

ADAPTEC INC
Form DEF 14A
July 15, 2005

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SCHEDULE 14A

(Rule 14a-101)
**INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a)
of the Securities Exchange Act of 1934**

Filed by the Registrant
Filed by a party other than the Registrant

Check the appropriate box:

- Preliminary proxy statement
- Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2)).
- Definitive proxy statement
- Definitive additional materials
- Soliciting material under Rule 14a-12

ADAPTEC, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of filing fee (Check the appropriate box):

- No fee required.
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July 15, 2005

To our stockholders:

You are cordially invited to attend our 2005 Annual Meeting of Stockholders (the "Annual Meeting") to be held at our principal executive offices located at 691 South Milpitas Boulevard, Milpitas, California 95035 on Thursday, August 25, 2005 at 10:00 a.m., local time.

The matters to be acted upon at the Annual Meeting are described in detail in the accompanying Notice of 2005 Annual Meeting of Stockholders and Proxy Statement.

If you received your annual meeting materials by mail, the Notice of 2005 Annual Meeting of Stockholders, Annual Report, Proxy Statement and proxy card are enclosed. If you received your annual meeting materials by e-mail, the e-mail contains voting instructions and links to the annual meeting materials on the Internet.

Please use this opportunity to contribute to our company by voting on the matters to come before this Annual Meeting. **Whether or not you plan to attend the Annual Meeting, you can cast your vote online (beneficial holders only), even if you did not receive your annual meeting materials electronically.** To vote online, follow the instructions for online voting contained within your annual meeting materials. In addition, you may vote by telephone by following the instructions for telephone voting contained within your annual meeting materials. If you received your annual meeting materials by mail and do not wish to vote online or by telephone, or you are a registered stockholder (see definition in the accompanying Proxy Statement), please complete, date, sign and promptly return the enclosed proxy card in the enclosed postage-paid envelope before the Annual Meeting so that your shares will be represented at the Annual Meeting. Voting online, by telephone or by returning the proxy card does not deprive you of your right to attend the Annual Meeting and to vote your shares in person.

We encourage you to conserve natural resources, as well as significantly reduce printing and mailing costs, by **signing up for electronic delivery of Adaptec stockholder communications.** For more information, see the "Electronic Delivery of Stockholder Communications" section of the enclosed Proxy Statement.

We hope to see you at the Annual Meeting.

Sincerely,

D. Scott Mercer
Interim Chief Executive Officer

Adaptec, Inc.
691 South Milpitas Boulevard
Milpitas, California 95035

NOTICE OF 2005 ANNUAL MEETING OF STOCKHOLDERS

To our stockholders:

Our 2005 Annual Meeting of Stockholders ("Annual Meeting") will be held at our principal executive offices located at 691 South Milpitas Boulevard, Milpitas, California 95035 on Thursday, August 25, 2005 at 10:00 a.m., local time.

At the Annual Meeting, you will be asked to consider and vote upon the following matters:

1. The election of seven directors to our Board of Directors, each to serve until our 2006 Annual Meeting of Stockholders and until his or her successor has been elected and qualified or until his or her earlier resignation, death or removal. Our Board of Directors intends to present the following nominees for election as directors:

Carl J. Conti Joseph S. Kennedy Robert J. Loarie Douglas E. Van Houweling

Lucie J. Fjeldstad Ilene H. Lang D. Scott Mercer

2. The approval of a stock option exchange program for employees (excluding Section 16 officers and directors) providing for the exchange of stock options previously granted under our stock plans having an exercise price of \$7.00 or greater per share for a lesser number of stock options to be granted following the expiration of a tender offer to be made to such employees.

3. The ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2006.

4. The transaction of any other business that may properly come before the Annual Meeting or any adjournment or postponement of the Annual Meeting.

These items of business are more fully described in the attached Proxy Statement. Only stockholders of record at the close of business on June 27, 2005 are entitled to notice of and to vote at the Annual Meeting or any adjournment or postponement of the Annual Meeting.

By order of the Board of Directors

Dennis R. DeBroeck
Secretary

Milpitas, California
July 15, 2005

Whether or not you plan to attend the Annual Meeting in person, please either cast your vote online, by telephone, or by completing, dating, signing and promptly returning the enclosed proxy card in the enclosed postage-paid envelope before the Annual Meeting so that your shares will be represented at the Annual Meeting.

Adaptec, Inc.
691 South Milpitas Boulevard
Milpitas, California 95035

PROXY STATEMENT

July 15, 2005

The accompanying proxy is solicited on behalf of the Board of Directors of Adaptec, Inc., a Delaware corporation (the "Company"), for use at the 2005 Annual Meeting of Stockholders ("Annual Meeting") to be held at our principal executive offices located at 691 South Milpitas Boulevard, Milpitas, California 95035 on Thursday, August 25, 2005 at 10:00 a.m., local time. This Proxy Statement and the accompanying form of proxy card were first mailed to stockholders on or about July 15, 2005. Our Annual Report for the 2005 fiscal year is enclosed with this Proxy Statement.

Record Date; Quorum

Only holders of record of common stock at the close of business on June 27, 2005 will be entitled to vote at the Annual Meeting. At the close of business on the record date, we had 112,491,135 shares of common stock outstanding and entitled to vote. A majority of the shares outstanding on the record date, present in person or represented by proxy, will constitute a quorum for the transaction of business at the Annual Meeting.

Effect of Abstentions and "Broker Non-Votes"

If a stockholder indicates on his or her proxy card that the stockholder wishes to abstain from voting, including a broker holding its customers' shares of record who cause abstentions to be recorded, these shares are considered present and entitled to vote at the Annual Meeting. These shares will count toward determining whether or not a quorum is present. However, these shares will not be taken into account in determining the outcome of any of the proposals.

If a stockholder does not give a proxy to his or her broker with instructions as to how to vote the shares, the broker has authority under New York Stock Exchange rules to vote those shares for or against "routine" matters, such as the election of directors to our Board of Directors and the ratification of PricewaterhouseCoopers LLP as our independent registered public accounting firm. Brokers cannot vote on their customers' behalf on "non-routine" proposals such as the approval of the stock option exchange program for employees (excluding Section 16 officers and directors) providing for the exchange of stock options previously granted under our stock plans having an exercise price of \$7.00 or greater per share for a lesser number of stock options to be granted following the expiration of a tender offer to be made to such employees (the "Option Exchange Program"). These rules apply to us notwithstanding the fact that shares of our common stock are traded on The Nasdaq National Market. If a broker votes shares that are unvoted by its customers for or against a "routine" proposal, these shares are counted for the purpose of establishing a quorum and also will be counted for the purpose of determining the outcome of such "routine" proposals. If a broker chooses to leave these shares unvoted, even on "routine" matters, the shares will be counted for the purpose of establishing a quorum, but not for determining the outcome of any of the proposals.

