ADAPTEC INC
Form PREC14A
August 24, 2007

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
(Amendment No. 1)

Filed by the Registrant o

Filed by a Party other than the Registrant x

Check the appropriate box:

x Preliminary Proxy Statement

o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

o Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Under Rule 14a-12

ADAPTEC, INC.

(Name of Registrant as Specified in Its Charter)

STEEL PARTNERS II, L.P.
STEEL PARTNERS, L.L.C.
WARREN G. LICHTENSTEIN
JACK HOWARD
JOHN QUICKE
JOHN MUTCH
HOWARD LEITNER
ANTHONY BERGAMO

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

Payment of Filing Fee (Check the appropriate box):

x No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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o Fee paid previously with preliminary materials:

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

PRELIMINARY COPY - SUBJECT TO COMPLETION, DATED AUGUST 24, 2007

STEEL PARTNERS II, L.P.

_____, 2007

Dear Fellow Stockholder:

Steel Partners II, L.P. ("Steel Partners" or "we") is the beneficial owner of an aggregate of 17,825,808 shares of Common Stock of Adaptec, Inc. ("Adaptec" or the "Company"), representing approximately 14.9% of the outstanding Common Stock of the Company. For the reasons set forth in the attached Proxy Statement, Steel Partners does not believe that the Board of Directors of the Company is acting in the best interests of its stockholders. We are therefore seeking your support at the annual meeting of stockholders (the "Annual Meeting") scheduled to be held at _________________, on ________, ______ __, 2007, at __:___ __.M. (local time) for the following:

1. To elect Steel Partners' slate of five director nominees to the Company's Board of Directors in opposition to five of the Company's incumbent directors.

2. To ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending March 31, 2008.

Through the attached Proxy Statement, we are soliciting proxies to elect not only our five director nominees, but also the candidates who have been nominated by the Company other than _________, _________, _________, _________ and _________. This gives stockholders the ability to vote for the total number of directors up for election at the Annual Meeting. The names, backgrounds and qualifications of the Company's nominees, and other information about them, can be found in the Company's proxy statement. There is no assurance that any of the Company's nominees will serve as directors if our nominees are elected.

We urge you to carefully consider the information contained in the attached Proxy Statement and then support our efforts by signing, dating and returning the enclosed **GOLD** proxy card today. The attached Proxy Statement and the enclosed **GOLD** proxy card are first being furnished to the stockholders on or about _____, 2007.

If you have already voted a proxy card furnished by the Company's management, you have every right to change your votes by signing, dating and returning a later dated proxy.

If you have any questions or require any assistance with your vote, please contact MacKenzie Partners, Inc., which is assisting us, at their address and toll-free numbers listed on the following page.

Thank you for your support,

Warren G. Lichtenstein
Steel Partners II, L.P.

*If you have any questions, require assistance in voting your **GOLD** proxy card, or need additional copies of Steel Partners' proxy materials, please call MacKenzie Partners, Inc. at the phone numbers listed below.*

105 Madison Avenue
New York, New York 10016
(212) 929-5500 (Call Collect)
proxy@mackenziepartners.com

or

CALL TOLL FREE (800) 322-2885

PRELIMINARY COPY - SUBJECT TO COMPLETION, DATED AUGUST 24, 2007

ANNUAL MEETING OF STOCKHOLDERS
OF
ADAPTEC, INC.

PROXY STATEMENT
OF
STEEL PARTNERS II, L.P.

PLEASE SIGN, DATE AND MAIL THE ENCLOSED GOLD PROXY CARD TODAY

Steel Partners II, L.P., a Delaware limited partnership ("Steel Partners" or "we"), is the largest stockholder of Adaptec, Inc., a Delaware corporation ("Adaptec" or the "Company"). We are writing to you in connection with the election of five director nominees to the board of directors of Adaptec (the "Adaptec Board") at the annual meeting of stockholders scheduled to be held at _________________, on ________, ______ __, 2007, at __:___ __.M. (local time), including any adjournments or postponements thereof and any meeting which may be called in lieu thereof (the "Annual Meeting"). This proxy statement (the "Proxy Statement") and the enclosed GOLD proxy card are first being furnished to stockholders on or about _________ __, 2007.

