ADAPTEC INC
Form 10-Q
February 06, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2007

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________to _________

Commission file number 0-15071

Adaptec, Inc.

(Exact name of Registrant as Specified in its Charter)

Delaware	**94-2748530**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

691 S. Milpitas Blvd.
Milpitas, California 95035

(Address of Principal Executive Offices including Zip Code)

(408) 945-8600

(Registrant's Telephone Number, Including Area Code)

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days.
YES x NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES ¨ NO x

The number of shares of Adaptec's common stock outstanding as of February 1, 2008 was 120,922,684.

Adaptec, Inc.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three-Month Period Ended December 31, 2007	Three-Month Period Ended December 31, 2006	Nin
	(in thousands, except per s		
Net revenues	$ 41,162	$ 60,650	$
Cost of revenues	24,993	45,807	
Gross profit	16,169	14,843	
Operating expenses:			
Research and development	8,824	12,931	
Selling, marketing and administrative	14,115	15,346	
Amortization of acquisition-related intangible assets	720	1,470	
Restructuring charges (gains)	706	(385)	
Other charges (gains)	--	--	
Total operating expenses	24,365	29,362	
Loss from continuing operations	(8,196)	(14,519)	
Interest and other income, net	8,838	6,600	
Interest expense	(805)	(790)	
Loss from continuing operations before income taxes	(163)	(8,709)	
Provision for (benefit from) income taxes	(1,271)	(13,786)	
Income (loss) from continuing operations, net of taxes	1,108	5,077	
Discontinued operations, net of taxes			
Income from discontinued operations, net of taxes	--	--	
Income (loss) from disposal of discontinued operations, net of taxes	--	1,301	
Income (loss) from discontinued operations, net of taxes	--	1,301	
Net income (loss)	$ 1,108	$ 6,378	$
Income (loss) per share:			
Basic			
Continuing operations	$ 0.01	$ 0.04	$
Discontinued operations	--	0.01	
Net income (loss)	$ 0.01	$ 0.05	$
Diluted			
Continuing operations	$ 0.01	$ 0.04	$
Discontinued operations	--	0.01	
Net income (loss)	$ 0.01	$ 0.05	$

Shares used in computing income (loss) per share:		
Basic	118,987	116,959
Diluted	119,622	137,330

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

ADAPTEC, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

		December 31, 2007	
		(in thousa	
Assets			
Current assets:			
Cash and cash equivalents	$	214,720	$
Marketable securities		383,036	
Restricted marketable securities		1,657	
Accounts receivable, net		29,250	
Inventories		14,363	
Prepaid expenses and other current assets		27,091	
Assets held for sale		--	
Total current assets		670,117	
Property and equipment, net		13,883	
Restricted marketable securities, less current portion		--	
Other intangible assets, net		3,148	
Other long-term assets		8,393	
Total assets	$	695,541	$
Liabilities and Stockholders' Equity			
Current liabilities:			
Accounts payable	$	15,555	$
Accrued and other liabilities		28,704	
3/4% Convertible Senior Subordinated Notes ("3/4% Notes")		225,241	
Total current liabilities		269,500	
3/4% Notes, less current portion		--	
Other long-term liabilities		5,894	
Total liabilities		275,394	
Commitments and contingencies (Note 14)			
Stockholders' equity:			
Common stock		121	
Additional paid-in capital		197,219	
Accumulated other comprehensive income, net of taxes		5,658	
Retained earnings		217,149	
Total stockholders' equity		420,147	
Total liabilities and stockholders' equity	$	695,541	$

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

		Nine-Month P Decembe
		2007
		(in thousa
Cash Flows From Operating Activities:		
Net income (loss)	$	(10,159) $
Less: income (loss) from discontinued operations, net of taxes		(144)
Income (loss) from continuing operations, net of taxes		(10,015)
Adjustments to reconcile income (loss) from continuing operations, net of taxes, to net cash provided by (used in) operating activities:		
Stock-based compensation		4,594
Inventory-related charges		5,767
Depreciation and amortization		6,430
Impairment of intangible assets		--
Gain on sale of long-lived assets		(6,735)
Non-cash effect of tax settlement		--
Other non-cash items		267
Changes in assets and liabilities		(5,273)
Net Cash Provided by (Used in) Operating Activities of Continuing Operations		(4,965)
Net Cash Provided by Operating Activities of Discontinued Operations		2,246
Net Cash Provided by (Used in) Operating Activities		(2,719)
Cash Flows From Investing Activities:		
Purchases of property and equipment		(887)
Proceeds from sale of long-lived assets		19,881
Purchases of marketable securities		(70,067)
Sales of marketable securities		117,962
Maturities of marketable securities		47,917
Maturities of restricted marketable securities		1,688
Payment of holdback in connection with acquisition of Platys		--
Net Cash Provided by (Used in) Investing Activities		116,494
Cash Flows From Financing Activities:		
Proceeds from issuance of common stock		3,143
Net Cash Provided by Financing Activities		3,143
Effect of Foreign Currency Translation on Cash and Cash Equivalents		1,880
Net Increase (Decrease) in Cash and Cash Equivalents		118,798
Cash and Cash Equivalents at Beginning of Period		95,922
Cash and Cash Equivalents at End of Period	$	214,720 $

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

ADAPTEC, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

In the opinion of management, the accompanying Unaudited Condensed Consolidated Interim Financial Statements ("financial statements") of Adaptec, Inc. and its wholly-owned subsidiaries (collectively, the "Company") have been prepared on a consistent basis with the March 31, 2007 audited consolidated financial statements and include all adjustments, consisting of only normal recurring adjustments, necessary to fairly state the information set forth therein. The financial statements have been prepared in accordance with the regulations of the SEC, and, therefore, omit certain information and footnote disclosure necessary to present the statements in accordance with accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended on March 31, 2007, which was filed with the SEC on June 6, 2007. The third quarters of fiscal 2008 and 2007 ended on December 28, 2007 and December 29, 2006, respectively. For presentation purposes, the accompanying financial statements have been shown as ending on December 31. The results of operations for the third quarter and first nine months of fiscal 2008 are not necessarily indicative of the results to be expected for the entire fiscal year.

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

The glossary of key acronyms used in the Company's industry and accounting rules and regulations referred to within this Quarterly Report on Form 10-Q is listed in alphabetical order in Note 19.

2. Recent Accounting Pronouncements

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

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

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

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

In December 2007, the FASB ratified EITF No. 07-1, which defines collaborative arrangements and establishes reporting and disclosure requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. EITF No. 07-1 is effective beginning with the Company's fiscal 2009. The Company is currently evaluating the impact that EITF No. 07-1 will have on its results of operations and financial position.

In December 2007, the FASB issued SFAS No. 141(R), which establishes the principles and requirements for how an acquirer in a business combination (1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree, (2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase and (3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective beginning with the Company's fiscal 2010. The impact of the adoption of SFAS No. 141(R) on the Company's results of operations and financial position will depend on the nature and extent of business combinations that the Company completes, if any, in or after fiscal 2010.

3. Stock Benefit Plans and Stock-Based Compensation

Stock Benefit Plans

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

The Company issued 0.4 million shares under the ESPP in the first nine months of fiscal 2008. As of December 31, 2007, 2.6 million shares remained available to cover shares to be issued pursuant to one offering period that remains in effect even though the 1986 ESPP has expired, of which the Company expects to issue approximately 14,000 shares. This offering period will terminate on February 14, 2008. As of December 31, 2007, the total unamortized stock-based compensation expense related to shares issuable under the ESPP was $0.1 million, and this expense is expected to be recognized over a remaining weighted-average period of 0.13 years.

As of December 31, 2007, the Company had an aggregate of 27.8 million shares of its common stock reserved for issuance under its 2004 Equity Incentive Plan, of which 9.5 million shares were subject to outstanding options and 18.3 million shares were available for future grants of options and other stock awards. As of December 31, 2007, the Company had an aggregate of 2.1 million shares of its common stock reserved for issuance under its 2006 Director Plan, of which 0.6 million shares were subject to outstanding options and 1.5 million shares were available for future grants of options and other stock awards. As of December 31, 2007, the Company had 0.1 million shares of common stock reserved that were subject to outstanding options under plans assumed in connection with previous acquisitions.

Stock-Based Compensation

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

	Three-Month Period Ended December 31, 2007	Three-Month Period Ended December 31, 2006	Nine-Mo De 2007
		(in thousands)	
Stock-based compensation expense by caption:			
Cost of revenues	$ 108	$ 147	$ 2
Research and development	844	986	1,7
Selling, marketing and administrative	1,030	1,107	2,5
Stock-based compensation expense effect on income from continuing operations, net of taxes	$ 1,982	$ 2,240	$ 4,5
Stock-based compensation expense by type of award:			
Stock options	$ 493	$ 1,412	$ 1,8
Restricted stock awards and restricted stock units	1,452	459	3,1
Employee stock purchase plan (1)	37	369	(3
Stock-based compensation expense effect on income from continuing operations, net of taxes	$ 1,982	$ 2,240	$ 4,5

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

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

Valuation Assumptions

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

Three-Month Period Ended December 31, 2007	Three-Month Period Ended December 31, 2006	Nine-Mo De 2007

Equity Incentive Plans:			
Expected life (in years)	4.27	3.98 - 4.34	4.
Risk-free interest rates	3.38%-3.95%	4.63 - 4.71%	3.38%-4.
Expected volatility	38%	44%	38%-
Dividend yield	--	--	
Weighted average fair value	$ 1.89	$ 2.71	$ 3.
ESPP:			
Expected life (in years)	n/a	1.00 - 1.25	
Risk-free interest rates	n/a	5.07 - 5.11%	
Expected volatility	n/a	44%	
Dividend yield	n/a	--	
Weighted average fair value	n/a	$ 1.11	

Stock Benefit Plans Activities

Equity Incentive Plans:

A summary of option activity under all of the Company's equity incentive plans as of December 31, 2007 and changes during the first nine months of fiscal 2008 is presented below:

	Shares	**Weighted Average Exercise Price**	**Weighte Averag Remainin Contract Term (Years**
	(in thousands,	**except exercise price**	
Outstanding at March 31, 2007	12,992	7.11	
Granted	344	3.78	
Exercised	(602)	3.30	
Forfeited and cancelled	(2,716)	8.37	
Outstanding at December 31, 2007	10,018	$ 6.88	3.
Options vested and expected to vest at December 31, 2007	9,575	$ 6.99	3.
Options exercisable at December 31, 2007	7,878	$ 7.46	2.

