ADAPTEC INC
Form 10-Q/A
January 15, 2003

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

(Mark One)

ý **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2002 or

o **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 ý No o

The number of shares outstanding of Adaptec's common stock as of November 1, 2002 was 107,215,438.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Month Period Ended		Six Month Period Ended	
	September 30, 2002	September 30, 2001	September 30, 2002	September 30, 2001
	(in thousands, except per share amounts)			
Net revenues	$ 85,709	$ 95,305	$ 193,555	$ 205,488
Cost of revenues	39,519	48,831	86,803	107,083
Gross profit	46,190	46,474	106,752	98,405
Operating expenses:				
Research and development	29,403	23,970	60,619	50,211
Selling, marketing and administrative	23,389	22,323	47,799	48,693
Amortization of goodwill and intangible assets	3,743	14,024	7,487	27,603
Write-off of acquired in-process technology		53,370		53,370
Restructuring charges	7,139		7,139	6,912
Other charges	528		528	4,092
Total operating expenses	64,202	113,687	123,572	190,881

	Three Month Period Ended		Six Month Period Ended	
Loss from operations	(18,012)	(67,213)	(16,820)	(92,476)
Interest and other income	9,784	8,889	18,976	19,437
Interest expense	(4,011)	(3,058)	(9,185)	(6,071)
Loss from continuing operations before provision for (benefit from) income taxes	(12,239)	(61,382)	(7,029)	(79,110)
Provision for (benefit from) income taxes	(1,419)	1,481	1,237	2,256
Net loss from continuing operations	(10,820)	(62,863)	(8,266)	(81,366)
Net income from discontinued operations, net of taxes				495
Net loss	$ (10,820)	$ (62,863)	$ (8,266)	$ (80,871)
Net income (loss) per share:				
Basic:				
Continuing operations	$ (0.10)	$ (0.62)	$ (0.08)	$ (0.81)
Discontinued operations	$	$	$	$ 0.00
Net loss	$ (0.10)	$ (0.62)	$ (0.08)	$ (0.81)
Diluted:				
Continuing operations	$ (0.10)	$ (0.62)	$ (0.08)	$ (0.81)
Discontinued operations	$	$	$	$ 0.00
Net loss	$ (0.10)	$ (0.62)	$ (0.08)	$ (0.81)
Shares used in computing net income (loss) per share:				
Basic	106,550	100,895	106,264	99,992
Diluted	106,550	100,895	106,264	99,992

See accompanying Notes to Condensed Consolidated Financial Statements.

ADAPTEC, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

	September 30, 2002	March 31, 2002
	(in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 157,002	$ 331,324
Marketable securities	550,147	472,335
Restricted marketable securities	7,441	7,387
Accounts receivable, net	47,474	44,790
Inventories	32,419	30,172
Deferred income taxes	24,798	26,442
Prepaid expenses	15,106	18,383

	September 30, 2002	March 31, 2002
Other current assets	14,685	15,965
Total current assets	849,072	946,798
Property and equipment, net	84,609	94,833
Restricted marketable securities, less current portion	10,897	13,825
Goodwill	53,854	45,684
Intangible assets	56,747	73,902
Other long-term assets	27,799	32,919
Total assets	$ 1,082,978	$ 1,207,961
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 24,054	$ 18,458
Accrued liabilities	121,774	134,947
Total current liabilities	145,828	153,405
4 3/4% Convertible Subordinated Notes	82,445	202,860
3% Convertible Subordinated Notes	250,000	250,000
Other long-term liabilities	2,755	4,765
Contingencies (Note 10)		
Stockholders' equity:		
Common stock	107	106
Additional paid-in capital	174,423	171,374
Deferred stock-based compensation	(13,520)	(21,131)
Accumulated other comprehensive income, net of tax	5,367	2,743
Retained earnings	435,573	443,839
Total stockholders' equity	601,950	596,931
Total liabilities and stockholders' equity	$ 1,082,978	$ 1,207,961

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Six Month Period Ended	
	September 30, 2002	September 30, 2001
	(in thousands)	