This Proxy Statement and the enclosed GOLD proxy card are being furnished to stockholders of Adaptec by Steel Partners in connection with the solicitation of proxies from Adaptec's stockholders for the following:

1. To elect Steel Partners' director nominees, Jack L. Howard, John J. Quicke, John Mutch, Howard M. Leitner and Anthony Bergamo (the "Nominees") to serve as directors of Adaptec, in opposition to five of the Company's incumbent directors whose terms expire at the Annual Meeting.

2. To ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending March 31, 2008.

This Proxy Statement is soliciting proxies to elect not only our Nominees, but also the candidates who have been nominated by Adaptec other than _________, _________, _________, _________ and ________. This gives stockholders who wish to vote for our Nominees the ability to vote for eight nominees in total.

Steel Partners, Steel Partners, L.L.C. ("Partners LLC"), Warren G. Lichtenstein and the Nominees are members of a group (the "Group") formed in connection with this proxy solicitation and are deemed participants in this proxy solicitation.

Adaptec has set the record date for determining stockholders entitled to notice of and to vote at the Annual Meeting as _________ (the "Record Date"). The mailing address of the principal executive offices of Adaptec is 691 S. Milpitas Blvd., Milpitas, California 95035. Stockholders of record at the close of business on the Record Date will be entitled to vote at the Annual Meeting. According to Adaptec, as of the Record Date, there were _______ shares of common stock, $.001 par value per share (the "Shares") outstanding and entitled to vote at the Annual Meeting. As of the Record Date, Steel Partners, along with all of the participants in this solicitation, were the beneficial owners of an aggregate of ________ Shares, which represents approximately ____% of the voting securities outstanding (based on the Company's proxy statement). The participants in this solicitation intend to vote such Shares (i) for the election of the Nominees and for the candidates who have been nominated by the Company other than _________, _________, _________, _________ and ________, and (ii) for the ratification of the appointment of PricewaterhouseCoopers LLP as described herein.

THIS SOLICITATION IS BEING MADE BY STEEL PARTNERS AND NOT ON BEHALF OF THE BOARD OF DIRECTORS OR MANAGEMENT OF ADAPTEC. STEEL PARTNERS IS NOT AWARE OF ANY OTHER MATTERS TO BE BROUGHT BEFORE THE ANNUAL MEETING. SHOULD OTHER MATTERS, WHICH STEEL PARTNERS IS NOT AWARE OF A REASONABLE TIME BEFORE THIS SOLICITATION, BE BROUGHT BEFORE THE ANNUAL MEETING, THE PERSONS NAMED AS PROXIES IN THE ENCLOSED GOLD PROXY CARD WILL VOTE ON SUCH MATTERS IN THEIR DISCRETION.

STEEL PARTNERS URGES YOU TO SIGN, DATE AND RETURN THE GOLD PROXY CARD IN FAVOR OF THE ELECTION OF ITS NOMINEES.
IF YOU HAVE ALREADY SENT A PROXY CARD FURNISHED BY ADAPTEC'S MANAGEMENT TO THE COMPANY, YOU MAY REVOKE THAT PROXY AND VOTE FOR THE ELECTION OF STEEL PARTNERS' NOMINEES BY SIGNING, DATING AND RETURNING THE ENCLOSED GOLD PROXY CARD. THE LATEST DATED PROXY IS THE ONLY ONE THAT COUNTS. ANY PROXY MAY BE REVOKED AT ANY TIME PRIOR TO THE ANNUAL MEETING BY DELIVERING A WRITTEN NOTICE OF REVOCATION OR A LATER DATED PROXY FOR THE ANNUAL MEETING TO STEEL PARTNERS, C/O MACKENZIE PARTNERS, INC. WHICH IS ASSISTING IN THIS SOLICITATION, OR TO THE SECRETARY OF ADAPTEC, OR BY VOTING IN PERSON AT THE ANNUAL MEETING.

IMPORTANT

Your vote is important, no matter how many or how few Shares you own. We urge you to sign, date, and return the enclosed GOLD proxy card today to vote FOR the election of our Nominees.