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the price of the Company's common stock on The NASDAQ Global Market for the 0.1 million shares subject to options that were in-the-money at December 31, 2007. During the third quarters of fiscal 2008 and 2007, the aggregate intrinsic value of options exercised under the Company's equity incentive plans was minimal and $0.4 million, respectively, determined as of the date of option exercise. During the first nine months of fiscal 2008 and 2007, the aggregate intrinsic value of options exercised under the Company's equity incentive plans was $0.3 million and $1.1 million, respectively, determined as of the date of option exercise. As of December 31, 2007, the total unamortized stock-based compensation expense related to non-vested stock options, net of estimated forfeitures, was $3.1 million, and this expense is expected to be recognized over a remaining weighted-average period of 2.21 years.

Restricted Stock Awards and Restricted Stock Units:

Restricted stock awards and restricted stock units have been granted under the Company's 2004 Equity Incentive Plan and 2006 Director Plan. The restricted stock units are converted into shares of the Company's common stock upon vesting, while the Company's right to repurchase shares of restricted stock lapses upon vesting. As of December 31, 2007, there were 1.9 million shares of service-based restricted stock awards and 0.2 million restricted stock units outstanding, all of which are subject to forfeiture if employment terminates prior to the release of restrictions. Under the 2004 Equity Incentive Plan, restrictions generally lapse either (1) 50% one year from the date of grant and the remainder at the second anniversary or (2) 100% one year from the date of grant. Under the 2006 Director Plan, restrictions generally lapse either (1) one year from the date of grant for existing non-employee directors or (2) one year from the date of grant with respect to one-third of the shares and quarterly thereafter for the next two years for the balance of the shares for initial grants to new non-employee directors. The cost of these awards, determined to be the fair market value of the shares at the date of grant, is expensed ratably over the period the restrictions lapse.

A summary of activity for restricted stock awards and restricted stock units as of December 31, 2007 and changes during the first nine months of fiscal 2008 was as follows:

	Shares	Weighte Averag Grant-Da Fair Value
	(in thousands, except w average grant-date fair	
Nonvested stock at March 31, 2007	1,179	$ 4.
Granted	1,867	3.
Vested	(544)	4.
Forfeited	(425)	3.
Nonvested stock at December 31, 2007	2,077	$ 3.

As of December 31, 2007, the total unrecognized compensation expense related to non-vested restricted stock awards and restricted stock units that are expected to vest, net of estimated forfeitures, was $4.8 million. This expense is expected to be recognized over a remaining weighted-average period of 0.95 years.

4. Business Dispositions

IBM i/p Series RAID:

On September 30, 2005, the Company entered into a series of arrangements with International Business Machines Corporation ("IBM") pursuant to which the Company sold its IBM i/p Series RAID business to IBM. Under the terms of the agreements, the Company granted IBM a nonexclusive license to certain intellectual property and sold to IBM substantially all of the assets dedicated to the engineering and manufacturing of RAID controllers and connectivity products for the IBM i/p Series RAID business. Under the terms of the nonexclusive license, IBM paid royalties to the Company for the sale of its board-level products on a quarterly basis through March 31, 2007, which were recognized as contingent consideration in discontinued operations when earned. In the third quarter and first nine months of fiscal 2007, the Company recorded royalties, net of taxes, of $2.1 million and $5.8 million, respectively, which the Company recorded in "Income (loss) from disposal of discontinued operations, net of taxes," in the Condensed Consolidated Statements of Operations. In addition, in the third quarter of fiscal 2007, the Company recorded additional lease costs, net of taxes, of $0.8 million related to the estimated loss on its facility associated with the IBM i/p Series RAID business in "Income (loss) from disposal of discontinued operations, net of taxes" in its Condensed

Consolidated Statements of Operations. To the extent that the Company is unable to sublease this facility by the end of the lease term, which is June 2010, the Company may continue to record adjustments to discontinued operations in the future.

OEM Block-based Portion of Its Systems Business:

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

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

	Nine-Month Period Ended December 31, 2006
	(in thousands)
Net revenues (1)	$ 2,036
Income from discontinued operations before income taxes	$ 149
Provision for income taxes	17
Income from discontinued operations, net of taxes	$ 132

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

5. Balance Sheets Details

Inventories

The components of net inventories at December 31, 2007 and March 31, 2007 were as follows:

	December 31, 2007	
	(in thousa	
Raw materials	$ 173	$
Work-in-process	652	
Finished goods	13,538	
Inventories	$ 14,363	$

Accrued and Other Liabilities

The components of accrued and other liabilities at December 31, 2007 and March 31, 2007 were as follows:

	December 31, 2007	
	(in thousa	
Tax related	$ 672	$
Net deferred tax liability	3,686	
Acquisition related	2,526	
Accrued compensation and related taxes	8,837	
Deferred margin	4,437	
Other	8,546	
Accrued and other liabilities	$ 28,704	$

6. Other Intangible Assets, Net

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

	December 31, 2007			March	
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accum Amort
				(in thousands)	
Acquisition-related intangible assets:					
Patents, core and existing technologies	$ 43,545	$ (40,597)	$ 2,948	$ 43,545	$ (38
Customer relationships	1,047	(1,047)	--	1,047	(1
Trade name	10,774	(10,574)	200	10,774	(10
Subtotal	55,366	(52,218)	3,148	55,366	(50
Intellectual property assets and warrants	40,242	(40,242)	--	40,242	(38
Other intangible assets, net	$ 95,608	$ (92,460)	$ 3,148	$ 95,608	$ (88

Amortization of other intangible assets, net, was $0.7 million and $3.0 million in the third quarters of fiscal 2008 and 2007, respectively. Amortization of other intangible assets, net, was $3.9 million and $9.2 million in the first nine months of fiscal 2008 and 2007, respectively.

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

At the end of the first quarter of fiscal 2007, with the decision to retain and operate the Snap Server portion of the systems business, the Company performed an impairment analysis of this business that indicated that the carrying amount of the long-lived assets exceeded their estimated fair value. This was due in part to the limited cash flows of the business and a number of uncertainties, which included the significant research and development expenditures necessary to grow the revenues of the Snap Server portion of the systems business and the significant uncertainties associated with achieving such growth in revenues. This resulted in an impairment charge of $13.2 million, which was recorded in "Other charges (gains)" in the Condensed Consolidated Statements of Operations in the first nine months of fiscal 2007, of which $5.6 million, $3.1 million and $4.5 million related to the Company's acquisition-related intangible assets for existing technology, core technology and trade name, respectively.

The annual amortization expense of the other intangible assets, net, that existed as of December 31, 2007 is expected to be as follows:

	Estimated Amortization Expense
	(in thousands)
Fiscal Years:	
2008 (remaining three months)	$ 721
2009	2,394
2010 and thereafter	33
Total	$ 3,148

7. Convertible Notes

At December 31, 2007, the Company had a liability of $225.2 million of aggregate principal amount, plus a premium, related to its 3/4% Notes that are due in December 2023. Each holder of the 3/4% Notes may require the Company to purchase all or a portion of its 3/4% Notes on December 22, 2008 at a price equal to 100.25% of the par value of the 3/4% Notes to be purchased plus accrued and unpaid interest. As the Company expects all of the holders of the 3/4% Notes to exercise their put option in December 2008, the Company reclassified the 3/4% Notes from "Total liabilities" to "Total current liabilities" in the Condensed Consolidated Balance Sheets at December 31, 2007. For further discussion on the 3/4% Notes, please refer to Note 7 of the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended March 31, 2007.

8. Interest and Other Income, Net

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

	Three-Month Period Ended December 31,		Ni
	2007	2006	2
		(in thousands	
Interest income	$ 8,342	$ 6,055	$
Realized currency transaction gains	496	511	
Other	--	34	

Interest and other income, net	$ 8,838	$ 6,600	$

9. Restructuring Charges (Gains)

In the first quarter of fiscal 2008, management approved and initiated a plan to restructure the Company's operations to reduce its operating expenses due to a declining revenue base by eliminating duplicative resources in all functions of the organization worldwide, resulting in a restructuring charge of $1.5 million. In the second quarter of fiscal 2008, the Company initiated additional actions in an effort to better align its cost structure with its anticipated OEM revenue stream and to improve its results of operations and cash flows. The total cost the Company expects to incur for this restructuring plan is approximately $5.0 million, of which the Company recorded approximately $3.5 million in the second quarter of fiscal 2008 and $0.9 million in the third quarter of fiscal 2008. Of the $4.4 million recorded in the second and third quarters of fiscal 2008, $3.8 million related to severance and benefits for employee reductions primarily related to its OEM engineering resources and related support and service organizations worldwide and $0.6 million related to vacating redundant facilities and contract termination costs. The Company expects to record the remainder restructuring charge of $0.6 million for this restructuring plan in the fourth quarter of fiscal 2008. The Company also recorded accrual adjustments of $(0.3) million in the first nine months of fiscal 2008 primarily related to benefits, as actual costs were lower than anticipated. These accrual adjustments related to the restructuring plans that the Company implemented in the third and fourth quarters of fiscal 2006, first and second quarters of fiscal 2007 and the first quarter of fiscal 2008, which are now complete. All expenses, including adjustments, associated with the Company's restructuring plans are included in "Restructuring charges (gains)" in the Condensed Consolidated Statements of Operations and are not allocated to segments but rather managed at the corporate level. For a complete discussion of all restructuring actions that were implemented prior to fiscal 2008, please refer to the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended March 31, 2007.

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

	Severance and Benefits	Other Charges	T
		(in thousands)	
Accrual balance at March 31, 2007	$ 260	$ 510	$
Q1'08 Restructuring Plan	1,526	--	
Q2'08 Restructuring Plan	3,798	591	
Accrual adjustments	(186)	(69)	
Non-cash charges	--	(35)	
Cash paid	(5,015)	(343)	
Accrual balance at December 31, 2007	$ 383	$ 654	$

The Company anticipates that the remaining restructuring severance and benefits accrual balance of $0.4 million at December 31, 2007 will be substantially paid out by the fourth quarter of fiscal 2008 while the remaining restructuring other charges accrual balance of $0.7 million, relating primarily to long-term leases, will be paid out through the first quarter of fiscal 2011. The remaining restructuring accrual balance is reflected in "Accrued and other liabilities" and "Other long-term liabilities" in the Condensed Consolidated Balance Sheets.

