NetApp, Inc.
Form 10-K
June 19, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

þ　**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended April 27, 2012

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 000-27130

NetApp, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**77-0307520**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

495 East Java Drive,

Sunnyvale, California 94089

(Address of principal executive offices, including zip code)

(408) 822-6000

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, $0.001 Par Value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.   Yes þ   No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.   Yes ¨   No þ

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).   Yes þ   No ¨

Indicate by a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.   ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer,   accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ   Accelerated filer ¨

Non-accelerated filer ¨ (Do not check if a smaller reporting company)   Smaller reporting company ¨

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

The aggregate market value of voting stock held by non-affiliates of the registrant, as of October 28, 2011, the last business day of the registrant s most recently completed second fiscal quarter, was $14,043,037,388 (based on the closing price for shares of the registrant s common stock as reported by the NASDAQ Global Select Market on that date). Shares of common stock held by each executive officer, director, and holder of 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

On June 11, 2012, 366,999,792 shares of the registrant s common stock, $0.001 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information called for by Part III of this Form 10-K is hereby incorporated by reference from the definitive Proxy Statement for our annual meeting of stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after April 27, 2012.

Table of Contents

TABLE OF CONTENTS

PART I
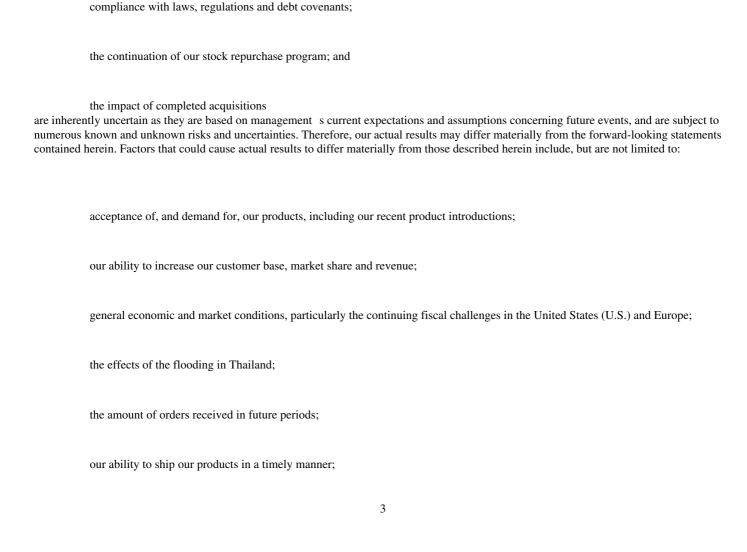
PART II

PART III

PART IV

2

PART I

Item 1. *Business*
Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and is subject to the safe harbor provisions set forth in the Exchange Act. Forward-looking statements usually contain the words estimate, intend, plan, predict, seek, may, will, would, could, anticipate, expect, believe, or similar expressions and variations or negatives of these words or expressions. In addition, any statements that refer to expectations, projections, or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. All forward-looking statements, including but not limited to, statements about:

our future financial and operating results;

our business strategies;

management s plans, beliefs and objectives for future operations, research and development;

economic and industry trends or trend analysis;

product introductions, development, enhancements and acceptance;

acquisitions and joint ventures, growth opportunities, investments and legal proceedings;

competitive positions;

future cash flows and cash deployment strategies;

short-term and long-term cash requirements, including anticipated capital expenditures;

our anticipated tax rate;

the dilutive effect of our 1.75% Convertible Senior Notes due June 2013 (the Notes) and associated warrants on our earnings per share;

the conversion, maturation or repurchase of the Notes;

compliance with laws, regulations and debt covenants;

the continuation of our stock repurchase program; and

the impact of completed acquisitions
are inherently uncertain as they are based on management s current expectations and assumptions concerning future events, and are subject to numerous known and unknown risks and uncertainties. Therefore, our actual results may differ materially from the forward-looking statements contained herein. Factors that could cause actual results to differ materially from those described herein include, but are not limited to:

acceptance of, and demand for, our products, including our recent product introductions;

our ability to increase our customer base, market share and revenue;

general economic and market conditions, particularly the continuing fiscal challenges in the United States (U.S.) and Europe;

the effects of the flooding in Thailand;

the amount of orders received in future periods;

our ability to ship our products in a timely manner;