- **If your Shares are registered in your own name, please sign and date the enclosed GOLD proxy card and return it to Steel Partners, c/o MacKenzie Partners, Inc., in the enclosed envelope today.**

- **If your Shares are held in a brokerage account or bank, you are considered the beneficial owner of the Shares, and these proxy materials, together with a GOLD voting form, are being forwarded to you by your broker or bank. As a beneficial owner, you must instruct your broker, trustee or other representative how to vote. Your broker cannot vote your Shares on your behalf without your instructions.**

- **Depending upon your broker or custodian, you may be able to vote either by toll-free telephone or by the Internet. Please refer to the enclosed voting form for instructions on how to vote electronically. You may also vote by signing, dating and returning the enclosed voting form.**

Since only your latest dated proxy card will count, we urge you not to return any proxy card you receive from the Company. Even if you return the management proxy card marked "withhold" as a protest against the incumbent directors, it will revoke any proxy card you may have previously sent to Steel Partners. Remember, you can vote for our five independent nominees only on our **GOLD** proxy card. So please make certain that the latest dated proxy card you return is the **GOLD** proxy card.

If you have any questions regarding your proxy,
or need assistance in voting your Shares, please call:

105 Madison Avenue
New York, New York 10016
(212) 929-5500 (Call Collect)
proxy@mackenziepartners.com

or

CALL TOLL FREE (800) 322-2885

BACKGROUND TO OUR SOLICITATION

Steel Partners is currently the beneficial owner of 17,825,808 Shares, representing approximately 14.9% of the issued and outstanding voting securities of Adaptec.

On May 29, 2007, Steel Partners delivered a letter to the Adaptec Board in which Steel Partners expressed its concern with the direction in which the Company is headed and Steel Partners requested to discuss with the Company immediate minority representation on the Adaptec Board, including representation on the Transaction Committee of the Adaptec Board. In the letter, Steel Partners also expressed its concern with the Company's "ill-conceived acquisitions during the past five years" and requested, as a signal of the Adaptec Board's commitment to a successful turnaround, that the Adaptec Board agree not to commence further acquisitions until Steel Partners is granted representation on the Adaptec Board. Steel Partners further stated that, without such a commitment, it would nominate a full slate of directors for election to the Adaptec Board at the Annual Meeting.

On June 25, 2007, Steel Partners delivered a letter to Adaptec nominating Jack L. Howard, John J. Quicke, John Mutch, Howard M. Leitner and Anthony Bergamo for election to the Adaptec Board at the Annual Meeting (the "Nomination Letter").

Also on June 25, 2007, Steel Partners communicated to the Company its preference to settle the issue of minority representation on the Adaptec Board without the need for a proxy contest and that Steel Partners delivered the Nomination Letter to reserve its right to nominate the Nominees in the event the Company and Steel Partners do not reach an amicable settlement.

On June 25, 2007, Jack Howard of Steel Partners sent a message to Scott Mercer, the Chairman of the Adpatec Board, proposing that the Company (i) appoint Mr. Howard, Mr. Quicke and one other Nominee selected by the Company to the Adpatec Board, (ii) appoint either Mr. Howard or Mr. Quicke to the Adaptec Board's Transaction Committee, (iii) hire a profit-improvement consulting firm to create a strategic plan to return the Company to profitability and (iv) propose at the Annual Meeting that stockholders vote to opt-out of Section 203 of the Delaware General Corporation Law (the "DGCL"). Section 203 of the Delaware General Corporation Law provides, in effect, that if any person acquires beneficial ownership of 15% or more of a corporation s outstanding shares (thereby becoming an Interested Stockholder), the Interested Stockholder may not engage in a business combination with the corporation for three years thereafter, subject to certain exceptions. Mr. Howard further communicated to the Company Steel Partners' belief in the long-term value of Adaptec and its desire to increase its ownership position in the Company to up to 25% of the outstanding Shares and that Steel Partners has no current intention to propose an acquisition of Adaptec.