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

	Severance and Benefits	Other Charges	T
		(in thousands)	
Accrual balance at March 31, 2006	$ 1,185	$ 1,586	$
Q1'07 Restructuring Plan	2,927	101	
Q2'07 Restructuring Plan	881	--	
Provision adjustments	(108)	(90)	
Non-cash charges	--	(225)	
Cash paid	(4,608)	(717)	
Accrual balance at December 31, 2006	$ 277	$ 655	$

Acquisition-Related Restructuring:

During the first quarter of fiscal 2006, the Company finalized its Snap Appliance integration plan to eliminate certain duplicative resources, including severance and benefits in connection with the involuntary termination of approximately 24 employees, exiting duplicative facilities and disposing of duplicative assets. The acquisition-related restructuring liabilities of $6.7 million were accounted for under EITF No. 95-3 and therefore were included in the purchase price allocation. Any further changes to the Company's finalized plan will be accounted for under SFAS No. 146 and will be recorded in "Restructuring charges (gains)" in the Condensed Consolidated Statements of Operations. In the third quarter of fiscal 2006, the Company recorded additional adjustments of $0.2 million due to additional estimated loss related to the facilities that the Company subleased. As of December 31, 2007, the Company had utilized $5.1 million of these charges. The Company anticipates that the remaining restructuring accrual balance of $1.8 million will be paid out by the third quarter of fiscal 2012, related to long-term lease obligations.

10. Other Charges (Gains)

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

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

11. Net Income (Loss) Per Share

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

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

	Three-Month Period Ended December 31,		Nin
	2007	2006	
	(in thousands, except per s		
Numerators:			
Income (loss) from continuing operations - basic	$ 1,108	$ 5,077	$
Income (loss) from discontinued operations - basic	--	1,301	
Net income (loss) - basic	$ 1,108	$ 6,378	$
Adjustments:			
Adjustment for interest expense on 3/4% Notes, net of taxes	$ --	$ 776	$
Adjusted income (loss) from continuing operations - diluted	$ 1,108	$ 5,853	$
Adjusted income (loss) from discontinued operations - diluted	--	1,301	
Adjusted net income (loss) - diluted	$ 1,108	$ 7,154	$
Denominators:			
Weighted average shares outstanding - basic	118,987	116,959	
Effect of dilutive securities:			
Stock options and other stock-based awards	635	1,147	
3/4% Notes	--	19,224	
Weighted average shares and potentially dilutive common shares outstanding - diluted	119,622	137,330	
Income (loss) per share:			
Basic			
Continuing operations	$ 0.01	$ 0.04	$
Discontinued operations	$ --	$ 0.01	$
Net income (loss)	$ 0.01	$ 0.05	$
Diluted			
Continuing operations	$ 0.01	$ 0.04	$
Discontinued operations	$ --	$ 0.01	$
Net income (loss)	$ 0.01	$ 0.05	$

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

	Three-Month Period Ended December 31,		Nin
	2007	2006	
		(in thousands)	
Outstanding employee stock options	8,465	11,104	

Outstanding restricted stock awards and units	--	--
Warrants(1)	19,724	19,874
3/4% Notes	19,224	--
3% Notes	--	695

(1)

In connection with the issuance of its 3/4% Notes, the Company entered into a derivative financial instrument to repurchase up to 19,224,000 shares of its common stock, at the Company's option, at specified prices in the future to mitigate any potential dilution as a result of the conversion of the 3/4% Notes. For further discussion on this derivative financial instrument, please refer to Note 7 of the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended March 31, 2007.

12. Comprehensive Income (Loss), Net of Taxes

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

	Three-Month Period Ended December 31, 2007	Three-Month Period Ended December 31, 2006	Nin
	(in thousands)		
Net income (loss)	$ 1,108	$ 6,378	$
Net unrealized gains (losses) on marketable securities,net of taxes	(103)	248	
Foreign currency translation adjustment, net of taxes	631	809	
Comprehensive income (loss), net of taxes	$ 1,636	$ 7,435	$

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

	December 31, 2007	
	(in thousa	
Unrealized gains on marketable securities	$ 862	$
Foreign currency translation	4,796	
Accumulated other comprehensive income, net of taxes	$ 5,658	$

13. Income Taxes

Income tax provisions for interim periods are based on the Company's estimated annual income tax rate for entities that were profitable. Entities that had operating losses with no tax benefit were excluded. The estimated annual tax for fiscal 2008 includes foreign taxes related to the Company's foreign subsidiaries, certain state minimum taxes and interest accrued on prior years' tax disputes. This resulted in a tax benefit of $1.3 million and $0.8 million for the third quarter and first nine months of fiscal 2008, respectively. The estimated annual tax for fiscal 2007 consisted of a discrete tax benefit attributable to settling certain tax disputes, foreign taxes related to the Company's foreign subsidiaries, certain state minimum taxes and interest accrued on prior years' tax disputes. This resulted in a tax benefit of $13.8 million and $62.0 million for the third quarter and first nine months of fiscal 2007, respectively, of which $12.9 million and $59.2 million, respectively, was attributable to the discrete tax benefit. The Company is in ongoing negotiations with the IRS taxing authorities with regard to its tax disputes, as discussed below in Note 14. The Company's tax rate for the period in which a settlement is reached will be impacted if the settlement materially differs from the amounts previously accrued.

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

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

As of the adoption of FIN 48 on April 1, 2007, the Company's total gross unrecognized tax benefits were $20.3 million, of which $6.3 million, if recognized, would affect the effective tax rate. As of December 31, 2007, the Company's total gross unrecognized tax benefits were $18.5 million, of which $4.5 million, if recognized, would affect the effective tax rate. The decrease in the Company's gross unrecognized tax benefits during the first nine months of fiscal 2008 primarily related to payments made during the period to settle assessments.

The Company is subject to U.S. federal income tax as well as income taxes in many U.S. states and foreign jurisdictions. As of the date of adoption of FIN 48, tax years 1994 through 2007 remained open to examination by the U.S. taxing authorities, tax years 1998 through 2007 remained open to examination in Singapore and tax years 2001 through 2007 remained open to examination in various other foreign jurisdictions. Management believes that events that could occur in the next 12 months and cause a material change in unrecognized tax benefits include, but are not limited to, the following:

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

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

The calculation of unrecognized tax benefits involves dealing with uncertainties in the application of complex global tax regulations. Management regularly assesses the Company's tax positions in light of legislative, bilateral tax treaty, regulatory and judicial developments in the countries in which the Company does business. Other than the Company's U.S. income tax audit for fiscal 2004 discussed above, management does not anticipate any material changes in the Company's unrecognized tax benefits within the next 12 months.

14. Commitments and Contingencies

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

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

In connection with the Company's acquisition of Eurologic, a portion of the purchase price totaling $3.8 million was held back (the "Eurologic Holdback") for unknown liabilities that may have existed as of the acquisition date. As of December 31, 2007, the Company asserted claims against the Eurologic Holdback totaling $1.5 million.

15. Guarantees

Intellectual Property and Other Indemnification Obligations

The Company has entered into agreements with customers and suppliers that include intellectual property indemnification obligations. These indemnification obligations generally require the Company to compensate the other party for certain damages and costs incurred as a result of third party intellectual property claims arising from these transactions. In each of these circumstances, payment by the Company is conditional on the other party making a claim pursuant to the procedures specified in the particular contract, which procedures typically allow the Company to challenge the other party's claims. Further, the Company's obligations under these agreements may be limited in terms of time and/or amount, and in some instances, the Company may have recourse against third parties for certain payments made by it under these agreements. In addition, the Company has agreements whereby it indemnifies its directors and certain of its officers for certain events or occurrences while the officer or director is, or was, serving at the Company's request in such capacity. These indemnification agreements are not subject to a maximum loss clause; however, the Company maintains a director and officer insurance policy which may cover all or a portion of the liabilities arising from any obligation to indemnify its directors and officers.

It is not possible to make a reasonable estimate of the maximum potential amount of future payments under these or similar agreements due to the conditional nature of the Company's obligations and the unique facts and circumstances involved in each particular agreement. Historically, the Company has not incurred significant costs to defend lawsuits or settle claims related to such agreements and no amount has been accrued in the accompanying financial statements with respect to these indemnification guarantees.

Product Warranty

The Company provides an accrual for estimated future warranty costs based upon the historical relationship of warranty costs to sales. The estimated future warranty obligations related to product sales are recorded in the period in which the related revenues is recognized. The estimated future warranty obligations are affected by sales volumes, product failure rates, material usage and replacement costs incurred in correcting a product failure. If actual product failure rates, material usage or replacement costs differ from the Company's estimates, revisions to the estimated warranty obligations would be required; however, the Company made no adjustments to pre-existing warranty accruals in the first nine months of fiscal 2008 and 2007.

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

	Nine-Month P Decembe	
	2007	
	(in thous	
Balance at beginning of period	$ 950	$
Warranties provided	2,240	
Actual costs incurred	(2,210)	
Balance at end of period	$ 980	$

16. Settlement with Steel Partners, L.L.C. and Steel Partners II, L.P.

On October 26, 2007, the Company, Steel Partners, L.L.C. and Steel Partners II, L.P. (together, "Steel") entered into an agreement (the "Settlement Agreement") ending the election contest that was to occur at the Company's 2007 Annual Meeting of Stockholders (the "Annual Meeting"). Steel beneficially owned approximately 15% of the Company's common stock as of December 31, 2007.