3

our ability to achieve anticipated pricing, cost, and gross margins levels;

our ability to successfully manage our backlog and increase revenue;

our ability to successfully execute on our strategies;

our ability to effectively integrate acquired products and technologies;

our ability to successfully introduce new products and forecast demand for those products;

our ability to maintain the quality of our hardware, software and services offerings;

our ability to adapt to changes in market demand;

demand for our services and support and the growth of the storage markets generally;

our ability to identify and respond to significant market trends and emerging standards;

the impact of industry consolidation;

our ability to successfully manage our investment in people, process, and systems;

our ability to maintain our partner, supplier and contract manufacturer relationships;

the ability of our suppliers and contract manufacturers to meet our requirements;

the ability of our competitors to introduce new products that compete successfully with our products;

our ability to grow direct and indirect sales and to efficiently utilize global service and support;

variability in our gross margins;

our ability to sustain and/or improve our cash and overall financial position;

our cash requirements and terms and availability of financing;

valuation and liquidity of our investment portfolio;

our ability to finance business acquisitions, construction projects and capital expenditures through cash from operations and/or financing;

the results of our ongoing litigation, tax audits, government audits, inquiries and investigations; and

those factors discussed under the heading Risk Factors elsewhere in this Annual Report on Form 10-K.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof and are based upon information available to us at this time. These statements are not guarantees of future performance. We disclaim any obligation to update information in any forward-looking statement. Actual results could vary from our forward-looking statements due to foregoing factors as well as other important factors, including those described in the Risk Factors included in Part I of Item 1A.

Overview

NetApp, Inc. (NetApp, we or us) is a leading provider of innovative storage systems and data management solutions that form the foundation for efficient and flexible IT infrastructures. Our storage systems help customers streamline operations and lower the cost associated with storing and managing their data. Our unified fabric-attached storage (FAS) platform offers the optimal storage platform for business applications, shared infrastructures, and cloud environments. Our E-Series systems, acquired from LSI Corporation, provide the cost-effective, high-performance storage building blocks for value-added customization and big data workloads. We are a leading original equipment manufacturer (OEM) storage provider with a 15-year track record of enabling OEMs to offer market-leading IT and storage solutions that serve specific markets and customer requirements.

4

We were incorporated in 1992 and shipped the world s first networked storage appliance one year later. Since then, we have brought to market many innovations in storage and data management. Our evolution can be attributed to our history of identifying and creating new markets and innovating around market transitions. These markets include:

Shared infrastructures. A market shift from traditional dedicated storage to shared storage in virtualized IT infrastructures is well under way. Virtualization allows organizations to separate applications and data from dedicated hardware so that the server, storage, and networking infrastructure can be shared and used more efficiently. Our unified FAS architecture is well suited for virtualized environments because it provides integrated data protection along with increased efficiency and flexibility.

Cloud. Cloud-based infrastructure has become a business priority. Clouds built on a NetApp® foundation have lower costs and provide operational efficiencies that allow IT to respond more rapidly. Our goal is to help organizations benefit from the efficiency and flexibility our products provide, whether they choose to deploy an on-premises (private) cloud solution or outsource to an external (public) cloud service provider. In order to meet customers needs for external cloud services, we have developed a global network of cloud service provider partners. Our solutions for service providers accelerate the development and delivery of cloud services such as Microsoft® Exchange as a Service, Microsoft® SharePoint as a Service, IT Infrastructure as a Service, Desktop as a Service, Storage as a Service, and Data Protection as a Service.

