us that we did not receive design wins for our next generation serial products, which will have a significant negative impact on our revenues beginning in approximately six months.

Revenues from our SSG segment increased by $0.3 million in the second quarter of fiscal 2008 compared to the second quarter of fiscal 2007 primarily due to increased sales of our storage server products, which included new products that launched in the second quarter of fiscal 2008. Revenues from our SSG segment decreased by $1.1 million in the first half of fiscal 2008 compared to the first half of fiscal 2007 primarily as a result of a decline in unit sales of our legacy server products. We have invested in additional sales and marketing resources in our SSG segment in an effort to grow this business.

Revenues from our other category decreased by $3.3 million and $7.3 million in the second quarter and first half of fiscal 2008, respectively, compared to the corresponding periods of fiscal 2007 due to our decision to wind down our DSG business at March 31, 2007.

	Three-Month Period Ended September 30,		Six-Month Period Ended September 30,	
	2007	2006	2007	2006
Geographical Revenues:				
North America	43 %	44 %	45 %	45 %
Europe	26 %	24 %	26 %	24 %
Pacific Rim	31 %	32 %	29 %	31 %
Total Geographical Revenues	100 %	100 %	100 %	100 %

Our overall international revenues remained relatively flat as a percentage of our total revenues in the second quarter and first half of fiscal 2008 as compared to the corresponding periods of fiscal 2007.

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. In the second quarter of fiscal 2008, IBM, Tech Data and Ingram Micro accounted for 33%, 14% and 10% of our total net revenues, respectively. In the second quarter of fiscal 2007, IBM and Dell accounted for 29% and 15% of our total net revenues, respectively. In the first half of fiscal 2008, IBM, Tech Data and Ingram Micro accounted for 35%, 12% and 11%of our total net revenues, respectively. In the first half of fiscal 2007, IBM and Dell accounted for 32% and 16% of our total net revenues, respectively.

Gross Margin.

	Three-Month Period Ended September 30,			Six-Month Period Ended September 30,		
	2007	2006	Percentage Change	2007	2006	Percentage Change
	(in millions, except percentages)					
Gross Profit	$ 15.4	$ 26.5	(42)%	$ 29.4	$ 48.8	(40)%
Gross Margin	35 %	36 %		34 %	34 %	

The slight decline in gross margin in the second quarter of fiscal 2008 compared to the second quarter of fiscal 2007 and the lack of change in our gross margins in the first half of fiscal 2008 compared to the first half of fiscal 2007 was primarily due to certain manufacturing-related costs that are relatively fixed being spread over a smaller revenue base. This was offset by our improved standard product contributions due to our continued focus on improving product component costs, which impacted the second quarter of fiscal 2008, and to a lesser extent, the first half of fiscal 2008, compared to the corresponding periods of fiscal 2007. Our gross margins will be impacted in the future by the mix of OEM and channel revenue as well as product mix.

Research and Development Expense.

	Three-Month Period Ended September 30,			Six-Month Period Ended September 30,		
	2007	2006	Percentage Change	2007	2006	Percentage Change
	(in millions, except percentages)					
Research and development	$ 10.9	$ 13.6	(20)%	$ 22.6	$ 30.9	(27)%

The decrease in research and development expense in the second quarter and first half of fiscal 2008 compared to the corresponding periods of fiscal 2007 was primarily due to reduced headcount and related expenses as a result of restructuring programs implemented in the first halves of fiscal 2007 and 2008, which resulted in an 18% decrease in headcount for employees engaged in research and development. We also decreased our infrastructure spending, had fewer engineering projects outstanding and had lower stock-based compensation expense of $0.6 million and $1.2 million in the second quarter and first half of fiscal 2008, respectively, compared to the corresponding periods of fiscal 2007 primarily due to the reduction in headcount.

Selling, Marketing and Administrative Expense.

	Three-Month Period Ended September 30,			Six-Month Period Ended September 30,		
	2007	2006	Percentage Change	2007	2006	Percentage Change
	(in millions, except percentages)					
Selling, marketing and administrative	$ 14.3	$ 15.7	(9)%	$ 29.3	$ 31.1	(6)%

The decrease in selling, marketing and administrative expense in the second quarter and first half of fiscal 2008 compared to the corresponding periods of fiscal 2007 was primarily a result of reductions of our workforce and infrastructure spending as a result of the restructuring plans we implemented in the first halves of fiscal 2007 and 2008, which resulted in a 14% decrease in headcount for employees engaged in the selling, marketing and administrative functions. In addition, we had lower stock-based compensation expense of $0.3 million and $0.6 million, respectively, compared to the corresponding periods of fiscal 2007 primarily due to the reduction in headcount. This was partially offset by $0.2 million and $0.4 million of increased spending on marketing activities related to increased investments for our SSG segment in the second quarter and first half of fiscal 2008, respectively, compared to the corresponding periods of fiscal 2007.

Amortization of Acquisition-Related Intangible Assets.

	Three-Month Period Ended September 30,			Six-Month Period Ended September 30,		
	2007	2006	Percentage Change	2007	2006	Percentage Change
	(in millions, except percentages)					
Amortization of acquisition-related intangible assets	$ 0.7	$ 1.5	(51)%	$ 1.5	$ 3.1	(52)%

Acquisition-related intangible assets include patents, core and existing technologies, customer relationships and trade names. 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 five years.

The decrease in amortization of acquisition-related intangible assets in the second quarter of fiscal 2008 compared to the second quarter of fiscal 2007 was primarily due to intangible assets that became fully amortized in fiscal 2007 associated with our acquisitions of the IBM i/p Series RAID component business and Eurologic Systems Group Limited of $0.4 million and $0.3 million, respectively. The decrease in amortization of acquisition-related intangible assets in the first half of fiscal 2008 compared to the first half of fiscal 2007 was primarily due to intangible assets that became fully amortized in fiscal 2007 associated with our acquisitions of the IBM i/p Series RAID component business and Eurologic Systems Group Limited of $0.9 million and $0.6 million, respectively.

Restructuring Charges.

	Three-Month Period Ended September 30,			Six-Month Period Ended September 30,		
	2007	2006	Percentage Change	2007	2006	Percentage Change
	(in millions, except percentages)					
Restructuring charges	$ 3.4	$ 1.1	216 %	$ 5.0	$ 4.1	21 %

All expenses, including adjustments, associated with our restructuring plans are included in “Restructuring charges” in the Condensed Consolidated Statements of Operations and are not allocated to segments but rather managed at the corporate level. For a complete discussion of all restructuring actions that were implemented prior to fiscal 2008, please refer to the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended March 31, 2007.