Voting Rights; Required Vote

Because brokers cannot vote "unvoted" shares on behalf of their customers for "non-routine" matters such as approval of our Option Exchange Program, it is very important that stockholders vote their shares. If you do not vote your shares, you will not have a say in the important issues to be considered at the Annual Meeting.

Stockholders are entitled to one vote for each share of common stock held as of the record date. Directors will be elected by a plurality of the shares of common stock present in person or represented by proxy at the Annual Meeting and entitled to vote on the election of directors. Stockholders do not have the right to cumulate their votes in the election of directors. Approval of each of Proposal No. 2 approving our Option Exchange Program and Proposal No. 3 ratifying the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2006 requires the affirmative vote of a majority of the shares represented and voting at the Annual Meeting, either in person or by proxy, provided that the affirmative votes must be not less than a majority of the required quorum for the Annual Meeting. The inspector of elections appointed for the Annual Meeting will separately tabulate the relevant affirmative and negative votes, abstentions and broker non-votes for each proposal.

Voting of Proxies

Most stockholders have three options for submitting their votes, by: (a) Internet, (b) telephone or (c) mail. If you have Internet access, you may submit your proxy from any location in the world by following the "Vote by Internet" instructions on the proxy card. If you live in the United States or Canada, you may submit your proxy by following the "Vote by Telephone" instructions on the proxy card. If you complete and properly sign the proxy card you receive and return it in the prepaid envelope to us, it will be voted in accordance with the specifications made on the proxy card. If no specification is made on a signed and returned proxy card, the shares represented by the proxy will be voted "for" the election to the Board of Directors of each of the nominees named on the proxy card, "for" approval of the Option Exchange Program, "for" ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2006 and "for" any other matter that may be properly brought before the Annual Meeting. **We encourage stockholders with Internet access to record your vote on the Internet or, alternatively, to vote by telephone.** Internet and telephone voting is convenient, saves on postage and mailing costs and is recorded immediately, minimizing risk that postal delays may cause your vote to arrive late and therefore not be counted. If you attend the Annual Meeting, you also may vote in person, and any previously submitted votes will be superseded by the vote you cast at the Annual Meeting.

Adjournment of Annual Meeting

If a quorum is not present to transact business at the Annual Meeting or if we do not receive sufficient votes in favor of the proposals by the date of the Annual Meeting, the persons named as proxies may propose one or more adjournments of the Annual Meeting to permit solicitation of proxies. Any adjournment would require the affirmative vote of a majority of the shares present in person or represented by proxy at the Annual Meeting.

Expenses of Soliciting Proxies

We will pay the expenses of soliciting proxies for the Annual Meeting. After the original mailing of the proxy cards and other soliciting materials, we and/or our agents also may solicit proxies by mail, telephone, facsimile, email or in person. After the original mailing of the proxy cards and other soliciting materials, we will request that brokers, custodians, nominees and other record holders of our common stock forward copies of the proxy cards and other soliciting materials to persons for whom they hold shares and request authority for the exercise of proxies. We will reimburse the record holders for their reasonable expenses if they ask us to do so. We have engaged The Proxy Advisory Group of Strategic Stock Surveillance, LLC to assist in the solicitation of proxies and provide related advice and information support at an estimated cost of \$8,500, plus expenses and disbursements.

Revocability of Proxies

Any person signing a proxy card in the form accompanying this Proxy Statement has the power to revoke it at any time before it is voted. A proxy may be revoked by signing and returning a proxy card with a later date, by delivering a written notice of revocation to Registrar and Transfer Company, 10 Commerce Drive, Cranford, New Jersey 07016, that the proxy is revoked or by attending the Annual Meeting and voting in person. The mere presence at the Annual Meeting of a stockholder who has previously appointed a proxy will not revoke the appointment. Please note, however, that if a stockholder's shares are held of record by a broker, bank or other nominee and that stockholder wishes to vote at the Annual Meeting, the stockholder must bring to the Annual Meeting a letter from the broker, bank or other nominee confirming the stockholder's beneficial ownership of the shares and that the broker, bank or other nominee is not voting the shares at the Annual Meeting. In the event of multiple online or telephone votes by a stockholder, each vote will supersede the previous vote and the last vote cast will be deemed to be the final vote of the stockholder unless such vote is revoked in person at the Annual Meeting according to the revocability instructions outlined above.

Electronic Delivery of Stockholder Communications

If you received your annual meeting materials by mail, we encourage you to help us conserve natural resources, as well as significantly reduce printing and mailing costs, by **signing up to receive your stockholder communications electronically via e-mail**. With electronic delivery, you will be notified via e-mail as soon as the Annual Report and Proxy Statement are available on the Internet, and you can easily submit your stockholder votes online. Electronic delivery also can eliminate duplicate mailings and reduce the amount of bulky paper documents you maintain in your personal files. To sign up for electronic delivery:

Registered Owner (you hold your Adaptec shares in your own name through our transfer agent, Registrar and Transfer Company, or you are in possession of stock certificates): follow the instructions on the proxy card enclosed with your annual meeting materials to enroll.

Beneficial Owner (your shares are held by a brokerage firm, a bank or a trustee): visit www.icsdelivery.com to enroll.

Your electronic delivery enrollment will be effective until you cancel it. If you have questions about electronic delivery, please call our Stock Administration Department at (408) 957-5624.

PROPOSAL NO. 1 ELECTION OF DIRECTORS

The Board of Directors currently consists of seven directors. Robert N. Stephens, our former President, Chief Executive Officer and one of our directors retired as an officer and director effective May 25, 2005. It is intended that the proxies will be voted for the seven nominees named below for election to our Board of Directors unless authority to vote for any such nominee is withheld. All of the nominees are presently directors of the Company.

Proxies cannot be voted for a greater number of persons than the number of nominees named. If any nominee for any reason is unable to serve or for good cause will not serve, the proxies may be voted for such substitute nominee as the proxy holder may determine. We are not aware of any nominee who will be unable to or for good cause will not serve as a director. The term of office of each person elected as a director will continue until the next annual meeting of our stockholders or until his or her successor has been elected and qualified.