Business applications. Our products and services are designed to meet the expansive requirements and demanding service levels of large enterprises and their mission-critical business applications. In addition, we bring our affordable, enterprise-proven technology to midsize enterprise businesses. We also design our products to satisfy the demands of high-performance computing and technical data center applications. To better meet the needs of our customers, we develop integrated solutions that optimize the performance of customers applications and their infrastructure in partnership with key industry leaders such as Cisco Systems, IBM, Microsoft, Oracle, SAP, and VMware. We partner with industry leaders to create best-in-class solutions and to deliver and support them worldwide. We provide expert services and global support to maximize the value customers derive from our products and to maintain their systems.

Big data. We are now entering an era of big scale, in which the amount of data processed and stored by enterprises is stressing traditional storage architectures. Customers require storage products and solutions that are optimized for these workloads such as:

Analytics. This solution area focuses on providing efficient analytics for extremely large datasets and turning data into high-quality information to facilitate deeper insights about the business for better and quicker decision making.

Bandwidth. This solution area focuses on obtaining better performance for high-performance workloads.

Content. This solution area focuses on satisfying the need to store, find, and access almost unlimited amounts of data for an indefinite amount of time.

NetApp Product Overview

We offer two storage platforms, each engineered to serve different goals. Our unified FAS storage systems offer integrated protection and data management and built-in efficiency for virtualized, shared infrastructures and business applications. Our E-Series systems offer high-performance, reliable, scalable, and space-efficient storage the optimal platform for big data workloads and value-added customization.

Both platforms reflect our commitment to the principles of simplicity, innovation, and a dedication to customer and partner success. Both platforms have a proven track record of reliability and performance, are highly cost efficient and provide flexibility for diverse workloads.

Table of Contents

We believe that by providing greater efficiency and flexibility, our solutions help improve business productivity, performance, and profitability, while providing investment protection and enhanced asset utilization. Our enterprise-class storage solutions are complemented by our services expertise to maximize the business benefits that customers gain from deploying our storage products.

FAS Storage Platform

We offer highly available, scalable, and cost-effective storage solutions that incorporate our unified FAS platform and the feature-rich functionality of our Data ONTAP® data and storage resource management software.

Data ONTAP Software

Our FAS and V-Series storage solutions are based on Data ONTAP, a highly scalable and flexible operating system (OS) that concurrently supports any mix of storage area network (SAN) and network-attached storage (NAS) environments. Our unified storage software platform is compatible with UNIX®, Linux®, Windows®, and Web environments. It enables scalable storage that is always on and that provides superior operational efficiency to help manage data, application, and infrastructure growth.

The Data ONTAP OS provides the foundation to build a shared storage infrastructure and an enterprise-wide data fabric for the full breadth of business applications and data storage and protection requirements. Data ONTAP features scalability, secure multi-tenancy, and unification across protocols and disks. Data ONTAP also unifies storage efficiency, data management, and data protection. We believe customers can benefit from these capabilities as they increasingly virtualize their application environments. Our deduplication for primary and secondary storage, thin provisioning, and highly efficient hardware help maximize utilization while reducing data center footprint and lowering storage-related power and cooling consumption. A few of the technology features we offer with Data ONTAP include:

FlexShare® technology, which directs how storage system resources are used to deliver an appropriate level of service for each application;

FlexCache® technology, which allows performance acceleration through the creation of read-only cached volumes on multiple storage controllers;

MultiStore® software, which allows partitioning of individual physical storage systems into multiple secure and separate logical partitions; and

RAID-DP®, a standard Data ONTAP feature that safeguards data from double disk failure. Integrated with our WAFL® (Write Anywhere File Layout) file system, RAID-DP gives customers data protection plus high performance.

Storage Efficiency

Our portfolio of efficiency technologies helps our customers reduce their storage spending and get more from the storage assets they already own. Some of the efficiency technologies we offer include:

FlexVol® technology, which provides for thin provisioning through virtual volumes, enabling storage architectures to be more efficient and achieve higher utilization using flexible volumes that do not require repartitioning of physical storage space;

FlexClone® technology, which enables true data cloning using logical copies that do not require additional physical storage space and allows for instant replication of data volumes and datasets; and

Deduplication technology, which provides the ability to eliminate duplicate data within primary and secondary disk storage environments, resulting in greater efficiency and higher utilization of storage capacity.