In the first quarter of fiscal 2008, management approved and initiated a plan to restructure our operations to reduce our operating expenses due to a declining revenue base by eliminating duplicative resources in all functions of the organization worldwide, resulting in a restructuring charge of $1.5 million. In addition, in the second quarter of fiscal 2008, we initiated additional actions in an effort to better align our cost structure with our anticipated OEM revenue stream and to improve our results of operations and cash flows. The total cost we expect to incur for this restructuring plan is approximately $5.0 million, of which we recorded approximately $3.5 million in the second quarter of fiscal 2008. Of the $3.5 million recorded in the second quarter of fiscal 2008, $3.4 million related to severance and benefits for employee reductions primarily related to our OEM engineering resources and related support and service organizations worldwide and $0.1 million related to vacating redundant facilities, and contract termination costs.

As a result of our first quarter of fiscal 2008 restructuring plan, we began to reduce our annual operating expenses by approximately $4.7 million, beginning in the first quarter of fiscal 2008, of which 30%, 6% and 64% has been reflected as a reduction in cost of revenues, research and development expense, and selling, marketing and administrative expense, respectively. These savings have been fully realized by the end of the second quarter of fiscal 2008. As a result of our second quarter of fiscal 2008 restructuring plan, we expect to reduce our annual operating expenses by approximately $10.0 million, beginning in the second quarter of fiscal 2008, of which 2%, 61% and 37% has been reflected as a reduction in cost of revenues, research and development expense, and selling, marketing and administrative expense, respectively. We expect these savings to be fully realized by the end of fiscal 2008.

We also recorded minimal accrual adjustments in the second quarter and first half of fiscal 2008 primarily related to severance and benefits as actual costs were lower than anticipated. These accrual adjustments related to the restructuring plans that we implemented in the first and second quarters of fiscal 2007 and the first quarter of fiscal 2008.

Other Charges (Gains).

	Three-Month Period Ended September 30,			Six-Month Period Ended September 30,		
	2007	2006	Percentage Change	2007	2006	Percentage Change
	(in millions, except percentages)					
Other charges (gains)	$ 0.1	$ --	100 %	$ (5.8)	$ 13.9	n/a

Other charges (gains) consisted of asset impairment charges related to certain assets and gain on sale of certain properties.

In fiscal 2007, we decided to consolidate our properties in Milpitas, California to better align our business needs with existing operations and to provide more efficient use of our facilities. In May 2007, we completed the sale of certain of these properties with proceeds aggregating $19.9 million, which exceeded our carrying value of $12.5 million. Net of selling costs, we recorded a gain on the sale of the properties of $6.7 million in the first half of fiscal 2008 to “Other charges (gains)” in the Condensed Consolidated Statements of Operations.

We regularly perform reviews to determine if facts or circumstances are present, either internal or external, which would indicate that the carrying values of our long-lived assets are impaired. If an asset is determined to be impaired, the loss is measured based on the difference between the asset's fair value and its carrying value. The estimate of fair value of the assets is based on discounting estimated future cash flows using a discount rate commensurate with the risks inherent in our current business model. The estimation of the impairment involves numerous assumptions that require judgment by us, including, but not limited to, future use of the assets for our operations versus sale or disposal of the assets and future selling prices for our products.

At the end of the first quarter of fiscal 2007, with the decision to retain and operate the Snap Server portion of the systems business, we performed an impairment analysis of this business that indicated that the carrying amount of the long-lived assets exceeded their estimated fair value. This was due in part to the limited cash flows of the business and a number of uncertainties, which included the significant research and development expenditures necessary to grow the revenue of the Snap Server portion of the systems business and the significant uncertainties associated with achieving such growth in revenue. This resulted in an impairment charge of $13.2 million, which was recorded in “Other charges (gains)” in the Condensed Consolidated Statements of Operations in the first half of fiscal 2007.

Interest and Other Income, Net.

	Three-Month Period Ended September 30,			Six-Month Period Ended September 30,		
	2007	2006	Percentage Change	2007	2006	Percentage Change
	(in millions, except percentages)					
Interest and other income, net:						
Interest income	$ 7.0	$ 5.8	21 %	$ 13.7	$ 11.5	19 %
Realized currency transaction gains (losses)	0.7	(0.1)	n/a	0.7	0.1	406 %
Other	0.1	0.1	53 %	0.1	0.1	40 %
Total interest and other income, net	7.8	5.8	34 %	14.5	11.7	24 %

Interest and other income, net is primarily attributable to interest income earned on our cash, cash equivalents and marketable securities, fluctuations in foreign currency gains or losses and realized gains and losses on marketable securities. The increase in interest and other income, net in the second quarter and first half of fiscal 2008 compared to the corresponding periods of fiscal 2007 was primarily due to higher interest rates, which resulted in additional income earned on our cash, cash equivalents and marketable securities, combined with maintaining higher average cash, cash equivalents and marketable securities balances. This was partially offset by foreign currency fluctuations, primarily related to a stronger Euro compared to the United States dollar combined with increased balances in our European foreign entities whose functional currency is the United States Dollar.

Interest Expense.

	Three-Month Period Ended September 30,			Six-Month Period Ended September 30,		
	2007	2006	Percentage Change	2007	2006	Percentage Change
	(in millions, except percentages)					
Interest expense	$ (1.0)	$ (0.9)	8 %	$ (2.0)	$ (1.8)	12 %

Interest expense is primarily associated with our 3/4% Convertible Senior Notes due 2023, or the 3/4% Notes, and 3% Convertible Subordinated Notes due 2007, or the 3% Notes, issued in December 2003 and March 2002, respectively. Interest expense remained relatively flat for the second quarter and first half of fiscal 2008 compared to the corresponding periods of fiscal 2007.

Income Taxes.

	Three-Month Period Ended September 30,			Six-Month Period Ended September 30,		
	2007	2006	Percentage Change	2007	2006	Percentage Change
	(in millions, except percentages)					
Provision for (benefit from) income taxes	$ 0.3	$ (49.1)	n/a	$ 0.5	$ (48.2)	n/a

Income tax provisions for interim periods are based on our estimated annual income tax rate for entities that were profitable. Entities that had operating losses with no tax benefit were excluded. The estimated annual tax for fiscal 2008 includes foreign taxes related to our foreign subsidiaries, certain state minimum taxes and interest accrued on prior years' tax disputes. The estimated annual tax for fiscal 2007 consisted of a discrete tax benefit attributable to settling certain tax disputes, foreign taxes related to our foreign subsidiaries, certain state minimum tax, and interest accrued on prior years' tax disputes. This resulted in a tax benefit of $49.1 million for the second quarter of fiscal 2007, of which $46.0 million was attributable to the discrete tax benefit. We are in ongoing negotiations with the IRS taxing authorities with regard to our tax disputes as discussed in further detail in Note 13 to Part I of the Notes to Unaudited Condensed Consolidated Financial Statements, “Commitments and Contingencies.” 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.