Directors/Nominees

The names of the nominees, their ages as of the date of this Proxy Statement and certain information about them are set forth below:

Name of Director	Age	Principal Occupation	Director Since
Carl J. Conti	67	Independent management consultant	1995
Lucie J. Fjeldstad	61	Retired	2001
Joseph S. Kennedy	58	President and Chief Executive Officer of Omneon, Inc.	2001
Ilene H. Lang	60	President of Catalyst, Inc.	1997
Robert J. Loarie	62	Advisory Director of Morgan Stanley & Co.	1981
D. Scott Mercer	54	Interim Chief Executive Officer of Adaptec, Inc.	2003
Douglas E. Van Houweling	61	President and Chief Executive Officer of the University Corporation for Advanced Internet Development	2002

Mr. Conti has been an independent management consultant since 1991. From 1959 to 1991, Mr. Conti held a variety of technical and managerial positions with International Business Machines Corporation, a manufacturer of computer hardware and software, including as a Senior Vice President from 1987 to 1991.

Ms. Fjeldstad has been retired since December 2001. From September 1999 to December 2001, Ms. Fjeldstad served as Chief Executive Officer of DataChannel, Inc., a software development company. She also served as President of DataChannel, Inc. from October 1998 to December 2001.

Mr. Kennedy has served as the President and Chief Executive Officer of Omneon, Inc., a developer of video media servers for the broadcast industry, since June 2003. From June 1999 until March 2002, he served as President, Chief Executive Officer and Chairman of the Board of Pluris Inc., a developer of Internet routers. Mr. Kennedy was the founder and Chief Executive Officer of Rapid City Communications from February 1996 until that company was acquired by Bay Networks in June 1997, after which time he served as President and General Manager of Bay Networks' switching products division until June 1998.

Ms. Lang has served as President of Catalyst, Inc., a non-profit research and advisory organization for women in business, since September 2003. From June 2000 to August 2003, Ms. Lang worked as a corporate advisor. From May 1999 to May 2000, Ms. Lang served as President and Chief Executive Officer of Individual.com, Inc., a wholly-owned subsidiary of Office.com, a provider of news to corporations, which was sold to Winstar Inc. in February 2000. Ms. Lang is also a director of Art Technology Group, Inc. and a director of a privately held company.

Mr. Loarie has served as an Advisory Director of Morgan Stanley & Co., a diversified investment firm, since April 2003, as a Managing Director from December 1997 until March 2003, and as a Principal of that firm from August 1992 until November 1997. Mr. Loarie also has served as a general partner or managing member of several venture capital investment partnerships or limited liability companies affiliated with Morgan Stanley since August 1992. Mr. Loarie is also a director of a privately held company.

Mr. Mercer was appointed to serve as our Interim Chief Executive Officer on May 25, 2005. Mr. Mercer had been a private investor since December 2004. Mr. Mercer served as a Senior Vice President and Advisor to the Chief Executive Officer of Western Digital Corporation, a supplier of disk drives to the personal computer and consumer electronics industries, from February 2004 through December 2004. Prior to that, Mr. Mercer was a Senior Vice President and the Chief Financial Officer of Western Digital Corporation from October 2001 through January 2004. From June 2000 to September 2001, Mr. Mercer served as Vice President and Chief Financial Officer of Teralogic, Inc., a supplier of semiconductors and software to the digital television industry. From June 1996 through May 2000, Mr. Mercer held various senior operating and financial positions with Dell, Inc., a provider of products and services required for customers to build their information-technology and Internet infrastructures. Mr. Mercer is also a director of Conexant Systems, Inc., NetRatings, Inc., palmOne, Inc. and a privately-held company.

Dr. Van Houweling has served as the President and Chief Executive Officer of the University Corporation for Advanced Internet Development (UCAID), the formal organization supporting Internet2, since October 1997. Dr. Van Houweling also serves as a professor in the School of Information at the University of Michigan. Before undertaking his responsibilities at UCAID, Dr. Van Houweling was Dean for Academic Outreach and Vice Provost for Information and Technology at the University of Michigan.

Composition of Board of Directors

Following the retirement of Mr. Stephens, the Board of Directors amended our Bylaws to reduce its size to seven directors to eliminate the vacancy created by the retirement of Mr. Stephens. All of our current directors will stand for re-election at the Annual Meeting, as described in this Proxy Statement.

Board of Directors Meetings and Committees

During the 2005 fiscal year, the Board of Directors met 15 times, including telephone conference meetings, and acted by unanimous written consent three times. No director attended fewer than 75% of the total number of meetings of the Board of Directors and the total number of meetings held by all committees of the Board of Directors on which the director served during the 2005 fiscal year, except that Mr. Kennedy attended 11 of the 15 meetings held by the Board of Directors, four of the six meetings held by the Audit Committee during the time he served as a member of the Audit Committee and the one meeting held by the Governance and Nominating Committee during the time he served as a member of the Governance and Nominating Committee. Three of the four meetings of the Board of Directors that Mr. Kennedy was unable to attend were unscheduled special meetings called by our Board of Directors on relatively short notice. Mr. Kennedy was subsequently briefed on the matters discussed at each of the meetings he was unable to attend.

Standing committees of the Board of Directors include the Audit Committee, Compensation Committee and Governance and Nominating Committee. All committees operate under written charters approved by the Board of Directors, which are available on our website at www.adaptec.com. Each of these charters also is available in print to any stockholder upon request.

We strongly encourage directors to attend our annual meetings of stockholders. The Board of Directors endeavors to hold its meetings on the same day as the annual meetings of stockholders to encourage director attendance. Each of our directors attended the 2004 Annual Meeting of Stockholders.

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Audit Committee. The current members of the Audit Committee are Joseph S. Kennedy, Ilene H. Lang and Robert J. Loarie. Messrs. Kennedy and Loarie and Ms. Lang are each independent directors as defined by the rules of The Nasdaq Stock Market. Mr. Kennedy joined the Audit Committee in October 2004, at which time Mr. Loarie ceased to be a member of the Audit Committee and was elected to the Compensation Committee. Mr. Loarie rejoined the Audit Committee in May 2005 in connection with Mr. Mercer's resignation from the Audit Committee to become our Interim Chief Executive Officer. Mr. Mercer had served as our "audit committee financial expert," as defined by the Securities and Exchange Commission, until his resignation from the Audit Committee in May 2005. Given the recent change in the composition of our Audit Committee, our Board of Directors has not had an opportunity to determine if any of the current members of the Audit Committee qualify as an "audit committee financial expert." If our Board of Directors determines that we do not have an "audit committee financial expert," we will add a new director to our Board of Directors and the Audit Committee who would qualify as an "audit committee financial expert." The Audit Committee met 11 times during the 2005 fiscal year, including telephone conference meetings. The Audit Committee assists the full Board of Directors in its general oversight of our financial reporting, internal controls and audit functions, and is directly responsible for the appointment, compensation and oversight of the work of our independent registered public accounting firm.