In December 2007, the Company held the Annual Meeting, at which the Company's stockholders elected nine directors to the Company's Board of Directors. Of these nine directors, three of the directors, Jack L. Howard, John J. Quicke and John Mutch, were nominated for election at the Annual Meeting by the Company pursuant to the terms of the Settlement Agreement. Steel represented to the Company in the Settlement Agreement that Mr. Howard and Mr. Quicke may be deemed to be affiliates of Steel under the rules of the Securities Exchange Act of 1934, but that Mr. Mutch was not an affiliate of Steel. Mr. Quicke was appointed to the Company's Compensation Committee, Mr. Howard was appointed to the Company's Nominating and Governance Committee and Mr. Mutch was appointed to the Company's Audit Committee. The Company will compensate each of these directors, including the two directors who are affiliates of Steel, in conjunction with its Non-Employee Director Compensation Policy, but may issue awards that are settled in cash rather than shares of the Company's common stock.

17. Segment Reporting

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

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

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

Summarized financial information on the Company's reportable segments, under the revised internal reporting structure, is shown in the following table. The segment financial data for historical periods has been restated to reflect the current internal reporting structure. There were no inter-segment revenues for the periods shown below. The Company does not separately track all tangible assets or depreciation by operating segments nor are the segments evaluated under these criteria. Segment financial information is summarized as follows for the third quarter and first nine months of fiscal 2008 and 2007:

	DPS	SSG	O
		(in thousands	
Three-Month Period Ended December 31, 2007:			
Net revenues	$ 36,032	$ 5,130	$
Segment income (loss)	8,082	(1,966)	
Three-Month Period Ended December 31, 2006:			
Net revenues	$ 49,422	$ 7,440	$
Segment income (loss)	4,916	(1,454)	
Nine-Month Period Ended December 31, 2007:			
Net revenues	$ 109,721	$ 17,802	$
Segment income (loss)	16,973	(3,072)	
Nine-Month Period Ended December 31, 2006:			
Net revenues	$ 170,885	$ 21,274	$
Segment income (loss)	30,474	(6,152)	

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

	Three-Month Period Ended December 31,		Nin
	2007	2006	
		(in thousands)	
Total segment income	$ 6,116	$ 2,710	$
Unallocated corporate expenses, net (1)	(13,606)	(17,614)	
Restructuring gains (charges)	(706)	385	
Other gains (charges)	--	--	
Interest and other income, net	8,838	6,600	
Interest expense	(805)	(790)	
Loss from continuing operations before income taxes	$ (163)	$ (8,709)	$

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(1)

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

18. Supplemental Disclosure of Cash Flows

	Nine-Month P December	
	2007	
	(in thousa	
Non-cash investing and financing activities: Unrealized gains on available-for-sale securities	303	2,817

19. Glossary

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

- **AFP:** Apple Filing Protocol
- **ASIC:** Application Specific Integrated Circuit
- **ATA:** Advanced Technology Attachment
- **CIFS:** Common Internet File System
- **DPS:** Data Protection Solutions
- **DSG:** Desktop Solutions Group
- **ESPP:** Employee Stock Purchase Plan
- **FTP:** File Transfer Protocol
- **HTTP:** Hypertext Transfer Protocol
- **I/O:** Input/Output
- **IPsec:** Internet Protocol Security
- **IRS:** Internal Revenue Service
- **iSCSI:** Internet SCSI
- **NAS:** Network Attached Storage
- **NFS:** Network File System
- **ODM:** Original Design Manufacturers
- **OEM:** Original Equipment Manufacturer
- **PC:** Personal Computer

- **PCI:**
  Peripheral Component Interconnect
- **PCIe:**
  Peripheral Component Interconnect Express
- **PCI-X:**
  Peripheral Component Interconnect Extended
- **RAID:**
  Redundant Array of Independent Disks
- **SAS:**
  Serial Attached SCSI
- **SATA:**
  Serial Advanced Technology Attachment
- **SCSI:**
  Small Computer System Interface
- **SMI-S:**
  Storage Management Initiative Specification
- **SSG:**
  Storage Solutions Group
- **Ultra DMA:**
  Ultra Direct Memory Access
- **USB:**
  Universal Serial Bus
- **VAR:**

Value Added Reseller

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

- **APB:**
  Accounting Principles Board
- **APB Opinion No. 25:**
  Accounting for Stock Issued to Employees
- **EITF:**
  Emerging Issues Task Force
- **EITF No. 95-3:**
  Recognition of Liabilities in Connection with Purchase Business Combinations
- **EITF No. 07-1:**
  Accounting for Collaborative Arrangements
- **EITF No. 07-3:**
  Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities
- **FASB:**
  Financial Accounting Standards Board
- **FIN:**
  FASB Interpretation Number
- **FIN 48:**
  Accounting for Certain Transactions involving Stock Compensation - an interpretation of APB Opinion No. 25
- **SEC:**
  Securities Exchange Commission
- **SFAS:**
  Statement of Financial Accounting Standards
- **SFAS No. 109:**
  Accounting for Income Taxes
- **SFAS No. 123(R):**
  Share Based Payment
- **SFAS No.**
  133: Accounting for Derivative Instruments and Hedging Activities
- **SFAS No.**
  140: Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities
- **SFAS No.**
  141(R): Business Combinations

- **SFAS No. 146:**
  Accounting for Costs Associated with Exit or Disposal Activities
- **SFAS No. 155:**
  Accounting for Certain Hybrid Financial Instruments -an amendment of FASB Statements No. 133 and 140
- **SFAS No**
  .157: Fair Value Measurements
- **SFAS No. 159:**

The Fair Value Option for Financial Assets and Financial Liabilities

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

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. The statements contained in this document that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitation, statements regarding our expectations, beliefs, intentions or strategies regarding our business, including, but not limited to, the anticipated impact of the restructuring plans that were implemented in the first and second quarters of fiscal 2008, our anticipated declines in revenues from our parallel SCSI products and our SATA products sold to our OEM customers, the possibility that we might enter into strategic alliances, partnerships or acquisitions in order to scale our business, the expected impact on our future revenues and the timing of such impact, of our failure to receive design wins for the next generation serial products from a significant customer, and our liquidity in future periods. We may identify these statements by the use of words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "might," "plan," "potential," "predict," "project," "should," "will," "would" and other similar expressions. All forward-looking statements included in this document are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements, except as may otherwise be required by law.

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

While management believes that the discussion and analysis in this report is adequate for a fair presentation of the information presented, we recommend that you read this discussion and analysis in conjunction with our Annual Report on Form 10-K for the year ended March 31, 2007. Unless otherwise indicated, the following discussion pertains only to our continuing operations.

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

Results of Operations

Overview

In the third quarter of fiscal 2008, our net revenues decreased by $19.5 million compared to the third quarter of fiscal 2007 due primarily to the declining revenue base of our parallel products. Our net revenues were further impacted by our inability to obtain design wins from our OEM customers, primarily for our next generation serial products. The improvement in gross margins in the third quarter of fiscal 2008 compared to the third quarter of fiscal 2007 was primarily due to a decline in inventory-related charges of $6.9 million, favorable pricing negotiations with our suppliers, efficiencies gained with our contract manufacturer and improved standard product contributions, which was a result of our continued focus on improving product component costs. Operating expenses also decreased in the third quarter of fiscal 2008 compared to the third quarter of fiscal 2007 primarily as a result of cost reductions and restructuring efforts that were initiated in previous quarters combined with additional attrition in our workforce.

Our future revenue growth in our DPS segment is largely dependent on the success of our new products addressing unified serial technologies and growing our market share in the channel. We currently depend on a small number of large OEM customers for a significant portion of our revenues, and we have been unsuccessful in obtaining designs wins from these customers. We have evaluated this portion of our business, and we are no longer pursuing future business from large OEM customers with our current product portfolio, as we believe the future growth opportunities for our current products are limited. As a result, we expect the revenues obtained from large OEM customers to decline significantly in future periods. Since the growth of our new generation of serial products is not keeping pace with the decline in revenues from our parallel products and from our OEM customers, we may seek growth opportunities beyond those presented by our existing product lines by entering into strategic alliances, partnerships or acquisitions in order to scale our business. This includes both strengthening our partnerships in silicon-based technology and broadening our silicon-based intellectual property to improve our business opportunities. Our future revenue growth in our SSG segment remains largely dependent on the successful development and marketing of new products and our ability to expand our presence in the reseller channel. We also continue to review and evaluate our existing product portfolio, operating structure and markets to determine the future viability of our existing products and market positions.

In the first quarter of fiscal 2008, we revised our internal reporting structure by including the remaining SCSI products from our previous DSG segment into our DPS segment as we wound down the DSG business throughout fiscal 2007 and exited it at March 31, 2007. The remainder of the DSG segment was included in the "Other" category, as it represents a reconciling item to our condensed consolidated results of operations. We decided not to invest further in our DSG segment due to OEMs incorporating other connectivity technologies directly into their products, the increased level of competition entering the market and the complexities of the retail channel. Our DSG segment provided high-performance I/O connectivity and digital media products for personal computing platforms, including notebook and desktop PCs, which were sold to retailers, OEMs and distributors.

In fiscal 2008, we also implemented the following restructuring plans: (1) in the first quarter, by eliminating duplicative resources to reduce our operating expenses due to a declining revenue base and (2) beginning in the second quarter, by reducing our workforce by approximately 20% in an effort to better align our cost structure with our anticipated revenue stream and to improve our results of operations and cash flows.

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

	Three-Month Period Ended December 31,		Nin
	2007 (1)	2006 (2)	20
Net revenues	100 %	100 %	
Cost of revenues	61	76	
Gross margin	39	24	
Operating expenses:			
Research and development	21	21	
Selling, marketing and administrative	34	25	
Amortization of acquisition-related intangible assets	2	2	
Restructuring charges (gains)	2	0	
Other charges (gains)	--	--	
Total operating expenses	59	48	
Loss from continuing operations	(20)	(24)	
Interest and other income, net	22	11	
Interest expense	(2)	(1)	
Loss from continuing operations before income taxes	(0)	(14)	

Provision for (benefit from) income taxes	(3)	(23)	
Income (loss) from continuing operations, net of taxes	3	9	
Discontinued operations, net of taxes			
Income from discontinued operations, net of taxes	--	--	
Income (loss) from disposal of discontinued operations, net of taxes	--	2	
Income (loss) from discontinued operations, net of taxes	--	2	
Net income (loss)	3 %	11 %	

(1) In the third quarter of fiscal 2008, we recorded restructuring charges related to a restructuring plan we implemented in the second quarter of fiscal 2008 and adjustments to previous restructuring plans. This action affects the comparability of this data.