On April 1, 2007, we adopted FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. As a result of implementing FIN 48 on April 1, 2007, we recognized a cumulative effect adjustment of $1.3 million as a reduction to the beginning balance of “Retained earnings” on our Condensed Consolidated Balance Sheets. Following the adoption of FIN 48, we elected to recognize interest and/or penalties related to uncertain tax positions as income tax expense in our Condensed Consolidated Statements of Operations. To the extent that accrued interest and penalties do not ultimately become payable, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision in the period that such determination is made. The amount of interest and penalties accrued at April 1, 2007, upon the adoption of FIN 48, was immaterial. In addition, no material amount was accrued during the first half of fiscal 2008.

As of September 30, 2007, our total gross unrecognized tax benefits were $20.3 million, of which $6.2 million if recognized, would affect the effective tax rate.

We are subject to U.S. federal income tax as well as income taxes in many U.S. states and foreign jurisdictions. As of the date of adoption of FIN 48, tax years 1994 through 2007 remained open to examination by the U.S. taxing authorities, tax years 1998 through 2007 remained open to examination in Singapore and tax years 2001 through 2007 remained open to examination in various foreign jurisdictions. There was no material change to our unrecognized tax benefits during the first half of fiscal 2008 and we do not anticipate that our total unrecognized tax benefits will significantly change during the next twelve months.

Discontinued Operations.

	Three-Month Period Ended September 30,			Six-Month Period Ended September 30,		
	2007	2006	Percentage Change	2007	2006	Percentage Change
	(in millions, except percentages)					
Income (loss) from discontinued operations	$ (0.1)	$ 2.3	n/a	$ (0.1)	$ 3.9	n/a

The decrease in discontinued operations in the second quarter and first half of fiscal 2008 compared to the corresponding periods of fiscal 2007 was primarily driven by the receipt of royalty revenue under the terms of the nonexclusive license agreement from the disposal of the IBM i/p Series RAID Business, which ceased in March 2007.

Liquidity and Capital Resources

Key Components of Cash Flows

Operating cash activities consist of income (loss) from continuing operations, net of taxes, adjusted for certain non-cash items and changes in assets and liabilities. Non-cash items primarily consist of non-cash effect of tax settlement, impairment charges, sale of long-lived assets, depreciation and amortization of intangible assets, property and equipment, marketable securities and stock-based compensation expense in accordance with SFAS No. 123(R). Cash used in operating activities from continuing operations decreased to $3.4 million in the first half of fiscal 2008 compared to $9.7 million in the first half of fiscal 2007 primarily due to the fact that we recorded income from continuing operations, net of taxes, of $23.9 million in the first half of fiscal 2007, which decreased by $35.1 million to a loss from continuing operations, net of taxes, of $11.1 million in the first half of fiscal 2008, as well as due to a non-cash charge associated with the impairment of $13.2 million related to the Snap Server intangible assets that was recorded in the first half of fiscal 2007 and a gain on the sale of long-lived assets of $6.7 million, which was recorded in the first half of fiscal 2008. This was partially offset by a non-cash effect of $46.0 million from the release of tax reserves due to the settlement of certain tax disputes with the U.S. and Singapore taxing authorities that was recorded in the first half of fiscal 2007 and changes to working capital assets and liabilities from the first half of fiscal 2008 to the first half of fiscal 2007 that improved cash used in operations by $20.0 million, primarily related to reducing our inventory levels.

Investing cash activities primarily consist of purchases, sales and maturities of restricted marketable securities and marketable securities, net proceeds from the sale of long-lived assets and purchases of property and equipment. Cash provided by investing activities increased to $80.2 million in the first half of fiscal 2008 compared to cash used in investing activities of $43.0 million in the first half of fiscal 2007 primarily due to proceeds received from the sale of long-lived assets of $19.9 million and a decrease in purchases of marketable securities of $143.2 million. This was partially offset by a decrease in the sales and maturities of marketable securities of $42.8 million.

Financing cash activities primarily consist of employee stock option exercises. Cash provided by financing activities decreased to $2.6 million in the first half of fiscal 2008 compared to $4.3 million in the first half of fiscal 2007 primarily due to a decline in stock option exercises and a decline in purchases made under our employee stock purchase plan as the 1986 Employee Stock Purchase Plan expired in April 2006.

Liquidity. At September 30, 2007, we had $597.6 million in unrestricted cash, cash equivalents and marketable securities, of which approximately $92.2 million was held by our Singapore and Cayman Islands subsidiaries. In the fourth quarter of fiscal 2005, we repatriated $360.6 million of undistributed earnings from Singapore to the United States and incurred a tax liability of $17.6 million. The repatriated amounts will be used to fund a qualified Domestic Reinvestment Plan, as required by the American Jobs Creation Act of 2004. If we do not spend the repatriated funds in accordance with our reinvestment plan, we may incur additional tax liabilities. We have not provided for U.S. deferred income taxes or foreign withholding taxes on the remaining undistributed earnings of approximately $255.1 million since we do not have any current plans to repatriate the remaining undistributed earnings from our foreign subsidiaries to our United States parent company. If we were to do so, additional income taxes at the combined United States Federal and state statutory rate of approximately 40% could be incurred from the repatriation.

At September 30, 2007, we had $225.2 million of aggregate principal amount plus a premium related to our 3/4% Notes that is due in December 2023. Each holder of the 3/4% Notes may require us to purchase all or a portion of our 3/4% Notes on December 22, 2008 at a price equal to 100.25% of the par value of the 3/4% Notes to be purchased plus accrued and unpaid interest. In addition, each holder of the 3/4% Notes may require us to purchase all or a portion of our 3/4% Notes on December 22, 2013, on December 22, 2018 or upon the occurrence of a change of control (as defined in the indenture governing the 3/4% Notes) at a price equal to the principal amount of 3/4% Notes being purchased plus any accrued and unpaid interest. We expect holders of the 3/4% Notes to exercise their put option in December 2008.

We are required to maintain restricted investments to serve as collateral for the first ten scheduled interest payments on our 3/4% Notes. As of September 30, 2007, we had $2.5 million of restricted marketable securities, consisting of United States government securities, of which $1.7 million was classified as short-term and $0.8 million was classified as long-term.

