

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

**Form 10-Q**

(Mark One)

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

**For the quarterly period ended January 25, 2013**

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**  
*(State or other jurisdiction of  
incorporation or organization)*

**77-0307520**  
*(I.R.S. Employer  
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)*

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  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  No

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       Accelerated filer       Non-accelerated filer       Smaller reporting company   
(Do not check if a 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of February 19, 2013, there were 360,407,151 shares of the registrant's common stock, \$0.001 par value, outstanding.

---

**TABLE OF CONTENTS**

**PART I — FINANCIAL INFORMATION**

Item 1	<a href="#">Condensed Consolidated Financial Statements (Unaudited)</a>	3
	<a href="#">Condensed Consolidated Balance Sheets as of January 25, 2013 and April 27, 2012</a>	3
	<a href="#">Condensed Consolidated Statements of Operations for the Three and Nine Months Ended January 25, 2013 and January 27, 2012</a>	4
	<a href="#">Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended January 25, 2013 and January 27, 2012</a>	5
	<a href="#">Condensed Consolidated Statements of Cash Flows for the Nine Months Ended January, 25, 2013 and January 27, 2012</a>	6
	<a href="#">Notes to Condensed Consolidated Financial Statements</a>	7
Item 2	<a href="#">Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	24
Item 3	<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	39
Item 4	<a href="#">Controls and Procedures</a>	41

**PART II — OTHER INFORMATION**

Item 1	<a href="#">Legal Proceedings</a>	42
Item 1A	<a href="#">Risk Factors</a>	42
Item 2	<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	61
Item 3	<a href="#">Defaults upon Senior Securities</a>	61
Item 4	<a href="#">Mine Safety Disclosures</a>	61
Item 5	<a href="#">Other Information</a>	61
Item 6	<a href="#">Exhibits</a>	61
	<a href="#">SIGNATURE</a>	62

**TRADEMARKS**

© 2013 NetApp, Inc. All rights reserved. No portions of this document may be reproduced without prior written consent of NetApp, Inc. Specifications are subject to change without notice. NetApp, the NetApp logo, Go Further, Faster, ApplianceWatch, ASUP, AutoSupport, CacheIQ, Campaign Express, Clustered Data ONTAP, ComplianceClock, CyberSnap, Data Center Fitness, Data ONTAP, DataMotion, ExpressPod, FAServer, FilerView, Flash Accel, Flash Cache, Flash Pool, FlashRay, FlexCache, FlexClone, FlexPod, FlexScale, FlexShare, FlexVol, Fpolicy, GetSuccessful, Imagine Virtually Anything, Lifetime Key Management, Manage ONTAP, MetroCluster, MultiStore, Network Appliance, the Network Appliance logo, NOW (NetApp on the Web), OnCommand, ONTAPI, RAID-DP, SANtricity, SecureAdmin, Select, Service Builder, Simulate ONTAP, Snap Creator, SnapCopy, SnapDrive, SnapLock, SnapManager, SnapMirror, SnapProtect, SnapRestore, Snapshot, SnapValidator, SnapVault, StorageGRID, SyncMirror, Tech OnTap, vFiler, Virtual File Manager, and WAFL are trademarks or registered trademarks of NetApp, Inc. in the United States and/or other countries. Microsoft and Windows are registered trademarks of Microsoft Corporation. Symantec is a trademark of Symantec Corporation. UNIX is a registered trademark of The Open Group. All other brands or products are trademarks or registered trademarks of their respective holders and should be treated as such.

## PART I — FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements (Unaudited)

NETAPP, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In millions)  
(Unaudited)

	January 25, 2013	April 27, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,081.7	\$ 1,549.8
Short-term investments	3,642.2	3,848.7
Accounts receivable, net of allowance of \$1.8 million and \$0.4 million as of January 25, 2013 and April 27, 2012, respectively	633.8	830.9
Inventories	172.9	161.5
Other current assets	518.0	435.6
Total current assets	8,048.6	6,826.5
Property and equipment, net	1,189.2	1,137.2
Goodwill	978.1	905.2
Purchased intangible assets, net	193.8	236.0
Other non-current assets	456.2	427.4
<b>Total assets</b>	<b><u>\$10,865.9</u></b>	<b><u>\$ 9,532.3</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 221.2	\$ 233.1
Accrued compensation and related benefits	280.3	340.3
Other current liabilities	398.9	377.6
Current portion of long-term debt	1,243.3	1,202.3
Short-term deferred revenue	1,477.3	1,366.5
Total current liabilities	3,621.0	3,519.8
Long-term debt	994.3	0.0
Other long-term liabilities	226.9	206.9
Long-term deferred revenue	1,398.7	1,449.4
Total liabilities	6,240.9	5,176.1
Commitments and contingencies (Note 15)		
Convertible Notes	0.0	62.6
Stockholders' equity:		
Common stock, \$0.001 par value, (464.4 and 468.9 shares issued as of January 25, 2013 and April 27, 2012, respectively)	0.5	0.5
Additional paid-in capital	4,693.7	4,410.3
Treasury stock, at cost (104.3 shares as of January 25, 2013 and April 27, 2012)	(2,927.4)	(2,927.4)
Retained earnings	2,849.6	2,805.3
Accumulated other comprehensive income	8.6	4.9
Total stockholders' equity	4,625.0	4,293.6
<b>Total liabilities and stockholders' equity</b>	<b><u>\$10,865.9</u></b>	<b><u>\$ 9,532.3</u></b>

See accompanying notes to condensed consolidated financial statements.

[Table of Contents](#)

**NETAPP, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In millions, except per share amounts)  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	January 25, 2013	January 27, 2012	January 25, 2013	January 27, 2012
<b>Revenues:</b>				
Product	\$ 1,060.7	\$ 1,062.7	\$ 2,954.5	\$ 3,044.6
Software entitlements and maintenance	228.6	203.5	666.5	599.7
Service	340.8	299.3	994.9	886.4
Net revenues	<u>1,630.1</u>	<u>1,565.5</u>	<u>4,615.9</u>	<u>4,530.7</u>
<b>Cost of revenues:</b>				
Cost of product	512.5	517.8	1,442.0	1,415.9
Cost of software entitlements and maintenance	7.3	6.2	20.9	17.1
Cost of service	145.4	133.0	424.1	379.3
Total cost of revenues	<u>665.2</u>	<u>657.0</u>	<u>1,887.0</u>	<u>1,812.3</u>
Gross profit	<u>964.9</u>	<u>908.5</u>	<u>2,728.9</u>	<u>2,718.4</u>
<b>Operating expenses:</b>				
Sales and marketing	493.5	477.0	1,464.6	1,385.9
Research and development	215.6	208.3	660.8	606.6
General and administrative	66.2	63.2	198.4	193.4
Acquisition-related expense	1.7	3.5	1.7	7.4
Total operating expenses	<u>777.0</u>	<u>752.0</u>	<u>2,325.5</u>	<u>2,193.3</u>
<b>Income from operations</b>	<u>187.9</u>	<u>156.5</u>	<u>403.4</u>	<u>525.1</u>
<b>Other expense, net:</b>				
Interest income	10.3	8.7	32.1	27.6
Interest expense	(24.0)	(18.9)	(63.7)	(54.7)
Other income (expense), net	1.6	0.6	5.9	(0.1)
Total other expense, net	<u>(12.1)</u>	<u>(9.6)</u>	<u>(25.7)</u>	<u>(27.2)</u>
<b>Income before income taxes</b>	<u>175.8</u>	<u>146.9</u>	<u>377.7</u>	<u>497.9</u>
Provision for income taxes	17.7	27.3	46.2	73.2
<b>Net income</b>	<u>\$ 158.1</u>	<u>\$ 119.6</u>	<u>\$ 331.5</u>	<u>\$ 424.7</u>
<b>Net income per share:</b>				
Basic	<u>\$ 0.44</u>	<u>\$ 0.33</u>	<u>\$ 0.91</u>	<u>\$ 1.17</u>
Diluted	<u>\$ 0.43</u>	<u>\$ 0.32</u>	<u>\$ 0.90</u>	<u>\$ 1.10</u>
<b>Shares used in net income per share calculations:</b>				
Basic	<u>359.5</u>	<u>360.3</u>	<u>362.5</u>	<u>364.0</u>
Diluted	<u>364.7</u>	<u>373.7</u>	<u>368.1</u>	<u>385.1</u>

See accompanying notes to condensed consolidated financial statements.

**NETAPP, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(In millions)**  
**(Unaudited)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>January 25, 2013</b>	<b>January 27, 2012</b>	<b>January 25, 2013</b>	<b>January 27, 2012</b>
<b>Net income</b>	<b>\$ 158.1</b>	<b>\$ 119.6</b>	<b>\$ 331.5</b>	<b>\$ 424.7</b>
<b>Other comprehensive income (loss):</b>				
Foreign currency translation adjustments	1.5	(4.3)	(0.1)	(7.4)
Defined benefit obligation adjustments	0.0	(3.0)	0.2	(3.0)
Unrealized gains (losses) on available-for-sale securities:	(1.9)	4.3	4.7	(2.5)
Unrealized holding gains (losses) arising during the period				
Income tax effect on unrealized holding gains (losses)	0.3	(0.8)	0.0	1.1
Reclassification adjustments for gains (losses) included in net income	0.1	0.0	(0.5)	(0.5)
Unrealized gains (losses) on cash flow hedges:				
Unrealized holding gains (losses) arising during the period	(2.7)	11.9	(1.8)	22.2
Reclassification adjustments for losses (gains) included in net income	3.1	(10.5)	1.2	(18.1)
<b>Other comprehensive income (loss)</b>	<b>0.4</b>	<b>(2.4)</b>	<b>3.7</b>	<b>(8.2)</b>
<b>Comprehensive income</b>	<b>\$ 158.5</b>	<b>\$ 117.2</b>	<b>\$ 335.2</b>	<b>\$ 416.5</b>

See accompanying notes to condensed consolidated financial statements.

**NETAPP, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(In millions)**  
**(Unaudited)**

	Nine Months Ended	
	January 25, 2013	January 27, 2012
<b>Cash flows from operating activities:</b>		
Net income	\$ 331.5	\$ 424.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	255.5	210.5
Stock-based compensation	211.5	197.8
Accretion of discount and issuance costs on debt	44.0	38.7
Deferred income tax provision	(57.9)	(64.0)
Excess tax benefit from stock-based compensation	(53.0)	(80.7)
Other non-cash items, net	49.6	66.8
Changes in assets and liabilities, net of acquisitions of businesses:		
Accounts receivable	193.1	55.8
Inventories	(11.4)	(8.8)
Other operating assets	(59.3)	(49.2)
Accounts payable	(16.0)	(10.4)
Accrued compensation and other current liabilities	(35.1)	(160.5)
Deferred revenue	62.7	234.5
Other operating liabilities	15.5	24.8
Net cash provided by operating activities	<u>930.7</u>	<u>880.0</u>
<b>Cash flows from investing activities:</b>		
Purchases of investments	(1,548.3)	(1,718.9)
Maturities and sales of investments	1,752.4	1,697.7
Purchases of property and equipment	(239.7)	(282.9)
Acquisitions of businesses, net of cash acquired	(89.4)	(480.0)
Other investing activities, net	3.0	0.0
Net cash used in investing activities	<u>(122.0)</u>	<u>(784.1)</u>
<b>Cash flows from financing activities:</b>		
Issuance of common stock	95.5	101.0
Repurchase and retirement of common stock	(410.0)	(600.0)
Excess tax benefit from stock-based compensation	53.0	80.7
Issuance of long-term debt, net	987.3	0.0
Other financing activities, net	(0.7)	3.1
Net cash provided by (used in) financing activities	<u>725.1</u>	<u>(415.2)</u>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(1.9)	(17.1)
<b>Net increase (decrease) in cash and cash equivalents</b>	1,531.9	(336.4)
<b>Cash and cash equivalents:</b>		
Beginning of period	1,549.8	2,757.3
End of period	<u>\$ 3,081.7</u>	<u>\$ 2,420.9</u>

See accompanying notes to condensed consolidated financial statements.

**NETAPP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. The Company**

Headquartered in Sunnyvale, California, NetApp, Inc. (we, us, or the Company) is a supplier of enterprise storage and data management software and hardware products and services. Our solutions help global enterprises meet information technology challenges such as managing storage growth, assuring secure and timely information access, protecting data and controlling costs by providing innovative solutions that simplify the complexity associated with managing corporate data.

**2. Condensed Consolidated Financial Statements**

*Fiscal Year* — Our fiscal year is reported on a 52- or 53-week year ending on the last Friday in April. The first, second and third quarters of fiscal 2013 and 2012 were each 13-week periods.

*Basis of Presentation* — The accompanying unaudited condensed consolidated financial statements have been prepared by the Company, and reflect all adjustments, consisting only of normal recurring adjustments, that are, in the opinion of management, necessary for the fair presentation of our financial position, results of operations, comprehensive income and cash flows for the interim periods presented. The statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, these statements do not include all information and footnotes required by GAAP for annual consolidated financial statements, and should be read in conjunction with our audited consolidated financial statements as of and for the fiscal year ended April 27, 2012 contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on June 19, 2012. The results of operations for the three and nine months ended January 25, 2013 are not necessarily indicative of the operating results to be expected for the full fiscal year or future operating periods.

**3. Significant Accounting Policies**

There have been no significant changes in our significant accounting policies as of and for the nine months ended January 25, 2013, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended April 27, 2012.

*Recent Accounting Standards Not Yet Effective*

In September 2011, the Financial Accounting Standards Board (FASB) issued a revised accounting standard intended to simplify how an entity tests goodwill for impairment. The revised standard will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity will no longer be required to calculate the fair value of a reporting unit unless it determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. This guidance is effective for us beginning in our fourth quarter of fiscal 2013. We do not expect this guidance to have a material impact on our consolidated financial statements.

In December 2011, the FASB issued new guidance that will require us to disclose information about offsetting arrangements associated with financial and derivative instruments to enable users of our financial statements to understand the effect of those arrangements on our financial position. This guidance is effective for us beginning in our first quarter of fiscal 2014, at which time we will include the applicable disclosures required by this accounting standard update. Other than requiring additional disclosures related to offsetting arrangements, we do not anticipate material impacts on our financial statements upon adoption.

*Use of Estimates*

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Such estimates include, but are not limited to, revenue recognition, reserves and allowances; inventory valuation and purchase order accruals; valuation of goodwill and intangibles; restructuring reserves; product warranties; employee benefit accruals; stock-based compensation; loss contingencies; investment impairments; income taxes, and fair value measurements. Actual results could differ materially from those estimates.

---

[Table of Contents](#)

#### 4. Statements of Cash Flows

Non-cash investing and financing activities and supplemental cash flow information are as follows (in millions):

	Nine Months Ended	
	January 25, 2013	January 27, 2012
<b>Non-cash Investing and Financing Activities:</b>		
Reclassification of equity component of convertible debt	\$ 62.6	\$ 114.6
Acquisition of property and equipment outstanding in accounts payable	\$ 30.4	\$ 37.4
Acquisition of property and equipment through long-term financing	\$ 0.8	\$ 3.0
Vested options assumed in acquisition	\$ 1.2	\$ 0.0
<b>Supplemental Cash Flow Information:</b>		
Income taxes paid, net of refunds	\$ 33.9	\$ 39.3
Interest paid, net of capitalized interest	\$ 22.6	\$ 21.3

#### 5. Business Combinations

##### *Fiscal 2013 Acquisition*

On November 14, 2012, we acquired all of the outstanding shares of CacheIQ, Inc., a privately held storage solutions company based in Austin, Texas, for \$91.0 million in cash and equity. This acquisition provides us with technology that extends our capabilities to support non-disruptive operations for enterprise data center environments. We will integrate this technology into our product offerings over time.

Consideration to acquire CacheIQ consisted of the following (in millions):

Cash	\$89.8
Equity	1.2
Total purchase price	<u>\$91.0</u>

In connection with the acquisition, \$15.0 million of the cash consideration was placed in an escrow account to secure CacheIQ's obligations under certain indemnity provisions. Subject to any claims for indemnity, the escrow funds will be released between 12 months and 18 months from the closing date of the acquisition.

The purchase price was allocated to CacheIQ's net tangible and intangible assets as of the date of acquisition based on various fair value estimates and analyses, including work performed by third-party valuation specialists.

The following are the preliminary estimated fair value of assets acquired and liabilities assumed as of the closing date (in millions):

Cash	\$ 0.4
Other current assets	4.0
Finite-lived intangible assets	22.0
Goodwill	72.9
Other assets	0.9
Total assets acquired	100.2
Current liabilities	(0.5)
Deferred income taxes	(8.7)
Total purchase price	<u>\$ 91.0</u>

The goodwill is comprised of expected synergies from combining the operations of CacheIQ and that of the Company.

Adjustments may be made to the allocation of the purchase price during the measurement period to reflect adjustments related to facts existing at the time of the acquisition. None of the goodwill recognized upon acquisition is deductible for tax purposes. The finite-lived intangible assets consist of developed technology and are amortized on a straight-line basis over a five year estimated useful life.



## [Table of Contents](#)

The results of operations of CacheIQ have been included in our consolidated statements of operations from the acquisition date. Pro forma results of operations have not been presented because the acquisition was not material to our results of operations.

### ***Fiscal 2012 Acquisition***

On May 6, 2011, we completed the acquisition of certain assets related to the Engenio external storage systems business (Engenio) of LSI Corporation (LSI). We paid LSI \$480.0 million in cash and also assumed certain liabilities related to Engenio. During the three years following the acquisition, LSI will pay us a total of \$13.0 million to service certain LSI customer warranties. This acquisition enables us to address growing customer requirements in the areas of high bandwidth and intensive analytics workloads such as video, including full-motion video capture and digital video surveillance, as well as high-performance computing applications, such as genomics sequencing and scientific research.