(2) In the third quarter of fiscal 2007, we recorded inventory-related charges of $7.8 million which impacted our gross margins and received a discrete tax benefit of $12.9 million primarily attributable to the settlement of certain tax disputes with the U.S. taxing authorities, including the resolution of our fiscal 2002 and fiscal 2003 I.R.S. audit cycle. These actions affect the comparability of this data.

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

(4) In the first nine months of fiscal 2007, we recorded an impairment charge of $13.2 million related to the Snap server portion of our systems business, implemented restructuring plans and received a discrete tax benefit of $59.2 million from the settlement of certain tax disputes with the U.S. and Singapore taxing authorities, including the resolution of our fiscal 1997 U.S. Tax Court litigation of our fiscal 2002 and fiscal 2003 I.R.S. audit cycle. These actions affect the comparability of this data.

Net Revenues.

	Three-Month Period Ended December 31,			Nine-Mo De	
	2007	2006	Percentage Change	2007	
	(in millions, except percent				
Segment Net Revenues:					
DPS	$ 36.1	$ 49.5	(27)%	$ 109.7	$
SSG	5.1	7.4	(31)%	17.8	
Other	--	3.8	(100)%	--	
Total Net Revenues	$ 41.2	$ 60.7	(32)%	$ 127.5	$

Net revenues from our DPS segment decreased by $13.4 million and $61.2 million in the third quarter and first nine months of fiscal 2008, respectively, compared to the corresponding periods of fiscal 2007, primarily due to a decline in sales of our parallel SCSI products of $17.3 million and $67.9 million, respectively, and, to a lesser extent, a decline in sales of our legacy SATA products sold primarily to OEM customers. This was partially offset by an increase in sales of our unified serial products of $7.3 million and $28.9 million in the third quarter and first nine months of fiscal 2008, respectively, compared to the corresponding periods of fiscal 2007. The decline in sales volumes of our parallel SCSI products was primarily attributable to the industry transition from parallel to serial products, in which we have a lower market share. We expect net revenues for our parallel SCSI products to continue to decline. In addition, we expect net revenues for our SATA products sold to our OEM customers to continue to decline, as certain of our customers have moved to other suppliers to obtain next generation SATA technologies. We also expect a significant negative impact on our net revenues from our unified serial products in future quarters as a significant customer notified us in the second quarter of fiscal 2008 that we did not receive design wins for our next generation serial products.

Net revenues from our SSG segment decreased by $2.3 million and $3.5 million in the third quarter and first nine months of fiscal 2008 compared to the corresponding periods of fiscal 2007 primarily due to a decline in unit sales of our server products. Although we launched some new storage server products in the second quarter of fiscal 2008, our sales of our storage server products were negatively impacted by competitive market conditions and reductions to our inventory levels from our channel partners.

Net revenues from our other category decreased by $3.8 million and $11.1 million in the third quarter and first nine months of fiscal 2008, respectively, compared to the corresponding periods of fiscal 2007 due to our decision to wind down our DSG business at March 31, 2007.

	Three-Month Period Ended December 31,		Nin
	2007	2006	
Geographical Revenues:			
North America	37 %	45 %	
Europe	33 %	30 %	
Pacific Rim	30 %	25 %	
Total Geographical Revenues	100 %	100 %	

Our overall international revenues increased as a percentage of our total revenues in the third quarter of fiscal 2008 as compared to the third quarter of fiscal 2007. This was primarily due to better adoption of our serial products internationally compared to North America, which partially offset the decline in revenues from our parallel products worldwide. In addition, we established new customer relationships in the Pacific Rim for the sale of our serial products. Our overall international revenues remained relatively flat as a percentage of our total revenues in the first nine months of fiscal 2008 as compared to the first nine months of fiscal 2007.

A small number of our customers account for a substantial portion of our net revenues, and we expect that a limited number of customers will continue to represent a substantial portion of our net revenues for the foreseeable future. In the third quarter of fiscal 2008, IBM and Ingram Micro accounted for 38% and 12% of our total net revenues, respectively. In the third quarter of fiscal 2007, IBM, Synnex and Dell accounted for 34%, 13% and 11% of our total net revenues, respectively. In the first nine months of fiscal 2008, IBM, Ingram Micro and Tech Data accounted for 36%, 11% and 10% of our total net revenues, respectively. In the first nine months of fiscal 2007, IBM, Dell and Synnex accounted for 33%, 15% and 10% of our total net revenues, respectively.

Gross Margin.

	Three-Month Period Ended December 31,			Nine-Mo De
	2007	2006	Percentage Change	2007
	(in millions, except percent			
Gross Profit	$ 16.2	$ 14.8	9 %	$ 45.5 $
Gross Margin	39 %	24 %		36 %

The improvement in gross margins in the third quarter of fiscal 2008 compared to the third quarter of fiscal 2007 was primarily due to a decline in inventory-related charges of $6.9 million. In addition, our gross margins improved in both the third quarter and first nine months of fiscal 2008 compared wgn:right;">

Diluted earnings per share

$

0.17

$

0.30

Weighted average shares outstanding

7,852

8,217

THE SEIBELS BRUCE GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31,
(Dollars shown in thousands)
(Unaudited)

	2003	2002
Cash flows from operating activities:		
Net income	$ 1,416	$ 2,504
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in (earnings) loss of unconsolidated affiliates	(60)	17
Provision for (recovery of) losses on premium notes and premiums and agents balances receivable, net	119	(80)
Amortization of deferred policy acquisition costs	2,709	5,687
Depreciation and amortization	137	178
Realized gain on sale of previously nonmarketable security		(2,117)
Realized gain on sale of investments, net	(2)	(19)
Realized gain on sale of property and equipment, net	(1)	
Change in assets and liabilities:		
Accrued investment income	186	201
Premiums and agents balances receivable, net	(830)	(1,287)
Premium notes receivable, net	(1)	3,407
Reinsurance recoverable on losses and loss adjustment expenses	(981)	1,331
Prepaid reinsurance premiums ceded business	6,398	849
Deferred policy acquisition costs	(2,830)	(5,702)
Unpaid losses and loss adjustment expenses	692	(3,290)
Unearned premiums	(6,408)	(383)
Balances due other insurance companies	1,002	1,282
Other, net	(700)	697
Net cash provided by operating activities	846	3,275
Cash flows from investing activities:		
Proceeds from investments sold or matured	3,953	4,731
Cost of investments acquired	(3,988)	(9,512)
Proceeds from property and equipment sold	14	
Purchases of property and equipment	(42)	(256)
Net cash used in investing activities	(63)	(5,037)
Cash flows from financing activities:		
Issuance of Adjustable Rate Cumulative Nonvoting Preferred Special Stock		8,000
Repayment of debt		(7,721)
Dividends paid	(96)	(40)
Net cash (used in) provided by financing activities	(96)	239
Net increase (decrease) in cash and short-term investments	687	(1,523)

Cash and short-term investments, January 1	10,423	6,375
Cash and short-term investments, March 31	$ 11,110	$ 4,852
Supplemental cash flow information:		
Interest paid	$ 4	$ 155
Income taxes paid		

THE SEIBELS BRUCE GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars shown in thousands, except per share amounts)
(Unaudited)

NOTE 1. GENERAL

The accompanying consolidated financial statements include the accounts of The Seibels Bruce Group, Inc. (the Company) and its wholly-owned subsidiaries and have been prepared, without audit, in conformity with accounting principles generally accepted in the United States (GAAP) pursuant to the rules and regulations of the Securities and Exchange Commission. All significant intercompany balances and transactions have been eliminated in consolidation and, in the opinion of management, all adjustments necessary for the fair presentation of the Company s unaudited interim financial position, results of operations and cash flows have been recorded. These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company s annual report on Form 10-K for the year ended December 31, 2002 filed with the Securities and Exchange Commission. The results of operations for the interim period are not necessarily indicative of the results for a full year.

Certain prior year balances have been reclassified to conform with the current year presentation.

NOTE 2. INVESTMENTS

The amortized cost and estimated fair values of investments in debt securities were as follows:

March 31, 2003	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government, government agencies and authorities	$ 14,668	$ 560	$	$ 15,228
States, municipalities and political subdivisions	200	13		213
Corporate bonds	22,931	1,064	(18)	23,977
Total	$ 37,799	$ 1,637	$ (18)	$ 39,418
December 31, 2002	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
U.S. Government, government agencies and authorities	$ 14,586	$ 609	$	$ 15,195
States, municipalities and political subdivisions	375	15		390
Corporate bonds	20,922	1,062	(14)	21,970
Total	$ 35,883	$ 1,686	$ (14)	$ 37,555

Excluding investments in the U.S. Government, government agencies and authorities, there were no investments at March 31, 2003 or December 31, 2002 that exceeded 10% of shareholders equity. Debt securities with an amortized cost of $16,981 at March 31, 2003 and $17,112 at December 31, 2002 were on deposit with regulatory authorities.