	Six Month Period Ended	
Net Cash Provided by Operating Activities	$ 29,121	$ 8,249
Cash Flows From Investing Activities:		
Payment of general holdback in connection with acquisition of Platys	(10,640)	
Purchases of certain net assets in connection with acquisition of Platys, net of cash acquired		(35,861)
Purchases of other investments	(1,000)	
Purchases of property and equipment	(5,016)	(5,858)
Net proceeds from sales of properties		942
Purchases of marketable securities	(355,757)	(239,462)
Sales of marketable securities	227,422	181,218
Maturities of marketable securities	52,800	61,218
Net Cash Used for Investing Activities	(92,191)	(37,803)
Cash Flows From Financing Activities:		
Proceeds from issuance of common stock	5,061	4,078
Repurchases of long-term debt	(116,313)	
Net Cash Provided by (Used for) Financing Activities	(111,252)	4,078
Net Cash Used for Discontinued Operations		(30,703)
Net Decrease in Cash and Cash Equivalents	(174,322)	(56,179)
Cash and Cash Equivalents at Beginning of Period	331,324	207,644
Cash and Cash Equivalents at End of Period	$ 157,002	$ 151,465

See accompanying Notes to 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 of Adaptec, Inc. and its wholly-owned subsidiaries (collectively the "Company") have been prepared on a consistent basis with the March 31, 2002 audited consolidated financial statements and include all adjustments, consisting of only normal recurring adjustments, except as described in Notes 3, 7, 12 and 13, necessary to provide a fair statement of the results for the interim periods presented. These unaudited condensed consolidated interim 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 March 31, 2002. The second quarters of fiscal 2003 and fiscal 2002 ended September 27, 2002 and September 28, 2001, respectively. For presentation purposes, the accompanying financial statements have been shown as ending on the last day of the calendar month. The results of operations for the second quarter and first half of fiscal 2003 are not necessarily indicative of the results to be expected for the entire fiscal year.

On April 12, 2001, the Company's Board of Directors formally approved a plan to spin-off the Software segment, Roxio, Inc., ("Roxio") into a fully independent and separate company. The Company effected the spin-off after the close of business on May 11, 2001 by issuing a dividend of Roxio common stock to the Company's stockholders of record as of April 30, 2001. As a result of the spin-off, the Company's historical condensed consolidated financial statements have been restated to account for Roxio as discontinued operations for all periods presented in accordance with Accounting Principles Board ("APB") Opinion No. 30, "Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." Unless otherwise indicated, the Notes to Unaudited Condensed Consolidated Financial Statements ("Notes") relate to the discussion of the Company's continuing operations.

The Company adopted Emerging Issues Task Force ("EITF") Issue No. 01-09, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)" in January 2002. As a result, certain consideration paid to distributors is now classified as an offset to revenue rather than an operating expense. Prior period financial statements have been reclassified to conform to this presentation.

2. Recent Accounting Pronouncements

In June 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 146, "Accounting for Exit or Disposal Activities." SFAS No. 146 addresses significant issues regarding the recognition, measurement and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for pursuant to the guidance that the EITF has set forth in Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The scope of SFAS No. 146 also includes (1) costs related to terminating a contract that is not a capital lease and (2) termination benefits that employees who are involuntarily terminated receive under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred compensation contract. SFAS No. 146 will be effective for fiscal years beginning after December 31, 2002. The Company will adopt SFAS No. 146 on April 1, 2003 and the Company has not yet determined the impact of SFAS No. 146 on its results of operations or financial position.

In May 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements Nos. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 eliminates Statement No. 4 (and Statement No. 64, as it amends Statement No. 4), which requires gains and losses from extinguishments of debt to be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. As a result, the criteria in APB Opinion No. 30 will now be used to classify those gains and losses. SFAS No. 145 amends FASB Statement No. 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions are accounted for in the same manner as sale-leaseback transactions. This amendment is consistent with the FASB's goal of requiring similar accounting treatment for transactions that have similar economic effects. In addition, SFAS No. 145 makes technical corrections to existing pronouncements. While those corrections are not substantive in nature, in some instances, they may change accounting practice. This statement is effective for fiscal years beginning after May 2002 for the provisions related to the rescission of Statements Nos. 4 and 64, and for all transactions entered into beginning May 2002 for the provision related to the amendment of Statement No. 13 although early adoption is permitted. The Company elected to adopt SFAS No. 145 effective fiscal 2002, and as a result, the Company has included the gain on extinguishment of debt of $2.2 million (net of unamortized debt issuance costs of $0.5 million) in "Interest and Other Income" for the second quarter of fiscal 2003 and the gain on extinguishment of debt of $3.3 million (net of unamortized debt issuance costs of $0.8 million) in "Interest and Other Income" for the first half of fiscal 2003.