Compensation Committee. The current members of the Compensation Committee are Lucie J. Fjeldstad and Robert J. Loarie. The Compensation Committee met six times and acted by unanimous written consent seven times during the 2005 fiscal year. The Compensation Committee establishes our executive compensation policy, determines the salary and bonuses of our executive officers and recommends to the Board of Directors stock option grants for our executive officers.

Governance and Nominating Committee. The current members of the Governance and Nominating Committee are Lucie J. Fjeldstad and Douglas Van Houweling. Dr. Van Houweling and Ms. Fjeldstad are each independent directors as defined by the rules of The Nasdaq Stock Market. The Governance and Nominating Committee is responsible for reviewing the qualifications of potential candidates for membership on our Board of Directors and recommending such candidates to the full Board of Directors. In addition, the Governance and Nominating Committee makes recommendations regarding the structure and composition of our Board of Directors and advises and makes recommendations to the full Board of Directors on matters concerning corporate governance. The Governance and Nominating Committee met two times during the 2005 fiscal year.

Consideration of Director Nominees

Director Qualifications. The goal of the Governance and Nominating Committee is to ensure that our Board of Directors possesses a variety of perspectives and skills derived from high-quality business and professional experience. The Governance and Nominating Committee seeks to achieve a balance of knowledge, experience and capability on our Board of Directors. To this end, the Governance and Nominating Committee seeks nominees with high professional and personal ethics and values, an understanding of our business lines and industry, diversity of business experience and expertise, broad-based business acumen and the ability to think strategically. In addition, the Governance and Nominating Committee considers the level of the candidate's commitment to active participation as a director, both at board and committee meetings and otherwise. Although the Governance and Nominating Committee uses these and other criteria to evaluate potential nominees, we have no stated minimum criteria for nominees. When appropriate, the Governance and Nominating Committee may retain executive recruitment firms to assist in identifying suitable candidates. After its evaluation of potential nominees, the Governance and Nominating Committee submits its chosen nominees to the Board of Directors for approval. The Governance and Nominating Committee does not use different standards to evaluate nominees depending on whether they are proposed by our directors and management or by our stockholders.

Stockholder Nominees. The Governance and Nominating Committee will consider stockholder recommendations for director candidates. If a stockholder would like to recommend a director candidate for the next annual meeting of stockholders, the stockholder must deliver the recommendation to our Corporate Secretary at our principal executive offices no later than 45 days prior to the anniversary date of the mailing of our Proxy Statement in connection with the previous year's annual meeting of stockholders (the deadline for nominations for the 2006 Annual Meeting of Stockholders is June 1, 2006); provided, however, if the next annual meeting of stockholders occurs on a date more than 30 days earlier or later than the anniversary of the prior year's annual meeting of stockholders, then the Board of Directors will determine a date by which stockholders must submit director recommendations, which date will be a reasonable period prior to the date that we mail to stockholders our proxy materials for such annual meeting and will publicize such date (in a filing under the Securities Exchange Act of 1934 or by press release) at least 10 days before the date of that annual meeting. Recommendations for candidates should be accompanied by personal information about the candidate, including a list of the candidate's references, the candidate's resume or curriculum vitae and the other information required in the stockholder notice required by Section 2.15 of our Bylaws. A stockholder recommending a candidate may be asked to submit additional information as determined by our Corporate Secretary and as necessary to satisfy the rules of the Securities and Exchange Commission or The Nasdaq Stock Market. If a stockholder's recommendation is received within the time period set forth above and the stockholder has met the criteria set forth above, the Governance and Nominating Committee will evaluate such candidate, along with the other candidates being evaluated by the Governance and Nominating Committee, in accordance with the committee's charter and will apply the criteria described under "Consideration of Director Nominees Director Qualifications."

Independent Directors

Each of our directors other than Messrs. Conti and Mercer qualifies as "independent" in accordance with the rules of The Nasdaq Stock Market. The Nasdaq independence definition includes a series of objective tests, including that a director may not be our employee and that the director has not engaged in various types of business dealings with us. In addition, as further required by the Nasdaq rules, the Board of Directors has made a subjective determination as to each independent director that no relationships exist which, in the opinion of the Board of Directors, would interfere with the exercise of a director's independent judgment in carrying out the responsibilities of a director.

Communication with the Board

You may contact the Board of Directors by sending an email to *directors@adaptec.com* or by mail to Board of Directors, Adaptec, Inc., 691 S. Milpitas Boulevard, Milpitas, California 95035. An employee will forward these emails and letters directly to the Board of Directors. We reserve the right not to forward to the Board of Directors any abusive, threatening or otherwise inappropriate materials.

Corporate Governance Guidelines

The Board of Directors serves as our ultimate decision making body, except with respect to matters reserved for the decision of our stockholders. The Board of Directors has adopted Corporate Governance Principles to assist in the performance of its responsibilities. These principles are available on the Investors section of our website at *www.adaptec.com*.

Director Compensation

Cash Compensation. Carl J. Conti, Chairman of our Board of Directors, receives \$100,000 per year as compensation. For the 2005 fiscal year, our director compensation policy provided that all other non-employee directors receive a \$3,000 retainer per fiscal quarter and \$4,000 for each meeting of the Board of Directors attended other than telephonic meetings and are reimbursed for their expenses

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incurred in attending meetings of the Board of Directors. The chairperson of the Compensation Committee, currently Ms. Fjeldstad, receives an additional \$7,000 per year as compensation. The chairperson of the Audit Committee receives an additional \$10,000 per year as compensation. Mr. Mercer served as the chairman of the Audit Committee until his appointment as our Interim Chief Executive Officer in May 2005, and we have not yet elected a chairperson of the Audit Committee. Directors who serve on committees in a non-chairperson capacity do not receive additional compensation for serving on these committees. Employee directors do not receive additional compensation for attendance at meetings of the Board of Directors.

Deferred Compensation Program. Non-employee directors may choose to receive their quarterly payment in cash, defer the payment by investing it in our Deferred Compensation Plan or elect a combination of both.

2000 Director Option Plan. Pursuant to our 2000 Director Option Plan, each of our current directors were granted an option to purchase 15,000 shares of our common stock on March 31, 2005 at an exercise price of \$4.58 per share. These options become vested and exercisable with respect to 25% of the shares subject to the options for each full quarter after the date of grant, so long as such person remains a director, such that the option will be fully vested on the first anniversary of the date of grant.

THE BOARD RECOMMENDS A VOTE *FOR* THE ELECTION OF EACH NOMINEE.