NOTE 3. DEFERRED POLICY ACQUISITION COSTS

Policy acquisition costs incurred and amortized to income on property and casualty business for the three months ended March 31, 2003 and 2002 were as follows:

	2003	2002
Deferred at the beginning of the period	$ 1,168	$ 1,200
Costs incurred and deferred during year:		
Commissions and brokerage	1,849	3,977
Taxes, licenses and fees	644	958
Other	337	767
Total	2,830	5,702
Amortization charged to income during the period	(2,709)	(5,687)
Deferred at the end of the period	$ 1,289	$ 1,215

NOTE 4. PROPERTY AND CASUALTY UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

Activity in the liability for unpaid losses and loss adjustment expenses (LAE) for the three months ended March 31, 2003 and 2002 is summarized as follows:

	2003	2002

Liability for losses and LAE at the beginning of the period:		

Gross liability per balance sheet	**$**	**53,710**	**$**	**66,875**

Ceded reinsurance recoverable, classified as an asset	**(30,786)**	**(40,832)**

Net liability	**22,924**	**26,043**

)

Provision for losses and LAE for claims occurring in the current year	**1,654**	**1,866**

Increase in estimated losses and LAE for claims occurring in prior years	**419**	**110**

	2,073	**1,976**

Loss and LAE payments for claims occurring during:			

Current year	**881**	**558**

Prior years	**1,410**	**2,420**

	2,291	**2,978**

Liability for losses and LAE at the end of the period:		

Net liability	**22,706**	**25,041**

Ceded reinsurance recoverable, classified as an asset	**31,696**	**38,544**

Gross liability per balance sheet	**$**	**54,402**	**$**	**63,585**

NOTE 5. EARNINGS PER SHARE

The following table shows the computation of earnings per share for the three months ended March 31, 2003 and 2002:

	Income (Numerator)	Shares (Denominator)	Share Amount
For the three months ended March 31, 2003:			
Net income	$ 1,416		
Less: Preferred stock dividends	(96)		
Basic earnings per share	1,320	7,832	$ 0.17
Effect of dilutive stock options and warrants		20	
Diluted earnings per share	$ 1,320	7,852	$ 0.17
For the three months ended March 31, 2002:			
Net income	$ 2,504		
Less: Preferred stock dividends	(40)		
Basic earnings per share	2,464	7,832	$ 0.31
Effect of dilutive securities:			
Convertible preferred stock	40	324	
Stock options and warrants		61	
Diluted earnings per share	$ 2,504	8,217	$ 0.30

Options and warrants to purchase shares of common stock that were outstanding during the period but not included in the computation of diluted earnings per share because their effect would be antidilutive are summarized as follows:

For the Three Months	Shares	Exercise Price:	
Ended March 31:	Excluded	Low	High
2003	455,021	$ 1.81	$ 10.50
2002	539,238	3.00	10.50

On April 14, 2003, the Company announced a stock tender program allowing shareholders owning fewer than 100 shares of its stock to sell their shares to the Company for $2.50 per share. Approximately 2,000 shareholders, representing approximately 57,000 shares are eligible for the stock tender program.

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On April 14, 2003, the Company announced a stock tender program allowing shareholders owning fewer than 100 s

NOTE 6. SEGMENT REPORTING

Reportable segments are determined based on management s internal reporting approach, which is based on product line and complementary coverages. The reportable segments are comprised of Automobile, Flood, Commercial, Adjusting Services and All Other. While the majority of revenues and expenses are captured directly by each reportable segment, the Company does have shared income and expenses. Shared income comprised approximately 12%, and 80% of all other income for the three months ended March 31, 2003 and 2002, respectively. The gain on the sale of the Company s investment in Insurance Services Offices, Inc. (ISO) accounted for 76% of shared all other income for the three months ended March 31, 2002. Shared expenses comprised approximately 1%, and 5% of all other expenses for the three months ended March 31, 2003 and 2002, respectively. These shared amounts were allocated on a basis proportionate with each reportable segment s total net loss and LAE and unearned premium reserves. The results of the reportable segments are included in the following tables:

	For the three months ended March 31, 2003					
	Automobile	Flood	Commercial	Adjusting Services	All Other	Total
Revenues:						
Commission and service income	$ 1,637	$ 512	$ 59	$ 1,670	$ 220	$ 4,098
Premiums earned	1,731		2,135		7	3,873
Gain on sale of NFIP renewal rights		1,050				1,050
All other income	261	7	214	183	325	990
Total revenues	3,629	1,569	2,408	1,853	552	10,011
Expenses:						
Losses and loss adjustment expenses	909		707		457	2,073
All other expenses	2,364	606	1,487	1,479	586	6,522
Total expenses	3,273	606	2,194	1,479	1,043	8,595
Income (loss) from operations before provision for income taxes	356	963	214	374	(491)	1,416
Provision for income taxes						
Net income (loss)	$ 356	$ 963	$ 214	$ 374	$ (491)	$ 1,416

	For the three months ended March 31, 2002					
	Automobile	Flood	Commercial	Adjusting Services	All Other	Total
Revenues:						
Commission and service income	$ 2,345	$ 4,354	$ 100	$ 1,717	$ (4)	$ 8,512
Premiums earned	1,250		2,200		7	3,457
Gain on sale of NFIP renewal rights						
All other income	1,670	15	936	298	336	3,255
Total revenues	5,265	4,369	3,236	2,015	339	15,224
Expenses:						
Losses and loss adjustment expenses	718		1,199		59	1,976
All other expenses	3,460	3,926	1,375	1,792	191	10,744
Total expenses	4,178	3,926	2,574	1,792	250	12,720
Income from operations before provision for	1,087	443	662	223	89	2,504

income taxes						
Provision for income taxes						
Net income	$ 1,087	$ 443	$ 662	$ 223	$ 89	$ 2,504

PART I FINANCIAL INFORMATION
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Dollars shown in thousands except per share amounts)

FORWARD LOOKING STATEMENTS

Some of the statements discussed or incorporated by reference in this quarterly report on Form 10-Q are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding management s current knowledge, expectations, estimates, beliefs and assumptions. All forward-looking statements included in this document or incorporated by reference are based on information available to the Company on the date hereof, and the Company assumes no obligation to update any such forward-looking statements. Results may differ materially because of both known and unknown risks and uncertainties which the Company faces. Factors which could cause results to differ materially from our forward-looking statements include, but are not limited to:

the possibility that the Company will be unable to meet its cash flow requirements; the Company has previously incurred net operating losses and the Company may experience net operating losses in the future;

the costs of defending pending litigation and administrative proceedings and the risk of material adverse outcomes of pending and potential litigation and administrative proceedings involving the Company;

the continuing impact of the South Carolina Department of Insurance s Administrative Supervision of South Carolina Insurance Company, Catawba Insurance Company and Consolidated American Insurance Company;

the impact of exiting the National Flood Insurance Program;

the ability to satisfy dividend obligations related to the Company s Adjustable Rate Cumulative Nonvoting Preferred Special Stock;

the ability to secure additional sources of revenue;

the ability to secure and maintain long-term relationships with customers and agents;

the effects of economic conditions and conditions which affect the market for property and casualty insurance, including, but not limited to, interest rate fluctuations and flood zone determination services;

the effects and impact of laws, rules and regulations which apply to insurance companies;

the effects if estimated reserves for losses and LAE established by the Company are deficient, including reserves associated with the Company s runoff lines of business;

geographic concentrations of loss exposure, causing revenues and profitability to be subject to prevailing regulatory, demographic and other conditions in the areas in which the Company operates;

the availability of reinsurance and the ability of the Company s reinsurance arrangements to balance the geographical concentrations of the Company s risks;

the impact of competition from new and existing competitors, many of which have superior financial and marketing resources than the Company;

the continuing impact of the decisions to exit the Nashville and South Carolina nonstandard automobile operations;

the risk that current initiatives may not be successful;

restrictions on the Company s ability to declare and pay dividends;

the fact that the Company has experienced, and can be expected in the future to experience, storm and weather-related losses, which may result in a material adverse effect on the Company s results of operations, financial condition and cash flows;

the uncertainty associated with estimating loss reserves, and the adequacy of such reserves, capital resources and other financial items;

the risk of loss of one or more key managing general agent relationships and the related risk that such agent could not be replaced;

control of the Company by a principal shareholder, which shareholder has the ability to exert significant influence over the policies and affairs of the Company;

risks the Company faces in diversifying the services it offers and entering new markets, including risks associated with the Company s development and deployment of new management information systems to develop and deploy new strategies; and

other risk factors listed from time to time in the Company s Securities and Exchange Commission filings.

Accordingly, there can be no assurance that the actual results will conform to the forward-looking statements discussed or incorporated by reference in this quarterly report on Form 10-Q.

The unaudited consolidated financial statements and notes thereto should be read in conjunction with the following discussion as they contain important information for evaluation of the Company s financial condition and operating results.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company s financial statements are prepared in accordance with GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management bases its estimates and assumptions on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. In its Form 10-K for the year ended December 31, 2002, management identified a number of accounting policies as critical in understanding and evaluating the Company s reported financial results.

OVERVIEW

NOTE 6. SEGMENT REPORTING

The Company conducts its business in two primary categories, fee-based property and casualty insurance operations and risk-bearing property and casualty insurance operations, and reports its operations through five distinct business segments. Following is a summary of the Company s reporting segments with indications of whether the included lines of business are risk-bearing or fee-based operations, whether the included lines of business are ongoing operations or in runoff, and the included lines of business total revenues for the three months ended March 31, 2003 and 2002:

Operation:				Total Revenues for the Three Months Ended March 31,	
Segment	**Description**	**Type**	**Status**	**2003**	**2002**
Automobile:	North Carolina nonstandard automobile	Both	Ongoing	$ 3,262	$ 2,957
	South Carolina nonowners automobile	Risk-bearing	Ongoing	158	216
	Nashville and South Carolina nonstandard automobile	Risk-bearing	Runoff	88	1,246
	South Carolina Reinsurance Facility and surviving SCAAIP	Fee-based	Runoff	122	740
	Premium financing	Fee-based	Runoff	(1)	106
				$ 3,629	$ 5,265
Flood:	America s Flood Services operations	Fee-based	Ongoing	$ 556	$ 618
	National Flood Insurance Program	Fee-based	Runoff	1,013	3,751
				$ 1,569	$ 4,369
Commercial:	Commercial operations	Risk-bearing	Ongoing	$ 2,408	$ 3,236
Adjusting Services:	Insurance Network Services operations	Fee-based	Ongoing	$ 1,853	$ 2,015
All Other:	Human Dynamics Corporation workers compensation program	Risk-bearing	Runoff	$	$
	Managing general agent operations	Fee-based	Runoff	232	
	All other	Risk-bearing	Runoff	320	339
				$ 552	$ 339
				$ 10,011	$ 15,224

The Company s net income (loss) by business segment for the three months ended March 31, 2003 and 2002 is as follows:

	2003	2002
Automobile	$ 356	$ 1,087
Flood	963	443
Commercial	214	662
Adjusting services	374	223
All other	(491)	89
Net income	$ 1,416	$ 2,504
Basic earnings per share	$ 0.17	$ 0.31
Diluted earnings per share	0.17	0.30

RESULTS OF OPERATIONS

Commission and Service Income

Total commission and service income decreased $4,414, or 51.9%, for the three months ended March 31, 2003 as compared to the same period of 2002. The automobile segment accounted for $708 of the overall net decrease, primarily as a result of the continuing runoff of the South Carolina Reinsurance Facility (SC Facility) and the South Carolina Associated Auto Insurers Plan (SCAAIP). Commission and service income earned through the SC Facility and the SCAAIP amounted to only $118 for the three months ended March 31, 2003 as compared to $681 for the same period of 2002. The North Carolina nonstandard automobile line of business (NC Auto) accounted for the remaining $145 decrease in commission and service income of the automobile segment as a result of a decrease in premiums written and ceded to the North Carolina Reinsurance Facility (NC Facility). The Company believes that the decrease is largely attributable to suspension of coverage requests received from members of the United States armed forces stationed in North Carolina as they deployed for military operations in the Middle East.