6

Table of Contents

Storage Management and Application Integration Software

NetApp OnCommand   management software improves storage and service efficiency through functions that help customers control, automate, and analyze their shared storage infrastructures. Our management software family of products provides a broad range of storage and data management tools to simplify IT administration and enhance flexibility and productivity. We deliver differentiated products that support industry open standards and interfaces to deliver this value to customers. We tightly integrate our software with database and business application software from partners such as Microsoft, Oracle, SAP, and VMware in order to optimize the performance of those applications on our storage systems.

Through data center automation tools, we give customers the ability to monitor service levels, manage performance, and support change management in complex enterprise SAN and NAS environments. We help customers optimize shared infrastructures by supporting individual application performance, service level, and security needs even while the storage is shared across multiple applications.

FAS Unified Storage Systems Family

Our family of modular, scalable, highly available, unified storage systems streamlines, simplifies, and consolidates the storage layer. The FAS6200, FAS3200, and FAS2000 series of fabric-attached storage systems are designed to consolidate all types of storage workloads, including primary and secondary data, as well as structured and unstructured data, across all key OS platforms and network infrastructures. Also, we unify storage access for all standard network protocols based on host bus adapter (HBA) technology and standard Internet Protocol (IP) networks. All our FAS systems are interoperable and provide common software services. We provide a data-in-place upgrade path that spans from entry-level platforms for smaller organizations all the way to high-end data center environments. Our FAS unified architecture supports both scale-up and scale-out growth strategies running the highly efficient Data ONTAP operating system.

Virtual Storage Tier

Customers can increase the performance of our storage controller using our virtual storage tiering, which is available with our Flash Cache modular cache expansion. Virtual storage tiering lowers response times and increases input/output (I/O) operations of disk drives without storing additional data on them. Using dynamic storage tiering also improves application performance for production workloads residing on any type of disk drive. Deduplication capabilities reduce the I/O load on storage controllers to provide extreme scaling, especially useful with virtual and cloud-based working sets.

V-Series Family

Our V-Series family is a network-based virtualization solution that consolidates storage from different suppliers behind our data management interface, providing SAN and NAS access to the data stored in heterogeneous storage arrays. With the V-Series solution, customers are able to:

Transform existing heterogeneous, multivendor storage systems into a single storage pool;

Simplify storage provisioning and management with Data ONTAP thin provisioning; and

Dramatically lower backup time, space, and cost with Data ONTAP Snapshot   copies.

The V-Series family is compatible with the FAS family of storage systems.

Data Protection Software Products

The NetApp Integrated Data Protection portfolio offers a broad range of branded and partner-integrated solutions designed to increase the speed, simplicity, and efficiency of data protection operations in any environment from physical to shared IT to cloud. This portfolio includes:

Snapshot technology, which enables near-instantaneous, space-efficient online backups of large datasets without affecting system performance;

7

Table of Contents

SnapRestore® technology, which uses stored Snapshot backups to recover entire file systems or data volumes in seconds, regardless of capacity or number of files;

SnapVault® and Open Systems SnapVault technologies, which provide network- and storage-optimized data movement for disk-to-disk backup;

MetroCluster , which uniquely combines array-based clustering with synchronous mirroring to deliver continuous availability and zero data loss;

SnapMirror® data replication solution, which provides disaster recovery protection for business-critical data matched to the recovery point objectives and recovery time objectives of customer environments;

NetApp SnapProtect®, which manages NetApp Snapshot copies, replication, and tape from a single console to enable high-speed, modern backup solutions that solve longstanding data protection challenges; and

NetApp integrated backup solutions, which bring the speed and efficiency of NetApp Snapshot and replication to customers using our alliance partners backup solutions. Symantec NetBackup , CommVault Simpana, and Syncsort data protection software can manage our data protection stack to accelerate operations without complicating management.