We were subject to IRS audits for our fiscal years 1994 through 2003. During the third quarter of fiscal 2007, we reached resolution with the United States taxing authorities on all outstanding audit issues relating to those fiscal years. However, our tax provision continues to reflect judgment and estimation regarding components of the settlement such as interest calculations and the application of the settlements to state and local taxing jurisdictions. Although we believe our tax estimates are reasonable, the ultimate tax outcome may materially differ from the tax amounts recorded in our condensed consolidated financial statements and may cause a higher effective tax rate that could materially affect our income tax provision, results of operations or cash flows in the period or periods for which such determination is made. The IRS is currently auditing our Federal income tax returns for the fiscal 2004 through 2006 audit cycle. We believe that we have provided sufficient tax provisions for these years and the ultimate outcome of the IRS audits will not have a material adverse impact on our financial position or results of operations in future periods. However, we cannot predict with certainty how these matters will be resolved and whether we will be required to make additional tax payments.

We may enter into strategic alliances, partnerships or acquisitions that will enable us to better scale our operations relative to our cost basis. If we are successful in identifying strategic alliances, partnerships or acquisitions, we may be required to use a significant portion of our available cash balances.

As of September 30, 2007, we did not have any material changes to our contractual obligations that were disclosed in the Liquidity section of our Form 10-K for the fiscal year ended March 31, 2007, other than the impact of the adoption of FIN 48. Total liabilities associated with FIN 48 uncertain tax positions were $5.9 million, of which $0.7 million was included in "Accrued and other liabilities" on the Condensed Consolidated Balance Sheet at September 30, 2007, as it is expected to be paid within the next twelve months. The remainder of our liabilities associated with uncertain tax positions of $5.2 million was included in "Other long-term liabilities" on our Condensed Consolidated Balance Sheet at September 30, 2007. Due to the complexity and uncertainty associated with our tax controversies, we can not make a reasonably reliable estimate of the period in which cash settlement will be made for our liabilities associated with uncertain tax positions in "Other Long-term liabilities."

We believe that liquidity provided by our existing working capital, together with expected cash flows from operations and available sources of 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.

Recent Accounting Pronouncements

In February 2006, the FASB issued SFAS No. 155, which permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS No. 155 also clarifies and amends certain other provisions of SFAS No. 133 and SFAS No. 140. SFAS No. 155 is effective for all hybrid financial instruments held, obtained or issued by us for fiscal years beginning with our fiscal 2008. The adoption of SFAS No. 155 did not have a material impact on our results of operations and financial position.

In September 2006, the FASB issued SFAS No. 157, which defines fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 is effective beginning with our fiscal 2009, and interim periods within that fiscal year. We are currently evaluating the impact that SFAS No. 157 will have on our results of operations and financial position.

In February 2007, FASB issued SFAS No. 159, which permits companies to choose to measure certain financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. SFAS No. 159 is effective beginning with our fiscal 2009. We are currently evaluating the impact that SFAS No. 159 will have on our results of operations and financial position.

In June 2007, the FASB ratified EITF No. 07-3, which requires nonrefundable advance research and development payments for goods and services to be deferred and capitalized and subsequently expensed when the research and development activities are performed, subject to an assessment of recoverability. EITF No. 07-03 is effective for new contractual arrangements entered into beginning with our fiscal 2009, and interim periods within that fiscal year. We do not believe EITF No. 07-03 will have a material effect on our results of operations and financial position.

Critical Accounting Policies

Our critical accounting policies have not changed from our fiscal year ended March 31, 2007, except for the following critical accounting policy:

Income Taxes: On April 1, 2007, we adopted FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. FIN 48 requires a two-step process to determine the amount of tax benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination. If the tax position is deemed "more-likely-than-not" to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in our financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50 percent likelihood of being realized upon ultimate settlement. Prior to the adoption of FIN 48, our policy was to classify accruals for uncertain positions as a current liability unless it was highly probable that there would not be a payment or settlement for such identified risks for a period of at least a year. In addition, upon the adoption of FIN 48, we elected to recognize interest and/or penalties related to uncertain tax positions as income tax expense in our Condensed

Consolidated Statements of Operations.

For a complete description of what we believe to be the other critical accounting policies that affect our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements, please refer to our Annual Report on Form 10-K for the fiscal year ended March 31, 2007.

Dispositions

On September 30, 2005, we entered into a series of arrangements with IBM pursuant to which we sold our IBM i/p Series RAID business to IBM. Under the terms of the agreements, we granted IBM a nonexclusive license to certain intellectual property and sold to IBM substantially all of the assets dedicated to the engineering and manufacturing of RAID controllers and connectivity products for the IBM i/p Series RAID business. Under the terms of the nonexclusive license, IBM paid royalties to us for the sale of our board-level products on a quarterly basis through March 31, 2007, which were recognized as contingent consideration in discontinued operations when earned. In the second quarter and first half of fiscal 2007, we recorded royalties, net of taxes, of $2.4 million and $3.7 million, respectively, which we recorded in “Income from disposal of discontinued operations, net of taxes,” in the Condensed Consolidated Statements of Operations.

On January 31, 2006, we signed a definitive agreement with Sanmina-SCI Corporation and its wholly owned subsidiary, Sanmina-SCI USA, Inc., for the sale of our OEM block-based portion of our systems business for $14.5 million, of which $2.5 million will be received by March 2008. In addition, Sanmina-SCI USA agreed to pay us contingent consideration of up to an additional $12.0 million if certain revenue levels are achieved over a three-year period. As of September 30, 2007, we believe that it is unlikely that revenue levels to earn this contingent consideration will be achieved.

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, 2007. Our exposure to market risk has not changed materially since March 31, 2007.

Item 4. Controls and Procedures

Evaluation of Disclosure 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 (i) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and (ii) is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

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.

Inherent Limitations on Effectiveness of Controls

Our management, including the CEO and CFO, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect 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. 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. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the 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 a simple error or mistake. 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 on 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. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II. OTHER INFORMATION

Item 1A. 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 occurs, our business, financial condition or results of operations could suffer, and the trading price of our common stock could decline.

Actions that we have taken and the actions that we are considering could adversely affect our business and financial results in the short-term, and may not have the long-term beneficial results that we intend. Our management team continuously reviews and evaluates all aspects of our business, including our product portfolio, our relationships with strategic partners and our research and development focus and sales and marketing efforts to better scale our operations relative to our cost basis.

The actions that we have taken and the actions that we are considering could adversely affect our business and financial results in the short-term, may not have the long-term beneficial results that we intend and could result in the following:

- Loss of customers;
- Loss of employees;
- Increased dependency on suppliers;
- Supply issues;
- Reduced revenue base;
- Impairment of our assets;
- Increased operating costs;
- Material restructuring charges; and
- Liquidity.