The flood segment reported a decrease in commission and service income of $3,842 for the three months ended March 31, 2003 as compared to the same period of 2002. Effective November 15, 2002, The Hartford Financial Services Group, Inc. (The Hartford) acquired the right to renew or assume all of the Company s in-force flood business written through the National Flood Insurance Program (NFIP). The underlying sales agreement, as approved by the Federal Emergency Management Administration, provided for The Hartford to administer and report the Company s business to the NFIP over the transition period that ends September 30, 2003. As a result of this transaction, premiums written through the NFIP and the related commission and service income decreased $10,055 and $3,781, respectively, for the three months ended March 31, 2003 as compared to the same period of 2002. Furthermore, in March 2002 the Company received a $615 marketing bonus from the NFIP as a result of previous premium growth and retention of its NFIP book of business. The Company received no marketing bonus during the three months ended March 31, 2003. Such marketing bonuses have not been calculated and paid by the NFIP for its fiscal year ended September 30, 2002 and the Company is unable to determine if it will receive a marketing bonus for this period.

Partially offsetting the above decreases in commission and service income was the $224 increase reported by the all other segment. Substantially all of this increase resulted from the managing general agent operations of Seibels, Bruce & Company that began in July 2002. This program began runoff effective December 31, 2002 and should not have a material impact on the Company s future results of operations.

The remaining $88 decrease in commission and service income came from the Company s commercial and adjusting services segments.

Premiums Earned

Net premiums earned increased $416, or 12.0%, for the three months ended March 31, 2003 as compared to the same period of 2002. The automobile segment accounted for $481 of the overall net increase, mostly as a result of increases reported by NC Auto. From December 31, 1999 until July 1, 2002, the retained-risk NC Auto business was subject to a 75% quota share reinsurance agreement. Effective July 1, 2002, the 75% quota share reinsurance agreement was replaced with a 60% quota share reinsurance agreement. Retaining more premium under the new quota share reinsurance agreement had a $597 favorable impact on premiums earned for the three months ended March 31, 2003 as compared to the same period of 2002, net of the impact of a reduction in direct written premiums between reporting periods as a result of suspension of coverage requests related to the retained-risk NC Auto business (see *Commission and Service Income*). Partially offsetting this increase in premiums earned was a $57 decrease related to the nonowners automobile program as a result of the South Carolina Department of Insurance s Order placing the Company s South Carolina domiciled insurance subsidiaries under administrative supervision. The remaining $59 decrease in premiums earned by the automobile segment came from business the Company is required to assume from the SC Facility ($53) and from the final premium runoff of the Company s Nashville nonstandard automobile operations ($6).

The remaining $65 decrease in premiums earned came from the Company s commercial operations.

Net Investment Income

Net investment income decreased $95, or 16.6%, for the three months ended March 31, 2003 as compared to the same period of 2002, as a result of the decrease in the general level of market interest rates between reporting periods. For the three months ended March 31, 2003, the Company s investment portfolio yielded an average return of 4.25%, a deterioration from the 5.61% averaged for the same period of 2002. Partially offsetting the impact of the lower average return was the increase in net investment income generated from a larger portfolio of income producing investments. Total debt securities and cash and short-term investments increased $2,550 between December 31, 2002 and March 31, 2003.

Net Realized Gain

Realized gains for the three months ended March 31, 2003 were not significant. The realized gain for the same period of 2002 is substantially the result of the Company s sale of its previously nonmarketable investment in equity securities of ISO back to ISO, resulting in a realized gain of $2,117.

Gain on Sale of NFIP Renewal Rights

In November 2002, the Company sold the renewal rights to its NFIP business to The Hartford for $3,800. Provisions of the underlying sales agreement provide that The Hartford administer and report the Company s business to the NFIP over the transition period that ends September 30, 2003. As a result of the Company s continuing involvement with the book of business during the transition period, the gain on the transaction of $3,499 (purchase price of $3,800 less expenses of sale of $301) was deferred and is being recognized as income evenly over the transition period.

Equity in Earnings (Loss) of Unconsolidated Affiliates

The Company s equity in earnings of its unconsolidated affiliate was $60 for the three months ended March 31, 2003 and relates to its investment in Sunshine State Holding Corporation. For the same period of 2002, the Company s equity in the loss of its unconsolidated affiliates was $17 and relates to its investments in Sunshine State Holding Corporation and QualSure Holding Corporation. Effective October 3, 2002, the Company s total ownership interest in QualSure Holding Corporation was redeemed by QualSure Holding Corporation.

Other Income

Other income decreased $114, or 20.2%, for the three months ended March 31, 2003 as compared to the same period of 2002. In the fourth quarter of 2002, the Company undertook a profitability and viability analysis of each of the service lines within the adjusting services segment. As a result, the Company has discontinued certain of its service lines and eliminated the related expenses. Its continuing operations are centered on its Claims Administration Services Agreement with QualSure Insurance Corporation and complemented by its network glass claims handling, all-lines claims administration and catastrophe claims administration services. Other income related to the discontinued service lines decreased $429 for the three months ended March 31, 2003 as compared to the same period of 2002, while other income earned through the Claims Administration Services Agreement with QualSure Insurance Corporation increased $314 between reporting periods.

The remaining increase in other income of $1 came from all other operations.

Losses and Loss Adjustment Expenses

The following table sets forth the Company s reserves for unpaid losses and LAE as of March 31, 2003 and December 31, 2002, as well as a summary of the losses and LAE incurred for the three months ended March 31, 2003 and 2002, by segment:

	Reserves for Unpaid Losses and LAE, Net: March 31, 2003	December 31, 2002	Net Losses and LAE Incurred: Period Ended March 31, 2003 Current Accident Year	Prior Accident Years	Total	Net Losses and LAE Incurred: Period Ended March 31, 2002 Current Accident Year	Prior Accident Years	Total
Automobile	$ 4,050	$ 4,392	$ 1,115	$ (206)	$ 909	$ 979	$ (261)	$ 718
Commercial	2,654	2,563	539	168	707	887	312	1,199
All other	16,002	15,969		457	457		59	59
Total	$ 22,706	$ 22,924	$ 1,654	$ 419	$ 2,073	$ 1,866	$ 110	$ 1,976

The reserves for unpaid losses and LAE are determined using case-basis evaluations and statistical projections based on facts and circumstances currently known. An increase in average severity of claims may be caused by a number of factors that vary with the individual type of policy written. Future average severity is projected based on historical trends as adjusted for changes in underwriting standards, policy provisions, and general economic trends. These anticipated trends are monitored based on actual developments and are modified as necessary. The liabilities determined under these procedures are reduced by estimated amounts recoverable from the Company s reinsurers and an estimated amount to be received through salvage and subrogation. Management believes the Company s reserves are adequate. However, establishing reserves is an estimation process and the ultimate liability should be expected to be in excess of or less than the amount recorded. Any such changes in the estimated loss reserves are recorded in the year so determined. For example, for the three months ended March 31, 2003 and 2002, the Company incurred $419 and $110, respectively, related to development of losses incurred prior to January 1, 2003 and 2002, respectively. The Company s consulting actuary renders an opinion on the adequacy of its recorded reserves for unpaid losses and LAE as of December 31 of each year. As of December 31, 2002, the Company s recorded reserves for unpaid losses and LAE were within 1.4% of the consulting actuary s best estimate.

Total losses and LAE increased $97, or 4.9%, for the three months ended March 31, 2003 as compared to the same period of 2002. The commercial segment accounted for $492 of the overall net decrease, reporting a net loss and LAE ratio of 33.1% for the three months ended March 31, 2003, as compared to 54.5% for the same period of 2002. The improvement resulted primarily from a decrease in the severity of reported claims between the reporting periods. For the three months ended March 31, 2002, the commercial segment incurred three large losses, amounting to an incurred loss of approximately $413, as compared to none for the same period of 2003.

The automobile segment reported an increase in losses and LAE of $191 for the three months ended March 31, 2003, as compared to the same period of 2002, primarily from the continuing NC Auto operations as a result of the aforementioned change in its quota share reinsurance agreement. The increase in retained losses and LAE as a result of that change was substantially offset by a significant improvement in the NC Auto loss ratio for the three months ended March 31, 2003 (47.2%), as compared to the same period of 2002 (58.0%). The improvement in the loss and LAE ratio is attributable to a decrease in the frequency of newly reported claims between periods.

For the three months ended March 31, 2003, the Company continued to experience development in its runoff environmental and general liability business originally written in the 1980 s (reported through the all other segment). Specifically, the trend of new claims features associated with this business alleging that the Company was liable for damages continued in January and February 2003. The Company continues to be successful in defending these allegations; however, the LAE incurred in connection with defending the Company resulted in substantial adverse development during the reporting period and is the single largest contributor to the total adverse development of $457 reported by the all other segment. Following is a summary of activity related to the Company s environmental, pollution and toxic tort claims for the three months ended March 31, 2003 and the year ending December 31, 2002:

	2003	2002
Pending, beginning of period	30	38
New claims advised for the period	2	7

Claims settled during the period		(15)
Pending, end of period	32	30

The claims involve four Superfund sites, nine asbestos or toxic claims, eight underground storage tanks and eleven industrial waste clean-up sites at March 31, 2003.

Policy Acquisition Costs

Policy acquisition costs decreased $2,978, or 52.4%, for the three months ended March 31, 2003 as compared to the same period of 2002. Fluctuations in policy acquisition costs are directly correlated to fluctuations in, and the relative mix of, segmental direct written premium. Policy acquisition costs as a percentage of direct written premium was 23.1% and 21.5% for the three months ended March 31, 2003 and 2002, respectively. The higher percentage of acquisition costs is primarily attributable to the substantial decrease in premium volume of the SC Facility and NC Facility components of the automobile segment ($2,537), as they pay much lower agent commissions than the other components of the Company s operations.