The purchase price was allocated to Engenio's net tangible and intangible assets as of the date of acquisition based on various fair value estimates and analyses, including work performed by third-party valuation specialists.

The following are the fair value of assets acquired and liabilities assumed as of the closing date (in millions):

Current assets	\$ 49.8
Property and equipment	33.3
Finite-lived intangible assets	272.1
Goodwill	143.7
Other assets	9.3
Total assets acquired	508.2
Current liabilities	(20.9)
Other liabilities	(7.3)
Total purchase price	<u>\$480.0</u>

As this was an asset acquisition, U.S. goodwill is deductible for income tax purposes. The goodwill is comprised of expected synergies in utilizing Engenio's technology in our products and channels (and vice versa), reduction in future combined research and development expenses, and intangible assets, such as acquired workforce, that do not qualify for separate recognition.

### **6. Goodwill and Purchased Intangible Assets, net**

Goodwill activity is summarized as follows (in millions):

April 27, 2012	\$905.2
Addition	72.9
January 25, 2013	<u>\$978.1</u>

Purchased intangible assets, net consist of identifiable finite-lived intangibles, as summarized below (in millions):

	January 25, 2013			April 27, 2012		
	Gross Assets	Accumulated Amortization	Net Assets	Gross Assets	Accumulated Amortization	Net Assets
Developed technology	\$304.1	\$ (120.8)	\$ 183.3	\$282.1	\$ (79.0)	\$ 203.1
Customer contracts/relationships	54.7	(46.8)	7.9	59.4	(32.7)	26.7
Trademarks and trade names	9.9	(8.0)	1.9	14.7	(9.7)	5.0
Covenants not to compete	2.2	(1.5)	0.7	2.2	(1.0)	1.2
Total purchased intangible assets	<u>\$370.9</u>	<u>\$ (177.1)</u>	<u>\$ 193.8</u>	<u>\$358.4</u>	<u>\$ (122.4)</u>	<u>\$ 236.0</u>

## Table of Contents

Amortization expense for purchased intangible assets is summarized below (in millions):

	Three Months Ended		Nine Months Ended		Statements of Operations Classifications
	January 25, 2013	January 27, 2012	January 25, 2013	January 27, 2012	
Developed technology	\$ 13.9	\$ 14.0	\$ 41.8	\$ 41.9	Cost of product revenues
Customer contracts/relationships	6.3	6.4	18.9	21.8	Sales and marketing
Trademarks and trade names	1.1	1.0	3.1	3.3	Sales and marketing
Covenants not to compete	0.1	0.2	0.5	0.6	Sales and marketing
	<u>\$ 21.4</u>	<u>\$ 21.6</u>	<u>\$ 64.3</u>	<u>\$ 67.6</u>	

As of January 25, 2013, future amortization expense related to purchased intangible assets is as follows (in millions):

Fiscal Year	Amount
Remainder of 2013	\$ 21.0
2014	56.4
2015	55.1
2016	51.3
2017	6.7
Thereafter	3.3
Total	<u>\$193.8</u>

## 7. Balance Sheet Details

### Cash and cash equivalents (in millions):

	January 25, 2013	April 27, 2012
Cash	\$ 1,069.4	\$ 649.8
Cash equivalents	2,012.3	900.0
Cash and cash equivalents	<u>\$ 3,081.7</u>	<u>\$ 1,549.8</u>

### Inventories (in millions):

	January 25, 2013	April 27, 2012
Purchased components	\$ 21.7	\$ 30.9
Finished goods	151.2	130.6
Inventories	<u>\$ 172.9</u>	<u>\$ 161.5</u>

### Other current assets (in millions):

	January 25, 2013	April 27, 2012
Prepaid expenses and other current assets	\$ 247.3	\$ 225.4
Short-term restricted cash	7.8	8.6
Deferred tax assets	262.9	201.6
Other current assets	<u>\$ 518.0</u>	<u>\$ 435.6</u>

### Property and equipment, net (in millions):

	January 25, 2013	April 27, 2012
Land	\$ 265.5	\$ 247.6
Buildings and building improvements	496.4	417.9
Leasehold improvements	99.3	96.5
Computer, production, engineering and other equipment	696.0	638.1
Software	412.6	381.6
Furniture and fixtures	82.2	71.7
Construction-in-progress	68.3	107.1
	2,120.3	1,960.5
Accumulated depreciation and amortization	(931.1)	(823.3)
Property and equipment, net	<u>\$ 1,189.2</u>	<u>\$ 1,137.2</u>

## Table of Contents

In December 2012 and January 2013, we exercised our options under our three remaining synthetic leasing arrangements to terminate the leases and purchase the facilities, including land and buildings, for \$69.6 million. The purchased facilities had a fair value of \$88.4 million at the dates of the respective purchases. We had accounted for these leasing arrangements as operating leases. The terminations did not result in a material impact to our operating results for the three months ended January 25, 2013.

Software includes capitalized internal-use software development costs with a net book value as follows (in millions):

	January 25, 2013	April 27, 2012
Computer software	\$ 170.2	\$ 160.1

### Other non-current assets (in millions):

	January 25, 2013	April 27, 2012
Auction rate securities	\$ 42.2	\$ 51.0
Restricted cash	2.6	2.6
Deferred tax assets	174.0	203.8
Other assets	237.4	170.0
Other non-current assets	\$ 456.2	\$ 427.4

### Short-term and long-term deferred revenue (in millions):

	January 25, 2013	April 27, 2012
Product	\$ 29.0	\$ 25.7
Software entitlements and maintenance and service	2,847.0	2,790.2
Total	\$ 2,876.0	\$ 2,815.9

### Reported as:

Short-term	\$ 1,477.3	\$ 1,366.5
Long-term	1,398.7	1,449.4
Total	\$ 2,876.0	\$ 2,815.9

### Accumulated other comprehensive income (in millions):

The components of accumulated other comprehensive income (AOCI), net of related immaterial tax effects, were as follows:

	January 25, 2013	April 27, 2012
Accumulated foreign currency translation adjustments	\$ 4.8	\$ 4.9
Accumulated defined benefit obligation adjustments	(4.2)	(4.4)
Accumulated unrealized gains on available-for-sale securities	9.1	4.9
Accumulated unrealized losses on derivatives instruments	(1.1)	(0.5)
Total accumulated other comprehensive income	\$ 8.6	\$ 4.9

## 8. Financial Instruments and Fair Value Measurements

The accounting guidance for fair value measurements provides a framework for measuring fair value on either a recurring or nonrecurring basis whereby the inputs used in valuation techniques are assigned a hierarchical level. The following are the three levels of inputs to measure fair value:

*Level 1:* Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

*Level 2:* Inputs that reflect quoted prices for identical assets or liabilities in less active markets; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the assets or liabilities; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

*Level 3:* Unobservable inputs that reflect our own assumptions incorporated in valuation techniques used to measure fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

## Table of Contents

We consider an active market to be one in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an on-going basis, and consider an inactive market to be one in which there are infrequent or few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers. Where appropriate, our own or the counterparty's non-performance risk is considered in measuring the fair values of liabilities and assets, respectively.

### Investments

The following is a summary of our available-for-sale investments (in millions):

	January 25, 2013				April 27, 2012			
	Cost or Amortized Cost	Gross Unrealized		Estimated Fair Value	Cost or Amortized Cost	Gross Unrealized		Estimated Fair Value
Corporate bonds	\$2,934.1	\$13.2	\$ (1.1)	\$2,946.2	\$2,665.2	\$ 9.5	\$ (1.4)	\$2,673.3
U.S. Treasury and government debt securities	506.9	0.8	0.0	507.7	836.7	1.2	(0.1)	837.8
Commercial paper	208.0	0.0	0.0	208.0	164.6	0.0	0.0	164.6
Certificates of deposit	173.0	0.2	0.0	173.2	347.7	0.5	0.0	348.2
Money market funds	1,819.4	0.0	0.0	1,819.4	724.8	0.0	0.0	724.8
Auction rate securities	44.8	0.4	(3.0)	42.2	54.1	0.9	(4.0)	51.0
Equity funds	27.6	0.0	0.0	27.6	25.5	0.0	0.0	25.5
Total debt and equity securities	<u>\$5,713.8</u>	<u>\$14.6</u>	<u>\$ (4.1)</u>	<u>\$5,724.3</u>	<u>\$4,818.6</u>	<u>\$12.1</u>	<u>\$ (5.5)</u>	<u>\$4,825.2</u>

The following table presents the contractual maturities of our debt investments as of January 25, 2013 (in millions):

	Amortized Cost	Fair Value
Due in one year or less	\$1,456.7	\$1,458.7
Due in one through five years	2,172.4	2,183.5
Due after ten years*	44.8	42.2
	<u>\$3,673.9</u>	<u>\$3,684.4</u>

\* Consists of auction rate securities which have contractual maturities of greater than 10 years.

### Fair Value of Financial Instruments

The following table summarizes our financial assets and liabilities measured at fair value on a recurring basis as of January 25, 2013 (in millions):

	Total	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Corporate bonds	\$2,946.2	\$ 0.0	\$ 2,946.2	\$ 0.0
U.S. Treasury and government debt securities	507.7	233.3	274.4	0.0
Commercial paper	208.0	0.0	208.0	0.0
Certificates of deposit	173.2	0.0	173.2	0.0
Money market funds	1,819.4	1,819.4	0.0	0.0
Auction rate securities	42.2	0.0	0.0	42.2
Equity funds	27.6	27.6	0.0	0.0
Foreign currency contracts	2.2	0.0	2.2	0.0
Total	<u>\$5,726.5</u>	<u>\$ 2,080.3</u>	<u>\$ 3,604.0</u>	<u>\$ 42.2</u>
<b>Liabilities</b>				
Foreign currency contracts	<u>\$ 5.2</u>	<u>\$ 0.0</u>	<u>\$ 5.2</u>	<u>\$ 0.0</u>

## Table of Contents

The following table summarizes the balance sheet classifications of our financial assets and liabilities measured at fair value on a recurring basis as of January 25, 2013 (in millions):

	Total	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Cash equivalents	\$2,012.3	\$ 1,819.4	\$ 192.9	\$ 0.0
Short-term investments	3,642.2	233.3	3,408.9	0.0
Other current assets	8.1	5.9	2.2	0.0
Other non-current assets	63.9	21.7	0.0	42.2
Total	<u>\$5,726.5</u>	<u>\$ 2,080.3</u>	<u>\$ 3,604.0</u>	<u>\$ 42.2</u>
<b>Liabilities</b>				
Other current liabilities	<u>\$ 5.2</u>	<u>\$ 0.0</u>	<u>\$ 5.2</u>	<u>\$ 0.0</u>

Level 2 investments are held by a custodian who prices some of the investments itself using standard inputs in various asset price models or obtains investment prices from a third-party pricing provider that incorporates standard inputs in various asset price models. We review Level 2 inputs and fair value for reasonableness and the values may be further validated by comparison to multiple independent pricing sources. In addition, we review third-party pricing provider models, key inputs and assumptions and understand the pricing processes at our third-party providers in determining the overall reasonableness of the fair value of our Level 2 financial instruments. As of January 25, 2013 and April 27, 2012, we have not made any adjustments to the prices obtained from our third-party pricing providers.

The unrealized losses on our available-for-sale investments were caused by market value declines as a result of the economic environment, as well as fluctuations in market interest rates. Because the decline in market value is attributable to changes in market conditions and not credit quality, and because we have concluded currently that we neither intend to sell nor is it more likely than not that we will be required to sell these investments prior to a recovery of par value, we do not consider these investments to be other-than temporarily impaired as of January 25, 2013.

Quantitative information about our Level 3 fair value measurements is as follows (fair value in millions):

	Fair Value as of January 25, 2013	Valuation Techniques	Unobservable Inputs	Range (Weighted average)
ARS	\$ 42.2	Discounted cash flow	Time-to-economic maturity Liquidity risk premium, market credit spread and other factors	6.7 yrs – 11.7 yrs (8.7 yrs) 1.7% - 3.1% (2.1%)
			Coupon rate	1.2% - 2.7% (1.6%)
		Market comparable securities	Discount rate	4.3% - 9.6% (7.1%)

All of our auction rate securities (ARS) are classified as other non-current assets and are backed by pools of student loans guaranteed by the U.S. Department of Education. We estimate the fair value of each individual ARS using an income (discounted cash flow) and market approach that incorporate both observable and unobservable inputs. Key inputs into the discounted cash flow analysis include the time-to-economic maturity, liquidity risk premium, market credit spread and other factors and a coupon rate. The key input into the market approach is a discount rate. A significant increase (decrease) in the time-to-economic maturity, liquidity risk premium, market credit spread and other factors, coupon rate or discount rate could result in a significantly lower (higher) fair value estimate. We review the fair value of our Level 3 financial instruments for overall reasonableness by reviewing service provider pricing methodologies, key inputs and assumptions and by understanding the processes used by our third-party service provider. We will continue to monitor our ARS investments in light of the debt market environment and evaluate these investments for impairment and classification.

The table below provides a reconciliation of the beginning and ending balance of our Level 3 ARS measured at fair value on a recurring basis using significant unobservable inputs (in millions):

	Three Months Ended		Nine Months Ended	
	January 25, 2013	January 27, 2012	January 25, 2013	January 27, 2012
Balance at beginning of period	\$ 46.5	\$ 56.0	\$ 51.0	\$ 65.1
Total unrealized gains (losses), net included in other comprehensive income (loss)	0.0	(0.7)	0.5	0.6
Total realized gains included in earnings	0.7	0.7	0.7	0.7
Settlements	(5.0)	(5.0)	(10.0)	(15.4)
Balance at end of period	<u>\$ 42.2</u>	<u>\$ 51.0</u>	<u>\$ 42.2</u>	<u>\$ 51.0</u>

---

[Table of Contents](#)**Fair Value of Debt**

As of January 25, 2013, the fair value of our Senior Notes was approximately \$991.1 million and the fair value of our Convertible Notes, which includes the debt and equity components of such, was approximately \$1,423.0 million. The fair value of our debt was based on observable market prices in a less active market, discounted cash flow models that take into consideration variables such as credit-rating and interest rate changes, and in the case of Convertible Notes, also takes into consideration the market price of our stock. All of our debt obligations are categorized as Level 2 instruments.

**9. Financing Arrangements****Long-term Debt**

The following table summarizes the carrying value of our long-term debt (in millions):

	January 25, 2013		April 27, 2012	
	Amount	Effective Interest Rate	Amount	Effective Interest Rate
2.00% Senior Notes Due 2017	\$ 750.0	2.25%	\$ 0.0	N/A
3.25% Senior Notes Due 2022	250.0	3.43%	0.0	N/A
1.75% Convertible Notes Due 2013	1,264.9	6.31%	1,264.9	6.31%
Total	2,264.9		1,264.9	
Less: Unamortized discount	(27.3)		(62.6)	
Total	2,237.6		1,202.3	
Less: Current portion	(1,243.3)		(1,202.3)	
Total long-term debt	<u>\$ 994.3</u>		<u>\$ 0.0</u>	

N/A - Not Applicable

**2.00% Senior Notes due 2017 and 3.25% Senior Notes due 2022**

In December 2012, we issued \$750.0 million principal amount of 2.00% Senior Notes due on December 15, 2017 and \$250.0 million principal amount of 3.25% Senior Notes due on December 15, 2022 (collectively referred to as the Senior Notes). The proceeds received were net of debt discounts of \$5.8 million and issuance costs of \$6.9 million, both of which are amortized as additional interest expense over the respective terms of the Senior Notes using the effective interest method. The Senior Notes are unsecured, unsubordinated obligations, which pay interest semi-annually on June 15 and December 15 and rank equally in right of payment with our other existing and future senior unsecured indebtedness, including the Convertible Notes. During the three months ended January 25, 2013, interest expense associated with the Senior Notes was \$3.1 million. The proceeds from the Senior Notes are available for general corporate purposes, including repayment of certain indebtedness, capital expenditures, possible stock repurchases, working capital and potential acquisitions and strategic transactions.

We may redeem the Senior Notes in whole or in part, at any time at our option at specified redemption prices. In addition, upon the occurrence of certain change of control triggering events, we may be required to repurchase the Senior Notes at 101% of their aggregate principal amount, plus accrued and unpaid interest to the date of repurchase. The Senior Notes also include covenants that limit our ability to incur debt secured by liens on assets or on shares of stock or indebtedness of our subsidiaries; to engage in sale and lease-back transactions; and to consolidate, merge or sell all or substantially all of our assets. As of January 25, 2013, we were in compliance with all covenants associated with the Senior Notes.

**1.75% Convertible Senior Notes due 2013**

On June 10, 2008, we issued \$1,265.0 million aggregate principal amount of 1.75% Convertible Senior Notes due 2013 (the Convertible Notes). The Convertible Notes are unsecured, unsubordinated obligations of the Company, which pay interest in cash semi-annually at a rate of 1.75% per annum. The Convertible Notes will mature on June 1, 2013 unless earlier repurchased or converted in accordance with their terms prior to such date. The Convertible Notes may be converted, under the conditions specified below, based on an initial conversion rate of 31.40 shares of common stock per \$1,000 principal amount of Convertible Notes (which represents an initial effective conversion price of the Convertible Notes of \$31.85 per share), subject to adjustment as described in the indenture governing the Convertible Notes.

---

## [Table of Contents](#)

The Convertible Notes are not redeemable by us prior to the maturity date. In the event of a fundamental change (as defined in the indenture for the Convertible Notes), holders of the Convertible Notes may require us to repurchase all or a portion of their Convertible Notes at a repurchase price equal to 100% of the principal amount of the Convertible Notes plus accrued and unpaid interest, if any, to, but excluding, the fundamental change repurchase date.