PROPOSAL NO. 2 APPROVAL OF THE OPTION EXCHANGE PROGRAM

After careful consideration, our Board of Directors has determined that it would be in the best interests of the Company and our stockholders to implement a stock option exchange program whereby eligible employees would be permitted to exchange outstanding options issued under our 2004 Equity Incentive Plan; Broadband Storage, Inc. 2001 Stock Option and Restricted Stock Purchase Plan; 2000 Nonstatutory Stock Option Plan; 1999 Stock Plan; 1990 Stock Plan; and Stargate Solutions, Inc. 1999 Incentive Stock Plan, each plan as it may have been amended (the "Stock Plans"), with exercise prices equal to or greater than \$7.00 per share (the "Eligible Options") for a lesser number of options (the "New Options") to be granted following the expiration of a tender offer to be made to such employees (the "Option Exchange Program"). Members of our Board of Directors and our Section 16 officers are not eligible to participate in the Option Exchange Program and do not stand to benefit from the program other than in their capacity as stockholders. The New Options would have an exercise price equal to the closing sales price of our common stock as quoted by the Nasdaq National Market on the date of the new grant (the "Fair Market Value"). To be approved, this proposal must receive the affirmative vote of a majority of votes cast at the Annual Meeting, provided the affirmative votes must be not less than a majority of the required quorum for the Annual Meeting.

Background

Stock options are intended to encourage our employees to act as owners, which helps align their interests with those of stockholders. The objectives of our Stock Plans are to encourage ownership in our company by employees whose long-term employment is essential to our continued success and thereby encourage employees to act in our stockholders' interest and share in our success.

Like many companies in the technology industry, our stock price has steadily declined since the end of our 2002 fiscal year. Sustained adverse economic conditions have had a negative effect on the entire technology sector, including markets in which we operate. As of May 31, 2005, the closing price of our common stock on the Nasdaq National Market was \$3.98, and approximately 87% of our stock options had exercise prices higher than \$7.00 per share.

As a result of the decline in our stock price, a major component of our total compensation has been significantly weakened. Many employees perceive that their options are of very limited or no value, which means that the vast majority of our stock options no longer are effective as incentives to motivate and retain employees. Although these stock options are not likely to be exercised as long as our stock price is lower than the applicable exercise price, the stock options will remain on our books with the potential to dilute stockholders' interests for up to 10 years from the grant date unless they are cancelled or otherwise forfeited.

We have taken steps over the years to reduce expenses and scale down operations in response to a decreased demand for our products. These steps have included reducing our workforce, cutting back on our use of temporary workers and reducing discretionary spending. During this same time, our voluntary turnover rate has increased dramatically. For the 2004 fiscal year, our voluntary turnover rate was 6.9% and for the 2005 fiscal year, the rate was 11.2%. In the last quarter of the 2005 fiscal year, that turnover rate was an annualized 13.0%, and has increased further since March 31, 2005.

The Option Exchange Program would benefit the broad base of our employees, who are our most important resource and are critical to our future growth. In order to increase the motivational and retentive value of our Stock Plans and to decrease the potentially dilutive effect of the large number of options held by employees that have exercise prices substantially above the current market value of our common stock, we are proposing a "value neutral" exchange. This means that employees who elect to participate in the Option Exchange Program would receive a smaller number of New Options than they surrender in the exchange. Additionally, the New Options would have a new vesting schedule, thus

requiring employees to continue their employment with us in order to realize the benefit from the New Options.

General Description of the Option Exchange Program

We have not commenced the Option Exchange Program and will not do so unless and until our stockholders approve this proposal. At the time the Option Exchange Program is commenced, eligible employees will be sent written materials explaining the precise terms and timing of the Option Exchange Program. The commencement of the Option Exchange Program, as well as any determination to terminate the Option Exchange Program, will be determined by our Compensation Committee. Eligible employees will be urged to read all written materials carefully when they become available. At or before commencement of the Option Exchange Program, we will file the written materials relating to the Option Exchange Program with the Securities and Exchange Commission as part of a tender offer statement on Schedule TO. Eligible employees, as well as stockholders and members of the public, will be able to obtain these written materials and other documents filed by us with the Securities and Exchange Commission free of charge from the Securities and Exchange Commission's website at www.sec.gov.

Under the proposed Option Exchange Program, participating employees would surrender Eligible Options they currently hold and in return receive New Options to purchase fewer shares, in accordance with a specified exchange ratio. Eligible employees on the date that the program is commenced who participate in the Option Exchange Program would need to be continuously employed and remain employees on the date of the new grant in order to receive the New Options. The New Options would have an exercise price equal to the Fair Market Value of our common stock on the date that the New Options are granted (which will not be less than 20 business days following the commencement of the Option Exchange Program). The ratios of surrendered Eligible Options to New Options would vary from 1.25 to 1, to 7 to 1, depending upon the exercise price of the surrendered Eligible Options.

We have structured the Option Exchange Program to strike a balance between stockholder and employee interests and, as such, we designed the program to create a value-neutral exchange. We believe that the Option Exchange Program would be beneficial to stockholders by canceling a larger number of outstanding options and issuing fewer options in their place. In addition, by conducting this exchange rather than granting new options to supplement the "underwater" options, we are avoiding potential additional dilution to our stockholders' interests.

Our Stock Plans allow us to grant stock options, restricted stock, stock awards, restricted stock units and stock appreciation rights to employees and consultants. As of May 31, 2005, there were 20,695,428 shares underlying stock options under our Stock Plans and 14,732,545 shares available for grant. Of the outstanding options, as of May 31, 2005, options to purchase 10,039,648 shares of common stock would be eligible for exchange under the proposed Option Exchange Program. If all of the Eligible Options were exchanged for New Options at the exchange ratios set forth below, the number of stock options granted (the sum of New Options plus outstanding stock options not available for exchange under the Option Exchange Program) plus the number of stock options available for grant under our Stock Plans would decrease by 10,039,648 shares after calculation of the shares representing such surrendered Eligible Options, or from 24.0% to 18.4% of the total number of shares of our common stock outstanding as of May 31, 2005.

Details of the Option Exchange Program***Implementing the Option Exchange Program***

Our Board of Directors authorized the Option Exchange Program in June 2005, upon the recommendation of our Compensation Committee and subject to stockholder approval. If approved by our stockholders, we would promptly file an Offer of Exchange with the Securities and Exchange Commission and distribute it to all eligible employees. Eligible employees would be given 20 business days from the date we commence the Option Exchange Program to elect to exchange any or all of their Eligible Options for New Options. The surrendered Eligible Options would be cancelled and the New Options may be granted on the first business day following this 20-day election period. We expect to commence the Option Exchange Program and begin to grant New Options toward the end of September 2005). However, even if approved by our stockholders, our Board of Directors would retain the authority, in its sole discretion, to terminate or postpone the Option Exchange Program, at any time before the commencement or expiration of the Offer to Exchange.