As our revenue base continues to decline from our current operations, we may choose to exit or divest some or a substantial portion of our current operations to focus on new opportunities. Our management team continuously reviews and evaluates our product portfolio, operating structure and markets to determine the future viability of our existing products and market positions. We may determine that the infrastructure and expenses necessary to sustain an existing business or product offering is greater than the potential contribution margin that will be obtainable in the future. As a result, we may determine that it is in our interest to exit or divest such existing business or product offering. For example, in fiscal 2007, we decided not to invest further in our DSG business due to OEMs incorporating other connectivity technologies directly into their products, the increased level of competition entering the market and the complexities of the retail channel. As a result, we wound down the DSG business throughout fiscal 2007 and exited it at March 31, 2007. However, we believe we may seek growth opportunities beyond those presented by our existing product lines by entering into strategic alliances, partnerships or acquisitions in order to scale our business, and we may not succeed in these efforts.

The impact of contract negotiations with our large OEM customers, industry technology transitions and market acceptance of our new products could cause our quarterly revenues to continue to decline. We depend on a small number of large OEM customers for a significant portion of our revenues, and we are engaged in contract negotiations concerning product specifications and price. These negotiations may prove to be unfavorable. We are also experiencing a significant impact on our revenues as the industry transitions from parallel to serial connectivity, as the revenue we generate from sales of our serial products has not grown at a fast enough rate to offset declines in sales of our parallel products; we expect this trend to continue in future periods. For example, in the second quarter of fiscal 2008, a significant customer notified us that we did not receive design wins for our next generation serial products, which will have a significant negative impact on our revenues beginning in approximately six months. In addition, the development of new products may not gain sufficient market acceptance or contribute significantly to revenue. These factors, individually or in the aggregate, could cause our quarterly revenues to continue to decline.

We depend on a few key customers and the loss of any of them could significantly reduce our net revenues. Historically, a small number of our customers have accounted for a significant 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. In addition, our largest customers have begun accounting for an increasingly greater percentage of our net revenues, which could magnify the effects if one of these customers elected to reduce or eliminate their purchases from us. For example, in the first half of fiscal 2008, IBM, Tech Data and Ingram Micro accounted for 35%, 12 % and 11% of our total net revenues, respectively, whereas in the first half of fiscal 2007, IBM and Dell accounted for 32% and 16% of our total net revenues, respectively. 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. For example, in the second quarter of fiscal 2008, a significant customer notified us that we did not receive design wins for our next generation serial products, which will have a significant negative impact on our revenues beginning in approximately six months. In addition, in the third quarter of fiscal 2007, we experienced a significant decrease in revenue compared to forecasts from IBM, which adversely affected our operating results. 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.

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, 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 such as these remains intense. Each of these personnel is an "at-will" employee, and, as a result, these employees could terminate their employment with us at any time without penalty and may seek employment with one or more of our competitors. Due to the general uncertainty regarding the outlook of our company, we have implemented a retention plan in efforts to retain key employees. We must also continue to motivate all other employees and keep them focused on our strategies and goals, which may be particularly difficult due to morale challenges posed by continued workforce reductions. The loss of any of our key employees could have a significant impact on our operations.

If we do not meet our restructuring objectives, we may have to continue to implement additional plans in order to reduce our operating costs. This may cause us to incur additional material restructuring charges and result in adverse effects on our employee capacities. We have implemented several restructuring plans to reduce our operating costs and recorded related restructuring charges of $5.0 million, $3.7 million, $10.4 million and $5.9 million, in the first half of fiscal 2008, and fiscal years 2007, 2006 and 2005, respectively. The restructuring plans primarily involved the reduction of our workforce and the closure of certain facilities, which included our manufacturing operations in Singapore. The goals of our older plans were to support future growth opportunities, focus on investments that grow revenues and increase operating margins. Our recent goals involve better alignment of our cost structure with our anticipated revenue stream and improving our results of operation and cash flow. We may not realize the anticipated benefits of the restructuring plans we initiated and may be required to implement further restructuring plans, which may lead us to incur material restructuring charges. Further, our restructuring plans may not achieve the original goals we had in implementing them, which could result in a potential adverse effect on employee capabilities 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 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 SATA technology and delivered our products based on SAS technology to certain major customers for testing and integration. We will not succeed in generating significant revenues from our new SATA and SAS technology products if the market does not adapt to these new technologies, which would, over time, adversely affect our net revenues and operating results.

If we are unable to compete effectively, our net revenues and gross margins 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 products employing Ultra 320 technology has adversely affected revenues from our SCSI products. In addition, revenues for our SATA products sold to our OEM customers has declined and we expect these revenues to continue to decline, as our products are at the end of their life cycles and certain of our customers have moved to other suppliers to obtain next generation SATA technologies.

Our future revenue growth in our DPS segment remains largely dependent on the success of our new products addressing serial technologies (for example, SAS and SATA), new OEM design wins, channel growth and our ability to develop new products in other markets. Our future revenue growth in our SSG segment remains largely dependent on the successful development and marketing of new products and our ability to expand our presence in the reseller channel. Our future operating results will also be influenced by our ability to participate in the development of the network storage market in which we face intense competition from other companies that are also focusing on networked storage products. If we experience an incremental decline in our revenues beyond the declines anticipated, and we are unable to effectively manage our inventory levels, we may be required to record additional inventory-related charges, which would adversely impact our gross margins.

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; or
- Prevent price competition from eroding margins.

In order to execute our strategies, we may enter into strategic alliances with, partner with, invest in or acquire companies with complementary or strategic products or technologies. Costs associated with these strategic alliances, investments or acquisitions may adversely affect our results of operations. This impact could be exacerbated if we are unable to integrate the acquired companies, products or technologies. We may pursue strategic transactions, partnerships, investments and acquisitions in order to scale our business as sales of our core parallel products continue to decline. This includes both strengthening our partnerships in silicon-based technology and broadening our silicon-based intellectual property to improve our business opportunities, primarily for OEM customers. In order to be successful in the strategic alliances, partnerships, investments or acquisitions that we may make, we must:

- Conduct strategic alliances, partnerships, investments or acquisitions that enhance our time to market with new products;
- Successfully prevail over competing bidders for target strategic alliances, partnerships, investments or acquisitions at an acceptable price;
- Invest in companies and technologies that contribute to the profitable growth of our business;
- Integrate acquired operations into our business and maintain uniform standards, controls and procedures;
- Retain the key employees of the acquired operations; and
- Develop the capabilities necessary to exploit newly acquired technologies.

The benefits of any strategic alliances, partnerships, investments or acquisitions may prove to be less than anticipated and may not outweigh the costs reported in our financial statements, and we may not obtain the operational leverage or realize the improvements we intend or desire with the actions we take.