The holders of the Convertible Notes may convert their Convertible Notes until the close of business on the scheduled trading day immediately preceding the maturity date if any of the following conditions are met: (1) during the five business day period after any five consecutive trading day period (the measurement period) in which the trading price of the Convertible Notes for each day in the measurement period was less than 98% of an amount equal to (i) the last reported sale price of our common stock multiplied by (ii) the conversion rate for the Convertible Notes on each such day; (2) during any calendar quarter (and only during such calendar quarter) if the last reported sale price of our common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the applicable conversion price in effect for the Convertible Notes on the last trading day of such immediately preceding calendar quarter; or (3) upon the occurrence of specified corporate transactions set forth in the indenture for the Convertible Notes. On or after March 1, 2013, until the scheduled trading day immediately preceding the maturity date, holders of the Convertible Notes may convert their Convertible Notes regardless of the foregoing conditions. Upon conversion, a holder will receive cash in an amount equal to the lesser of the conversion value and the principal amount of the Convertible Notes, and shares of our common stock for any conversion value in excess of the principal amount of the Convertible Notes, if any. Holders of the Convertible Notes who convert their Convertible Notes in connection with a fundamental change will, under certain circumstances, be entitled to a make-whole premium in the form of an increase in the conversion rate.

Our common stock price did not exceed the conversion threshold price of \$41.41 per share set forth for the Convertible Notes for at least 20 trading days during the 30 consecutive trading days ended December 31, 2012, and accordingly, as of January 25, 2013, the Convertible Notes were not convertible at the option of the holders. Since the Convertible Notes were not convertible, the difference between the principal amount and the carrying value of the Convertible Notes was reflected as equity on our condensed consolidated balance sheet as of January 25, 2013.

The Convertible Notes become unconditionally convertible at the option of the holders on March 1, 2013. At such time, the difference between the principal amount and the carrying value of the Convertible Notes will be reflected as convertible debt in mezzanine on our condensed consolidated balance sheet.

Upon conversion of the Convertible Notes, we deliver cash up to the principal amount of the Convertible Notes and, with respect to any excess conversion value greater than the principal amount of the Convertible Notes, shares of our common stock. As of January 25, 2013, shares issued related to the Convertible Notes were minimal. Based on the closing price of our common stock of \$36.15 on January 25, 2013, the if-converted value of our Convertible Notes exceeded their principal amount by approximately \$170.9 million.

We separately account for the liability and equity components of the Convertible Notes. The initial debt component of the Convertible Notes was valued at \$1,017.0 million based on the contractual cash flows discounted at an appropriate comparable market non-convertible debt borrowing rate at the date of issuance of 6.31%, with the equity component representing the residual amount of the proceeds of \$248.0 million which was recorded as a debt discount. Issuance costs were allocated pro-rata based on the relative initial carrying amounts of the debt and equity components. As a result, \$5.2 million of the issuance costs was allocated to the equity component of the Convertible Notes, and \$21.4 million of the issuance costs remained classified as other non-current assets. The debt discount and the issuance costs allocated to the debt component are amortized as additional interest expense over the term of the Convertible Notes using the effective interest method.

### *Convertible Note Hedges and Warrants*

Concurrent with the issuance of the Convertible Notes, we purchased Convertible Note hedges and sold warrants. The separate Convertible Note hedge and warrant transactions are structured to reduce the potential future economic dilution associated with the conversion of the Convertible Notes.

- **Convertible Note Hedges:** As of January 25, 2013 and April 27, 2012, we had arrangements with counterparties to buy up to approximately 31.8 million shares of our common stock, subject to anti-dilution adjustments, at a price of \$31.85 per share, subject to adjustment. The Convertible Note hedge transactions will expire at the earlier of (1) the last day on which any Convertible Notes remain outstanding or (2) the scheduled trading day immediately preceding the maturity date of the Convertible Notes. Upon exercise of the Convertible Note hedges, we have the option to receive cash or shares of our common stock equal to the difference between the then market price and the strike price of the Convertible Note hedges.

## Table of Contents

- Warrants: As of January 25, 2013 and April 27, 2012, we had outstanding warrants for others to acquire, subject to anti-dilution adjustments, 39.7 million shares of our common stock at an exercise price of \$41.28 per share, subject to adjustment, on a series of days commencing on September 3, 2013. Upon exercise of the warrants, we have the option to deliver cash or shares of our common stock equal to the difference between the then market price and the strike price of the warrants.

As of January 25, 2013, we were subject to potential dilution on the approximately 20% unhedged portion of our Convertible Notes upon conversion, if on the date of conversion, the per-share market price of our common stock exceeds the conversion price of \$31.85.

As of January 25, 2013, we received a minimal number of shares related to the Convertible Note hedge transactions and no cash or shares were delivered related to the warrant transactions.

### Interest Expense

The following table presents the amount of interest expense recognized related to the Convertible Notes (in millions):

	Three Months Ended		Nine Months Ended	
	January 25, 2013	January 27, 2012	January 25, 2013	January 27, 2012
Contractual coupon interest expense	\$ 5.5	\$ 5.5	\$ 16.5	\$ 16.5
Amortization of debt discount	13.9	13.0	41.0	38.4
Amortization of debt issuance costs	1.2	1.1	3.6	3.3
Less capitalized interest	0.0	(0.9)	(1.1)	(4.3)
Total interest expense related to Convertible Notes	<u>\$ 20.6</u>	<u>\$ 18.7</u>	<u>\$ 60.0</u>	<u>\$ 53.9</u>

### Debt Maturities

As of January 25, 2013, our aggregate future principal debt maturities are as follows (in millions):

Fiscal Year	Amount
Remainder of 2013	\$ 0.0
2014	1,264.9
2015	0.0
2016	0.0
2017	0.0
Thereafter	1,000.0
Total	<u>\$2,264.9</u>

### Credit Facility

In December 2012, we entered into a credit agreement with a syndicated group of lenders that provides for an unsecured \$250.0 million five-year revolving credit facility that is comprised of revolving loans, Eurocurrency loans and/or swingline loans. The credit facility includes a \$100.0 million foreign currency sub-facility, a \$50.0 million letter of credit sub-facility and a \$10.0 million swingline sub-facility available on same-day notice. Available borrowings under the credit facility are reduced by the amount of any outstanding borrowings on the sub-facilities. We may also, subject to certain requirements, request an increase in the facility up to an additional \$100.0 million and request two additional one-year extensions, subject to certain conditions. The proceeds from the facility may be used by us for general corporate purposes.

Borrowings under the facility, except for swingline loans, accrue interest in arrears at an alternate base rate as defined in the credit agreement or, at our option, an adjusted London Interbank Offered Rate (LIBOR) plus in each case, a spread (based on our public debt ratings and the type of loan) ranging from 0.2% to 1.2%. Swingline borrowings accrue interest at an alternate base rate. In addition, we are required to pay fees to maintain the credit facility, whether or not we have outstanding borrowings. The facility terminates on December 21, 2017 if no extensions have been requested and contains financial covenants requiring us to maintain a maximum leverage ratio of not more than 3.0:1.0 and a minimum interest coverage ratio of not less than 3.5:1.0. The facility contains customary affirmative and negative covenants, including covenants that limit our ability to incur debt secured by liens on assets or indebtedness of our subsidiaries and to consolidate, merge or sell all or substantially all of our assets. As of January 25, 2013, no borrowings were outstanding under the facility and we were in compliance with all covenants associated with the facility.



[Table of Contents](#)

**Other Long-Term Financing Arrangements**

The following presents the amounts due under other long-term financing arrangements (in millions):

	January 25, 2013	April 27, 2012
Current portion of other long-term financing arrangements	\$ 6.4	\$ 9.1
Non-current portion of other long-term financing arrangements	5.6	3.5
<b>Total</b>	<b>\$ 12.0</b>	<b>\$ 12.6</b>

**10. Stockholders' Equity**

**Stock Options**

A summary of the activity under our stock option plans and agreements is as follows (in millions, except for the exercise price):

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding as of April 27, 2012	20.6	\$ 29.98		
Options granted	2.4	28.75		
Options exercised	(2.0)	17.43		
Options forfeited and expired	(0.7)	39.64		
Outstanding as of January 25, 2013	<u>20.3</u>	30.74	3.53	\$ 166.1
Options vested and expected to vest as of January 25, 2013	19.7	30.56	3.47	164.1
Exercisable as of January 25, 2013	15.0	28.23	2.88	145.7

The aggregate intrinsic value represents the pre-tax difference between the exercise price of stock options and the quoted market price of our stock on that day for all in-the-money options. As of January 25, 2013, the total unrecognized compensation expense related to stock options was \$59.9 million, which is expected to be recognized on a straight-line basis over a weighted-average remaining service period of 2.2 years.

Additional information related to our stock options is summarized below (in millions, except per share information):

	Three Months Ended		Nine Months Ended	
	January 25, 2013	January 27, 2012	January 25, 2013	January 27, 2012
Weighted-average fair value per share granted	\$ 20.53	\$ 13.26	\$ 11.54	\$ 16.88
Intrinsic value of options exercised	\$ 15.0	\$ 21.0	\$ 30.8	\$ 71.6
Proceeds received from the exercise of stock options	\$ 15.8	\$ 19.5	\$ 35.3	\$ 62.2
Fair value of options vested	\$ 14.5	\$ 18.1	\$ 44.0	\$ 56.8

**Restricted Stock Units**

The following table summarizes activity related to our restricted stock units (RSUs) (in millions, except for fair value):

	Number of Shares	Weighted- Average Grant Date Fair Value
Outstanding as of April 27, 2012	12.0	\$ 43.28
RSUs granted	5.5	29.45
RSUs vested	(3.5)	39.38
RSUs forfeited	(0.9)	41.13
Outstanding as of January 25, 2013	<u>13.1</u>	38.67

[Table of Contents](#)

RSUs are converted into common stock upon vesting. Upon the vesting of RSUs, we primarily use the net share settlement approach, where a portion of the shares are withheld as settlement of statutory employee withholding taxes, which decreases the shares issued to the employee by a corresponding value. The number and value of the shares netted for employee taxes are summarized in the table below (in millions):

	Three Months Ended		Nine Months Ended	
	January 25, 2013	January 27, 2012	January 25, 2013	January 27, 2012
Shares withheld for taxes	0.4	0.4	1.1	1.0
Fair value of shares withheld	\$ 12.2	\$ 16.4	\$ 34.8	\$ 44.2

As of January 25, 2013, the total unrecognized compensation expense related to RSUs was \$351.5 million, which is expected to be recognized on a straight-line basis over a weighted-average remaining service period of 2.7 years.

**Employee Stock Purchase Plan**

Under the Employee Stock Purchase Plan (ESPP), employees who elect to participate are granted options that include a purchase price adjustment provision under which the employees may purchase common stock at a 15% discount from the market value of the common stock at certain specified dates within a two-year offering period. Additional information related to the purchase rights issued under the ESPP is provided below (in millions, except per right and per share information):

	Three Months Ended		Nine Months Ended	
	January 25, 2013	January 27, 2012	January 25, 2013	January 27, 2012
Weighted-average fair value per right granted	\$ 10.37	\$ 12.93	\$ 10.36	\$ 13.34
Shares issued under the ESPP	1.9	1.5	3.8	2.6
Weighted-average price per share issued	\$ 25.02	\$ 31.03	\$ 25.16	\$ 34.53

As of January 25, 2013, the total unrecognized compensation expense related to the ESPP was \$58.1 million, which is expected to be recognized on a straight-line basis over a weighted-average remaining service period of 1.4 years.

**Stock-Based Compensation Expense**

Stock-based compensation expense included in the condensed consolidated statements of operations is as follows (in millions):

	Three Months Ended		Nine Months Ended	
	January 25, 2013	January 27, 2012	January 25, 2013	January 27, 2012
Cost of product revenues	\$ 1.4	\$ 1.6	\$ 4.7	\$ 4.1
Cost of service revenues	4.8	5.7	15.0	13.8
Sales and marketing	31.9	37.5	101.8	96.5
Research and development	20.8	22.8	63.8	57.0
General and administrative	8.4	9.1	26.2	26.4
Total stock-based compensation expense	\$ 67.3	\$ 76.7	\$ 211.5	\$ 197.8

The following table summarizes stock-based compensation associated with each type of award (in millions):

	Three Months Ended		Nine Months Ended	
	January 25, 2013	January 27, 2012	January 25, 2013	January 27, 2012
Employee stock options	\$ 10.9	\$ 13.8	\$ 34.6	\$ 43.0
RSUs	46.3	42.1	134.1	115.4
ESPP	10.1	20.8	42.8	39.4
Total stock-based compensation expense	\$ 67.3	\$ 76.7	\$ 211.5	\$ 197.8

Total income tax benefit associated with employee stock transactions and recognized in stockholders' equity was as follows (in millions):

	Nine Months Ended	
	January 25, 2013	January 27, 2012
Income tax benefit associated with employee stock transactions	\$ 35.4	\$ 74.7

## [Table of Contents](#)

### *Valuation Assumptions*

The fair value of each award is estimated on the grant date using the Black-Scholes option pricing model, assuming no expected dividends and the following weighted-average assumptions:

	Stock Options			
	Three Months Ended		Nine Months Ended	
	January 25, 2013	January 27, 2012	January 25, 2013	January 27, 2012
Expected term in years	4.5	4.8	4.8	4.8
Risk-free interest rate	0.59%	0.84%	0.63%	1.54%
Volatility	43%	43%	42%	36%

  

	ESPP			
	Three Months Ended		Nine Months Ended	
	January 25, 2013	January 27, 2012	January 25, 2013	January 27, 2012
Expected term in years	1.2	1.2	1.2	1.2
Risk-free interest rate	0.20%	0.18%	0.19%	0.19%
Volatility	41%	45%	40%	44%

### *Stock Repurchase Program*

During the nine months ended January 25, 2013, we repurchased and retired 12.8 million shares of our common stock at an average price of \$32.10 per share, for an aggregate purchase price of \$410.0 million, of which \$122.8 million and \$287.2 million was allocated to additional paid-in capital and retained earnings, respectively. Since the May 13, 2003 inception of our stock repurchase program through January 25, 2013, we repurchased a total of 131.7 million shares of our common stock at an average price of \$29.89 per share, for an aggregate purchase price of \$3.9 billion.

As of January 25, 2013, our Board of Directors had authorized the repurchase of up to \$5.5 billion of our common stock under our stock repurchase program, including an increase of \$1.5 billion approved by our Board of Directors on November 14, 2012. As of January 25, 2013, the remaining authorized amount for stock repurchases under this program was \$1.6 billion with no termination date. Under this program, we may purchase shares of our outstanding common stock through open market and privately negotiated transactions at prices deemed appropriate by our management. The stock repurchase program may be suspended or discontinued at any time.

## 11. Derivatives and Hedging Activities

We use derivative instruments to manage exposures to foreign currency risk. The maximum length of time over which forecasted foreign currency denominated revenues are hedged is six months. The notional value of our outstanding foreign currency forward purchase contracts that were entered into to hedge forecasted foreign currency denominated sales and our foreign currency denominated monetary asset and liability exposures consisted of the following (in millions):

	January 25, 2013	April 27, 2012
<b>Cash Flow Hedges</b>		
Euro	\$ 146.9	\$ 96.9
British Pound Sterling	26.9	29.8
<b>Balance Sheet Contracts</b>		
Euro	180.5	267.4
British Pound Sterling	48.3	86.4
Australian Dollar	91.6	54.3
Israeli Shekel	22.3	17.2
Canadian Dollar	19.7	38.5
Swiss Franc	10.3	7.3
Other	46.8	44.0

The fair value of our short-term foreign currency contracts was not material as of January 25, 2013 and April 27, 2012. We did not recognize any gains and losses in earnings due to hedge ineffectiveness for any period presented.

The effect of derivative instruments designated as cash flow hedges recognized in net revenues on our condensed consolidated statements of operations is presented in the condensed consolidated statements of comprehensive income.

---

## [Table of Contents](#)

The effect of derivative instruments not designated as hedges recognized in other income (expense), net on our condensed consolidated statements of operations was as follows (in millions):

Derivatives Not Designated as Hedging Instruments	Three Months Ended		Nine Months Ended	
	January 25, 2013	January 27, 2012	January 25, 2013	January 27, 2012
	Gain Recognized into Income		Gain Recognized into Income	
Foreign exchange forward purchase contracts	\$ 0.0	\$ 10.7	\$ 6.2	\$ 24.9

## 12. Income Taxes

Our effective tax rates for the periods presented were as follows:

Effective tax rates	Nine Months Ended	
	January 25, 2013	January 27, 2012
	12.2%	14.7%

Our effective tax rates reflect the impact of a significant amount of our earnings being taxed in foreign jurisdictions at rates below the U.S. statutory tax rate.

On January 2, 2013, the American Taxpayer Relief Act of 2012 (the Act) was signed into law. Under the Act, the federal research credit was retroactively extended for amounts paid or incurred after December 31, 2011, and before January 1, 2014. As a result of the extension, during the three months ended January 25, 2013, we recorded a benefit of \$8.2 million related to the current year research credit and a discrete benefit of \$3.2 million related to prior year credits that we will retroactively claim. Unless extended again, the federal research credit will expire on December 31, 2013.

As of January 25, 2013, we had \$170.0 million of unrecognized tax benefits, of which \$116.8 million has been recorded in other long-term liabilities. Unrecognized tax benefits of \$100.8 million, including penalties and interest, would affect our provision for income taxes if recognized. During the nine months ended January 25, 2013, there was a gross increase in our unrecognized tax benefits of \$14.8 million for tax positions related to the current year, and a gross increase of \$1.0 million and gross decrease of \$6.8 million for tax positions related to prior years.