Eligible Employees

The Option Exchange Program would be open to all of our employees worldwide who hold options except for (a) our Section 16 officers, and (b) employees located in countries where we decide, in our sole discretion, that it is not feasible or practical under local regulations to offer the Option Exchange Program. The Option Exchange Program also would not be available to members of our Board of Directors, former employees or retirees.

An eligible employee who tenders his or her Eligible Options for exchange would receive New Options in exchange only if he or she is employed by us on the date that New Options are granted. If an eligible employee is no longer employed by us for any reason on the date that the Option Exchange Program commences, that individual could not participate in the program. If an eligible employee is no longer employed by us for any reason on the date that the New Options are granted, even if he or she had elected to participate and had tendered his or her Eligible Options for exchange, that individual would not receive New Options and the tendered Eligible Options would be forfeited. Options that are not vested at termination of employment cannot be exercised and would be forfeited. Voting in favor of this proposal at the Annual Meeting does not constitute an election to participate in the Option Exchange Program.

Exchange Ratios

The number of Eligible Options that an eligible employee must surrender to obtain a New Option is called the exchange ratio. For example, an exchange ratio of 7 to 1 means that an eligible employee must surrender seven Eligible Options to receive one New Option. All eligible employees would be required to exchange a larger number of Eligible Options in exchange for a lesser number of New Options. The exchange ratios set out below were established based on our stock price as of May 31, 2005, after consultation with an independent third-party expert consultant on stock plans and stockholder proposals. The information set forth in the table below is based on information as of May 31, 2005.

Range of Exercise Prices	Maximum Number of Shares Underlying Eligible Options	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Exchange Ratio (Eligible Options to New Options)	Maximum Number of Shares Underlying New Options that May Be Granted
\$16.01 and higher	208,188	4.62	\$ 22.99	7 to 1	29,741
10.01 to 16.00	5,503,803	3.92	13.65	2.75 to 1	2,001,383
7.00 to 10.00	4,327,657	5.26	8.06	1.25 to 1	3,462,126
Total	10,039,648				5,493,250

Any exchange resulting in fractional shares under the above exchange ratios would be rounded up to the nearest whole share such that we will not issue any New Options for fractional shares. For example, if an eligible employee elects to exchange Eligible Options to purchase 100 shares of our common stock with an exercise price of \$11.00, that employee would receive 37 New Options (100 shares divided by the exchange ratio of 2.75 and rounded up to the next whole number).

Election to Participate

Participation in the Option Exchange Program would be completely voluntary. Many eligible employees currently hold multiple option grants. Under the Option Exchange Program, eligible employees would have the choice, on a grant-by-grant basis (i.e., options granted on the same date with the same exercise price) whether to exchange any or all of their Eligible Option grants. However, employees would not be permitted to exchange a portion of a single grant for New Options. For example, if an eligible employee holds a grant of options to purchase 100 shares of our common stock at a specified exercise price and elects to exchange these Eligible Options, all 100 Eligible Options must be tendered for exchange. Options with an exercise price of \$6.99 or lower would not be eligible for exchange in the Option Exchange Program.

Exercise Price of New Options

All New Options would be granted with an exercise price equal to the Fair Market Value of our common stock on the date of the new grant.

Vesting of New Options

The New Options would have a new vesting schedule, meaning that eligible employees would have to continue their employment in order to realize any benefit from the New Options. On the six-month anniversary of the date that the New Options are granted, the percentage of options that an employee surrenders in the Option Exchange Program that were vested on the date of the grant of the New Options would be vested as of that six-month anniversary date. Of the remaining New Options, 50% would vest in an additional six months, with the remaining New Options vesting in another six months (in other words, all New Options granted would be fully vested on the 18-month anniversary of the date that the New Options are granted). This means that all New Options would be completely unvested at the time of the new grant, regardless of whether the Eligible Options exchanged were partially or wholly vested.

For example, assume that an eligible employee elects to participate in the Option Exchange Program and will surrender 10,000 Eligible Options. Of these 10,000 Eligible Options, assume that the eligible employee receives 8,000 New Options in the exchange and that 50% of the Eligible Options are vested on the date that the Eligible Options are exchanged for New Options. Under the Option Exchange Program, on the six-month anniversary of the date that the New Options are granted, 50% would be fully vested, with 25% of the New Options becoming vested on the 12-month anniversary of the date that the New Options are granted and the remaining 25% of the New Options becoming vested on the 18-month anniversary of the date that the New Options are granted.

Employees would have the choice to exercise their New Options at any time after they have vested. New Options would only vest if the employee remains employed by us and may only be exercised by the employee as provided in the employee's option grant agreements. New Options that are not vested at termination of employment could not be exercised and would be forfeited.

Term of the New Options

The term of an option is the length of time during which it may be exercised. Except in certain countries outside the United States as determined by us in our sole discretion, each New Option would have a term of four or five years from the date of grant. The actual term of a New Option for a particular

employee would be based on the weighted average remaining life of the employee's Eligible Options (as set forth in the table above). The term of New Options would be shorter than the surrendered Eligible Options, most of which had either seven or 10-year terms at their grant date. The four or five-year term is intended to ensure that employees who participate in the Option Exchange Program will not derive any additional benefit from an extended option term, unless they are relatively long-term employees whose surrendered Eligible Options had a remaining term of less than four or five years.

Other Conditions of New Options

The other terms and conditions of the New Options would be governed by our 2004 Equity Incentive Plan and would be set forth in an option agreement to be entered into as of the New Option grant date. All New Options would be nonstatutory stock options under U.S. federal income tax laws, regardless of whether the surrendered Eligible Options are incentive stock options. The shares of common stock for which the New Options would be exercisable have already been registered with the Securities and Exchange Commission.

Cancellation of Surrendered Eligible Options

We would cancel all surrendered Eligible Options and shares representing such Eligible Options would no longer be available for option grants in the future. Assuming 100% participation in the Option Exchange Program, options to purchase 10,039,648 shares outstanding as of May 31, 2005 would be permanently cancelled.