Completing any potential future strategic alliances, partnerships, investments or acquisitions could cause significant diversions of management time and resources and divert focus from the activities of our current operations. We may encounter difficulty in integrating and assimilating the operations and personnel of the acquired companies into our operations or the acquired technology and rights into our services. We may also lack the experience or expertise in the new products and markets, which may impair the relationships with customers or suppliers of the acquired business. The acquisition of new operations may require us to develop additional internal controls to support these new operations. We may experience material deficiencies or weaknesses in our internal control over financial reporting as a result of the addition of new operations or due to changes to our internal controls, which could have a material impact on our results of operations when corrected. Additionally, we may not be successful in overcoming these risks or any other problems encountered in connection with these or other acquisitions, strategic alliances or investments, which could result in an adverse impact on our ability to develop or sustain the acquired business.

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. If we were to use a substantial portion of our available cash, we might need to repatriate cash from our subsidiaries, which may cause us to incur additional income taxes at up to the United States Federal statutory rate of 40%. In addition, we may be required to invest significant resources in order to perform under a strategic alliance or partnership, or to complete an acquisition or investment, which could adversely affect our results of operations, at least in the short-term, even if we believe the acquisition, strategic alliance or investment will benefit us in the long-term.

If we are not successful in completing a strategic alliance or partnerships with or acquisition of companies with complementary or strategic products or technologies, our future growth may be hindered. In order to scale our operations relative to our cost basis, we may need to identify attractive strategic alliance, partnership or acquisition candidates and complete a transaction with them. If we fail to identify and complete a successful strategic alliance, partnership or acquisition, we expect that our revenues will continue to decline and we may be at a competitive disadvantage or we may be adversely affected by negative market perceptions, any of which may have a material 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 51% of our revenues for the first half of fiscal 2008 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. In addition, in the first quarter of fiscal 2008, we terminated our relationship with some of our distributors, in order to improve the focus on our products and strengthen our relationship with the remaining distributors. This action may not have the intended results that we are anticipating, which could adversely affect our financial results in the short-term.

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. For example, some of our distributors threatened to stop selling our products or make pricing of our products non-competitive if we did not agree to absorb their costs to comply with the Waste Electrical and Electronic Equipment Directive with respect to our products. 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 contract manufacturers and subcontractors, and if they fail to meet our manufacturing needs, it could delay shipments of our products and result in the loss of customers or revenue and increased manufacturing costs, which would have an adverse effect on our results. We rely on contract manufacturers for manufacturing our products and subcontractors for the assembly and packaging of the integrated circuits included in our products. On December 23, 2005, we entered into a three-year contract manufacturing agreement with Sanmina-SCI, whereby Sanmina-SCI upon the closing of the transaction on January 9, 2006, assumed manufacturing operations for a majority of our products. The transition of the manufacturing facilities did not go as well as expected, as Sanmina-SCI experienced material shortages that impacted its ability to meet delivery commitments on a consistent basis, which negatively impacted our revenues and operating results in the first quarter of fiscal 2007. We continued to see an impact in our channel penetration in the second and third quarters of fiscal 2007 as a result of not meeting the demands in the first quarter of fiscal 2007. We must work closely with Sanmina-SCI to ensure that products are delivered on a timely basis. In addition, we must ensure that Sanmina-SCI continues to provide quality products. If Sanmina-SCI is unwilling or unable to meet our supply needs including timely delivery and adherence to standard quality, we could lose customers or revenue and incur increased manufacturing costs, which would have an adverse effect on our results. Due to the nature of this relationship, and the continuous changes in the prices of components and parts, we are in ongoing negotiations with Sanmina-SCI concerning product pricing. Any adverse outcome of future disputes concerning product pricing could adversely impact our gross margins. We have no long-term agreements with our assembly and packaging subcontractors. We also employ SMTC to manufacture certain ServeRAID products, SuperMicro and USI to manufacture certain systems products, and Amkor Technology and Advanced Semiconductor Engineering to final assemble and test operations related to our ASIC products. We cannot assure you that 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 contract manufacturers and subcontractors could delay shipments and result in the loss of customers or revenues, which could have an adverse effect on our financial results.

We currently purchase all of the finished production silicon wafers and other key components used in our products from 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 from Taiwan Semiconductor Manufacturing Company, or TSMC. In addition, we purchase some of our key components used in our products from sole-source suppliers. The manufacture of semiconductor devices and other components are 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 suppliers to allocate available capacity to other customers. Any prolonged inability to obtain wafers and other key components 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 suppliers will continually seek to convert their processes for manufacturing wafers and key components to more advanced process technologies. Such conversions entail inherent technological risks that can affect yields and delivery times. If for any reason the suppliers we use are unable or unwilling to satisfy our wafer and other key component needs, we will be required to identify and qualify additional suppliers. Additional suppliers for wafers and other key components may be unavailable, may take significant amounts of time to qualify or may be unable to satisfy our requirements on a timely basis.

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. For example, in the third quarter of fiscal 2007, the demand for our products from certain OEM customers substantially declined from their initial forecasts, which adversely affected our operating results. As 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.

If we fail to adequately forecast demand for our products, we may incur excess product inventory costs and our financial results will be adversely affected. We have a three-year contract manufacturing agreement with Sanmina-SCI to manufacture a majority of our products. As the sales of our products are completed through standard purchase orders rather than long-term contracts, we provide our contract manufacturer forecasts based on anticipated future demand from our customers. To the extent that our customers' demands fall below their initial forecast and we are unable to sell the product to another customer, and because our purchase commitment lead time to manufacture products with the contract manufacturer is longer than the lead time for a customer to cancel or reschedule an order, we may be exposed to excess product inventory costs and our financial results will be adversely affected. For example, in the third quarter of fiscal 2007, we incurred significant inventory-related charges of $7.8 million due to a significant decline in our revenue stream.

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 this Risk Factors section.

Our operating expenses are largely based on anticipated revenues, and a large portion of our expenses, including facility costs 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 securities analysts or investors, the market price of our common stock could decline substantially.

Our operating results may be adversely affected by unfavorable economic and market conditions and the uncertain geopolitical environment. Adverse economic conditions in some markets may impact our business, which could result in:

- Reduced demand for our products;
- Increased price competition for our products;
- Increased risk of excess and obsolete inventories; and
- Higher operating costs as a percentage of revenues.

Demand for our products would likely be negatively affected if demand in the server and network storage markets declines. 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.