On March 26, 2012, we received a Revenue Agent's Report from the IRS for our fiscal 2005 through 2007 income tax returns. On April 25, 2012, we filed a protest related to transfer pricing matters comparable to similar matters that were resolved in our favor in our last audit cycle. In September 2012, we reached a tentative agreement with the IRS field examination team on the transfer pricing matters under appeals. The IRS field examination team is currently in the process of revising the Revenue Agent's Report for our fiscal 2005 through 2007 income tax returns. This report will be reviewed by certain higher authorities within the IRS and Joint Committee on Taxation. In February 2012, the IRS commenced an examination of our fiscal 2008 through 2010 income tax returns. Our open years in U.S. federal jurisdictions are fiscal 2005 and later years. In addition, we are effectively subject to federal tax examination adjustments for tax years ended on or after fiscal year 2000, in that we have tax attribute carryforwards from these years that could be subject to adjustments, if and when utilized.

On September 17, 2010, the Danish Tax Authorities issued a decision concluding that distributions declared in 2005 and 2006 from our Danish subsidiary were subject to Danish at-source dividend withholding tax. We do not believe that our Danish subsidiary is liable for withholding tax and filed an appeal with the Danish Tax Tribunal to that effect. On December 19, 2011, the Danish Tax Tribunal issued a ruling that our Danish subsidiary was not liable for Danish withholding tax. The Danish tax examination agency appealed to the Danish High Court in March 2012.

We are in various stages of the examination and appeals process in connection with tax audits worldwide, and it is difficult to determine when these examinations will be settled. It is reasonably possible that over the next twelve-month period, we may experience an increase or decrease in unrecognized tax benefits. It is not possible to determine either the magnitude or the range of any increase or decrease at this time.

In April 2010, our Dutch subsidiary received a favorable tax ruling from the Dutch tax authorities effective May 1, 2010 that replaces the previous Dutch tax ruling that expired on April 30, 2010. This ruling results in both a lower level of earnings subject to tax in the Netherlands and an extension of the expiration date to April 30, 2015.

[Table of Contents](#)

**13. Net Income per Share**

The following is a calculation of basic and diluted net income per share (in millions):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>January 25, 2013</b>	<b>January 27, 2012</b>	<b>January 25, 2013</b>	<b>January 27, 2012</b>
<b>Numerator:</b>				
Net income	\$ 158.1	\$ 119.6	\$ 331.5	\$ 424.7
<b>Denominator:</b>				
Shares used in basic computation	359.5	360.3	362.5	364.0
Dilutive potential shares related to employee equity award plans	5.1	7.6	5.1	9.1
Dilutive impact of assumed conversion of Convertible Notes	0.1	5.8	0.5	9.3
Dilutive impact of warrants	0.0	0.0	0.0	2.7
Shares used in diluted computation	<u>364.7</u>	<u>373.7</u>	<u>368.1</u>	<u>385.1</u>
<b>Net Income per Share:</b>				
Basic	<u>\$ 0.44</u>	<u>\$ 0.33</u>	<u>\$ 0.91</u>	<u>\$ 1.17</u>
Diluted	<u>\$ 0.43</u>	<u>\$ 0.32</u>	<u>\$ 0.90</u>	<u>\$ 1.10</u>

The following potential weighted-average shares of common stock have been excluded from the diluted net income per share calculations, as their effect would have been anti-dilutive (in millions):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>January 25, 2013</b>	<b>January 27, 2012</b>	<b>January 25, 2013</b>	<b>January 27, 2012</b>
Employee equity award plans	15.0	13.5	16.4	10.9

Dilutive shares outstanding during the three and nine months ended January 25, 2013 and during the three months ended January 27, 2012 do not include any effect resulting from warrants, as their impact would have been anti-dilutive. The Convertible Note hedges are not included in the calculation of earnings per share for any period as their effect would have been anti-dilutive. The Convertible Note hedges, if exercised upon conversion of the Convertible Notes, are expected to reduce approximately 80% of the dilutive effect of the Convertible Notes when our stock price is above \$31.85 per share.

**14. Segment, Geographic, and Significant Customer Information**

We operate in one industry segment: the design, manufacturing, marketing, and technical support of high-performance networked storage solutions. We conduct business globally, and our sales and support activities are managed on a geographic basis. Our management reviews financial information presented on a consolidated basis, accompanied by disaggregated information it receives from its internal management system about revenues by geographic region, based on the location from which the customer relationship is managed, for purposes of allocating resources and evaluating financial performance. We do not allocate costs of revenues, research and development, sales and marketing, or general and administrative expenses to our geographic regions in this internal management system because management does not review operations or operating results, or make planning decisions, below the consolidated entity level.

Summarized revenues by geographic region from our internal management system and utilized by our Chief Executive Officer, who is considered our Chief Operating Decision Maker, is as follows (in millions):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>January 25, 2013</b>	<b>January 27, 2012</b>	<b>January 25, 2013</b>	<b>January 27, 2012</b>
Americas (United States, Canada and Latin America)	\$ 882.8	\$ 853.7	\$ 2,581.2	\$ 2,564.2
Europe, Middle East and Africa	528.6	525.5	1,405.6	1,411.1
Asia Pacific	218.7	186.3	629.1	555.4
Net revenues	<u>\$ 1,630.1</u>	<u>\$ 1,565.5</u>	<u>\$ 4,615.9</u>	<u>\$ 4,530.7</u>

Americas revenues consist of Americas commercial and U.S. public sector markets. Sales to customers inside the United States accounted for \$778.9 million and \$730.5 million of Americas net revenues during the three months ended January 25, 2013 and January 27, 2012, respectively, and \$2,287.9 million and \$2,190.2 million of Americas net revenues during the nine months ended January 25, 2013 and January 27, 2012, respectively. Sales to Germany accounted for \$163.8 million and \$181.9 million for the three months ended January 25, 2013 and January 27, 2012, respectively, and \$451.6 million and \$470.9 million for the nine months ended January 25, 2013 and January 27, 2012, respectively. No other foreign country accounted for 10% or more of our net revenues.

## [Table of Contents](#)

The majority of our assets, excluding cash, cash equivalents, restricted cash, short-term investments and accounts receivable, were attributable to our domestic operations. The following table presents cash, cash equivalents and short-term investments held in the United States and internationally in various foreign subsidiaries (in millions):

	January 25, 2013	April 27, 2012
United States	\$ 3,351.4	\$2,697.6
International	3,372.5	2,763.8
Total	<u>\$ 6,723.9</u>	<u>\$5,461.4</u>

With the exception of property and equipment, we do not identify or allocate our long-lived assets by geographic area. The following table presents property and equipment information for geographic areas based on the physical location of the assets (in millions):

	January 25, 2013	April 27, 2012
United States	\$ 1,093.7	\$1,038.9
International	95.5	98.3
Total	<u>\$ 1,189.2</u>	<u>\$1,137.2</u>

The following customers, each of which is a distributor, accounted for 10% or more of our net revenues:

	Three Months Ended		Nine Months Ended	
	January 25, 2013	January 27, 2012	January 25, 2013	January 27, 2012
Arrow Electronics, Inc.	18%	15%	18%	16%
Avnet, Inc.	14%	11%	14%	12%

The following customer accounted for 10% or more of net accounts receivable:

	January 25, 2013	April 27, 2012
Avnet, Inc.	N/A	11%

N/A - Not Applicable

## 15. Commitments and Contingencies

### *Lease Commitments*

As of January 25, 2013, future annual minimum lease payments under all non-cancelable facilities and equipment operating leases with an initial term in excess of one year totaled \$222.5 million. In the three months ended January 25, 2013, we terminated all of our remaining synthetic lease arrangements.

### *Purchase Orders and Other Commitments*

In the normal course of business we make commitments to our third-party contract manufacturers, to manage manufacturer lead times and meet product forecasts, and to other parties, to purchase various key components used in the manufacture of our products. We establish accruals for estimated losses on purchased components to the extent we believe it is probable that such components will not be utilized in future operations. To the extent that such forecasts are not achieved, our commitments and associated accruals may change. As of January 25, 2013, we had \$282.4 million in non-cancelable purchase commitments with our contract manufacturers. In addition, we recorded a liability for firm, non-cancelable and unconditional purchase commitments with contract manufacturers for quantities in excess of our future demand forecasts through a charge to cost of product sales. As of January 25, 2013 and April 27, 2012, such liability amounted to \$8.1 million and \$3.3 million, respectively, and is included in other current liabilities in the condensed consolidated balance sheets.

In addition to commitments with contract manufacturers and component suppliers, we have open purchase orders and contractual obligations associated with our ordinary course business for which we have not received goods or services. As of January 25, 2013, we had \$93.6 million in capital purchase commitments and \$182.3 million in other purchase commitments.

## [Table of Contents](#)

### *Product Warranties*

We provide customers a warranty on software of ninety days to five years and a warranty on hardware of one to five years. The following table summarizes our warranty reserves (in millions):

	Three Months Ended		Nine Months Ended	
	January 25, 2013	January 27, 2012	January 25, 2013	January 27, 2012
Beginning balance	\$ 111.8	\$ 65.0	\$ 83.1	\$ 40.5
Liability assumed in acquisition	0.0	0.0	0.0	17.5
Expense accrued during the period	23.5	14.1	74.3	41.5
Warranty costs incurred	(18.5)	(10.9)	(40.6)	(31.3)
Ending balance	<u>\$ 116.8</u>	<u>\$ 68.2</u>	<u>\$ 116.8</u>	<u>\$ 68.2</u>

### *Financing Guarantees*

Some of our customers have entered into recourse and non-recourse financing leasing arrangements using third-party financing companies, and in some situations, we enter into customer financing arrangements for our products and services that are contemporaneously sold on a recourse or non-recourse basis to third-party financing companies. Under the terms of recourse leases, which are generally three years or less, we remain liable for the aggregate unpaid remaining lease payments to the third-party leasing companies in the event of end-user customer default. These arrangements are generally collateralized by a security interest in the underlying assets. Under the terms of the nonrecourse leases, we do not have any continuing obligations or liabilities to the third-party financing companies. Where we provide a guarantee for recourse leases, we defer revenues subject to the industry-specific software revenue recognition guidance, and recognize revenues for non-software deliverables in accordance with our multiple deliverable revenue arrangement policy.

The aggregate amount of financing guarantees representing the total maximum potential future payments under financing arrangements with third parties, and the related deferred revenue are summarized as follows (in millions):

	January 25, 2013	April 27, 2012
Maximum guaranteed payment contingencies	\$ 180.9	\$ 169.0
Deferred revenue associated with financing guarantees	(164.4)	(149.9)
Maximum potential future payments relating to financing guarantees, net of associated deferred revenue	<u>\$ 16.5</u>	<u>\$ 19.1</u>

To date, we have not experienced material losses under our lease financing programs or other financing arrangements.

### *Legal Contingencies*

When a loss is considered probable and reasonably estimable, we record a liability in the amount of our best estimate for the ultimate loss. However, the likelihood of a loss with respect to a particular contingency is often difficult to predict and determining a meaningful estimate of the loss or a range of loss may not be practicable based on the information available and the potential effect of future events and decisions by third parties that will determine the ultimate resolution of the contingency.

We are subject to various legal proceedings and claims that arise in the normal course of business. No material accrual has been recorded as of January 25, 2013 related to such matters.

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

### **Forward-Looking Statements**

This Quarterly Report on Form 10-Q 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). Forward-looking statements are all statements (and their underlying assumptions) included in this document that refer, directly or indirectly, to future events or outcomes and, as such, are inherently not factual, but rather reflect only our current projections for the future. Consequently, forward-looking statements usually include words such as “estimate,” “intend,” “plan,” “predict,” “seek,” “may,” “will,” “should,” “would,” “could,” “anticipate,” “expect,” “believe,” or similar words, in each case, intended to refer to future events or circumstances. A non-comprehensive list of the topics including forward-looking statements in this document, includes:

- our future financial and operating results;
- our strategies;
- our beliefs and objectives for future operations, research and development;
- political, economic and industry trends;
- expected benefits from product introductions, developments, enhancements and acceptance;
- expected benefits from acquisitions and joint ventures, growth opportunities and investments;
- expected outcomes from legal proceedings;
- our competitive position;
- our short-term and long-term cash requirements, including without limitation, anticipated capital expenditures;
- our anticipated tax rate;
- the dilutive effect of our 1.75% Convertible Senior Notes due June 2013 (Convertible Notes) and associated warrants on our earnings per share;
- the repayment of our Convertible Notes and our 2.00% Senior Notes due on December 15, 2017 and 3.25% Senior Notes due on December 15, 2022 (collectively referred to as the Senior Notes);
- future uses of our cash, including, without limitation, the continuation of our stock repurchase program.

All forward-looking statements included in this document 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, actual events and results may differ materially from these forward-looking statements. Factors that could cause actual results to differ materially from those described herein include, but are not limited to:

- our ability to accurately forecast demand for our products and services, and future financial performance;
- our ability to understand, and effectively respond to changes affecting, our market environment, products, technologies and customer requirements;
- the overall growth and structure of the data storage industry;
- general global political, macroeconomic and market conditions, particularly in the Eurozone;
- disruptions in our supply chain, which could limit our ability to ship products to our customers in the amounts and at the prices forecasted;



## Table of Contents

- failure of our products and services to meet our customers' quality requirements, including, without limitation, any epidemic failure event relating to our products installed by our customers in their systems;
- our ability to maintain our gross profit margins;
- our ability to successfully manage our backlog;
- the quality of our strategy and our ability to successfully execute on the same, including, without limitation, our organic and acquisition-related growth strategies;
- our ability to effectively integrate acquired businesses, products and technologies;
- our ability to timely and successfully introduce, and increase volumes of, new products and services, and to forecast demand and pricing for the same;
- our ability to design, manufacture and market products meeting global environmental standards;
- the impact of industry consolidation, affecting our suppliers, competitors, partners and customers;
- our ability to successfully recruit and retain critical employees and to manage our investment in people, process and systems;
- our ability to maintain our customer, partner, supplier and contract manufacturer relationships on favorable terms and conditions;
- the actions of our competitors, most of which are larger and have greater financial and other resources than we have, including, without limitation, their ability to introduce competitive products and to acquire businesses and technologies that negatively impact our strategy or operations or customer demand for our products;
- our ability to grow direct and indirect sales and to efficiently utilize global service and support;
- the availability of acceptable financing to support our future cash requirements;
- valuation and liquidity of our investment portfolio;
- 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 Quarterly Report on Form 10-Q.

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 the foregoing factors as well as other important factors.

## Overview

### *Financial Results and Key Performance Metrics Overview*

The following table provides an overview of some of our key financial metrics (in millions, except per share amounts, percentages and days sales outstanding):

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>January 25,</u> <u>2013</u>	<u>January 27,</u> <u>2012</u>	<u>January 25,</u> <u>2013</u>	<u>January 27,</u> <u>2012</u>
Net revenues	\$ 1,630.1	\$ 1,565.5	\$ 4,615.9	\$ 4,530.7
Gross profit	\$ 964.9	\$ 908.5	\$ 2,728.9	\$ 2,718.4
Gross margin	59.2%	58.0%	59.1%	60.0%
Income from operations	\$ 187.9	\$ 156.5	\$ 403.4	\$ 525.1
Income from operations as a percentage of net revenues	11.5%	10.0%	8.8%	11.5%
Net income	\$ 158.1	\$ 119.6	\$ 331.5	\$ 424.7
Diluted net income per share	\$ 0.43	\$ 0.32	\$ 0.90	\$ 1.10
Operating cash flows	\$ 365.1	\$ 269.2	\$ 930.7	\$ 880.0

---

[Table of Contents](#)

	<u>January 25, 2013</u>	<u>April 27, 2012</u>
Deferred revenue	\$ 2,876.0	\$2,815.9
Days sales outstanding (DSO)	35	44

***Debt Issuance***

In December 2012, we issued \$750.0 million principal amount of 2.00% Senior Notes due on December 15, 2017 and \$250.0 million principal amount of 3.25% Senior Notes due on December 15, 2022, (collectively referred to as the Senior Notes).

***Credit Facility***

In December 2012, we entered into a credit agreement with a syndicated group of lenders that provides for an unsecured \$250.0 million five-year revolving credit facility.

***Acquisition***

In November 2012, we acquired CacheIQ, Inc., a privately held storage solutions company based in Austin, Texas, for \$91.0 million in cash and equity. This acquisition provides us with technology that extends our capabilities to support non-disruptive operations for enterprise data center environments. We will integrate this technology into our product offerings over time.

***Stock Repurchase Program Activity***

During the nine months ended January 25, 2013, our Board of Directors approved a \$1.5 billion increase to our stock repurchase program and we repurchased and retired 12.8 million shares of our common stock at an average price of \$32.10 per share.

**Critical Accounting Estimates and Policies**

Our discussion and analysis of financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of such statements requires us to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting periods and the reported amounts of assets, liabilities and equity as of the date of the financial statements. Our estimates are based on historical experience and other assumptions that we consider to be appropriate under the circumstances. However, future results may vary from our estimates.

We believe the accounting policies discussed under Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the fiscal year ended April 27, 2012 are significantly affected by critical accounting estimates and that they are both highly important to the portrayal of our financial condition and results of operations and require difficult management judgments and assumptions about matters that are inherently uncertain. There have been no material changes to the critical accounting policies and estimates as filed in such report.

**New Accounting Standards**

See Note 3 of the accompanying condensed consolidated financial statements for a full description of new accounting pronouncements, including the respective expected dates of adoption and effects on results of operations and financial condition.