Data Retention and Archive Products

To meet growing regulatory compliance demands faced by most enterprises, we offer a broad suite of products to help enable data permanence, accessibility, and privacy to satisfy a variety of different regulations such as the Sarbanes-Oxley Act, FDA Title 21 CFR Part 11, SEC Rule 17a-4, and the Health Insurance Portability and Accountability Act (HIPAA). Cost-effective, resilient, and reliable storage architectures can be created utilizing NetApp SnapLock® products.

Flash Cache

NetApp Flash Cache modules optimize the performance of random read intensive workloads such as file services and messaging. These intelligent read caches speed access to user data, reducing latency by a factor of 10 or more compared to disk drives. Faster response times can translate into higher throughput for random I/O workloads. NetApp Flash Cache gives users performance that is comparable to that of solid state disks (SSDs) without the complexity of another storage tier.

Storage Security Products

Partnering with SafeNet, Inc. enables us to provide a unified platform for data security and key management across IP SAN, NAS, and tape backup environments. The platform combines wire-speed encryption, access controls, authentication, and automated key management to provide strong security for data at rest, while still allowing the capability to search compliant data for legal discovery purposes if the need arises. We also partner with Brocade Communications Systems, Inc. to provide advanced fabric services for SANs. These high-speed, highly reliable hardware devices deliver fabric-based encryption services to secure data assets either selectively or comprehensively.

Big Content Solutions: StorageGRID

NetApp StorageGRID® is a proven object storage software solution designed to manage petabyte-scale, globally distributed repositories of images, video, and records for enterprises and service providers. NetApp StorageGRID provides tremendous scalability by eliminating the typical constraints of data containers in blocks and files. It supports billions of files or objects and petabytes of capacity in hybrid cloud storage architectures with a single global namespace.

Table of Contents

NetApp StorageGRID enables intelligent data management and secure content retention. Data placement and secure content retention are optimized by aligning system and business process management metadata with a global policy engine that manages how data is stored, placed, governed, protected, and retrieved. Content is protected from tampering using technologies such as digital fingerprints and encryption.

Other big content offerings include the NetApp Solution for Archive as a Service and NetApp StorageGRID Healthcare Solution.

E-Series Storage Platform

E-Series systems offer OEMs a high-performance, modular storage platform with flexible scalability, space-efficient density, and high reliability for their purpose-built solutions and value-added customizations. This combination makes E-Series systems ideal for high-performance environments that are characterized by massive amounts of critical data and computing demands that require enterprise-class scalability and reliability. Our server OEMs also take advantage of E-Series attributes to deliver entry storage systems to their diverse customers.

We also leverage the E-Series platform to simplify the deployment of a Hadoop big data infrastructure. We accelerate the time to value for a Hadoop infrastructure and enable customers to scale their deployments more practically and predictably. Working with an ecosystem of partners, we continue our commitment to industry standards and open sources, including the Apache distribution of Hadoop.

We also leverage the E-Series platform in the development of big bandwidth solutions for full-motion video, seismic processing, medical content management, and high-performance Lustre solutions.

NetApp Services

Our customers demand high availability and reliability of their storage infrastructure to ensure the successful ongoing operation of their businesses. Our services are designed with this in mind. We provide professional services, global support solutions, and customer education and training to help customers most effectively manage their data. The professional services and support solutions we offer help our customers to resolve business problems, reduce costs, keep businesses up and running continuously, comply with regulations and policies, and improve overall operational results. We utilize a global, integrated model to provide consistent service delivery and global support during every phase of the customer engagement, including assessment and analysis, planning, design, installation, implementation, integration, optimization, ongoing support, and remote management and monitoring. Services and support often involve phased rollouts, technology transitions and migrations, and other long-term engagements.

Sales, Principal Markets, and Distribution Channels

We market and sell our products in numerous countries throughout the world, and we continue to make investments in our multiyear branding and awareness campaign to increase visibility of NetApp in the broader IT segment.