We may be subject to a higher effective tax rate that could negatively affect our results of operations and financial position. We are subject to income and other taxes in the United States and in the foreign taxing jurisdictions in which we operate. The determination of our worldwide provision for income taxes and current and deferred tax assets and liabilities requires judgment and estimation and is subject to audit and redetermination by the taxing authorities. Although we believe our tax estimates are reasonable, the following factors could cause our effective tax rate to be materially different than tax amounts recorded in our consolidated financial statements:

- The jurisdiction in which profits are determined to be earned and taxed;
- Adjustments to estimated taxes upon finalization of various tax returns;
- Changes in available tax credits;
- Changes in share-based compensation expense;
- Changes in tax laws, the interpretation of tax laws either in the United States or abroad or the issuance of new interpretative accounting guidance related to uncertain transactions and calculations where the tax treatment was previously uncertain; and
- The resolution of issues arising from tax audits with various tax authorities.

The factors noted above may cause a higher effective tax rate that could materially affect our income tax provision, results of operations or cash flows in the period or periods for which such determination is made.

We held approximately $92.2 million of cash, cash equivalents and marketable securities at our subsidiaries in Singapore and Cayman Islands at September 30, 2007. During the fourth quarter of fiscal 2005, we repatriated $360.6 million of cash from Singapore to the United States in connection with the American Jobs Creation Act of 2004 which provided a one-time deduction of 85% for certain dividends from controlled foreign corporations. If the amount repatriated does not qualify for the one-time deduction, we could incur additional income taxes at up to the United States Federal statutory rate of 35%, which would negatively affect our results of operations and financial condition.

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:

- AFP
- ATA
- CIFS

- Fibre channel
- FTP
- HTTP
- IPsec
- iSCSI
- NFS
- PCI
- PCIe
- PCI-X
- RAID
- SAS
- SATA
- SCSI
- SMI-S
- Ultra DMA
- USB

Operating Systems:

- Linux
- Macintosh
- Netware
- OS/2
- UNIX
- Windows

If user 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.

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:

- I/O and RAID ASICs;
- Microprocessors;
- Peripherals;
- Operating system software;
- Server motherboards; and
- Enclosures.

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 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 and financial results could be adversely affected.

We are subject to various environmental laws and regulations that could impose substantial costs upon us and may adversely affect our business. We may from time to time be subject to various state, federal, and international laws and regulations governing the environment, including laws regulating the manufacture and distribution of chemical substances and laws restricting the presence of certain substances in electronics products. For example, the European Parliament enacted the RoHS directive, which restricts the sale of new electrical and electronic equipment containing certain hazardous substances, including lead. We recorded an excess inventory expense of $1.9 million in fiscal 2006 related to the transition of our products to comply with the RoHS directive. If any of our products that are designated to be RoHS compliant are deemed to be non-compliant, we may suffer a loss of revenue, be unable to sell affected products in certain markets or countries and be at a competitive disadvantage.

Similar legislation has been or may be enacted in other jurisdictions and countries. If our products become non-compliant with the various environmental laws and regulations, we could incur substantial costs which could negatively affect our results of operations and financial position.

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 competitors. 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.

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. In addition, we or our customers may be impacted by component shortages if components that comply with the RoHS Directive are not available. Similar shortages of components used in our products or our customers' products could adversely affect our net revenues and financial results in future periods.

Product quality problems could lead to reduced revenues and gross margins. We produce highly complex products that incorporate leading-edge technologies, 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 costs 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 gross margins.

Our charter documents and Delaware law contain anti-takeover provisions that could prevent, discourage or delay a change in control or management, which may affect the price of our common stock. Some provisions of our certificate of incorporation and bylaws could have the effect of making it more difficult for a potential acquirer to acquire a majority of our outstanding voting stock. These include completing procedural requirements for stockholders holding 5% of voting shares to take action by written consent and restricting the ability of stockholders to call special meetings. In addition, the indenture relating to the 3/4% Notes provides that in the event of certain changes in control, each holder of the 3/4% Notes will have the right to require us to repurchase such holder's 3/4% Notes at a price equal to the principal amount of the 3/4% Notes being purchased, plus any accrued and unpaid interest. We are also subject to provisions of Section 203 of the Delaware General Corporation Law which prohibits us from engaging in any business combination with an interested stockholder for a period of three years from the date the person became an interested stockholder, unless certain conditions are met. These restrictions could have the effect of delaying or preventing a change of control or management.

Some of our products contain "open source" software, and any failure to comply with the terms of one or more of these open source licenses could negatively affect our business. Some of our products are distributed with software licensed by its authors or other third parties under so-called "open source" licenses, including, for example, the GNU General Public License, or GPL, GNU Lesser General Public License, or LGPL, the Mozilla Public License, the BSD License, and the Apache License. Some of those licenses may require as a condition of the license that we make available source code for modifications or derivative works we create based upon, incorporating, or using the open source software, that we provide notices with our products, and/or that we license such modifications or derivative works under the terms of a particular open source license or other license granting third parties certain rights of further use. If an author or other third party that distributes such open source software were to allege that we had not complied with the conditions of one or more of those open source licenses, we could be required to incur legal expenses in defending against such allegations, and if our defenses were not successful we could be enjoined from distribution of the products that contained the open source software and required to either make the source code for the open source software available, to grant third parties certain rights of further use of our software, or to remove the open source software from our products, which could disrupt our distribution and sale of some of our products. In addition, if we combine our proprietary software with open source software in a certain manner, we could under some of the open source licenses, be required to release the source code of our proprietary software. If an author or other third party that distributes open source software were to obtain a judgment against us based on allegations that we had not complied with the terms of any such open source licenses, we could also be subject to liability for copyright infringement damages and breach of contract for our past distribution of such open source software.

Our international operations involve a number of political, economic and other risks that could adversely affect our ability to sell our products in certain countries, create local economic conditions that reduce demand for our products among our target markets and expose us to potential disruption in the supply of necessary components. Our international operations and sales are subject to political and economic risks, including political instability, currency controls, and changes in import/export regulations, tariffs and freight rates. We maintain a research and development center in Bangalore, India, which we expanded in fiscal 2007. Many of our subcontractors are primarily located in Asia and we have sales offices and customers located throughout Europe, Japan and other countries. 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 markets, expose us to potential disruption in the supply of necessary components or otherwise adversely affect our ability to generate revenue and operate effectively. In addition, the operations of our remote locations are subject to management oversight and control. If our business practices and corporate controls are not adhered to worldwide, our business and financial results could be adversely affected.

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. For example, in fiscal 2007, we recorded an impairment charge of $13.2 million on intangible assets related to our decision to retain and operate the Snap Systems portion of the systems business. In fiscal 2006, we recorded a goodwill impairment charge of $90.6 million related to our DPS segment and an impairment charge of $10.0 million to write-down the Snap Systems portion of the systems business' long-lived assets to fair value. In fiscal 2005, we recorded a goodwill impairment charge of $52.3 million related to our former Channel segment. We will continue to evaluate the recoverability of the carrying amount of our long-lived assets, and we may incur substantial impairment charges in the future 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. For example, we have identified key accounting estimates in our Critical Accounting Policies in our Annual Report on Form 10-K for the fiscal year ended March 31, 2007, which include revenue recognition, inventory, goodwill, stock-based compensation and income taxes. In addition, we have updated our Critical Accounting Policy in the first quarter of fiscal 2008 related to income taxes, as discussed in further detail in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies." Furthermore, Note 1 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended March 31, 2007 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.