Accounting Treatment

We would incur a charge for New Options to purchase up to 5,493,250 shares (assuming all Eligible Options outstanding as of May 31, 2005 are surrendered) calculated using variable option accounting. Because the New Options would vest over a period of 18 months, this charge would be recognized quarterly over the vesting schedule of the New Options. The amount of the charge recognized each quarter would be such quarter's portion of the aggregate difference between the Fair Market Value of our common stock underlying the vested New Options at the end of each quarter and the exercise price of the New Options, minus any expense recognized to date for the New Options. Upon our adoption of Statement of Financial Accounting Standards No. 123 (revised), *Share-Based Payment* (SFAS 123R), we will no longer expense the New Options using variable accounting and will not be required to recognize any remaining unrecognized variable compensation charge for the New Options. Based on current guidance, we will implement SFAS 123R as of April 1, 2006.

U.S. Federal Income Tax Consequences

The exchange of Eligible Options should be treated as a non-taxable exchange and neither we nor our employees should recognize any income for U.S. federal income tax purposes upon the grant of the New Options. The tax consequences for participating non-U.S. employees may differ from the U.S. federal income tax consequences and would be discussed in the Schedule TO that we would file with the Securities and Exchange Commission.

Potential Modification to Terms to Comply with Governmental Requirements

The terms of the Option Exchange Program would be described in a Schedule TO that we would file with the Securities and Exchange Commission. Although we do not anticipate that the Securities and Exchange Commission would require us to modify the terms of the Option Exchange Program materially, it is possible that we would need to alter the terms of the Option Exchange Program to comply with comments from the Securities and Exchange Commission. In addition, we intend to make the Option Exchange Program available to our employees who are located outside of the United States, where

permitted by local law and where we determine it would be feasible and practicable to do so. It is possible that we would need to make modifications to the terms offered to employees in countries outside the United States to comply with local requirements, or for tax or accounting reasons. We reserve the right not to conduct the Option Exchange Program in any country in which we deem it inadvisable to do so for any reason.

Benefits of the Option Exchange Program to Employees and Officers

Because the decision whether to participate in the Option Exchange Program is completely voluntary, we cannot predict who will participate, how many Eligible Options any particular group of employees will elect to exchange, nor the number of New Options that we may grant. As noted above, however, our Section 16 officers and members of our Board of Directors are not eligible to participate in the Option Exchange Program. Of the outstanding Eligible Options held as of May 31, 2005, the maximum number of shares of common stock underlying Eligible Options is 10,039,648 and the maximum number of shares of our common stock underlying the New Options which could be issued under the above exchange ratios is 5,493,250.

Effect on Stockholders

We cannot predict with certainty the impact the Option Exchange Program would have on our stockholders because we are unable to predict how many employees will elect to participate and how many options they will choose to exchange. We designed the Option Exchange Program to be value neutral to our stockholders and to avoid the dilution in stockholders' ownership that results from granting new options to supplement "underwater" options.

Required Vote and Board of Directors Recommendation

The affirmative vote of a majority of the shares represented and voting on approval of the Option Exchange Program, either in person or by proxy, is required to approve the Option Exchange Program, provided that the affirmative votes must be not less than a majority of the required quorum for the Annual Meeting. If you hold your shares through a broker and you do not instruct the broker on how to vote on this proposal, your broker will not have the authority to vote your shares. Abstentions and broker non-votes will each be counted as present for purposes of determining the presence of a quorum but will not have any effect on the outcome of the proposal.

Our employees are our most valuable asset. We believe that the Option Exchange Program will help us to retain and motivate people whose skills and performance are critical to our success. We strongly believe that the Option Exchange Program is essential for us to compete for talent in the very difficult labor markets in which we operate.

**THE BOARD RECOMMENDS A VOTE *FOR*
APPROVAL OF THE OPTION EXCHANGE PROGRAM.**

**PROPOSAL NO. 3 RATIFICATION OF APPOINTMENT OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee of our Board of Directors has appointed PricewaterhouseCoopers LLP as our independent registered public accounting firm for our fiscal year ending March 31, 2006, and our stockholders are being asked to ratify the Audit Committee's appointment. We have engaged PricewaterhouseCoopers LLP as our independent registered public accounting firm since 1995. Representatives of PricewaterhouseCoopers LLP are expected to be present at our Annual Meeting, will have the opportunity to make a statement at the Annual Meeting if they desire to do so and will be available to respond to appropriate questions.

If the stockholders fail to ratify the appointment, the Audit Committee will reconsider its appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2006. Even if this appointment is ratified, the Audit Committee, in its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if the Audit Committee determines that such a change would be in the best interests of the Company and our stockholders.

Audit Fees

The following table presents information regarding the fees estimated and billed by PricewaterhouseCoopers LLP and affiliated entities (collectively, "PricewaterhouseCoopers") for the 2005 and 2004 fiscal years. In accordance with the Securities and Exchange Commission's guidelines, we have itemized tax related and other fees paid to PricewaterhouseCoopers during the 2005 and 2004 fiscal years.

Nature of Services	For the year ended March 31,	
	2005	2004
Audit Fees	\$ 1,835,000	\$ 637,000
Audit-Related Fees	127,000	
Tax Fees		
Tax Compliance	406,000	802,000
Other Tax	69,000	82,500
All Other Fees		
Total Fees	\$ 2,437,000	\$ 1,521,500

Audit Fees. This category includes services provided in connection with the audit of our consolidated financial statements, the review of our quarterly consolidated financial statements and the audit of management's assessment of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002. This category also includes services for assistance with debt offerings, acquisitions, SEC comment letters and review of and consents issued in connection with documents filed with the Securities and Exchange Commission.

Audit Related Fees. This category includes services for due diligence related to an acquisition.

Tax Fees. This category consists of *Tax Compliance* and *Other Tax*. *Tax Compliance* includes services related to the preparation of tax returns and claims for refund. *Other Tax* includes services related to tax planning and tax advice, including assistance with tax audits and appeals, research and development credits, expatriate tax preparation and advice related to mergers and acquisitions.

All Other Fees. We did not incur any *Other Fees* during these periods.

Audit Committee Pre-Approval Policies and Procedures

Our Audit Committee has established a policy for approving any non-audit services to be performed by our independent registered public accounting firm. The Audit Committee requires advance review and approval of all proposed non-audit services that we wish to be performed by the independent registered public accounting firm. As permitted by our Audit Committee Charter, the Audit Committee chairperson may pre-approve certain non-audit related fees and the entire Audit Committee will then ratify the chairperson's pre-approval in a subsequent meeting of the Audit Committee, in accordance with requirements of the Securities and Exchange Commission. In the 2005 and 2004 fiscal years, the Audit Committee followed these guidelines in approving all services rendered by PricewaterhouseCoopers.

Required Vote

The affirmative vote of a majority of the shares represented and voting on Proposal No. 3, either in person or by proxy, is required to ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2006, provided that the affirmative votes must be not less than a majority of the required quorum for the Annual Meeting.