3. Business Combination

In August 2001, the Company purchased Platys Communications, Inc. ("Platys"), a developer of Internet Protocol ("IP") storage solutions. The acquisition was accounted for under SFAS No. 141 and certain specified provisions of SFAS No. 142. The results of operations of Platys were included in the Company's Unaudited Condensed Consolidated Statements of Operations for the second quarter and first half of fiscal 2003. If the Company had acquired Platys at the beginning of the second quarter and first half of fiscal 2002, the Company's unaudited pro forma net revenues, net loss and net loss per share from continuing operations would have been as follows:

	Three Month Period Ended September 30, 2001	**Six Month Period Ended September 30, 2001**

		Three Month Period Ended September 30, 2001		Six Month Period Ended September 30, 2001
		(in thousands, except per share amounts)		
Net revenues	$	95,315	$	205,608
Net loss	$	(66,912)	$	(88,505)
Net loss per share:				
Basic	$	(0.65)	$	(0.85)
Diluted	$	(0.65)	$	(0.85)

As part of the purchase agreement, $15.0 million of the cash payment was held back (the "General Holdback") for unknown liabilities that may have existed as of the acquisition date. The General Holdback, which was included as part of the purchase price, was included in accrued liabilities as of March 31, 2002. As of September 30, 2002, the Company paid $10.6 million of the General Holdback to the former Platys stockholders. The remaining $4.4 million has been retained as the Company submitted a written notice of claim to the Representative of the Platys shareholders in August 2002. While the Company believes that its claims are meritorious, the Company cannot predict with certainty how the matter will be resolved.

4. Balance Sheets Details

Inventories are stated at the lower of cost (first-in, first-out) or market. The components of net inventories were as follows:

		September 30, 2002		March 31, 2002
		(in thousands)		
Raw materials	$	7,667	$	8,760
Work-in-process		8,168		4,088
Finished goods		16,584		17,324
Total	$	32,419	$	30,172

5. Line of Credit

In May 2001, the Company obtained an unsecured $20.0 million revolving line of credit. The line of credit has a term, as amended, through August 2003 and bears interest at a "Prime Rate" in effect or at a "Fixed Term Rate" as elected by the Company. Prime Rate refers to the rate of interest as established by the line of credit provider while the Fixed Term Rate is determined in relation to the LIBOR. In addition, the Company is charged a fee equal to 0.15% per annum on the average daily unused amount of the line of credit. Under the terms of the line of credit, the Company is required to maintain certain financial ratios, among other restrictive covenants. As of September 30, 2002, the Company was in compliance with all such covenants. No borrowings were made under the line of credit during the first half of fiscal 2003.

6. Long-Term Liability

During the first half of fiscal 2003, the Company repurchased $4^3/_4$% Convertible Subordinated Notes with a book value of $120.4 million in principal amount for an aggregate price of $116.3 million, resulting in a gain on extinguishment of debt of $3.3 million (net of unamortized debt issuance costs of $0.8 million). The Company elected to adopt SFAS No. 145 effective fiscal 2002, and as a result, the gain on extinguishment of debt has been included in "Interest and Other Income" (Note 11).

7. Accounting Change

Effective April 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach, whereby goodwill will be evaluated annually and whenever events or circumstances occur which indicate that goodwill might be impaired. In accordance with SFAS No. 142, the Company discontinued amortizing the remaining goodwill balances as of the beginning of fiscal 2003. All remaining and future acquired goodwill will be subject to annual impairment tests, or earlier if indicators of potential impairment exist, using a fair-value-based approach. All other intangible assets will continue to be amortized over their estimated useful lives and assessed for impairment under SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The Company has completed the transitional impairment test required upon the adoption of SFAS No. 142. As of September 30, 2002, no impairment of goodwill and intangible assets has been recognized. There can be no assurance that future goodwill impairment tests will not result in a charge to earnings.

Upon adoption of SFAS No. 142, distribution network, acquired employees and original equipment manufactures ("OEM") relationships no longer meet the definition of identifiable intangible assets. As a result, the net balance of $8.2 million has been reclassified to goodwill (Note 8 and 9).

The following table discloses the effect on net loss and basic and diluted net loss per share as if the Company accounted for its goodwill (including distribution networks, acquired employees and OEM relationships) under SFAS No. 142 for all periods presented:

	Three Month Period Ended		Six Month Period Ended	
	September 30, 2002	**September 30, 2001**	**September 30, 2002**	**September 30, 2001**
	(in thousands, except per share amounts)			
Reported net loss	$ (10,820)	$ (62,863)	$ (8,266)	$ (80,871)
Add: Amortization of goodwill, net of tax		10,115		20,229
Adjusted net loss	$ (10,820)	$ (52,748)	$ (8,266)	$ (60,642)
Basic net loss per share:				
Reported net loss per share	$ (0.10)	$ (0.62)	$ (0.08)	$ (0.81)
Add: Amortization of goodwill, net of tax	$	$ 0.10	$	$ 0.20
Adjusted net loss per share	$ (0.10)	$ (0.52)	$ (0.08)	$ (0.61)
Diluted net loss per share:				
Reported net loss per share	$ (0.10)	$ (0.62)	$ (0.08)	$ (0.81)
Add: Amortization of goodwill, net of tax	$	$ 0.10	$	$ 0.20
Adjusted net loss per share	$ (0.10)	$ (0.52)	$ (0.08)	$ (0.61)