[Table of Contents](#)

**Results of Operations**

The following table sets forth certain Condensed Consolidated Statements of Operations data as a percentage of net revenues for the periods indicated:

	Three Months Ended		Nine Months Ended	
	January 25, 2013	January 27, 2012	January 25, 2013	January 27, 2012
<b>Revenues:</b>				
Product	65.1%	67.9%	64.0%	67.2%
Software entitlements and maintenance	14.0	13.0	14.4	13.2
Service	20.9	19.1	21.6	19.6
Net revenues	100.0	100.0	100.0	100.0
<b>Cost of revenues:</b>				
Cost of product	31.4	33.1	31.2	31.2
Cost of software entitlements and maintenance	0.5	0.4	0.5	0.4
Cost of service	8.9	8.5	9.2	8.4
<b>Gross profit</b>	59.2	58.0	59.1	60.0
<b>Operating expenses:</b>				
Sales and marketing	30.3	30.5	31.7	30.6
Research and development	13.2	13.3	14.3	13.4
General and administrative	4.1	4.0	4.3	4.3
Acquisition-related expense	0.1	0.2	—	0.2
Total operating expenses	47.7	48.0	50.3	48.5
<b>Income from operations</b>	11.5	10.0	8.8	11.5
<b>Other expense, net</b>	(0.7)	(0.6)	(0.6)	(0.6)
<b>Income before income taxes</b>	10.8	9.4	8.2	10.9
Provision for income taxes	1.1	1.7	1.0	1.6
<b>Net income</b>	9.7%	7.7%	7.2%	9.3%

**Discussion and Analysis of Results of Operations**

*Overview*

Net revenues for the three and nine months ended January 25, 2013 were \$1,630.1 million, up \$64.6 million, or 4%, and \$4,615.9 million, up \$85.2 million, or 2%, respectively, compared to the prior year. The increases were due to increases in hardware maintenance contract and software entitlements and maintenance (SEM) revenues.

Gross profit as a percentage of revenue increased 1% during the three months ended January 25, 2013 and decreased 1% during the nine months ended January 25, 2013 compared to the prior year. The increase during the three months ended January 25, 2013 was primarily due to changes in mix and the decrease during the nine months ended January 25, 2013 was primarily due to hardware-related warranty expense and unfavorable exchange rates.

Sales and marketing, research and development, and general and administrative expenses for the three and nine months ended January 25, 2013 totaled \$775.3 million, up 4%, and \$2,323.8 million, up 6%, respectively, compared to the prior year. These increases were primarily due to increased compensation costs resulting from a 7% and 10% increase in the average headcount during the three and nine months ended January 25, 2013, respectively, compared to the prior year periods. Exchange rates had a favorable impact on expenses during the nine months ended January 25, 2013.

*Net Revenues (in millions, except percentages):*

	Three Months Ended			Nine Months Ended		
	January 25, 2013	January 27, 2012	% Change	January 25, 2013	January 27, 2012	% Change
Net revenues	\$ 1,630.1	\$ 1,565.5	4%	\$ 4,615.9	\$ 4,530.7	2%

The increase in net revenues for the three months ended January 25, 2013 was due to increases in hardware maintenance contract and SEM revenues of \$66.6 million. Product revenues remained relatively flat and comprised 65% of net revenues for the three months ended January 25, 2013, compared to 68% of net revenues for the three months ended January 27, 2012.

[Table of Contents](#)

The increase in net revenues for the nine months ended January 25, 2013 was due to increases in service and SEM revenues of \$175.3 million, partially offset by a decrease in product revenues of \$90.1 million. Product revenue comprised 64% of net revenues for the nine months ended January 25, 2013, compared to 67% of net revenues for the nine months ended January 27, 2012.

Sales through our indirect channels represented 81% and 80% of net revenues for the three and nine months ended January 25, 2013, respectively, compared to 79% and 78% of net revenues for the three and nine months ended January 27, 2012, respectively. Included in indirect channel sales were \$203.2 million and \$621.7 million of OEM revenue during the three and nine months ended January 25, 2013, respectively, compared to \$244.0 million and \$687.0 million during the three and nine months ended January 27, 2012, respectively.

The following customers, each of which is a distributor, accounted for 10% or more of net revenues:

	Three Months Ended		Nine Months Ended	
	January 25, 2013	January 27, 2012	January 25, 2013	January 27, 2012
Arrow Electronics, Inc.	18%	15%	18%	16%
Avnet, Inc.	14%	11%	14%	12%

**Product Revenues (in millions, except percentages):**

	Three Months Ended			Nine Months Ended		
	January 25, 2013	January 27, 2012	% Change	January 25, 2013	January 27, 2012	% Change
	Product revenues	\$ 1,060.7	\$ 1,062.7	— %	\$ 2,954.5	\$ 3,044.6

Product revenues consist of configured systems, which include bundled hardware and software products, and non-configured products, which consist primarily of add-on storage, OEM products and add-on hardware and software products.

Total configured system revenues of \$585.2 million increased by \$44.5 million, or 8%, during the three months ended January 25, 2013, compared to the prior year, due to an increase in revenue from 2000 series systems, partially offset by a decrease in 3000 series systems. Total configured systems unit volume increased 17% during the three months ended January 25, 2013, compared to the prior year. Unit volume of the 2000 series increased while unit volume of the 3000 series systems decreased, reflecting a shift in customer demand from certain 3000 series systems to certain 2000 series systems. The average selling prices (ASPs) of both the 2000 and 3000 series systems increased due to increased capacity during the three months ended January 25, 2013 compared to the prior year. However, ASPs of total configured systems decreased during the period, due to a shift in sales from higher priced 3000 series systems to lower priced 2000 series systems.

Non-configured product revenues of \$475.6 million decreased \$46.4 million, or 9%, during the three months ended January 25, 2013, compared to the prior year. This decrease was primarily due to lower revenue from non-configured OEM products, which declined 19%, and lower add-on storage revenue.

Total configured system revenues of \$1,578.9 million increased by \$6.9 million, or less than 1%, during the nine months ended January 25, 2013, compared to the prior year, primarily due to an increase in revenue from 2000 series systems, mostly offset by a decrease in 3000 series systems. Total configured systems unit volume increased 14% during the nine months ended January 25, 2013, compared to the prior year. Unit volume of the 2000 series increased while unit volume of the 3000 series systems decreased, reflecting a shift in customer demand from certain 3000 series systems to certain 2000 series systems. The ASP's of both the 2000 and 3000 series systems increased due to increased capacity during the nine months ended January 25, 2013 compared to the prior year, however ASPs of total configured systems decreased due to a shift in sales from higher priced 3000 series systems to lower priced 2000 series systems. In addition, ASPs decreased due to unfavorable foreign currency rates.

Non-configured product revenues of \$1,375.7 million decreased \$97.0 million, or 7%, during the nine months ended January 25, 2013, compared to the prior year. This decrease was primarily due to lower revenue from non-configured OEM products, which declined 12%, and lower add-on storage revenue.

Our systems are highly configurable to respond to customer requirements in the open systems storage markets that we serve. This can cause a wide variation in product configurations that can significantly impact revenues, cost of revenues and gross profit performance. Pricing changes, discounting practices, product competition, foreign currency, unit volumes, customer mix, natural disasters and product material costs can also impact revenues, cost of revenues and/or gross profit performance. Disks are a significant component of our storage systems. Industry disk pricing has fallen every year; however, when supplies are constrained, disk prices may increase. To the extent that disk prices increase or decrease, we intend to pass along those price increases or decreases to our customers while working to maintain relatively constant profit margins on our disk drives. As our sales price per terabyte continues to decline, improved system performance, increased capacity and software to manage this increased capacity have an offsetting impact on product revenues.

[Table of Contents](#)

**Software Entitlements and Maintenance Revenues (in millions, except percentages):**

	Three Months Ended			Nine Months Ended		
	January 25,	January 27,	% Change	January 25,	January 27,	% Change
	2013	2012		2013	2012	
Software entitlements and maintenance revenues	\$ 228.6	\$ 203.5	12%	\$ 666.5	\$ 599.7	11%

SEM contracts provide customers entitlements to receive unspecified product upgrades and enhancements on a when-and-if-available basis, bug fixes and patch releases.

The increases in SEM revenues in each period were due to increases in the aggregate contract values of the installed base under SEM contracts, which is recognized as revenue ratably over the terms of the underlying contracts.

**Service Revenues (in millions, except percentages):**

	Three Months Ended			Nine Months Ended		
	January 25,	January 27,	% Change	January 25,	January 27,	% Change
	2013	2012		2013	2012	
Service revenues	\$ 340.8	\$ 299.3	14%	\$ 994.9	\$ 886.4	12%

Service revenues include hardware maintenance, professional services and educational and training services.

Hardware maintenance contract revenues comprised 75% and 73% of service revenues for the three and nine months ended January 25, 2013, respectively, and 71% and 70% for the three and nine months ended January 27, 2012, respectively. These revenues increased \$43.7 million, or 21%, and \$106.3 million, or 17%, during the three and nine months ended January 25, 2013, respectively, compared to the prior year, as a result of increases in the installed base and aggregate contract values under service contracts. Professional services and educational and training services comprised 25% and 27% of service revenues for the three and nine months ended January 25, 2013, respectively, and 29% and 30% of service revenues for the three and nine months ended January 27, 2012, respectively.

**Revenues by Geographic Area (in millions, except percentages):**

	Three Months Ended			Nine Months Ended		
	January 25,	January 27,	% Change	January 25,	January 27,	% Change
	2013	2012		2013	2012	
Americas (United States, Canada and Latin America)	\$ 882.8	\$ 853.7	3%	\$ 2,581.2	\$ 2,564.2	1%
Europe, Middle East and Africa (EMEA)	528.6	525.5	1%	1,405.6	1,411.1	— %
Asia Pacific (APAC)	218.7	186.3	17%	629.1	555.4	13%
Net revenues	<u>\$ 1,630.1</u>	<u>\$ 1,565.5</u>		<u>\$ 4,615.9</u>	<u>\$ 4,530.7</u>	

Americas revenues consist of Americas commercial and U.S. public sector markets. Sales to customers inside the United States comprised 88% and 86% of Americas net revenues during the three months ended January 25, 2013 and January 27, 2012, respectively, and 89% and 85% of Americas net revenues during the nine months ended January 25, 2013 and January 27, 2012, respectively. During both the three and nine months ended January 25, 2013, EMEA revenues were negatively impacted by the general macroeconomic conditions in the region, as well as unfavorable foreign currency rates during the nine months ended January 25, 2013. Sales to Germany accounted for \$163.8 million and \$181.9 million for the three months ended January 25, 2013 and January 27, 2012, respectively, and \$451.6 million and \$470.9 million for the nine months ended January 25, 2013 and January 27, 2012, respectively. No other foreign country accounted for 10% or more of our net revenues.

**Cost of Revenues**

Our cost of revenues consists of three elements: (1) cost of product revenues, which includes the costs of manufacturing and shipping of our storage products, amortization of purchased intangible assets, inventory write-downs, and warranty costs; (2) cost of SEM, which includes the costs of providing SEM and third-party royalty costs and (3) cost of service revenues, which reflects costs associated with providing support activities for hardware, global support partnership programs, professional services and educational and training services.

Our gross profit is impacted by a variety of factors, including pricing changes, discounting practices, foreign currency, product configuration, unit volumes, customer mix, revenue mix, natural disasters and product material costs. Service gross profit is typically impacted by factors such as changes in the size of our installed base of products, as well as the timing of support service initiations and renewals, and incremental investments in our customer support infrastructure. If any of these factors that impact our gross profit are adversely affected, whether by economic uncertainties or for other reasons, our gross profit could decline.

[Table of Contents](#)

**Cost of Product Revenues (in millions, except percentages):**

	Three Months Ended			Nine Months Ended		
	January 25, 2013	January 27, 2012	% Change	January 25, 2013	January 27, 2012	% Change
Cost of product revenues	\$ 512.5	\$ 517.8	(1)%	\$ 1,442.0	\$ 1,415.9	2%

The changes in cost of product revenues consisted of the following elements (in percentage points of the total change):

	Three Months Ended Fiscal 2013 to Fiscal 2012 Percentage Change Points	Nine Months Ended Fiscal 2013 to Fiscal 2012 Percentage Change Points
Materials cost	(4)	(1)
Warranty	2	2
Excess and obsolete inventory	1	1
Total change	(1)	2

Materials cost represented 83% and 86% of product costs for the three months ended January 25, 2013 and January 27, 2012, respectively, and decreased \$20.0 million from the prior year due to a change in mix of configured systems towards lower cost 2000 series systems, lower drive costs and lower OEM product volume. The decrease in materials cost reflects a 17% unit volume increase in configured systems. Other product costs of sales for the three months ended January 25, 2013 included a \$9.5 million increase in hardware-related warranty expense compared to the prior year.

Materials cost represented 83% and 85% of product costs for the nine months ended January 25, 2013 and January 27, 2012, respectively, and decreased \$12.3 million from the prior year due to change in mix of configured systems towards lower cost 2000 series systems, lower drive costs and lower OEM product volume. The decrease in materials cost reflects a 14% unit volume increase in configured systems. Other product costs of sales for the nine months ended January 25, 2013 included a \$32.9 million increase in hardware-related warranty expense and a \$9.6 million increase in inventory write-downs compared to the prior year.

Cost of product revenues represented 48% and 49% of product revenue for the three and nine months ended January 25, 2013, respectively, compared to 49% and 47% for the three and nine months ended January 27, 2012, respectively.

**Cost of Software Entitlements and Maintenance Revenues (in millions, except percentages):**

	Three Months Ended			Nine Months Ended		
	January 25, 2013	January 27, 2012	% Change	January 25, 2013	January 27, 2012	% Change
Cost of software entitlements and maintenance revenues	\$ 7.3	\$ 6.2	18%	\$ 20.9	\$ 17.1	22%

Cost of SEM revenues increases are primarily due to an increase in volume-related software support costs. Cost of SEM revenues represented 3% of SEM revenues for all periods presented.

**Cost of Service Revenues (in millions, except percentages):**

	Three Months Ended			Nine Months Ended		
	January 25, 2013	January 27, 2012	% Change	January 25, 2013	January 27, 2012	% Change
Cost of service revenues	\$ 145.4	\$ 133.0	9%	\$ 424.1	\$ 379.3	12%

Cost of service revenues increases are primarily due to increases in contract fulfillment, logistics and service delivery costs. Costs represented 43% and 44% of service revenues for the three months ended January 25, 2013 and January 27, 2012, respectively, and represented 43% of service revenues for each of the nine months ended January 25, 2013 and January 27, 2012.

[Table of Contents](#)

**Operating Expenses**

*Sales and Marketing, Research and Development, and General and Administrative Expenses*

Compensation costs comprise the largest component of operating expenses. Included in compensation costs are salaries, benefits, other compensation-related costs, stock-based compensation costs and employee incentive compensation plan costs.

Compensation costs included in operating expenses increased \$10.3 million, or 3%, for the three months ended January 25, 2013 compared to the prior year, primarily due to:

(i) an increase in salaries, benefits and other compensation-related costs of \$21.3 million due to increases in average headcount;

(ii) partially offset by a decrease in stock-based compensation of \$8.2 million related to the reset of the employee stock purchase plan (ESPP) offering triggered by the decline in our stock price below the grant date prices of the offerings that vested during the three months ended January 27, 2012.

In addition, commissions expense included in operating expenses decreased \$11.5 million, or 17%, for the three months ended January 25, 2013 as a result of lower sales attainment against goals as compared to the prior year.

Compensation costs included in operating expenses increased \$91.7 million, or 8% for the nine months ended January 25, 2013 compared to the prior year, primarily due to:

(i) an increase in salaries, benefits and other compensation-related costs of \$63.0 million due to increases in average headcount;

(ii) an increase in stock-based compensation of \$12.0 million due to increases in average headcount. Stock-based compensation expense included \$12.8 million and \$10.9 million during the nine months ended January 25, 2013 and January 27, 2012, respectively, from the reset of ESPP offerings triggered by the declines in our stock price below the grant date prices of the offerings that vested during the respective periods and

(iii) an increase in incentive compensation expense of \$16.7 million, reflecting increased headcount and stronger revenue and operating performance against goals as compared to the prior year.

In addition, commissions expense included in operating expenses decreased \$7.9 million, or 4%, for the nine months ended January 25, 2013 as a result of lower sales attainment against goals as compared to the prior year.

*Sales and Marketing Expenses (in millions, except percentages):*

	Three Months Ended			Nine Months Ended		
	January 25, 2013	January 27, 2012	% Change	January 25, 2013	January 27, 2012	% Change
Sales and marketing expenses	\$ 493.5	\$ 477.0	3%	\$ 1,464.6	\$ 1,385.9	6%

Sales and marketing expense consists primarily of compensation costs, commissions, outside services, allocated facilities and information technology (IT) costs, advertising and marketing promotional expense and travel and entertainment expense. Sales and marketing expenses increased due to the following:

	Three Months Ended Fiscal 2013 to Fiscal 2012 Percentage Change Points	Nine Months Ended Fiscal 2013 to Fiscal 2012 Percentage Change Points
Salaries	2	2
Incentive plan compensation	—	1
Stock-based compensation	(1)	1
Total compensation costs	1	4
Commissions	(2)	(1)
Outside services	1	—
Facilities and IT support costs	1	2
Advertising and marketing promotional expense	1	1
Other	1	—
Total change	3	6

## [Table of Contents](#)

The increases in total compensation costs during the three and nine months ended January 25, 2013 reflect increases of 8% and 10%, respectively, in average sales and marketing headcount compared to the prior year. Total compensation costs during the three months ended January 25, 2013 reflect lower stock-based compensation expense, while total compensation costs during the nine months ended January 25, 2013 reflect higher stock-based compensation expense and incentive compensation expense compared to the prior year. Commissions expense decreased for the three and nine months ended January 25, 2013, while facilities and IT support costs increased during the three and nine months ended January 25, 2013 due to our increased investment in IT systems.