**THE BOARD RECOMMENDS A VOTE *FOR*
RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP.**

STOCK OWNERSHIP OF PRINCIPAL STOCKHOLDERS AND MANAGEMENT

The following table presents certain information regarding the beneficial ownership of our common stock as of May 31, 2005 by (a) each beneficial owner of 5% or more of our outstanding stock; (b) each of our directors; (c) each of our named executive officers; and (d) all of our directors and executive officers as a group.

The percentage of beneficial ownership for the table is based on approximately 112,481,235 shares of our common stock outstanding as of May 31, 2005. To our knowledge, except under community property laws or as otherwise noted, the persons and entities named in the table have sole voting and sole investment power over their shares of our common stock. Unless otherwise indicated, each beneficial owner listed below maintains a mailing address of c/o Adaptec, Inc., 691 South Milpitas Boulevard, Milpitas, California 95035.

The number of shares beneficially owned by each stockholder is determined under the rules of the Securities and Exchange Commission and is not necessarily indicative of beneficial ownership for any other purpose. Under these rules, beneficial ownership includes those shares of common stock over which the stockholder has sole or shared voting or investment power and those shares of common stock that the stockholder has the right to acquire within 60 days after May 31, 2005 through the exercise of any stock option. The "Percentage of Shares" column treats as outstanding all shares underlying such options held by the stockholder, but not shares underlying options held by other stockholders.

Name of Beneficial Owner	Adaptec Shares Beneficially Owned	
	Number of Shares(1)	Percentage of Shares
Directors and Executive Officers:		
Carl J. Conti	175,580	*
Lucie J. Fjeldstad(2)	89,250	*
Joseph S. Kennedy	83,750	*
Ilene H. Lang	161,750	*
Robert J. Loarie(3)	176,354	*
D. Scott Mercer	33,750	*
Douglas E. Van Houweling	81,250	*
Robert N. Stephens(4)	2,219,740	1.94%
Marshall L. Mohr	146,800	*
Eric Kelly	102,400	*
Kok Yong Lim	367,211	*
Ahmet D. Houssein(5)	109,126	*
Ramkumar Jayam(6)	4,167	*
Kenneth B. Arola(7)		*
Directors and executive officers as a group (15 persons)	3,751,128	3.23%
5% Stockholder:		
Pioneer Global Asset Management S.p.A.(8)	6,245,730	5.55%

*
Less than 1% ownership.

(1)
Includes shares that may be acquired by the exercise of stock options granted under our stock option plans within 60 days after May 31, 2005. The number of shares subject to stock options exercisable

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within 60 days after May 31, 2005 for each of the directors and named executive officers is shown below:

Carl J. Conti	158,750
Lucie J. Fjeldstad	86,250
Joseph S. Kennedy	83,750
Ilene H. Lang	158,750
Robert J. Loarie	128,750
D. Scott Mercer	33,750
Douglas E. Van Houweling	81,250
Robert N. Stephens	2,154,525
Marshall L. Mohr	137,436
Eric Kelly	76,141
Kok Yong Lim	349,169
Ahmet D. Houssein	98,000
Ramkumar Jayam	
Kenneth B. Arola	
Directors and executive officers as group	3,546,521

- (2) Includes 3,000 shares held in the name of a trust for the benefit of Ms. Fjeldstad and her spouse.
- (3) Includes 47,604 shares held in the name of a trust for the benefit of Mr. Loarie and his family.
- (4) Mr. Stephens served as our President and Chief Executive Officer and a director until his retirement effective May 25, 2005.
- (5) Mr. Houssein served as our Vice President and General Manager of our Storage Solutions Group until his termination of employment effective April 4, 2005. The number of shares reported for Mr. Houssein includes 3,200 shares of our restricted stock which we repurchased from him in June 2005 as permitted by the restricted stock purchase agreement previously executed with Mr. Houssein.
- (6) Mr. Jayam served as our Vice President and General Manager of our Storage Networking Group until his termination of employment effective August 6, 2004.
- (7) Mr. Arola served as our Principal Accounting Officer and Corporate Controller until his termination of employment effective November 5, 2004.
- (8) Pioneer Global Asset Management S.p.A. ("Pioneer") reported that it has sole voting and sole dispositive power over 6,245,730 shares of our common stock. Pioneer's address is Galleria San Carlo 6, 20122 Milan, Italy. All information regarding Pioneer is based solely upon the Schedule 13G filed by it with the Securities and Exchange Commission on February 10, 2005.

EXECUTIVE COMPENSATION

Summary of Executive Compensation

The following table presents information about the compensation for the 2005 fiscal year awarded to, earned by or paid to (a) our Chief Executive Officer; (b) our four other most highly compensated executive officers serving in that capacity as of March 31, 2005; and (c) two executive officers who left the Company prior to the end of the 2005 fiscal year. We provide benefits to our executive officers that are generally available to all of our employees.

Summary Compensation Table

Name and Principal Position	Fiscal Year	Annual Compensation			Long-Term Compensation		All Other Compensation (\$)(2)
		Salary(\$)	Bonus(\$)	Other Annual Compensation (\$)(1)	Restricted Stock Award(\$)	Securities Underlying Options(#)	
Robert N. Stephens	2005	650,000	68,250	24,626		325,000	4,609
Former President and	2004	650,000	1,200	23,319		625,000	4,322
Chief Executive Officer	2003	650,000		23,318		800,000	4,322
Marshall L. Mohr(3)	2005	325,000	29,938	18,399		70,000	
Chief Financial Officer	2004	225,000	75,000	12,520		350,000	
	2003						
Eric Kelly(4)	2005	170,000	1,852,500	11,586		75,000	
Vice President and General	2004						
Manager of Worldwide Sales	2003						
and Services							
Kok Yong Lim(5)	2005	195,007	24,602	2,094		50,000	3,710
Vice President of	2004	188,215	1,019	2,018		40,000	3,769
Manufacturing	2003	176,293		2,035		65,000	4,485
Ahmet D. Houssein	2005	304,508(6)	57,538	19,479	25,117(7)	100,000	2,893
Former Vice President and	2004	267,692	34,272	18,051		100,000	2,810
General Manager	2003	213,173	112,994	15,839		85,000	23,800
Ramkumar Jayam(8)	2005	232,672(6)	22,000	6,833			188
Former Vice President and	2004	240,000	1,200	16,671		55,000	4,465
General Manager	2003	240,000	29,577	16,309		75,000	465
Kenneth B. Arola(8)	2005	266,036(6)	5,000	11,685			
Former Vice President,	2004	207,692	11,200	17,622			
Corporate Controller	2003	200,000		17,556			