8. Goodwill

Goodwill by operating segments is as follows:

	September 30, 2002	**March 31, 2002**
	(in thousands)	
Segments:		
SSG	$ 8,187	$
DSG		
SNG	45,667	45,684
Other		
Total	$ 53,854	$ 45,684

	September 30, 2002	March 31, 2002

During the second quarter and first half of fiscal 2003, no goodwill was acquired, impaired or written off.

9. Intangible Assets

All intangible assets are being amortized using the straight-line method over their estimated useful lives ranging from 3-5 years. The components of intangible assets are as follows:

	September 30, 2002		March 31, 2002	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(in thousands)			
Acquisition related intangible assets:				
Patents and core technology	$ 53,654	$ (30,808)	$ 53,654	$ (24,099)
Covenants-not-to-compete	4,670	(1,686)	4,670	(908)
Distribution network			8,849	(5,280)
Acquired employees			6,507	(3,882)
OEM relationships			4,943	(2,950)
Subtotal	58,324	(32,494)	78,623	(37,119)
Intellectual property	42,192	(11,275)	42,192	(9,794)
Total	$ 100,516	$ (43,769)	$ 120,815	$ (46,913)

Amortization of acquisition related intangible assets is included in "Amortization of goodwill and intangible assets" in the Statement of Operations. Amortization of acquisition-related intangible assets was $3.7 million and $4.8 million for the second quarter of fiscal 2003 and 2002, respectively. Amortization of acquisition-related intangible assets was $7.5 million and $9.1 million for the first half of fiscal 2003 and 2002, respectively. Amortization of intellectual property is reflected in the Company's "Gross profit" in the Statement of Operations. Amortization of intellectual property was $1.2 million and $0.3 million for the second quarter of fiscal 2003 and 2002, respectively. Amortization of intellectual property was $1.5 million and $0.7 million for the first half of fiscal 2003 and 2002, respectively.

During the second quarter and first half of fiscal 2003, no intangible assets were acquired, impaired or written off. Based on the Company's intangible assets at September 30, 2002, the annual amortization expense is expected to be as follows:

	Estimated Amortization Expense	
	Acquisition-related intangibles	Intellectual property
	(in thousands)	
Fiscal Years:		
2003 (remaining six months)	$ 7,485	$ 3,281
2004	12,372	6,561
2005	4,407	6,438

	Estimated Amortization Expense	
2006	1,566	6,316
2007		6,316
Total	$ 25,830	$ 28,912

10. Contingencies

In December 1999, the Company purchased Distributed Processing Technology Corp. ("DPT") and as part of the purchase agreement, $18.5 million of the purchase price was held back, (the "Holdback Amount") from former DPT stockholders, for unknown liabilities that may have existed as of the acquisition date. For accounting purposes, the Holdback Amount was included as part of the acquisition purchase price. Subsequent to the date of purchase, the Company determined that certain representations and warranties made by the DPT stockholders were incomplete or inaccurate, which resulted in a loss of revenues and additional expenses to the Company. In addition, certain DPT products were found to be defective. In December 2000, the Company filed a claim against the DPT stockholders for the entire Holdback Amount of $18.5 million. In January 2001, the DPT stockholders notified the Company as to their objection to the Company's claim. Under the terms of the purchase agreement, the Company's claim has been submitted to arbitration. The arbitration hearings began in October 2002. While the Company believes that its claims are meritorious, the Company cannot predict with certainty how the matter will be resolved.

On June 27, 2000, the Company received a statutory notice of deficiency from the IRS with respect to its federal income tax returns for fiscal 1994 to 1996. The Company filed a Petition with the United States Tax Court on September 25, 2000, contesting the asserted deficiencies. In December 2001, settlement agreements were filed with the U.S. Tax Court reflecting a total of $9.0 million of adjustments and an allowance of $0.5 million in additional tax credits. Only procedural matters remain to complete the tax audit for these years. The outcome did not have a material effect on the Company's financial position or results of operations, as a sufficient tax provision had been made.