*Research and Development Expense (in millions, except percentages):*

	Three Months Ended			Nine Months Ended		
	January 25,	January 27,	% Change	January 25,	January 27,	% Change
	2013	2012		2013	2012	
Research and development expenses	\$ 215.6	\$ 208.3	4%	\$ 660.8	\$ 606.6	9%

Research and development expense consists primarily of compensation costs, allocated facilities and IT costs, depreciation and amortization, equipment and software-related costs, prototypes, non-recurring engineering charges and other outside services costs. Research and development expense increased due to the following:

	Three Months Ended Fiscal 2013 to Fiscal 2012 Percentage Change Points	Nine Months Ended Fiscal 2013 to Fiscal 2012 Percentage Change Points
Salaries	4	3
Incentive plan compensation	(1)	1
Stock-based compensation	(1)	1
Other compensation and benefit costs	—	1
Total compensation costs	2	6
Depreciation and amortization	2	2
Development projects	—	1
Total change	4	9

The increases in total compensation costs during the three and nine months ended January 25, 2013 reflect increases of 6% and 10%, respectively, in average engineering headcount compared to the prior year. Total compensation costs for the three months ended January 25, 2013 reflect lower stock-based compensation and incentive compensation expense, while total compensation costs during the nine months ended January 25, 2013 reflect higher stock-based compensation expense and incentive plan compensation expense. Depreciation and amortization increased during the three and nine months ended January 25, 2013 due to higher levels of investment in engineering equipment. The increase in development project expense during the nine months ended January 25, 2013 reflects increased spending on materials and services associated with engineering activities to develop new product lines and enhancements to existing products.

We believe that our future performance will depend in large part on our ability to maintain and enhance our current product line, develop new products that achieve market acceptance, maintain technological competitiveness and meet an expanding range of customer requirements. We expect to continue to spend on current and future product development efforts, broaden our existing product offerings and introduce new products that expand our solutions portfolio.

*General and Administrative Expense (in millions, except percentages):*

	Three Months Ended			Nine Months Ended		
	January 25,	January 27,	% Change	January 25,	January 27,	% Change
	2013	2012		2013	2012	
General and administrative expenses	\$ 66.2	\$ 63.2	5%	\$ 198.4	\$ 193.4	3%



## Table of Contents

General and administrative expense consists primarily of compensation costs, professional and corporate legal fees, outside services and allocated facilities and IT support costs. General and administrative expense increased due to the following:

	Three Months Ended Fiscal 2013 to Fiscal 2012 Percentage Change Points	Nine Months Ended Fiscal 2013 to Fiscal 2012 Percentage Change Points
Salaries	3	2
Incentive plan compensation	(1)	2
Stock-based compensation	(1)	—
Other compensation and benefit costs	1	—
Total compensation costs	2	4
Outside services	(1)	(3)
Professional and corporate legal fees	—	1
Travel and entertainment	1	—
Facilities and IT support costs	1	—
Other	2	1
Total change	5	3

The increases in total compensation costs reflect increases of 8% in average general and administrative headcount during each of the three and nine months ended January 25, 2013 compared to the prior year. Total compensation costs for the three months ended January 25, 2013 reflect lower stock-based compensation and incentive compensation expense, while total compensation costs for the nine months ended January 25, 2013 reflect higher incentive compensation expense. The decreases in outside services during the three and nine months ended January 25, 2013 reflect lower spending on contractors and various operational projects. Additionally, the decrease in outside services during the three and nine months ended January 25, 2013 reflects costs associated with Engenio integration activities that were completed in fiscal 2012. The increase in professional and corporate legal fees for the nine months ended January 25, 2013 reflects costs associated with various corporate projects.

*Acquisition-related Expense (in millions, except percentages):*

	Three Months Ended			Nine Months Ended		
	January 25, 2013	January 27, 2012	% Change	January 25, 2013	January 27, 2012	% Change
Acquisition-related expense	\$ 1.7	\$ 3.5	(51)%	\$ 1.7	\$ 7.4	(77)%

During the three months ended January 25, 2013, we incurred \$1.7 million of acquisition costs associated with our acquisition of CacheIQ, Inc., primarily related to severance costs associated with the termination of certain CacheIQ employees as a result of the acquisition. During the three and nine months ended January 27, 2012, we incurred due diligence, legal and integration costs of \$3.5 million and \$7.4 million, respectively, associated with our fiscal 2012 acquisition of Engenio.

### **Other Expense, Net**

*Interest Income (in millions, except percentages):*

	Three Months Ended			Nine Months Ended		
	January 25, 2013	January 27, 2012	% Change	January 25, 2013	January 27, 2012	% Change
Interest income	\$ 10.3	\$ 8.7	18%	\$ 32.1	\$ 27.6	16%

The increases in interest income were primarily due to increases in our investment portfolio.

*Interest Expense (in millions, except percentages):*

	Three Months Ended			Nine Months Ended		
	January 25, 2013	January 27, 2012	% Change	January 25, 2013	January 27, 2012	% Change
Interest expense	\$ (24.0)	\$ (18.9)	27%	\$ (63.7)	\$ (54.7)	16%

During the three months ended January 25, 2013 and January 27, 2012, we recognized non-cash interest expense from the amortization of debt discount and issuance costs related to our debt, net of capitalized interest, of \$15.3 million and \$13.5 million, respectively. The coupon interest expense related to our debt, net of capitalized interest, was \$8.4 million and \$5.2 million during the three months ended January 25, 2013 and January 27, 2012, respectively. Total interest expense related to the Convertible Notes and the Senior Notes was \$20.6 million and \$3.1 million, respectively, for the three months ended January 25, 2013 and was \$18.7 million and none for the three months ended January 27, 2012, respectively.

## Table of Contents

During the nine months ended January 25, 2013 and January 27, 2012, we recognized non-cash interest expense from the amortization of debt discount and issuance costs related to our debt, net of capitalized interest, of \$44.0 million and \$38.7 million, respectively. The coupon interest expense related to our debt, net of capitalized interest, was \$19.1 million and \$15.2 million during the nine months ended January 25, 2013 and January 27, 2012, respectively. Total interest expense related to the Convertible Notes and the Senior Notes was \$60.0 million and \$3.1 million, respectively, for the nine months ended January 25, 2013 and \$53.9 million and none for the nine months ended January 27, 2012, respectively.

*Other Income (Expense), Net (in millions, except percentages):*

	Three Months Ended			Nine Months Ended		
	January 25, 2013	January 27, 2012	% Change	January 25, 2013	January 27, 2012	% Change
Other income (expense), net	\$ 1.6	\$ 0.6	167%	\$ 5.9	\$ (0.1)	NM

NM - Not Meaningful

The increase in other income (expense), net during the nine months ended January 25, 2013 is primarily due to net foreign exchange gains of \$3.7 million.

*Provision for Income Taxes (in millions, except percentages):*

	Three Months Ended			Nine Months Ended		
	January 25, 2013	January 27, 2012	% Change	January 25, 2013	January 27, 2012	% Change
Provision for income taxes	\$ 17.7	\$ 27.3	(35)%	\$ 46.2	\$ 73.2	(37)%

Our effective tax rate for the three months ended January 25, 2013 was 10.1% compared to an effective tax rate of 18.6% for the three months ended January 27, 2012. Our effective tax rate for the nine months ended January 25, 2013 was 12.2% compared to an effective tax rate of 14.7% for the nine months ended January 27, 2012. Our effective tax rates for the three and nine months ended January 25, 2013 and January 27, 2012 differ from the U.S. statutory rate of 35% because our foreign earnings are taxed at rates lower than the U.S. statutory rate.

On January 2, 2013, the American Taxpayer Relief Act of 2012 (the Act) was signed into law. Under the Act, the federal research credit was retroactively extended for amounts paid or incurred after December 31, 2011, and before January 1, 2014. As a result of the extension, during the three months ended January 25, 2013, we recorded a benefit of \$8.2 million related to the current year research credit and a discrete benefit of \$3.2 million related to prior year credits that we will retroactively claim. Unless extended again, the federal research credit will expire on December 31, 2013.

Our provision for income taxes and effective tax rates decreased for the three and nine months ended January 25, 2013 compared to the prior year as a result of lower pre-tax income in the United States, the benefit from the January 2, 2013 extension of the federal research credit and a discrete tax expense of \$11.7 million related to the IRS settlement and resulting remeasurement of a tax position which was included in the prior year.

As of January 25, 2013, we had \$170.0 million of unrecognized tax benefits, of which \$116.8 million has been recorded in other long-term liabilities. Unrecognized tax benefits of \$100.8 million, including penalties and interest, would affect our provision for income taxes if recognized. During the nine months ended January 25, 2013, there was a gross increase in our unrecognized tax benefits of \$14.8 million for tax positions related to the current year, and a gross increase of \$1.0 million and gross decrease of \$6.8 million for tax positions related to prior years.

## Liquidity and Capital Resources

The following sections discuss our principal liquidity requirements, as well as our sources and uses of cash flows on our liquidity and capital resources. The principal objectives of our investment policy are the preservation of principal and maintenance of liquidity. We attempt to mitigate default risk by investing in high-quality investment grade securities, limiting the time to maturity and monitoring the counter-parties and underlying obligors closely. We believe our cash equivalents and short-term investments are liquid and accessible. We are not aware of any significant deterioration in the fair value of our cash equivalents or investments from the values reported as of January 25, 2013.

## [Table of Contents](#)

### ***Liquidity, Capital Resources and Cash Requirements***

(Dollars in Millions)	<u>January 25, 2013</u>	<u>April 27, 2012</u>
Cash and cash equivalents and short-term investments	\$ 6,723.9	\$ 5,398.5
Current portion of principal amount of Convertible Notes	1,264.9	1,264.9
Principal amount of Senior Notes	1,000.0	0.0
Debt as a % of stockholders' equity	48%	28%

The following is a summary of our cash flows (in millions):

(In Millions)	<u>Nine Months Ended</u>	
	<u>January 25, 2013</u>	<u>January 27, 2012</u>
Net cash provided by operating activities	\$ 930.7	\$ 880.0
Net cash used in investing activities	(122.0)	(784.1)
Net cash provided by (used in) financing activities	725.1	(415.2)
Effect of exchange rate changes on cash and cash equivalents	(1.9)	(17.1)
Net increase (decrease) in cash and cash equivalents	<u>\$ 1,531.9</u>	<u>\$ (336.4)</u>

### ***Cash Flows***

As of January 25, 2013, our cash, cash equivalents and short-term investments increased by \$1.3 billion from April 27, 2012, to \$6.7 billion. The increase was primarily a result of \$987.3 million of proceeds, net, received from the issuance of long-term debt, \$930.7 million of cash provided by operating activities and \$204.1 million from maturities and sales of investments, net of purchases, partially offset by \$410.0 million in cash paid for the repurchase of common stock, \$239.7 million in capital expenditures and \$89.4 million in cash paid for the acquisition of CacheIQ. We derive our liquidity and capital resources primarily from our operating cash flows and from working capital. Accounts receivable days sales outstanding as of January 25, 2013 decreased to 35 days, compared to 44 days as of April 27, 2012, primarily due to improvements in shipment linearity and faster collections. Working capital increased by \$1.1 billion to \$4.4 billion as of January 25, 2013, primarily due to the net increase in cash, cash equivalents and short-term investments as a result of the issuance of the long-term debt.

#### *Cash Flows from Operating Activities*

During the nine months ended January 25, 2013, we generated cash from operating activities of \$930.7 million. The primary sources of cash from operating activities during the nine months ended January 25, 2013 consisted of net income of \$331.5 million, adjusted by depreciation and amortization of \$255.5 million and stock-based compensation of \$211.5 million.

Changes in assets and liabilities as of January 25, 2013 compared to April 27, 2012 included the following:

- *Accounts receivable* decreased due to improvements in shipping linearity and faster collections and
- *Deferred revenue* increased due to an increase in deferred SEM and service revenue driven by service contract sales and renewals.

We expect that cash provided by operating activities may materially fluctuate in future periods as a result of a number of factors, including fluctuations in our operating results, shipment linearity, accounts receivable collections performance, inventory and supply chain management, tax benefits or charges from stock-based compensation, and the timing and amount of compensation and other payments.

#### *Cash Flows from Investing Activities*

During the nine months ended January 25, 2013, we generated \$204.1 million from maturities and sales of investments, net of purchases, paid \$239.7 million for capital expenditures, including \$69.6 million related to buildings and land associated with the buyout of our remaining synthetic leases and completed our acquisition of CacheIQ for a total cash payment of \$89.4 million.

---

## [Table of Contents](#)

### *Cash Flows from Financing Activities*

During the nine months ended January 25, 2013, we generated \$987.3 million, net, from the issuance of long-term debt and used \$410.0 million for the repurchase of 12.8 million shares of common stock at an average price of \$32.10 per share.

### *Liquidity*

Our principal sources of liquidity as of January 25, 2013 consisted of cash, cash equivalents and short-term investments, as well as cash we expect to generate from operations.

Cash, cash equivalents and short-term investments consist of the following (in millions):

	<u>January 25, 2013</u>	<u>April 27, 2012</u>
Cash and cash equivalents	\$ 3,081.7	\$ 1,549.8
Short-term investments	3,642.2	3,848.7
Total	<u>\$ 6,723.9</u>	<u>\$ 5,398.5</u>

As of January 25, 2013, \$3.4 billion of cash, cash equivalents and short-term investments were held in the United States, while \$3.3 billion were held in foreign countries. Most of the amounts held outside the United States can be repatriated to the United States but, under current law, would be subject to U.S. federal and state income taxes. If we were to repatriate foreign earnings for cash requirements in the United States, we would incur U.S. federal and state income taxes reduced by the current amount of our U.S. federal and state net operating loss and tax credit carry forwards. However, our intent is to keep these funds permanently reinvested outside of the United States, and our current plans do not contemplate a need to repatriate them to fund our U.S. operations. Our principal liquidity requirements are primarily to meet our working capital needs, support ongoing business activities, fund research and development, meet capital expenditure needs, invest in critical or complementary technologies, and service interest and principal payments on our debt. Our contractual obligations as of January 25, 2013 are summarized below in the Contractual Obligations table.

Key factors that could affect our cash flows include changes in our revenue mix and profitability, our ability to effectively manage our working capital, in particular, accounts receivable and inventories, our ability to effectively integrate acquired products, businesses and technologies and the timing of repayments of our debt. Based on our current business outlook, we believe that our sources of cash will satisfy our working capital needs, capital expenditures, investment requirements, stock repurchases, contractual obligations, commitments, principal and interest payments on our debt and other liquidity requirements associated with operations and meet our cash requirements for at least the next 12 months. However, in the event our liquidity is insufficient, we may be required to curtail spending and implement additional cost saving measures and restructuring actions. We cannot be certain that we will continue to generate cash flows at or above current levels or that we will be able to obtain additional financing, if necessary, on satisfactory terms, if at all.

Our investment portfolio, including auction rate securities, has been and will continue to be exposed to market risk due to trends in the credit and capital markets. We continue to closely monitor current economic and market events to minimize our market risk on our investment portfolio. Based on our ability to access our cash and short-term investments, our expected operating cash flows, and our other potential sources of cash, we do not anticipate that the lack of liquidity of these investments will impact our ability to fund working capital needs, capital expenditures, acquisitions, debt obligations or other cash requirements. We routinely monitor our financial exposure to both sovereign and non-sovereign borrowers and counterparties. Our gross exposures to our investments in Greece, Italy, Portugal, and Spain are individually and collectively not material.

### *Long-term Debt*

We have an automatic shelf registration statement on file with the SEC pursuant to which we may offer an unspecified amount of debt, equity and other securities. In the third quarter of fiscal 2013, we utilized this shelf registration statement and issued \$1.0 billion aggregate principal of senior unsecured notes consisting of \$750.0 million of 2.00% Senior Notes due 2017 and \$250.0 million of 3.25% Senior Notes due 2022, collectively referred to as the Senior Notes. The Senior Notes were issued primarily for general corporate purposes, including repayment of certain indebtedness, capital expenditures, possible stock repurchases, working capital and potential acquisitions and strategic transactions. For further information on the terms of the Senior Notes, see Note 9 of the accompanying condensed consolidated financial statements.

We also have outstanding Convertible Notes, which have a principal amount of \$1.265 billion, become unconditionally convertible at the option of the holders on March 1, 2013 and mature on June 1, 2013 unless earlier repurchased or converted (see Note 9 of the accompanying condensed consolidated financial statements). Upon conversion of our Convertible Notes, we will deliver cash up to the principal amount of the Convertible Notes and, with respect to any excess conversion value greater than the principal amount of the Convertible Notes, shares of our common stock.

## [Table of Contents](#)

### *Credit Facility*

We have an unsecured \$250.0 million five-year revolving credit facility that terminates on December 21, 2017 if no extensions have been requested, that contains financial covenants requiring us to maintain a maximum leverage ratio and a minimum interest coverage ratio. We may also, subject to certain requirements, request an increase in the facility up to an additional \$100.0 million and request two additional one-year extensions, subject to certain conditions. As of January 25, 2013, no borrowings were outstanding under the facility and we were in compliance with all covenants associated with the facility.