Our diversified customer base spans a number of customer segments and vertical markets, including energy, financial services, government, high technology, Internet, life sciences and healthcare services, major manufacturing, media, entertainment, animation and video postproduction, and telecommunications. We focus primarily on the data management and storage markets, offering an array of solutions from our high-end products designed for large enterprise customers to entry-level products designed for midsized enterprise customers.

To increase market share, we are focused on diversifying our multichannel distribution strategy. We are strengthening existing partnerships and investing in new partnerships with system integrators and cloud service providers.

9

Table of Contents

As of the end of fiscal 2012, our worldwide sales and marketing function consisted of approximately 5,600 managers, sales representatives, and technical support personnel. We have field sales offices in more than 40 countries. We employ a multichannel distribution strategy, selling products and services to end users and service providers through a direct sales force and through channel partners, including value-added resellers, system integrators, OEMs, and distributors. During fiscal year 2012, sales through our indirect channels represented 78% of our total net revenues. Sales to customers Arrow Electronics, Inc. and Avnet, Inc., who are distributors, accounted for approximately 17% and 12% of our net revenues, respectively, in fiscal 2012; approximately 18% and 12% of our net revenues, respectively, for fiscal 2011; and approximately 14% and 11% of our net revenues, respectively, for fiscal 2010. Information about our segment disclosures, foreign operations, and net sales attributable to our geographic regions is included in Note 15 of the accompanying consolidated financial statements.

Seasonality

We have historically experienced a decline in revenues in the first quarter of our fiscal year, as the sales organization spends time developing new business after higher close rates in the fourth quarter, and because sales to European customers are historically weaker during the summer months. During the second quarter of our fiscal year, we have historically experienced increased sales, driven by the government sector, concurrent with the end of the U.S. federal government s fiscal year in September, as well as an increase in business from European markets. We derive a majority of our revenue in any given quarter from orders booked in the same quarter. Bookings and revenues typically follow intraquarter seasonality patterns weighted toward the back end of the quarter.

Backlog

We manufacture products based on a combination of specific order requirements and forecasts of our customers demand. Orders are generally placed by customers on an as-needed basis. A substantial portion of our products is sold on the basis of standard purchase orders that are cancellable prior to shipment without penalty. In certain circumstances, purchase orders are subject to change with respect to quantity of product or timing of delivery resulting from changes in customer requirements. Our business is characterized by seasonal and intraquarter variability in demand, as well as short lead times and product delivery schedules. Accordingly, backlog at any given time might not be a meaningful indicator of future revenue.

Manufacturing and Supply Chain

We have outsourced manufacturing operations to third parties located in Memphis, Tennessee; Olive Branch, Mississippi; Livingston, Scotland; Schiphol Airport, The Netherlands; Szekesfehervar, Hungary; Shanghai and Longhua, China; Taoyuan City, Taiwan; Singapore; and Guadalajara, Mexico. These operations include materials procurement, commodity management, component engineering, test engineering, manufacturing engineering, product assembly, product assurance, quality control, final test, and global logistics. We rely on a limited number of suppliers for materials, as well as several key subcontractors for the production of certain subassemblies and finished systems. We use multiple vendors and have our products manufactured in a number of locations wherever possible to mitigate our supply chain risk. Our strategy has been to develop close relationships with our suppliers, exchanging critical information and implementing joint quality programs. We also use contract manufacturers for the production of major subassemblies to improve our manufacturing continuity of business. This manufacturing strategy minimizes capital investments and overhead expenditures while creating flexibility for rapid expansion.

We were awarded ISO 9001 certification on May 29, 1997, and continue to be ISO 9001 certified. We were awarded ISO 14001 certification on December 8, 2004, and continue to be ISO 14001 certified.