On August 3, 2007, Steel Partners delivered a letter to Adaptec requesting, pursuant to Section 220 of the DGCL, a complete list of Adaptec's stockholders and other corporate records in order to allow Steel Partners to communicate with Adaptec's stockholders in connection with the election of directors to be submitted to a vote of the stockholders at the Annual Meeting, and any other matters as may properly come before the Annual Meeting (the "Steel 220 Demand").

On August 10, 2007, the Company's President and CEO, S. "Sundi" Sundaresh, delivered a letter to Steel Partners providing responses to Steel Partners' settlement proposals previously communicated by Mr. Howard of Steel Partners to Mr. Mercer, Chairman of the Adpatec Board. In the letter, Mr. Sundaresh expressed (i) the Adaptec Board's willingness to add only one designee of Steel Partners to the Adaptec Board, (ii) that while the Adaptec Board is willing to consider appointing the Steel Partners' designee to certain board committees, the Adaptec Board would not guarantee that the designee would be placed on the Transaction Committee, (iii) that the Adaptec Board will require Steel Partners to enter into a "standstill" agreement through the end of 2008 as a condition of adding a designee of Steel Partners to the Adaptec Board, (iv) that the Adaptec Board does not believe that it is in the interests of the Company's stockholders that it propose and support a proposal to elect not to be governed by Section 203 and (v) the Adaptec Board's willingness to hire a mutually agreed upon profit-improvement consulting firm.

On August 13, 2007, the Company delivered a letter to Steel Partners in response to the Steel 220 Demand in which the Company agreed to make available certain records requested in the Steel 220 Demand provided that Steel Partners signs and delivers a confidentiality agreement prior to the provision of such records. In the letter, the Company expressed its belief that the scope of records requested in the Steel 220 Demand exceeds what the Company is required to provide under Section 220 of the DGCL or the scope of information that it would be appropriate for the Company to provide. The letter further stated that the Company would only provide Steel Partners with certain materials it has requested in electronic format in such format if Adaptec itself holds the materials in electronic format and that Adaptec is not obligated to provide the information requested in the Steel 220 Demand that is not readily available to Adaptec. The letter also requested that Steel Partners consent to these and other arrangements the Company was prepared to agree to with respect to the Steel 220 Demand.

On August 17, 2007, counsel to Steel Partners delivered a letter to the Company's outside counsel expressing that although it believes that Steel Partners is entitled to receive all of the materials it requested in the Steel 220 Demand, in order to move forward without further delay, Steel Partners is prepared to sign an appropriate confidentiality agreement covering all materials the Company furnishes to Steel Partners in response to the Steel 220 Demand. The letter further stated that Steel Partners counsel is not aware of any rule under Delaware law that would require Steel Partners to provide to the Company the consent requested by Mr. Sundaresh in his letter as a condition to sending the confidentiality agreement and requested that the Company forward Steel Partners counsel a form of the confidentiality agreement as soon as possible for review.

On August 20, 2007, Steel Partners delivered a letter to the Adaptec Board expressing that while the Company's offer to add one of Steel Partners' designees to the Board and the Adaptec Board's willingness to hire a mutually agreed upon profit-improvement consulting firm represent a positive first step, Steel Partners was disappointed overall with the substance of the Adaptec Board's response to Steel Partners' proposals, and that Steel Partners does not believe that the Adaptec Board has adequately addressed the significant concerns and issues that Steel Partners has raised. The letter further stated that Steel Partners' sole interest in seeking minority representation on the Adaptec Board is to provide assistance to the Company in its next steps towards profitability and to ensure that the interests of the Adaptec Board and the Company's stockholders are aligned and that the Adaptec Board's offer of one board seat does not provide sufficient representation, in Steel Partners' opinion, to protect stockholders' interests. Steel Partners stated its belief that the Adaptec Board be fixed at eight members and reiterated its request that the Adaptec Board include and recommend three of Steel Partners' Nominees on the Company's slate for election at the Annual Meeting, consisting of two representatives of Steel Partners - Jack Howard and John Quicke - and one other Nominee selected by the Adaptec Board. In the letter, Steel Partners further requested that either Mr. Howard or Mr. Quicke be appointed to the Transaction Committee and that any significant transaction would require unanimous approval of all members of the Transaction Committee. Regarding Section 203, Steel Partners reiterated its belief in the long-term value of Adaptec and that it had spoken to the Adaptec Board about increasing its ownership position in the Company to up to 25% of the outstanding Shares. Steel Partners stated that if the Adaptec Board is unwilling to waive Section 203 on its own, then the Adaptec Board should put it to a stockholder vote at the Annual Meeting.