### *Capital Expenditure Requirements*

We expect to fund our capital expenditures, including our commitments related to facilities, equipment, operating leases and internal-use software development projects over the next few years through existing cash, cash equivalents, investments and cash generated from operations. The timing and amount of our capital requirements cannot be precisely determined and will depend on a number of factors, including future demand for products, changes in the network storage industry, hiring plans and our decisions related to the financing of our facilities and equipment requirements. We expect that our existing facilities and those being developed in California, North Carolina, India and other locations worldwide are adequate for our requirements over at least the next two years and that additional space will be available as needed. Our capital expenditures were \$239.7 million during the nine months ended January 25, 2013. We anticipate capital expenditures for the remainder of fiscal 2013 to be between \$50.0 million and \$100.0 million.

### *Share Repurchase*

As of January 25, 2013, our Board of Directors had authorized the repurchase of up to \$5.5 billion of our common stock under our stock repurchase program; the remaining authorized amount for stock repurchases under this program was \$1.6 billion with no termination date. Under this program, we may purchase shares of our outstanding common stock through open market and privately negotiated transactions at prices deemed appropriate by our management. The stock repurchase program may be suspended or discontinued at any time. During the nine months ended January 25, 2013 we repurchased 12.8 million shares of our common stock. We expect to repurchase additional shares under this program in the remainder of fiscal 2013.

### *Contractual Obligations*

The following table summarizes our contractual obligations as of January 25, 2013 and the effect such obligations are expected to have on our liquidity and cash flows in future periods (in millions):

	Remainder of 2013	2014	2015	2016	2017	Thereafter	Total
<b>Off-balance sheet commitments:</b>							
Office operating lease payments	\$ 6.7	\$ 38.7	\$ 36.8	\$33.1	\$17.7	\$ 37.9	\$ 170.9
Equipment operating lease payments	7.0	22.9	13.5	7.0	1.2	—	51.6
Purchase commitments with contract manufacturers <sup>(1)</sup>	281.0	1.2	0.2	—	—	—	282.4
Capital expenditures	19.1	54.2	16.0	4.3	—	—	93.6
Other purchase obligations <sup>(2)</sup>	51.2	57.5	40.7	19.5	11.7	1.7	182.3
Total off balance-sheet commitments	365.0	174.5	107.2	63.9	30.6	39.6	780.8
Long-term debt obligations <sup>(3)</sup>	1,264.9	34.4	23.1	23.1	23.1	1,063.8	2,432.4
Long-term financing arrangements	1.9	6.3	4.0	3.6	1.3	—	17.1
Uncertain tax positions <sup>(4)</sup>	—	—	—	—	—	—	119.5
Total	<u>\$1,631.8</u>	<u>\$215.2</u>	<u>\$134.3</u>	<u>\$90.6</u>	<u>\$55.0</u>	<u>\$1,103.4</u>	<u>\$3,349.8</u>
<b>Other Commercial Commitments:</b>							
Letters of credit	<u>\$ 3.0</u>	<u>\$ 2.1</u>	<u>\$ 0.3</u>	<u>\$ 0.6</u>	<u>\$ 1.8</u>	<u>\$ 1.5</u>	<u>\$ 9.3</u>

(1) Contract manufacturer commitments consist of obligations for on-hand inventories and non-cancelable purchase orders with our contract manufacturers. As of January 25, 2013, we recorded accruals of \$8.1 million for firm, non-cancelable purchase commitments with contract manufacturers for quantities in excess of our future demand forecasts, which is consistent with the valuation of our excess and obsolete inventory.

---

## Table of Contents

- (2) Purchase obligations represent an estimate of all open purchase orders and contractual obligations in the ordinary course of business, other than commitments with contract manufacturers and suppliers, for which we have not received the goods or services. Purchase obligations do not include contracts that may be cancelled without penalty. Although open purchase orders are considered enforceable and legally binding, the terms generally allow us the option to cancel, reschedule, and adjust our requirements based on our business needs prior to the delivery of goods or performance of services.
- (3) Included in long-term debt are obligations related to:
- (a) \$1.265 billion principal amount of our Convertible Notes (see Note 9 of the accompanying condensed consolidated financial statements), which become unconditionally convertible at the option of the holders in March 2013 and mature in June 2013 unless earlier repurchased or converted and
  - (b) \$1.0 billion principal amount of our Senior Notes, of which \$750.0 million is due in December 2017 and \$250.0 million is due in December 2022.
- Estimated interest payments for our long-term debt, assuming no early retirement of debt obligations are \$167.5 million for fiscal 2014 through fiscal 2023.
- (4) As of January 25, 2013, our liability for uncertain tax positions was \$119.5 million, including interest and penalties, which due to the uncertainty of the timing of future payments, are presented in the total column on a separate line in this table.

Some of the amounts in the table above are based on management's estimates and assumptions, including the commitment duration, the possibility of renewal or termination, anticipated actions by management and third parties and other factors. Because these estimates and assumptions are subjective, our actual future obligations may vary from those reflected in the table. We expect to fund our contractual obligations and other commitments in the table above through existing cash, cash equivalents, investments, and cash generated from operations or obtain additional financing, if necessary.

In December 2012 and January 2013, we terminated our three remaining synthetic leasing arrangements and purchased the facilities, including land and buildings, for \$69.6 million. The terminations did not result in a material impact to our operating results.

### ***Legal Contingencies***

We are subject to various legal proceedings and claims which arise in the normal course of business. See further details on such matters in Note 15 to our condensed consolidated financial statements.

### ***Off-Balance Sheet Arrangements***

In the ordinary course of business, we provide standby letters of credit or other guarantee instruments to third parties as required for certain transactions initiated either by us or our subsidiaries. As of January 25, 2013, our financial guarantees of \$9.3 million that were not recorded on our condensed consolidated balance sheet consisted of standby letters of credit related to workers' compensation, a customs guarantee, a corporate credit card program, foreign rent guarantees and surety bonds, which were primarily related to self-insurance.

In the ordinary course of business, some of our customers have entered into recourse and non-recourse financing leasing arrangements using third-party financing companies, and in some situations, we enter into customer financing arrangements for our products and services that are contemporaneously sold on a recourse or non-recourse basis to third-party financing companies. During the terms of recourse leases, which are generally three years or less, we remain liable for the aggregate unpaid remaining lease payments to the third-party leasing companies in the event of end-user customer default. Where we provide a guarantee for recourse leases, we defer revenues subject to the industry-specific software revenue recognition guidance, and recognize revenues for non-software deliverables in accordance with our multiple deliverable revenue arrangement policy. As of January 25, 2013, the maximum guaranteed payment contingencies under our financing arrangements totaled \$180.9 million, and the related deferred revenue totaled \$164.4 million.

We enter into indemnification agreements with third parties in the ordinary course of business. Generally, these indemnification agreements require us to reimburse losses suffered by the third-parties due to various events, such as lawsuits arising from patent or copyright infringement. These indemnification obligations are considered off-balance sheet arrangements under accounting guidance.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to market risk related to fluctuations in interest rates, market prices, and foreign currency exchange rates. We use certain derivative financial instruments to manage these risks. We do not use derivative financial instruments for speculative or trading purposes. All financial instruments are used in accordance with management-approved policies.

#### **Market Risk and Market Interest Risk**

*Investment and Interest Income* — As of January 25, 2013, we had debt investments of \$3.7 billion. Our investment portfolio primarily consists of investments with original maturities greater than three months at the date of purchase, which are classified as available-for-sale investments. These investments, which consist primarily of corporate bonds, commercial paper, certificates of deposit, U.S. Treasury securities and U.S. government agency securities, are subject to interest rate and interest income risk and will decrease in value if market interest rates increase. A hypothetical 100 basis point increase in market interest rates from levels as of January 25, 2013 would have resulted in a decrease in the fair value of our fixed-income securities of approximately \$42 million. Volatility in market interest rates over time will cause variability in our interest income. We do not use derivative financial instruments in our investment portfolio.

Our investment policy is to limit credit exposure through diversification and investment in highly rated securities. We further mitigate concentrations of credit risk in our investments by limiting our investments in the debt securities of a single issuer and by diversifying risk across geographies and type of issuer. We actively review, along with our investment advisors, current investment ratings, company-specific events and general economic conditions in managing our investments and in determining whether there is a significant decline in fair value that is other-than-temporary. We monitor and evaluate our investment portfolio on a quarterly basis for any other-than-temporary impairments.

We are also exposed to market risk relating to our auction rate securities (ARS) due to uncertainties in the credit and capital markets. As of January 25, 2013, our holdings in these securities had a par value of \$45.6 million and an estimated fair value of \$42.2 million. The fair value of our ARS may change significantly due to events and conditions in the credit and capital markets. These securities/issuers could be subject to review for possible downgrade. Any downgrade in these credit ratings may result in an additional decline in the estimated fair value of our ARS. Changes in the various assumptions used to value these securities and any increase in the market's perceived risk associated with such investments may also result in a decline in estimated fair value.

*Debt* — As of January 25, 2013, we have outstanding \$1.265 billion principal amount of Convertible Notes due in June 2013 and \$1.0 billion aggregate principal amount of our Senior Notes due in December 2017 and December 2022. We carry these instruments at face value less unamortized discount on our balance sheets. Since these instruments bear interest at fixed rates, we have no financial statement risk associated with changes in interest rates. However, the fair value of these instruments fluctuates when interest rates change, and in the case of Convertible Notes, when the market price of our stock fluctuates. See Note 9 of the accompanying condensed consolidated financial statements for more information.

*Credit Facility* — We are exposed to the impact of changes in interest rates in connection with our \$250.0 million five-year revolving credit facility. Borrowings under the facility accrue interest at rates that vary based on certain market rates and our credit rating on our Senior Notes. Consequently, our interest expense would fluctuate with any changes in these market interest rates or in our credit rating if we were to borrow any amounts under the credit facility. As of January 25, 2013, no amounts were outstanding under the credit facility.

#### **Foreign Currency Exchange Rate Risk and Foreign Exchange Forward Contracts**

We hedge risks associated with foreign currency transactions to minimize the impact of changes in foreign currency exchange rates on earnings. We utilize forward and option contracts to hedge against the short-term impact of foreign currency fluctuations on certain foreign-currency-denominated monetary assets and liabilities. We also use foreign exchange forward contracts to hedge foreign currency exposures related to forecasted sales transactions denominated in certain foreign currencies. These derivatives are designated and qualify as cash flow hedges under accounting guidance for derivatives and hedging.

We do not enter into foreign exchange contracts for speculative or trading purposes. In entering into foreign exchange forward and option contracts, we have assumed the risk that might arise from the possible inability of counterparties to meet the terms of the contracts. We attempt to limit our exposure to credit risk by executing foreign exchange contracts with creditworthy multinational commercial banks. All contracts have a maturity of less than one year.

---

[Table of Contents](#)

The following table provides information about our currency forward contracts outstanding as of January 25, 2013 (in millions):

<u>Currency</u>	<u>Local Currency Amount</u>	<u>Notional Contract Amount (USD)</u>	<u>Fair Value (USD)</u>
<b>Forward Purchase Contracts:</b>			
Euro	243.4	\$327.4	\$327.8
British Pound Sterling	47.6	75.2	75.2
Australian Dollar	88.2	91.6	91.7
Israeli Shekel	83.0	22.3	22.3
Canadian Dollar	19.9	19.7	19.8
Swiss Franc	9.5	10.3	10.3
Other	N/A	46.8	46.8



**Item 4. Controls and Procedures**

*Disclosure Controls and Procedures*

The phrase “disclosure controls and procedures” refers to controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended (the Exchange Act), such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the U.S. Securities and Exchange Commission (SEC). Disclosure controls and procedures are also designed to ensure that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of January 25, 2013, the end of the fiscal period covered by this Quarterly Report on Form 10-Q (the Evaluation Date). Based on this evaluation, our CEO and CFO concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that the information required to be disclosed in our SEC reports (i) is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

*Changes in Internal Control Over Financial Reporting*

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) identified in connection with our evaluation that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings

None

### Item 1A. Risk Factors

*The following risk factors and other information included in this Quarterly Report on Form 10-Q should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we presently deem less significant may also impair our business operations. Please see Part I Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations of this Quarterly Report on Form 10-Q for a discussion of the forward-looking statements that are qualified by these risk factors. If any of the events or circumstances described in the following risk factors actually occurs, our business, operating results, and financial condition could be materially adversely affected.*

***Our operating results may be adversely affected by uncertain economic and market conditions.***

We are subject to the effects of general global economic and market conditions. Challenging economic conditions worldwide or in certain geographic regions, such as the continuing fiscal challenges in the United States and Europe, have from time to time contributed to slowdowns in the computer, storage, and networking industries at large, as well as the information technology (IT) market, resulting in:

- Reduced demand for our products as a result of constraints on IT-related spending by our customers;
- Increased price competition for our products from competitors;
- Deferment of purchases and orders by customers due to budgetary constraints or changes in current or planned utilization of our systems;
- Risk of supply constraints;
- Risk of excess and obsolete inventories;
- Inability of customers to obtain credit to finance purchases of our product and services, failure of customers to pay or defaults by customers on credit extended to them;
- Negative impact on our treasury operations from counterparty failures;
- Excess facilities costs;
- Higher overhead costs as a percentage of revenues;
- Negative impacts from increased financial pressures on customers, distributors and resellers;
- Negative impacts from increased financial pressures on key suppliers or contract manufacturers; and
- Potential discontinuance of product lines and related asset impairments.

Any of the above-mentioned factors could have a material and adverse effect on our business and financial performance.

***Our quarterly operating results may fluctuate, which could adversely impact our common stock price.***

We believe that period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as indicators of future performance. Our operating results have been in the past, and will continue to be, subject to quarterly fluctuations as a result of numerous factors, some of which may contribute to more pronounced fluctuations during times of economic volatility. These factors include, but are not limited to, the following:

- Fluctuations in demand for our products and services, in part due to changes in general economic conditions and specific economic conditions in the storage and data management market;

---

## Table of Contents

- A shift in government spending patterns, particularly in light of continued worries about government debt levels and spending;
- Changes in sales and implementation cycles for our products and reduced visibility into our customers' spending plans and associated revenues;
- The level of price and product competition in our target markets;
- The impact of economic uncertainty on our customers' budgets and IT spending capacity;
- Our ability to maintain appropriate inventory levels and purchase commitments;
- Our reliance on a limited number of suppliers and industry consolidation in our supply base, which could subject us to periodic supply-and-demand, price rigidity, and quality issues with our components;
- Our ability to maintain product quality generally;
- The timing and type of bookings, the cancellation of significant orders and the management of, or fluctuations in, our backlog;
- Product configuration and mix;
- The extent to which our customers renew their service and maintenance contracts with us;
- Seasonality, such as our historical seasonal decline in revenues in the first quarter of our fiscal year and seasonal increase in revenues in the second quarter of our fiscal year, with the latter due in part to the impact of the U.S. federal government's September 30 fiscal year end on the timing of its orders;
- Linearity, such as our historical intra-quarter bookings and revenue pattern in which a disproportionate percentage of each quarter's total bookings and related revenue occur in the last month of the quarter;
- Announcements and introductions of, and transitions to, new products by us or our competitors;
- Deferrals of customer orders in anticipation of new products or product enhancements introduced by us or our competitors;
- Our ability to develop, introduce, and market new products and enhancements in a timely manner;
- Our ability to effectively integrate acquired products and technologies;
- Our levels of expenditure on research and development and sales and marketing programs;
- Our ability to effectively manage our operating expenses;
- Adverse movements in foreign currency exchange rates in the countries in which we do business;
- The dilutive impact of our \$1.265 billion of 1.75% Convertible Senior Notes due June 2013 (the Convertible Notes) and related warrants on our earnings per share;
- Excess or inadequate facilities;
- Actual events, circumstances, outcomes and amounts differing from judgments, assumptions, and estimates used in determining the values of certain assets (including the amounts of valuation allowances), liabilities, and other items reflected in our condensed consolidated financial statements;
- Disruptions resulting from new systems and processes as we continue to enhance and scale our infrastructure; and
- Future accounting pronouncements and changes in accounting rules, such as the increased use of fair value measures, changes in accounting standards related to revenue recognition, lease accounting, and financial instruments and the potential requirement that U.S. registrants prepare financial statements in accordance with International Financial Reporting Standards (IFRS).

---

## [Table of Contents](#)

Due to such factors, operating results for future periods are difficult to predict, and, therefore, prior results are not necessarily indicative of results to be expected in future periods. Any of the foregoing factors, or any other factors discussed elsewhere herein, could have a material adverse effect on our business, results of operations, and financial condition. It is possible that in one or more quarters our results may fall below our forecasts and the expectations of public market analysts and investors. In such event, the trading price of our common stock would likely decrease.

***Our revenues for a particular period are difficult to forecast, and a shortfall in revenues may harm our business and our operating results.***

Our revenues for a particular period are difficult to forecast, especially in times of economic uncertainty. Because the storage and data management market is rapidly evolving, our sales cycle varies substantially from customer to customer, and we rely increasingly on sales through our indirect channel partners, including value-added resellers, systems integrators, distributors, original equipment manufacturers (OEMs) and strategic business partners. New product introductions and the transition from old to new products also increase the complexities of forecasting revenues.

In addition, we derive a majority of our revenues in any given quarter from orders booked in the same quarter. Bookings typically follow intra-quarter seasonality patterns weighted toward the back end of the quarter. If we do not achieve bookings in the latter part of a quarter consistent with our quarterly targets, our financial results will be adversely impacted. Additionally, due to the complexities associated with revenue recognition, we may not accurately forecast our non-deferred and deferred revenues, which could adversely impact our results of operations.

Economic uncertainties have caused, and may in the future again cause, consumers, businesses and governments to defer purchases in response to tighter budgets, credit, decreased cash availability and declining customer confidence. Accordingly, future demand for our products could differ from our current expectations.