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 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, in fiscal 2005, we, Nevada SCSI Enterprises, Inc. and Thomas A. Gafford (jointly, "NSE") entered into a license and release agreement, pursuant to which we paid NSE $1.7 million as a one-time, fully paid-up license fee to settle NSE's claims that some of our products infringed certain patents. In addition, 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 paid, in annual installments, an aggregate patent fee of $13.3 million. A number of the licensed patents have either expired or are no longer significant to our product portfolio. If we should determine that it is necessary to extend the term of the patent license, we believe that we will be able to reach agreement with IBM for such an extension, without interruption to our business operations. The risks of our receiving additional claims from third parties may be increased 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 management time and attention, and could adversely affect our business and financial results.

We may be required to pay additional federal income taxes which could negatively affect our results of operations and financial position. We were subject to IRS audits for our fiscal years 1994 through 2003. During the third quarter of fiscal 2007, we reached resolution with the United States taxing authorities relating to those fiscal years. However, our tax provision continues to reflect judgment and estimation regarding components of the settlement such as interest calculations and the application of the settlements to state and local taxing jurisdictions. Although we believe our tax estimates are reasonable, the ultimate tax outcome may materially differ from the tax amounts recorded in our condensed consolidated financial statements and may cause a higher effective tax rate that could materially affect our income tax provision, results of operations or cash flows in the period or periods for which such determination is made. The IRS is currently auditing our Federal income tax returns for the fiscal 2004 through 2006 audit cycle. We believe that we have provided sufficient tax provisions for these years and the ultimate outcome of the IRS audits will not have a material adverse impact on our financial position or results of operations in future periods. However, we cannot predict with certainty how these matters will be resolved and whether we will be required to make additional tax payments.

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 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. 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.

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. At September 30, 2007, the carrying value of such investments aggregated $1.7 million. 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' investments in these companies may be impaired, which in turn, could result in impairment of our investment in these venture funds. For example, in fiscal 2007, we recorded a charge of $0.9 million relating to an other-than-temporary decline in value of a minority investment.

Changes in securities laws and regulations have increased and may continue to increase our costs. Changes in the laws and regulations affecting public companies, including the provisions of the Sarbanes-Oxley Act of 2002 and rules promulgated by the Securities and Exchange Commission, have increased and may continue to increase our expenses as we devote resources to respond to their requirements. In particular, we incurred additional administrative expense to 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.

In addition, the NASDAQ Global 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.

Internal control deficiencies or weaknesses that are not yet identified could emerge. Over time we may identify and correct deficiencies or weaknesses in our internal control over financial reporting and, where and when appropriate, report on the identification and correction of these deficiencies or weaknesses. However, the internal control procedures can provide only reasonable, and not absolute, assurance that deficiencies or weaknesses are identified. Deficiencies or weaknesses that are not yet identified could emerge, and the identification and corrections of these deficiencies or weaknesses could have a material impact on our results of operations.

Internal control issues that appear minor now may later become material weaknesses. We are required to publicly report on deficiencies or weaknesses in our internal control over financial reporting that meet a materiality standard as required by law and related regulations and interpretations. Management may, at a point in time, accurately categorize a deficiency or weakness as immaterial or minor and therefore not be required to publicly report such deficiency or weakness. Such determination, however, does not preclude a change in circumstances such that the deficiency or weakness could, at a later time, become a material weakness that could have a material impact on our results of operations.

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, operating results, and financial condition. In addition, as a 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.

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 securities 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 3/4% Convertible Senior Subordinated Notes due in 2023, or the 3/4% Notes, and the likelihood of the 3/4% Notes being converted into our common stock.

Item 6. Exhibits

Exhibit No.		Exhibit	Filed with This 10-Q	Form	File No.	Filing Date	Exhibit No. as Filed
10.1		Executive Employment Agreement of Subramanian “Sundi” Sundaresh, effective August 23, 2007.	X				
10.2		Executive Employment Agreement of Christopher O’Meara, effective August 21, 2007.	X				
10.3		Executive Employment Agreement of Manoj Goyal, effective August 23, 2007.	X				
10.4		Executive Employment Agreement of Marcus Lowe, effective August 21, 2007.	X				
10.5		Executive Employment Agreement of Stephen Terlizzi, effective August 24, 2007.	X				
10.6	*	Incentive Bonus Agreement of Subramanian “Sundi” Sundaresh, effective September 4, 2007.	X				
10.7		Retention Bonus Agreement of Christopher O’Meara, effective August 14, 2007.	X				
10.8		Retention Bonus Agreement of Manoj Goyal, effective August 14, 2007.	X				
10.9		Retention Bonus Agreement of Marcus Lowe, effective August 14, 2007.	X				
10.10		Retention Bonus Agreement of Stephen Terlizzi, effective August 14, 2007.	X				
10.11		Separation Agreement of Russell Johnson, effective September 22,2007	X				
31.1		Certification of pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X				
31.2		Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X				
32.1		Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X				

* Confidential treatment has been granted for portions of this agreement.

SIGNATURES

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

ADAPTEC, INC.

By: /s/ CHRISTOPHER G. O'MEARA

Christopher G. O'Meara
Vice President and Chief Financial Officer
(principal financial officer)

Date: November 6, 2007

By: /s/ JOHN M. WESTFIELD

John M. Westfield
Vice President and Corporate Controller
(principal accounting officer)

Date: November 6, 2007

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* Confidential treatment has been granted for portions of this agreement.

Exhibit 31.1

CERTIFICATION

I, Subramanian Sundaresh, 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-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of 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/ SUBRAMANIAN SUNDARESH

Subramanian Sundaresh
Chief Executive Officer

Date: November 6, 2007

Exhibit 31.2

CERTIFICATION

I, Christopher O’Meara, 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-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of 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/ CHRISTOPHER O’MEARA
Christopher O’Meara
Chief Financial Officer

Date: November 6, 2007

Exhibit 32.1

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

I, Subramanian Sundaresh, 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 September 30, 2007 (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/ SUBRAMANIAN SUNDARESH
	Subramanian Sundaresh
Date: November 6, 2007	Chief Executive Officer

I, Christopher O'Meara, 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/ CHRISTOPHER O'MEARA
Date: November 6, 2007	Christopher O'Meara
	Chief Financial Officer