On August 23, 2007, Mr. Howard and Mr. Quicke participated in a meeting with the members of the Adaptec Board (the Board Meeting). The primary purpose of the Board Meeting was to further discuss Steel Partners specific proposals regarding representation on the Adaptec Board and Section 203 and for Messrs. Howard and Quicke to address certain questions from members of the Adaptec Board. During the Board Meeting, the Adaptec Board made it clear that it would not waive Section 203 for Steel Partners and that if Steel Partners wants to increase its ownership above 15% of the outstanding Shares, then it would have to do so without the Adaptec Board granting a waiver.

Steel Partners continues to believe that the Company s Shares are undervalued and may proceed to acquire additional Shares that would result in Steel Partners increasing its ownership position in the Company above 15% of the outstanding Shares.

REASONS FOR OUR SOLICITATION

As the beneficial owner of 17,825,808 Shares, representing approximately 14.9% of the issued and outstanding voting securities, Steel Partners is the largest stockholder of the Company. As such, we have one simple goal – **to maximize the value of the Shares for all stockholders.**

The Company would have you believe that this election contest is a means for Steel Partners intention to take control of the Company without paying a premium. However, Steel Partners has commenced this election contest as a last resort to maximize stockholder value. In fact, prior to nominating five individuals for election as directors, Steel Partners sought to initiate a dialogue regarding minority representation on the Adaptec Board. We have repeatedly expressed to the Company our serious concerns that the Company may continue its unfortunate trend of conducting ill-conceived acquisitions, which we believe has led to significant erosion of stockholder value during the past five years. We were seeking minority representation that would place us in a position to assist the Company in taking steps towards profitability and effecting a successful turnaround. We only nominated a slate of five directors in order to reserve our rights in connection with the Annual Meeting in the event an amicable resolution could not be reached with the Company regarding minority representation, and only after the Company refused to commit to not undertaking any further acquisitions until Steel Partners has representation on the Adaptec Board.

Our Nominees, if elected, will comprise a majority of the Adaptec Board and will attempt to work constructively with other elected members of the Adaptec Board to pursue the options that they believe are in the best interests of the stockholders and which they believe will maximize stockholder value. We are committed to safeguarding stockholder interests and helping to ensure that all efforts are being undertaken to maximize stockholder value. We do not believe that the Company's management team or the Adaptec Board have served the best interests of the Company's stockholders, and we have serious questions as to whether the Adaptec Board can provide the best solutions to the Company's current problems. We also fear that the Company's intrinsic value may continue to erode under the continued stewardship of current management and the Adaptec Board.

Given the Company's poor track record, we believe that the Adaptec Board should not be trusted to assess acquisitions, growth investments, and product expansions while overseeing a restructuring plan.

Specifically, our concerns include the following:

- **Adaptec's operational performance has deteriorated under management and the Adaptec Board;**
- **Adaptec's poor acquisition strategy and recent about-faces in strategic direction have resulted in further erosion to stockholder value;**
- **Adaptec's stock performance has lagged indices and peers; and**
- **Adaptec has rewarded executive officers with excessive compensation packages and retention bonuses despite the Company's poor performance.**

Our Nominees are committed to working to improve the Company's operational performance, closely monitoring and promoting the accountability of senior management and encouraging and overseeing efforts to maximize stockholder value. The reasons why we believe you should vote for the Nominees is set forth in greater detail below.

ADAPTEC'S OPERATIONAL PERFORMANCE HAS DETERIORATED UNDER MANAGEMENT AND THE ADAPTEC BOARD

For the past ten quarters, the Company has lost money on an operational basis. In fact, during fiscal years 2005 and 2006, the Company suffered total operating losses of approximately $188.4 million. Net revenue has declined from approximately $402.5 million in 2005 to approximately $255.2 million in 2007. Gross margin has declined from 40% in 2005 to 32% in 2007.