Other Operating Costs and Expenses

Other operating costs and expenses decreased $1,244, or 24.6% for the three months ended March 31, 2003 as compared to the same period of 2002. In addition to the wide array of general expense reductions that would normally be associated with a decreasing revenue base there were certain other noteworthy fluctuations:

The Company experienced reductions in force between the three months ended March 31, 2003 and the three months ended March 31, 2002 that led to consolidated salary and benefit expense savings of $682.

The adjusting services segment experienced significant reductions in revenue for the three months ended March 31, 2003 as compared to the same period of 2002 (see *Other Income*). Associated with this decrease in revenues are corresponding reductions in a variety of other operating costs and expenses. Most notably, claims adjusting expenses incurred decreased $161 between periods.

In September 2001, the Compensation Committee of the Company s Board of Directors recommended, and the Board of Directors approved, the adoption of an incentive compensation program covering certain members of management. The program was terminated by the Company s Board of Directors on October 31, 2002. Expenses accrued under the program for the three months ended March 31, 2002 were $453.

As a result of the runoff of the Company s NFIP operations that began in the fourth quarter of 2002, the Company has experienced a reduction in policy processing and reporting fees incurred of approximately $263 for the three months ended March 31, 2003 as compared to the same period of 2002.

On March 28, 2002, the Company repaid all amounts outstanding on its credit facility. In connection with this transaction, the unamortized portion of the deferred loan origination fees were expensed. As a result, overall interest expense decreased $152 for the three months ended March 31, 2003 as compared to the same period of 2002.

Other than various lawsuits generally arising in the normal course of their insurance and ancillary businesses, the Company or its subsidiaries were party to two significant lawsuits during the three months ended March 31, 2003 as compared to the same period of 2002. This litigation was fully disclosed in the Company s December 31, 2002 Form 10-K. Though there are no significant developments to report under either case, the Company incurred $158 more in legal expenses between the current reporting periods as a result of the litigation.

COMMITMENTS AND CONTINGENCIES AND OFF-BALANCE SHEET ARRANGEMENTS

On March 28, 2003, the HDC Group filed i) a Motion to Set and Certificate of Readiness pursuant to which the HDC Group moved that the action be set for trial and ii) an Initial Rule 26.1 Disclosure Statement disclosing its legal theories and claims, which include breach of contract, breach of the duty of good faith and fair dealing, tortious interference with contract/business relations and slander, seeking actual and punitive damages. The Company has filed an objection to the amended complaint and intends to present numerous counterclaims. Once the Court has made a determination on the amendment, discovery on the counterclaims will begin. The ultimate outcome of this litigation cannot be reasonably determined at this time.

Estimated reserves for losses and LAE for claims arising under the HDC Program have been established by the Company net of the deductible that HDC is required to pay under order of the Court. The Company has a potential off-balance sheet credit risk associated with such deductibles if the Company were required to fund the deductibles in the event that HDC cannot pay the deductible.

The Court has ordered HDC to retain an independent actuary to estimate the HDC program unpaid losses and LAE, subject to the deductible, as of December 31, 2002, and has ordered HDC to deposit funds in an equivalent amount in accounts collateralizing HDC s liabilities under the deductible program. The actuary retained by HDC has issued a report estimating HDC s liability for such deductibles at December 31, 2002 to be $4,300. HDC has deposited funds totaling $4,300 into a Court-restricted commercial checking account ($3,000 on January 29, 2003 and $1,300 on February 21, 2003). At March 31, 2003, approximately $3,600 of the original $4,300 remained on deposit as a result of claims payments under the program. Pursuant to court order, the Company has retained an actuary to review the work of the actuary retained by HDC. The actuary retained by the Company has raised questions regarding aspects of the methodology used by the actuary retained by HDC. As of March 26, 2003, the Company has not received a response to those questions. The Company, in consultation with its consulting actuary, has estimated that HDC s liability for such deductibles as of December 31, 2002 may be as much as $9,800.

LIQUIDITY AND CAPITAL RESOURCES

The Company is a legal entity separate and distinct from its subsidiaries. As a holding company, the primary sources of cash needed to meet its obligations are dividends and other permitted payments, including management fees, from its subsidiaries and affiliates. The Company s insurance subsidiaries are regulated as to their payment of dividends by their respective state of domicile s insurance laws.

Liquidity relates to the Company s ability to produce sufficient cash to fulfill its cash obligations. In developing its investment strategy, the Company determines a level of cash and short-term investments which, when combined with expected cash flow, is expected to be adequate to meet expected cash obligations.

The Company s principal sources of liquidity during 2003 include the collection of commission and service fees, including substantial amounts received from the NC Facility and QualSure Insurance Corporation; premium collections on insurance policies issued; collections of balances due from its reinsurers; and the collection of net investment income and proceeds received from the sale or maturity of investments. In addition to payments for its routine and recurring operating expenses, the Company s principal cash obligations include the payment of liabilities to its policyholders for unpaid losses, LAE and unearned premiums, the payment of dividends on its Adjustable Rate Cumulative Nonvoting Preferred Special Stock, and the future lease payments under its various operating leases.

The Company s cash outflows can vary greatly because of the uncertainties regarding settlement dates for liabilities for unpaid losses and LAE and because of the potential for large losses. Accordingly, the Company maintains investment and reinsurance programs generally intended to avoid the forced sale of investments to meet claims obligations. At March 31, 2003 and December 31, 2002, the weighted-average maturity of the Company s portfolio of debt securities was 2.53 and 2.14 years, respectively.

The Company s debt securities and cash and short-term investments increased $2,550, or 5.3% between December 31, 2002 and March 31, 2003. The increase is largely attributable to the January 2003 collection of the Company s receivable for securities sold prior to December 31, 2002, as well as the recorded purchase of debt securities prior to March 31, 2003 but not settled until April 2003. In addition, the Company produced net income of $1,416 for the three months ended March 31, 2003, leading to net cash provided by operations of $846 for the period.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A substantial portion of the Company s cash and investments is comprised of investments in market-rate sensitive debt securities. The amortized costs and estimated fair values of these market-rate sensitive investments as of March 31, 2003 and December 31, 2002 are included in Note 2 of Notes to Consolidated Financial Statements. The market values of these investments can fluctuate greatly according to changes in the general level of market interest rates. For example, a one percentage point increase (decrease) in the general level of market interest rates would (decrease) increase the total estimated fair value of the Company s debt securities by approximately $(1,142) and $857, respectively, as of March 31, 2003. In its investment strategy, the Company attempts to match the average duration of its investment portfolio with the approximate duration of its liabilities. All debt securities are considered available for sale and are carried at fair value as of March 31, 2003 and December 31, 2002. The weighted-average maturity of the fixed income investments as of March 31, 2003 and December 31, 2002 was approximately 2.53 and 2.14 years, respectively.

The Company pays dividends on its Adjustable Rate Cumulative Nonvoting Preferred Special Stock at a rate of 3.5% plus LIBOR (4.8% at March 31, 2003 and 4.9% at December 31, 2002).

ITEM 4. CONTROLS AND PROCEDURES.

(a) Based on their evaluation of the issuer s disclosure controls and procedures (as defined in 17 C.F.R. Sections 240.13a-14(c) and 240.15d-14(c)) as of a date within 90 days prior to the filing of this quarterly report, the issuer s chief executive officer and treasurer and controller (principal financial officer) concluded that the effectiveness of such controls and procedures was adequate.

(b) There were no significant changes in the issuer s internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART. II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

(a) On March 28, 2003, the HDC Group filed i) a Motion to Set and Certificate of Readiness pursuant to which the HDC Group moved that the action be set for trial and ii) an Initial Rule 26.1 Disclosure Statement disclosing its legal theories and claims, which include breach of contract, breach of the duty of good faith and fair dealing, tortious interference with contract/business relations and slander, seeking actual and punitive damages. The Company has filed an objection to the amended complaint and intends to present numerous counterclaims. Once the Court has made a determination on the amendment, discovery on the counterclaims will begin. The ultimate outcome of this litigation cannot be reasonably determined at this time.

(b) The Company and its subsidiaries are parties to various other lawsuits generally arising in the normal course of their insurance and ancillary businesses. The Company does not believe that the eventual outcome of such suits will have a material effect on the financial condition or results of operations of the Company.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) List of exhibits

None.

(b) Reports on Form 8-K:

(i) Form 8-K filed pursuant to Item 5 thereof with the Securities and Exchange Commission on February 7, 2003 announcing that the South Carolina Department of Insurance had approved the Company s request to permit its subsidiary, Catawba Insurance Company, to enter the risk-bearing personal automobile and property insurance markets in South Carolina.

(ii) Form 8-K filed pursuant to Item 5 thereof with the Securities and Exchange Commission on April 14, 2003 announcing a stock tender program allowing shareholders owning fewer than 100 shares of the Company s stock to sell their shares to the Company.

(iii) Form 8-K filed pursuant to Item 5 thereof with the Securities and Exchange Commission on May 7, 2003 announcing earnings for the first quarter of 2003.

SIGNATURES

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

The Seibels Bruce Group, Inc.
(Registrant)

Date: May 9, 2003	By	/s/ Charles H. Powers	Charles H. Powers *Chief Executive Officer*
Date: May 9, 2003	By	/s/ Michael A. Culbertson	Michael A. Culbertson *President*
Date: May 9, 2003	By	/s/ Bryan D. Rivers	Bryan D. Rivers, CPA *Treasurer and Controller (Principal Accounting Officer)*

CERTIFICATIONS

I, Charles H. Powers, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Seibels Bruce Group, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

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

b) evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of registrant s board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

May 9, 2003	By /s/ Charles H. Powers
Date	Charles H. Powers, Chief Executive Officer

CERTIFICATIONS

I, Bryan D. Rivers, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Seibels Bruce Group, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

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

b) evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of registrant s board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

May 9, 2003	By /s/ Bryan D. Rivers
Date	Bryan D. Rivers, Treasurer and Controller (Principal Accounting Officer)