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

In addition, the IRS is currently auditing the Company's federal income tax returns for fiscal 1998 and 1999. The Company believes that it has provided sufficient taxes 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. However, the Company cannot predict with certainty how these matters will be resolved and whether it will be required to make additional payments.

The Company is a party to other litigation matters and claims 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.

11. Statements of Operations Details

The components of interest and other income for the second quarter and first half of fiscal 2003 and 2002, were as follows:

	Three Month Period Ended		Six Month Period Ended	
	September 30, 2002	September 30, 2001	September 30, 2002	September 30, 2001
	(in thousands)			

	Three Month Period Ended		Six Month Period Ended	
Interest income	$ 7,587	$ 8,889	$ 15,679	$ 19,437
Gain on extinguishment of debt	2,197		3,297	
Total	$ 9,784	$ 8,889	$ 18,976	$ 19,437

12. Restructuring Charges

Second Quarter of Fiscal 2003 Restructuring Plan: In July 2002, the Company announced a restructuring program to reduce expenses and streamline operations in each of its segments and recorded a restructuring charge of $6.2 million. The restructuring charge included $4.0 million for severance and benefits related to the involuntary termination of approximately 170 employees. These terminated employees were primarily in the manufacturing, administrative, sales and marketing and engineering functions. Approximately 73%, 24%, 2% and 1% were based in the United States, Singapore, Europe and Japan, respectively. The Company recorded $0.5 million pertaining to the estimated future obligations for non-cancelable lease payments for excess facilities in New Hampshire and Colorado. The Company wrote-off leasehold improvements, furniture and fixtures and equipment with a net book value of $1.7 million. These assets were taken out of service, as they were deemed unnecessary due to the reductions in workforce.

The following table sets forth an analysis of the components of the second quarter of fiscal 2003 restructuring charge and payments made against the reserve through September 30, 2002:

	Severance And Benefits	Asset Write-offs	Other Charges	Total
		(in thousands)		
Restructuring provision:				
Severance and benefits	$ 3,965	$	$	$ 3,965
Accrued lease costs			459	459
Property and equipment write-off		1,681		1,681
Other charges			50	50
Total	3,965	1,681	509	6,155
Cash paid	(1,968)		(58)	(2,026)
Non-cash charges		(1,681)		(1,681)
Reserve balance at September 30, 2002	$ 1,997	$	$ 451	$ 2,448

The Company anticipates that the remaining restructuring reserve balance of $2.4 million will be substantially paid out by the second quarter of fiscal 2004. The longer term payments relate to lease obligations.

Fourth Quarter of Fiscal 2002 Restructuring Plan: In March 2002, the Company announced a series of actions to reduce costs and tailor the Company's expenses to current revenues for each of its segments.

The Company recorded a restructuring charge of $3.8 million consisting of $2.7 million for severance and benefits related to the involuntary termination of approximately 70 employees, $0.4 million related to the termination of operating leases for facilities and equipment, $0.5 million accrual for legal, accounting and other similar costs and write-down of $0.2 million of leasehold improvements, furniture and fixtures and equipment. The terminated employees were primarily in the manufacturing, administrative, sales and marketing and engineering functions. Approximately 67% of these terminated employees were based in the United States and approximately 33% were based in Belgium. The assets were taken out of service as they were deemed unnecessary due to the reductions in workforce.

The following table sets forth an analysis of the components of the fourth quarter of fiscal 2002 restructuring charge and the payments made against the reserve through September 30, 2002:

	Severance And Benefits	Asset Write-offs	Other Charges	Total
		(in thousands)		
Restructuring provision:				
Severance and benefits	$ 2,723	$	$	$ 2,723
Accrued lease costs			425	425
Property and equipment write-off		220		220
Other charges			465	465
Total	2,723	220	890	3,833
Cash paid	(324)			(324)
Non-cash charges		(220)		(220)
Reserve balance at March 31, 2002	2,399		890	3,289
Cash paid	(1,656)		(103)	(1,759)
Reserve balance at June 30, 2002	743		787	1,530
Cash paid	(359)		(91)	(450)
Reserve balance at September 30, 2002	$ 384	$	$ 696	$ 1,080

The Company anticipates that the remaining restructuring reserve balance of $1.1 million will be substantially paid out by the third quarter of fiscal 2004. The longer term payments relate to lease obligations.