We believe the Company s research and development expenses are unreasonable in light of the Company s operational failures and its inability to increase revenues. In the past three fiscal years alone, the Company has spent approximately $218 million on research and development. During that same period, the Company s net revenue declined by almost $150 million.

In light of the Company's dismal financial performance over the past five years coupled with the trend in declining operating margin, we have concerns about management and the Adaptec Board's ability to implement a restructuring plan that will create significant profitability for the Company in order to maximize stockholder value.

ADAPTEC'S POOR ACQUISITION STRATEGY AND RECENT ABOUT-FACES IN STRATEGIC DIRECTION HAVE RESULTED IN FURTHER EROSION TO STOCKHOLDER VALUE

During the past five years, the Company has conducted acquisitions that have resulted in acquired technology intangibles and goodwill write-offs in excess of $175 million. We believe that the Company's acquisition strategy has resulted in significant deterioration to stockholder value. Earlier this year on an earnings conference call, Mr. Sundaresh stated that the key to the Company's turnaround is to undertake further acquisitions. Given the Company's poor financial performance and the recent history of ill-conceived acquisitions, we do not believe Mr. Sundaresh or the Adaptec Board should be trusted to conduct further acquisitions while stockholder value continues to erode. Instead, we believe that Mr. Sundaresh and his management team should focus their efforts on the Company's core RAID business. Consider the following:

- The Company acquired Snap Appliance, Inc. ("Snap Appliance") in 2004 for approximately $100 million and acquired Eurologic Systems in 2003 for approximately $30 million. The Company stated that its purpose for these two acquisitions was to build its Systems Business Unit, and the Company publicly stated that the Systems Business Unit would be the growth engine for the Company. Along those same lines, in the Company's Quarterly Report on Form 10-Q filed on August 9, 2004, the Company stated the following: "Our growth and future revenues remains largely dependent on the success of our external and networked storage solutions and, to a lesser extent, on our products addressing new technologies (i.e., Serial Attached SCSI, Serial ATA and iSCSI)." The Snap Appliance acquisition proved, however, to be an ill-advised one. Revenues from Snap Appliance's products fell below expectations for the first three quarters after the acquisition. In an about-face of strategic direction less than a year following the acquisition of Snap Appliance, the Company announced that it had hired Credit Suisse to assist in the sale process for the Company's Systems Business Unit. This is what Mr. Sundaresh had to say about this sale: "It was a hard decision for us, but we feel that selling our systems business is the best move for the company and its shareholders as we take the necessary steps in Adaptec's recovery. This will allow us to focus our internal resources on capturing a leadership position in the emerging Serial ATA and Serial Attached SCSI markets."

- On June 29, 2004, the Company completed the acquisition of IBM's i/p Series RAID component business line for a total purchase price of $49.3 million. Then, on September 30, 2005, a little over a year later, the Company sold its IBM i/p Series RAID component business to IBM for approximately $22.0 million plus $1.3 million for certain fixed assets. Mr. Sundaresh stated the following about the sale: "In analyzing Adaptec's various businesses, it became clear to us that delivering add-on products for IBM's eServer iSeries and pSeries systems would not be a long term profitable business opportunity for Adaptec…Today's agreement is part of our ongoing effort to improve Adaptec's focus and execution on profitable business ventures." As a result of the IBM i/p Series RAID transaction, the Company recorded approximately $26 million in losses on the sale of assets and impairment of related goodwill.

In fact, if we had not expressed our strong disapproval of the Company's current acquisition strategy, we believe the Company's management team and the Adaptec Board would have proceeded with the acquisition of Zantaz, an email archiving service provider, earlier this year. We do not believe that the same management that has failed to deliver on any profitability or growth benchmarks during the past 2 ½ fiscal years should be trusted to make large-scale acquisitions and manage new business segments. In light of the Company's poor financial performance described in detail above, we agree with Morgan Keegan analyst Brian Freed's statement in his May 11, 2007 research report that the Adaptec Board "has in our opinion not earned the right to spend shareholder money on the acquisition of new businesses." He further says "We believe the key to shareholder value is simple, a 100% focus on delivering the promise of profitability in the Company's core RAID business, not spending the Company's cash hoard on an acquisition because the task of profitability in the RAID business proved more difficult than first believed. We believe to do otherwise turns a deaf ear to the voice of shareholders, none of whom I have ever spoken with (and I have spoken to many) supports a large cash acquisition at this time."