10

Research and Development

We conduct research and development activities in various locations throughout the world. In fiscal 2012, 2011, and 2010, research and development expenses represented 13%, 13%, and 14% of our net revenues, respectively. These costs relate primarily to personnel and related costs incurred to conduct product development activities. Although we develop many of our products internally, we might acquire technology through business combinations or through licensing from third parties when appropriate. We believe that technical leadership is essential to our success, and we expect to continue to commit substantial resources to research and development.

Competition

We compete with many companies in the markets we serve, including companies that offer a broad spectrum of IT products and services (full-stack vendors) and others that offer a more limited set of storage and data management products or services. In the primary storage market, our system products and associated software portfolio mainly compete with storage system products and data management software from Dell, EMC, Hitachi Data Systems, HP, IBM, and Oracle Corporation. We compete against these same companies in the secondary storage market, which includes the disk-to-disk backup, archival and compliance, and business continuity segments. In markets such as cloud, big data, and converged infrastructure, our primary competitors include EMC, Hitachi Data Systems, HP, and IBM. In the healthcare, financial services, life sciences, and service provider markets, we compete primarily with EMC, Hitachi Data Systems, HP, and IBM. Some of our competitors in the primary and secondary storage markets also offer their systems to OEM customers. In addition, we compete in the OEM market against products from DotHill and Xyratex.

Most full-stack vendors that sell storage started as server companies. Their ability to monetize their storage investment is limited by their server market share because their primary sales strategy is to attach storage to their server sales. With such a cap on market opportunity, we expect that over time the server companies will have difficulty sustaining investment in storage and data management. However, most storage companies have multiple overlapping architectures. Many of our competitors have multiple products that serve similar needs, resulting in multiple code bases that have to replicate the same functionality, diluting product development and management, current product engineering, and support costs and slowing their ability to innovate.

We consider innovation and our technological partnerships to be our key differentiators. We are committed to being the best-in-class storage vendor and partnering with other industry leaders in delivering what we call the innovation stack. An innovation stack from best-in-class vendors gives customers the best applications and technologies available. To support our solutions for converged architectures, we offer a cooperative support model with our partners.

In the OEM market, we compete based on the total offering we provide our partners, which is focused on a commitment to their success. They choose us for our products, technology, training, and support through the sales and product lifecycles.

We believe the advantages of our products include functionality, scalability, performance, flexibility, quality, and operational efficiency. We believe our advantage also includes the nature of the relationships we form with our customers and partners worldwide. We strive to deliver an outstanding experience in every interaction we have with our customers and partners through our product, service, and support offerings, which enable us to provide our customers with a full range of expertise before, during, and after their purchase.

An increase in industry consolidation might result in stronger competitors that are better able to compete as sole-source vendors for customers. In addition, current and potential competitors have established or might establish cooperative relationships among themselves or with third parties, including some of our partners. It is possible that new competitors or alliances among competitors might emerge and rapidly acquire significant market share.

11

Proprietary Rights

We currently rely on a combination of copyrights, trademarks, trade secrets, confidentiality procedures, contractual provisions, and patents to protect our proprietary rights. We seek to protect our software, documentation, and other written materials under trade secret, copyright, and patent laws, which afford only limited protection. We have registered our NetApp name and logo, Network Appliance® name and logo, Data ONTAP, DataFabric®, FlexVol, FlexPod, FilerView®, NearStore®, OnCommand, SecureShare®, SnapDrive®, SnapLock, SnapManager®, SnapMirror, SnapRestore, SnapVault, WAFL, and others as trademarks in the United States. Other U.S. trademarks and U.S. registered trademarks are registered internationally as well. We will continue to evaluate the registration of additional trademarks as appropriate. We generally enter into confidentiality agreements with our employees, resellers, customers, and suppliers. We currently have multiple U.S. and international patent applications pending and multiple U.S. patents issued.

In addition, through various licensing arrangements, we receive certain rights to intellectual property of others. We expect to maintain current licensing arrangements and to secure licensing arrangements in the future, as needed and to the extent available on reasonable terms and conditions, to support continued development and sales of our products and services. Some of these licensing arrangements require or might require royalty payments and other licensing fees. The amount of these payments and fees might depend on various factors, including but not limited to the structure of royalty payments; offsetting considerations, if any; and the degree of use of the licensed technology.