First Quarter of Fiscal 2002 Restructuring Plan: In response to the economic slowdown, the Company implemented a restructuring plan in the first quarter of fiscal 2002 and recorded a restructuring charge of $6.2 million. The goal of the restructuring plan was to reduce costs and improve operating efficiencies in each of its segments in order to match the current business environment. The restructuring charge consisted of severance and benefits of $5.2 million related to the involuntary termination of approximately 325 employees. These terminated employees were primarily in the manufacturing, administrative, sales and marketing and engineering functions. Approximately 53% of these terminated employees were based in the United States, 43% in Singapore and 4% in other locations. Additionally, the Company accrued for lease costs of $0.2 million pertaining to the estimated future obligations for non-cancelable lease payments for excess facilities in Florida that were vacated due to the reductions in workforce. The Company also wrote off leasehold improvements with a net book value of $0.4 million and production-related machinery and equipment with a net book value of $0.4 million. The assets were taken out of service as they were deemed unnecessary due to the reductions in workforce. The Company recorded a reduction to the fiscal

2002 first quarter restructuring provision of $0.4 million in the third quarter of fiscal 2002, as actual costs for severance and benefits were lower than originally anticipated.

In the second quarter of fiscal 2003, the Company recorded an additional $0.3 million charge consisting of accrued lease costs to the first quarter of fiscal 2002 restructuring provision.

The following table sets forth an analysis of the components of the first quarter of fiscal 2002 restructuring charge and the provision adjustments and payments made against the reserve through September 30, 2002:

Severance And Benefits	Asset Write-offs	Other Charges	Total

	Severance And Benefits	Asset Write-offs	Other Charges	Total
		(in thousands)		
Restructuring provision:				
Severance and benefits	$ 5,174	$	$	$ 5,174
Accrued lease costs			219	219
Property and equipment write-off		811		811
Other charges			25	25
Total	5,174	811	244	6,229
Provision adjustment	(387)			(387)
Cash paid	(4,787)		(40)	(4,827)
Non-cash charges		(811)		(811)
Reserve balance at March 31, 2002			204	204
Cash paid			(116)	(116)
Reserve balance at June 30, 2002			88	88
Provision adjustment			347	347
Cash paid			(126)	(126)
Reserve balance at September 30, 2002	$	$	$ 309	$ 309

The Company anticipates that the remaining restructuring reserve balance relating to lease obligations of $0.3 million will be substantially paid out by the second quarter of fiscal 2004.

Fourth Quarter of Fiscal 2001 Restructuring Plan: In response to the economic slowdown, the Company's management implemented a restructuring plan in the fourth quarter of fiscal 2001 to reduce costs and improve operating efficiencies across each of the Company's segments, and the Company recorded a restructuring charge of $9.9 million. The restructuring charge consisted primarily of severance and benefits of $6.1 million related to the involuntary termination of approximately 275 employees. These employees were primarily in manufacturing and engineering functions, of which approximately 78% were based in the United States, 19% were based in Singapore and 3% were based in Belgium. Additionally, the Company accrued for lease costs of $1.4 million pertaining to the estimated future obligations for non-cancelable lease payments for excess facilities in California, New Hampshire, Florida and Belgium that were vacated due to the reductions in workforce. The Company wrote off leasehold improvements, furniture and fixtures, and production-related machinery and equipment with net book values of $1.2 million, $0.4 million and $0.3 million, respectively. The assets were taken out of service as they were deemed unnecessary due to the reductions in workforce. In addition, the Company wrote down certain manufacturing equipment by $0.3 million to its estimated realizable value of $0.5 million. The manufacturing equipment was taken out of service and is expected to be sold in fiscal 2003. The Company accrued for legal, accounting and consulting costs of $0.2 million related to the restructuring.

In the first quarter of fiscal 2002, the Company recorded an additional $0.7 million charge to the fiscal 2001 restructuring provision. The adjustments included accrued lease costs of $0.5 million, and the Company wrote down an additional $0.3 million of the estimated realizable value of certain manufacturing equipment identified in the fourth quarter of fiscal 2001 restructuring provision. These adjustments were offset by a decrease in severance and benefits of $0.1 million as actual costs were lower than originally anticipated. In the third quarter of fiscal 2002, the Company recorded a net reduction to the fourth quarter of fiscal 2001 restructuring provision of $0.4 million. The third quarter adjustment included a $0.6 million reduction in the restructuring provision as actual severance and benefit costs were lower than originally anticipated as well as an additional $0.2 million charge for the estimated realizable value of certain manufacturing equipment.

In the second quarter of fiscal 2003, the Company recorded an additional $0.6 million charge to the fourth quarter of fiscal 2001 restructuring provision. The adjustments included accrued lease costs of $0.4 million and the Company wrote down an additional $0.2 million of the estimated realizable value of certain manufacturing equipment that is being held for sale. The Company subleased a facility in California through April 2008. The estimated future sublease income will not be sufficient to cover the estimated future obligations for the non-cancelable lease payments. The Company accrued $0.4 million associated with the estimated loss through the end of the lease term.