PERFORMANCE OF ADAPTEC'S COMMON STOCK HAS LAGGED INDICES AND PEERS

We believe the stock price of a company is the ultimate report card for its management and its board of directors. Adaptec's stock performance has fared poorly over the past five years. We believe that the market price of the Shares does not accurately reflect the intrinsic value of the Company and that the Adaptec Board has not taken the necessary steps to close this value gap. During the past three years alone, the Company's stock price has decreased by almost 50%.

Adaptec's stock performance fares just as poorly on a relative basis as on an absolute one:

- During the period from March 31, 2002 to March 31, 2007, an investment in Adaptec would have lost approximately 71% of its value compared to a gain of more than 39% had the same investment been made in the NASDAQ Composite Index.

- During the period from March 31, 2002 to March 31, 2007, an investment in Adaptec would have lost approximately 71% of its value compared to a gain of approximately 33% had the same investment been made in the NASDAQ Computer and Data Processing Index.

- Between March 31, 2002 and March 31, 2007, Adaptec's stock price has lost approximately 71% of its value.

The following table, which appears in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on June 6, 2007, highlights Adaptec's poor stock performance.

	3/02	3/03	3/04	3/05	3/06	3/07
Adaptec, Inc.	**100.00**	**45.10**	**65.52**	**35.83**	**41.36**	**28.95**
NASDAQ Composite	**100.00**	**72.11**	**109.76**	**111.26**	**132.74**	**139.65**
NASDAQ Computer & Data Processing	**100.00**	**76.72**	**96.82**	**104.03**	**122.64**	**133.49**

ADAPTEC HAS REWARDED EXECUTIVE OFFICERS WITH EXCESSIVE COMPENSATION PACKAGES AND RETENTION BONUSES DESPITE THE COMPANY'S POOR PERFORMANCE

According to Morgan Keegan analyst Brian Freed in his May 11, 2007 research report, "the recent pay packages disclosed for recent hires seem excessive in light of the recent failure of management to successfully deliver. Furthermore, while we had believed management was of character such that they would not plunder the company for personal gain, the recent title and pay packages bestowed on members of the executive management team lead us to question our prior assessment."We also do not believe the recently announced retention agreements for certain of the Company's executive officers are justified by the Company's performance

We also do not believe the retention agreements approved by the Adaptec Board on August 14, 2007 for certain of the Company s executive officers are justified by the Company s poor performance. The retention agreements provide that the executive officer will receive a retention bonus equal to six months of his base salary, with two months of the bonus to be paid on November 23, 2007 and the remaining four months of the bonus to be paid on February 29, 2008. This retention bonus is in addition to any payment the executive officer is eligible to receive under the Adaptec Incentive Plan or any severance benefits he is entitled to receive under his employment agreement.
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The Company also maintains lucrative severance and change of control arrangements with certain of its executive officers. There are provisions in the executive officers' employment agreements that allow them to receive severance benefits following termination of their employment by the Company for "Good Reason. Upon such termination, the executive officer would be entitled to (1) his unpaid salary and unused vacation benefits he has accrued prior to the date of his termination; (2) a one-time payment equal to one year of base salary, plus an additional week of base salary for each year of service beyond three years of service; (3) outplacement services in an amount not to exceed $10,000; and (4) coverage for the executive officer and his dependents under Adaptec's health, vision and dental insurance plans pursuant to the terms of the Consolidated Omnibus Budget and Reconciliation Act ("COBRA") for the one-year period following the termination of his employment. Additionally, upon certain change of control provisions being triggered, the executive officer would be entitled to (a) a one-time payment equal to one and one-half times his then-current annual base salary, (b) his then-current targeted bonus payout, (c) COBRA benefits for one year, (d) outplacement services not to exceed $10,000 and (e) accelerated vesting of his stock options as provided for under the 2004 Equity Incentive Plan.