The industry in which we compete is characterized by rapidly changing technology, a large number of patents, and frequent claims and related litigation regarding patent and other intellectual property rights, and we are exposed to various risks related to legal proceedings or claims and protection of intellectual property rights. Also, if we are unable to protect our intellectual property, we might be subject to increased competition that could materially and adversely affect our operating results.

Environmental Disclosure

We are committed to the success of our customers and partners, to delivering value to our shareholders, and to positively affecting the communities where our employees work and live. We firmly believe that we can accomplish these objectives concurrently with our commitment to sustainability and environmental responsibility. We are committed to the prevention of pollution; efficient use of natural resources; and minimizing, relative to the growth of the company, the environmental impacts from our operations, products, and services, as well as to comply with laws and regulations related to these areas. Our environmental management system provides the framework for setting, monitoring, and continuously improving our environmental goals and objectives.

We are voluntarily measuring, monitoring, and publicly reporting our Scope 1 and Scope 2 greenhouse gas emissions. We have established employee commuter programs and education and awareness campaigns, and we continuously seek to optimize the energy efficiency of our buildings, labs, and data centers. At both the global and regional/state levels, various laws and regulations have been implemented or are under consideration to mitigate the effects of climate change caused by greenhouse gas emissions. Environmental laws are complex, change frequently, and have tended to become more stringent over time. It is often difficult to estimate the future impact of environmental matters. Based on current information and subject to the finalization of the proposed regulations, we believe that our primary risk related to climate change is the risk of increased energy costs. However, we do not anticipate being subject to a cap and trade system or any other mitigation measures that would be material to our operations in the near future. Additionally, we have implemented disaster recovery and business resiliency measures to mitigate the physical risks our facilities, business, and supply chain might face as a consequence of severe weather/climate-related phenomena such as earthquakes, floods, droughts, and other such natural occurrences.

12

We are also subject to other federal, state, and local regulations regarding workplace safety and protection of the environment. Various international, federal, state, and local provisions regulate the use and discharge of certain hazardous materials used in the manufacture of our products. Failure to comply with environmental regulations in the future could cause us to incur substantial costs or subject us to business interruptions. We believe we are substantially compliant with all applicable environmental laws. All of our products meet the requirements for the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH); Waste Electrical and Electronic Equipment (WEEE); Restriction of Hazardous Substances (RoHS); and China RoHS directives compliance. We have maintained an environmental management system since December 2004 as well as ISO 14001 certification at our corporate headquarters, which represents approximately 25% of our employee population and is one of the largest components of our corporate carbon footprint. As part of ISO 14001 requirements, we set environmental performance goals around reducing energy use per square foot as well as waste generated on site (per employee). We also conduct an annual review and third-party verified audits of our operations, and we monitor environmental legislation and requirements to help make sure we are taking necessary measures to remain in compliance with applicable laws, not only in our operations but also for our products.

Working Capital Practices

Information about our working capital practices is included in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operation, under the heading Liquidity and Capital Resources and is incorporated herein by reference.

Employees

As of April 27, 2012, we had 12,149 employees, of which 5,569 were in sales and marketing, 3,957 were in research and development, 1,524 were in services and manufacturing operations, and 1,099 were in finance and administration. We have never had a work stoppage and consider relations with our employees to be good. Competition for technical personnel in the industry in which we compete is intense. We believe that our future success depends in part on our continued ability to hire, assimilate, and retain qualified personnel. To date, we believe that we have been successful in recruiting qualified employees, but there is no assurance that we will continue to be successful in the future.

Executive Officers

Our executive officers and their ages as of May 22, 2012, are as follows:

Name	Age	Position
Thomas Georgens	52	President and Chief Executive Officer
Nicholas R. Noviello	43	Executive Vice President and Chief Financial Officer
Robert E. Salmon	51	