The following table sets forth an analysis of the components of the fourth quarter of fiscal 2001 restructuring charge and the provision adjustments and payments made against the reserve through September 30, 2002:

	Severance And Benefits	Asset Write-offs	Other Charges	Total
		(in thousands)		
Restructuring provision:				
Severance and benefits	$ 6,083	$	$	$ 6,083
Accrued lease costs			1,407	1,407
Property and equipment write-off		2,169		2,169
Other charges			245	245
Total	6,083	2,169	1,652	9,904
Cash paid	(2,264)		(48)	(2,312)
Non-cash charges		(2,169)		(2,169)
Reserve balance at March 31, 2001	3,819		1,604	5,423
Provision adjustment	(680)	464	506	290
Cash paid	(3,139)		(1,359)	(4,498)
Non-cash charges		(464)		(464)
Reserve balance at March 31, 2002			751	751
Cash paid			(191)	(191)
Reserve balance at June 30, 2002			560	560
Provision adjustment		170	468	638
Cash paid			(81)	(81)
Non-cash charges		(170)		(170)
Reserve balance at September 30, 2002	$	$	$ 947	$ 947

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The Company anticipates that the remaining restructuring reserve balance relating to lease obligations of $0.9 million will be substantially paid out by the first quarter of fiscal 2009.

13. Other Charges

Other charges consisted of asset impairment charges. The Company holds minority investments in certain non-public companies. The Company regularly monitors these minority investments for impairment and records reductions in the carrying values when necessary. Circumstances that indicate an other than temporary decline include subsequent "down" financing rounds, decreases in quoted market prices and declines in operations of the issuer. In the second quarter of fiscal 2003, the Company recorded an impairment charge of $0.5 million related to a decline in the value of a minority investment deemed to be other than temporary. In the first half of fiscal 2002, the Company recorded an impairment charge of $4.1 million related to a decline in the value of a minority investment deemed to be other than temporary.

14. Income Taxes

Income tax provisions for interim periods were based on the Company's estimated annual income tax rate. In the second quarter of fiscal 2003, the Company recorded an income tax benefit of $1.4 million on a pretax loss of $12.2 million, resulting in an effective income tax rate of approximately 12%. The tax rate for the second quarter of 2003 differs from the combined U.S. Federal and state statutory income tax rate of 40%, primarily due to the amortization of non-goodwill acquisition related intangibles that are not fully deductible for tax purposes.

15. 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. In computing diluted net income

(loss) per share, the average stock price for the period is used in determining the number of shares assumed to be purchased upon the exercise of stock options.

	Three Month Period Ended		Six Month Period Ended	
	September 30, 2002	September 30, 2001	September 30, 2002	September 30, 2001
	(in thousands, except per share amounts)			
Numerators:				
Net loss from continuing operations	$ (10,820)	$ (62,863)	$ (8,266)	$ (81,366)
Net income from discontinued operations				495
Net loss	$ (10,820)	$ (62,863)	$ (8,266)	$ (80,871)
Denominators:				
Weighted average shares outstanding basic	106,550	100,895	106,264	99,992
Effect of dilutive securities:				
Employee stock options and other				
Weighted average shares and potentially dilutive common shares outstanding diluted	106,550	100,895	106,264	99,992
Basic net income (loss) per share:				
Continuing operations	$ (0.10)	$ (0.62)	$ (0.08)	$ (0.81)
Discontinued operations	$	$	$	$ 0.00
Net loss	$ (0.10)	$ (0.62)	$ (0.08)	$ (0.81)
Diluted net income (loss) per share:				
Continuing operations	$ (0.10)	$ (0.62)	$ (0.08)	$ (0.81)
Discontinued operations	$	$	$	$ 0.00
Net loss	$ (0.10)	$ (0.62)	$ (0.08)	$ (0.81)

Certain instruments potentially convertible into common stock were not included in the computation of diluted net income (loss) per share because they were anti-dilutive, as the Company was in a net loss position in all periods presented. The items excluded for the second quarter and first half of fiscal 2003 and 2002 were as follows:

Three Month Period Ended		Six Month Period Ended	
September 30, 2002	September 30, 2001	September 30, 2002	September 30, 2001

	Three Month Period Ended		Six Month Period Ended	
Outstanding employee stock options	18,441,000	10,368,000	18,791,000	9,803,000
Warrants	1,310,000	1,160,000	1,310,000	1,160,000
$4^{3}/_{4}$% Convertible Subordinated Notes	3,022,000	6,033,000	3,552,000	6,033,000
3% Convertible Subordinated Notes	16,327,000		16,327,000	

16. Comprehensive Loss

The Company's comprehensive loss consisted of net loss and the changes in net unrealized gains on available-for-sale securities, net of tax.