In addition we were surprised to see Mr. Sundaresh receive subsequent salary increases on November 14, 2005 and January 26, 2006, respectively, despite the Company's poor operating performance. In fact since September 21, 2005, his salary has increased from $375,000 to $450,000. In the same two-year period, the Company's net revenues have declined by almost $150 million. Based on the Company's proxy statement, Mr. Sundaresh would be entitled to a change in control payment equal to $________, assuming any of the number of change of control conditions are triggered.

We believe that executive compensation should be linked to value delivered to stockholders and that a public company's compensation programs should be designed to provide a correlation between the financial success of management and the stockholders. We see no correlation between Adaptec's poor financial performance and Mr. Sundaresh's compensation.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

The Adaptec Board is currently composed of eight directors whose terms expire at the Annual Meeting. We expect that the Adaptec Board will nominate these incumbent directors for re-election at the Annual Meeting. For the reasons stated above, we are seeking your support at the Annual Meeting to elect the Nominees in opposition to Adaptec's director nominees.

We believe that Adaptec's current Share price does not reflect the true value of the Common Stock, and we do not believe the current management team and the Adaptec Board have the ability, nor should be trusted, to successfully restructure the Company in order to maximize stockholder value.

We believe the election of the Nominees represents the best means for stockholders to have the ability to maximize the present value of their Shares. If elected, the Nominees will, subject to their fiduciary duties, explore all available alternatives to maximize stockholder value.

We wish to provide the stockholders, the true owners of Adaptec, with the opportunity to elect directors that are unaffiliated with the existing Adaptec Board. If all are elected, the Nominees will constitute a majority of the current eight-member Adaptec Board. Your vote to elect the Nominees does not constitute a vote in favor of our value-enhancing plans. Your vote to elect the Nominees will have the legal effect of replacing five incumbent directors with our Nominees.

THE NOMINEES

We have nominated a slate of highly qualified nominees who we believe possess the expertise necessary to work to restore and enhance stockholder value. The Nominees are independent of the Company in accordance with SEC and Nasdaq Stock Market rules on board independence and are committed to exploring all alternatives to increase stockholder value. If elected, the Nominees are committed to acting in the best interest of Adaptec's stockholders and will pursue their efforts diligently and promptly. The following information sets forth the name, age, business address, present principal occupation, and employment and material occupations, positions, offices, or employments for the past five years of each of the Nominees. This information has been furnished to Steel Partners by the Nominees. The Nominees are citizens of the United States of America.

Jack L. Howard (age 45) has served as Vice Chairman of Steel Partners, Ltd. ("SPL"), a management and advisory company that provides management services to Steel Partners and its affiliates, since December 2003. He has been a registered principal of Mutual Securities, Inc., a registered broker-dealer, since 1989. He has served as a director of WHX Corporation ("WHX"), a holding company, since July 2005. Mr. Howard has served as Chairman of the Board of WebFinancial Corporation ("WebFinancial"), a consumer and commercial lender, since June 2005, as a director of WebFinancial since 1996, and as its Vice President since 1997. From 1997 to May 2000, he also served as Secretary, Treasurer and Chief Financial Officer of WebFinancial. He has been a director of CoSine Communications, Inc., a global telecommunications equipment supplier, since July 2005. The business address of Mr. Howard is c/o Steel Partners II, L.P., 590 Madison Avenue, 32nd Floor, New York, New York 10022. Mr. Howard does not beneficially own, and has not purchased or sold during the past two years, any securities of Adaptec.

John J. Quicke (age 58) has served as an Operating Partner of SPL since September 2005. Mr. Quicke has served as Chairman of the Board of NOVT since April 2006 and served as President and Chief Executive Officer of NOVT from April 2006 to November 2006. He has served as a director of WHX since July 2005, as a Vice President since October 2005 and as President and Chief Executive Officer of its Bairnco Corporation subsidiary since April 2007. Mr. Quicke currently serves as a director of Angelica Corporation, a leading provider of healthcare linen management services. He served as a dir