The components of comprehensive loss, net of tax, for the second quarter and first half of fiscal 2003 and 2002, were as follows:

	Three Month Period Ended		Six Month Period Ended	
	September 30, 2002	September 30, 2001	September 30, 2002	September 30, 2001
	(in thousands)			
Net loss	$ (10,820)	$ (62,863)	$ (8,266)	$ (80,871)
Increase in net unrealized gains on available-for-sale securities, net of tax	1,968	3,301	2,624	2,960
Comprehensive loss	$ (8,852)	$ (59,562)	$ (5,642)	$ (77,911)

Accumulated other comprehensive income presented in the accompanying Unaudited Condensed Consolidated Balance Sheets represents the net unrealized gains on available-for-sale securities, net of tax. The realization of these gains is dependent on the market value of the securities, which is subject to fluctuation. There can be no assurance if and when these gains will be realized.

17. Segment Reporting

The Company operates in three reportable segments: Storage Solutions Group ("SSG"), Desktop Solutions Group ("DSG") and Storage Networking Group ("SNG").

Storage Solutions Group ("SSG"): SSG's interface products enable the movement, storage and protection of data across a range of server platforms, direct attached storage servers, storage area network based servers, network attached storage ("NAS") devices and storage subsystems. These products bring Host Input/Output ("I/O"), including small computer system interface ("SCSI"), technology and redundant array of independent disks ("RAID") solutions to storage applications.

Desktop Solutions Group ("DSG"): DSG provides high-performance I/O, connectivity solutions for personal computing platforms, including notebook and desktop computers and consumer electronic devices. These products provide USB 2.0, FireWire/1394, and SCSI connectivity.

Storage Networking Group ("SNG"): SNG provides storage connectivity solutions for servers, storage devices, fabric switches and NAS devices. These products incorporate Internet Protocol SCSI ("iSCSI"), TCP/IP offload engine ("TOE") functionality, fibre channel and multi-port ethernet technologies. The Company is currently providing evaluation units of iSCSI and TOE products to OEM customers for integration and testing.

Other revenues and expenses: This includes unallocated corporate expenses, write-off of acquired in process technology, restructuring charges, other charges, interest and other income, and interest expense.

Summarized financial information on the Company's reportable segments is shown in the following table. There were no inter-segment revenues for the periods shown below. The Company does not separately track assets or depreciation by operating segments nor are the segments evaluated under these criteria.

	SSG	DSG	SNG	Other	Total
			(in thousands)		
Three Month Period Ended September 30, 2002:					
Net revenues	$ 70,939	$ 12,082	$ 2,688	$	$ 85,709
Segment income (loss)	7,471	(2,128)	(16,292)	(1,290)	(12,239)
Three Month Period Ended September 30, 2001:					
Net revenues	$ 80,818	$ 11,697	$ 2,790	$	$ 95,305
Segment loss	(4,279)	(762)	(9,681)	(46,660)	(61,382)
Six Month Period Ended September 30, 2002:					
Net revenues	$ 158,713	$ 28,426	$ 6,416	$	$ 193,555
Segment income (loss)	24,694	(1,581)	(33,167)	3,025	(7,029)
Six Month Period Ended September 30, 2001:					
Net revenues	$ 169,037	$ 30,503	$ 5,948	$	$ 205,488
Segment income (loss)	(12,142)	1,334	(18,695)	(49,607)	(79,110)

The following table presents the details of other expenses for the second quarter and first half of fiscal 2003 and 2002:

	Three Month Period Ended		Six Month Period Ended	
	September 30, 2002	September 30, 2001	September 30, 2002	September 30, 2001
		(in thousands)		
Unallocated corporate expenses, net	$ 604	$ 879	$ 901	$ 1,401
Write-off of acquired in-process technology		(53,370)		(53,370)
Restructuring charges	(7,139)		(7,139)	(6,912)
Other charges	(528)		(528)	(4,092)
Interest and other income	9,784	8,889	18,976	19,437
Interest expense	(4,011)	(3,058)	(9,185)	(6,071)
Total	$ (1,290)	$ (46,660)	$ 3,025	$ (49,607)

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

This Quarterly Report on Form 10-Q/A 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. 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