We are subject to certain supply chain and logistical risks, including risks related to our reliance on a limited number of suppliers and contract manufacturers, our ability to coordinate with such third parties in connection with the introduction of new products and product enhancements, and the existence of certain binding price or purchase commitments. If we are not able to successfully manage these risks, our business, results of operations and financial condition could be materially adversely impacted.

The fact that we do not own or operate our manufacturing facilities, supply chain and logistics exposes us to risks, including reduced control over quality assurance, production costs and product supply. For example, we rely on a limited number of suppliers for drives and other components utilized in the assembly of our products, including certain single source suppliers, which has subjected us, and could in the future subject us, to price rigidity, periodic supply constraints, and the inability to produce our products. In addition, if our suppliers and/or third-party manufacturers experience financial problems, strikes, protests or other labor unrest, or are subject to lawsuits, injunctions or other legal challenges, there may be delays, interruptions or permanent impairment in the ability of such suppliers and manufacturers to ship products to us, or such manufacturers and suppliers may incur increased costs, which could be passed on to us. Because qualifying new contract manufacturers and commencing volume production is expensive and time-consuming, the disruption or termination of manufacturing capacity with respect to any contract manufacturer could negatively impact our ability to manufacture, sell and ship our products.

In addition, we intend to continue to regularly introduce new products and product enhancements, which will require us to rapidly achieve volume production by coordinating with our contract manufacturers and suppliers. If we are unable to successfully coordinate our business activities with such third parties, we may experience supply interruptions; our contract manufacturers may be unable to procure adequate inventories; we may be unable to timely cancel, reschedule, or adjust our requirements in response to changes in our business needs; real or perceived problems with product quality may arise; or we may experience decreased demand for our products, any of which could materially adversely impact our business.

As a result of binding price or purchase commitments with suppliers, we may be obligated to purchase components at prices that are higher than those available in the current market. An increase in component costs relative to product prices could have an adverse effect on our gross margin and earnings. In addition, as the demand for our products has increased, we have experienced, and may continue to experience, tightening of supply of some components leading to longer lead times and component supply constraints, which has resulted in and in the future could continue to result in the delay of shipments.

---

## [Table of Contents](#)

If we are not able to successfully manage the risks described above, our business, results of operations and financial condition could be materially adversely impacted. We have experienced periods of alternating growth and decline in revenues and operating expenses.

Changing market conditions and economic uncertainty create a challenging operating environment for our business. It is critical that we maintain appropriate alignment between our cost structure and our expected growth and revenues, while at the same time, continuing to make strategic investments for future growth.

Our expense levels are based in part on our expectations as to future revenues, and a significant percentage of our expenses are fixed. We have a limited ability to significantly reduce our fixed costs quickly, and if revenue levels are below our expectations, operating results will be adversely impacted. During periods of uneven growth or decline, we may incur costs before we realize the anticipated related benefits, which could harm our operating results. We have made, and will continue to make, significant investments in engineering, sales, service and support, marketing and other functions to support and grow our business. We are likely to recognize the costs associated with these investments earlier than some of the related anticipated benefits, such as revenue growth, and the return on these investments may be lower, or may develop more slowly, than we expect, which could harm our business, operating results and financial condition.

Conversely, if we are unable to effectively manage our resources and capacity during periods of increasing demand for our products, we could also experience an adverse impact on our business, operating results and financial condition and our customer relationships may be adversely impacted. If the storage and data management market fails to grow, or grows slower than we expect, our revenues will be adversely affected.

***Our gross margins have varied over time and may continue to vary, and such variation makes it more difficult to forecast our earnings.***

Our total gross margins are impacted by the mix of our product, software entitlements and maintenance and services revenues.

Our product gross margins have been and may continue to be affected by a variety of factors, including:

- Demand for storage and data management products;
- Pricing actions, rebates, sales initiatives, discount levels, and price competition;
- Changes in the mix between direct versus indirect and OEM sales, each of which has a different gross margin structure;
- Changes in customer, geographic, or product mix, including mix of configurations within products;
- The timing and amount of revenue recognized and deferred;
- New product introductions and enhancements;
- Licensing and royalty arrangements;
- Excess inventory levels or purchase commitments as a result of changes in demand forecasts or last time buy purchases;
- Possible product and software defects as we transition our products; and
- The cost of components, contract manufacturing costs, quality, warranty, and freight.

Changes in software entitlements and maintenance gross margins may result from various factors, such as:

- The size of the installed base of products under technical support contracts;
- The timing of technical support service contract renewals; and
- Demand for and the timing of delivery of upgrades.

---

## [Table of Contents](#)

Changes in service gross margins may result from various factors, such as:

- The mix of customers;
- The size and timing of service contract renewals;
- Spares stocking requirements to support new product introductions, service needs and logistics requirements;
- The level of spending on our customer support infrastructure;
- The volume, cost and use of outside partners to deliver support services on our behalf;
- The volume and costs of support and professional services arrangements we manage directly; and
- Product quality and serviceability issues.

Due to such factors, gross margins are subject to variation from period-to-period and are difficult to predict.

***An increase in competition and industry consolidation could materially and adversely affect our operating results.***

The storage and data management markets are intensely competitive and are characterized by rapidly changing technology. 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. A detailed description of storage and software products we compete with is identified in the Business Section of our Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on June 19, 2012.

There has been a trend toward industry consolidation in our markets for several years. We expect this trend to continue as companies attempt to strengthen or hold their market positions in an evolving industry, as companies become unable to maintain their competitive positions or continue operations and as customers demand more flexible business models and terms. We believe that industry consolidation may result in stronger competitors that are better able to compete for customers as sole-source vendors. In addition, current and potential competitors have established or may establish strategic alliances among themselves or with third parties, including some of our partners. It is possible that new competitors or alliances among competitors may emerge and rapidly acquire significant market share. We may not be able to compete successfully against current or future competitors. Competitive pressures we face could materially and adversely affect our business and operating results.

***Disruption of, or changes in, our distribution model could harm our sales.***

If we fail to develop and maintain strong relationships with our channel partners, or if our channel partners fail to effectively manage the sale of our products or services on our behalf, our revenues and gross margins could be adversely affected.

We market and sell our storage data management solutions directly through our worldwide sales force and indirectly through channel partners such as value-added resellers, systems integrators, distributors, OEMs and strategic business partners, and we derive a significant portion of our revenues from these indirect channels. During the nine months ended January 25, 2013, revenues generated from sales through our indirect channel accounted for 80% of net revenues. In order for us to maintain or increase our revenues, we must effectively manage our relationships with channel partners.

Several factors could result in disruption of or changes in our indirect channel model, which could materially harm our revenues and gross margins, including the following:

- Our indirect channel partners may compete directly with other channel partners or with our direct sales force. Due to these conflicts, our indirect channel partners could stop or reduce their efforts in marketing our products.
- Our indirect channel partners may demand that we absorb a greater share of the risks that their customers may ask them to bear;

---

## [Table of Contents](#)

- Our indirect channel partners may have insufficient financial resources and may not be able to withstand changes and challenges in business conditions; and
- Our indirect channel partners' financial condition or operations may weaken.

The loss of one or more of our key indirect channel partners in a given geographic area could hamper our operating results within that area, as qualifying and developing new indirect channel partners typically requires a significant investment of time and resources before acceptable levels of productivity are met. There is no assurance that we will be able to attract new indirect channel partners, retain these indirect channel partners or that we will be able to secure additional or replacement indirect channel partners in the future, especially in light of continued changes in end customer demand patterns and changes in available and competing technologies from competitors. Our inability to effectively establish, train, retain and manage our indirect channel partners could harm our sales.

In addition, we depend on our indirect channel partners to comply with applicable regulatory requirements in the jurisdictions in which they operate. Their failure to do so could have a material adverse effect on our revenues and operating results.

***Our OEM relationships may not continue to generate significant revenues.***

We have OEM relationships with several companies, which collectively accounted for 13% of our net revenue during the nine months ended January 25, 2013. These relationships enable these OEMs to market and sell their branded solutions based on our unified solutions, as well as associated software offerings. While these arrangements are part of our general strategy to expand our reach to more customers and into more countries, we do not have exclusive relationships with our OEMs, and there is no minimum commitment for any given period of time. Therefore, our relationships with these OEMs may not continue to generate significant revenues. In addition, we have no control over the products that the OEMs select to sell, or their release schedule and timing of those products; nor do we control their pricing.

As our OEM relationships increase, we may experience distribution channel conflicts between our direct sales force and the OEMs or among our channel partners. If we fail to minimize channel conflicts, or if our OEM relationships do not continue to generate significant revenues, our operating results and financial condition could be harmed.

***A portion of our revenues is generated by large, recurring purchases from various customers, resellers and distributors. A loss, cancellation or delay in purchases by any of these parties has negatively affected in the past, and in the future could negatively affect, our revenues.***

During the nine months ended January 25, 2013, sales to distributors Arrow Electronics, Inc. and Avnet, Inc. accounted for 18% and 14%, respectively, of our net revenues. We generally do not enter into binding purchase commitments with our customers, resellers and distributors for extended periods of time, and thus we may not be able to continue to receive large, recurring orders from these customers, resellers or distributors. For example, our reseller agreements generally do not require minimum purchases, and our customers, resellers and distributors can stop purchasing and marketing our products at any time. In addition, unfavorable economic conditions may negatively impact the solvency of our customers, resellers and distributors, or the ability of such customers, resellers and distributors to obtain credit to finance purchases of our products. If any of our key customers, resellers or distributors changes its pricing practices, reduces the size or frequency of its orders for our products, or stops purchasing our products altogether, our operating results and financial condition could be materially adversely impacted.

***The U.S. government has historically contributed to our revenue growth and has become an important customer for us. Future revenues from the U.S. government are subject to shifts in government spending patterns. A decrease in government demand for our products could materially and adversely affect our revenues. In addition, our business could be adversely affected by claims that we or a channel partner have failed to comply with regulatory and contractual requirements applicable to sales to the U.S. government.***

The U.S. government has become an important customer for the storage and data management market generally and for us in particular; however, government demand is unpredictable, and there can be no assurance that we will maintain or grow our revenues from the U.S. government. Government agencies are subject to budgetary processes and expenditure constraints that could lead to delays or decreased capital expenditures in IT spending, particularly in light of recent and continued uncertainties about U.S. spending levels. If the government or individual agencies within the government reduce or shift their capital spending patterns, our revenues and operating results may be harmed.

---

## [Table of Contents](#)

Selling our products to the U.S. government, whether directly or through channel partners, also subjects us to certain regulatory and contractual requirements. Failure to comply with these requirements by either us or our channel partners could subject us to investigations, fines, and other penalties, which could have a material adverse effect on our revenues, operating results and financial position. As an example, the United States Department of Justice (DOJ) and the General Services Administration (GSA) have in the past pursued claims against and financial settlements with IT vendors, including us and several of our competitors and channel partners, under the False Claims Act and other statutes related to pricing and discount practices and compliance with certain provisions of GSA contracts for sales to the federal government. The DOJ and GSA continue to pursue actively such claims. We are currently discussing contract compliance matters regarding sales made through a channel partner with the DOJ and GSA, and have produced documents and met with the DOJ and GSA on several occasions. If the DOJ determines to initiate an action against a channel partner and/or us, we would be subject to litigation and could be subjected to fines and penalties. We could also decide to pay the DOJ a settlement, either to avoid a potential action or in termination of an action. Violations of certain regulatory and contractual requirements could also result in us being suspended or debarred from future government contracting. Any of these outcomes could have a material adverse effect on our revenues, operating results and financial position.

***Certain of our products are subject to U.S. export control laws and other laws affecting the countries in which our products and services may be sold, distributed, or delivered; if we were found to have violated these laws, the consequences of such a determination could have a material and adverse effect on our business, financial condition and results of operations.***

Due to the global nature of our business, we are subject to import and export restrictions and regulations, including the Export Administration Regulations (EAR) administered by the Commerce Department's Bureau of Industry and Security (BIS) and the trade and economic sanctions regulations administered by the Treasury Department's Office of Foreign Assets Control (OFAC). The U.S., through the BIS and OFAC, places restrictions on the sale or export of certain products and services to certain countries and persons. Violators of these export control and sanctions laws may be subject to significant penalties, which may include significant monetary fines, criminal proceedings against them and their officers and employees, a denial of export privileges, and suspension or debarment from selling products to the federal government. We take a variety of precautions to prevent our products from being shipped to U.S.-sanctioned targets; however, our products could be shipped to those targets by third parties, including potentially our channel partners, despite such precautions. For instance, media reports starting in November 2011 have asserted that certain of our products were delivered to Syria through a third-party possibly in violation of U.S. export-control laws. We have publicly stated that we condemn any use of our products or technologies in Syria, we have notified the U.S. government that we are conducting a review of these allegations, and intend to cooperate fully with any government inquiry. We have met with U.S. government officials, provided information at their request, and expressed our willingness to continue cooperating with any further inquiry or investigation. If we are found to have violated U.S. export control laws, we may be subject to various penalties available under the laws, any of which could have a material and adverse impact on our business, operating results and financial position. Even if we are not found to have violated such laws, the political and media scrutiny surrounding any governmental investigation of us could cause us significant financial and reputational harm and distract senior executives from managing our normal day-to-day operations, which could have a material and adverse impact on our business, operating results and financial position.

***If we are unable to maintain our existing relationships and develop new relationships with major strategic partners, our revenues may be impacted negatively.***

An element of our strategy to increase revenues is to strategically partner with major third-party software and hardware vendors to integrate our products into their products and also co-market our products with them. We have significant partner relationships with database, business application, backup management and server virtualization companies. A detailed description of these partnership relationships is identified in the Business Section of our Annual Report on Form 10-K filed with the SEC on June 19, 2012. A number of these strategic partners are industry leaders that offer us expanded access to segments of the storage and data management market. However, there is intense competition for attractive strategic partners, and even if we can establish relationships with these or other partners, such relationships may not generate significant revenues or continue to be in effect for any specific period of time.

Moreover, some of our partners are also partnering with other storage vendors, which may increase the availability of competing solutions, harm our ability to continue as the vendor of choice for those partners and harm our ability to grow our business with those partners. If we are unable to establish new partnerships or maintain existing partnerships, or if our strategic partners favor their relationships with other vendors in the storage industry, we could experience lower than expected revenues, suffer delays in product development, or experience other operational difficulties that harm our business.



---

## [Table of Contents](#)

***Our future financial performance depends on growth in the storage and data management markets. If the performance of these markets does not meet the expectations upon which we calculate and forecast our revenues or if we are unable to develop product offerings that meet the future demands of these markets, our operating results will be materially and adversely impacted.***

All of our products address the storage and data management markets. Accordingly, our future financial performance will depend in large part on continued growth in the storage and data management markets and on our ability to adapt to emerging standards in these markets. The markets for storage and data management have been recently adversely impacted by the global economic uncertainty, and as a result of continued uncertainty, the markets may not grow as anticipated or may decline. Also, even if spending in the IT market increases, our revenues may not grow at the same pace or at all.

Additionally, emerging standards in these markets may adversely affect the UNIX®, Windows® and the World Wide Web server markets upon which we depend. For example, we provide our open access data retention solutions to customers within the financial services, healthcare, pharmaceutical and government market segments, industries that are subject to various evolving governmental regulations with respect to data access, reliability and permanence (such as Rule 17(a)(4) of the Securities Exchange Act of 1934, as amended) in the U.S. and in the other countries in which we operate. If our products do not meet and continue to comply with these evolving governmental regulations in this regard, customers in these market and geographical segments will not purchase our products, and we will not be able to expand our product offerings in these market and geographical segments at the rates which we have forecasted.

***The market price for our common stock has fluctuated significantly in the past and will likely continue to do so in the future.***

The market price for our common stock has experienced substantial volatility in the past, and several factors could cause substantial fluctuation in the future. These factors include but are not limited to:

- Fluctuations in our operating results compared to prior periods and forecasts;
- Variations between our operating results and either the guidance we have furnished to the public or the published expectations of securities analysts;
- Industry consolidation and the resulting perception of increased competition;
- Economic developments in the storage and data management market as a whole;
- Fluctuations in the valuation of companies perceived by investors to be comparable to us;
- Changes in analysts' recommendations or projections;
- Changes in our relationships with our suppliers, customers, channel and strategic partners;
- Announcements of the completion or dissolution of strategic alliances within the industry;
- Dilutive impacts of our Convertible Notes and related warrants;
- International conflicts and acts of terrorism;
- Announcements of new products, applications, or product enhancements by us or our competitors;
- Announcements related to planned or completed mergers or other acquisitions by us or our competitors;
- Inquiries by the SEC, NASDAQ, law enforcement, or other regulatory bodies; and
- General market conditions, including recent global and regional economic uncertainties.

In addition, the stock market has experienced volatility that has particularly affected the market prices of the equity securities of many technology companies. Certain macroeconomic factors such as the market climate for the technology sector, changes in interest rates, and levels of corporate spending on IT, could continue to have an impact on the trading price of our stock, and the market price of our common stock may fluctuate significantly in the future.

---

## [Table of Contents](#)

***If we are unable to develop and introduce new products and respond to technological change, if our new products do not achieve market acceptance, if we fail to manage the interoperability and transition between our new and old products, or if we cannot provide the expected level of quality, service and support for our new products, our operating results could be materially and adversely affected.***

Our future growth depends upon the successful development and introduction of new hardware and software products. Due to the complexity of storage subsystems and storage security appliances and the difficulty in gauging the engineering effort required to produce new products, such products are subject to significant technical and quality control risks. In addition, our new products must respond to technological changes and evolving industry standards. If we are unable, for technological or other reasons, to develop and introduce new products in a timely manner in response to changing market conditions or customer requirements, or if such products do not achieve market acceptance, our operating results could be materially and adversely affected. New or additional product introductions increase the complexities of forecasting revenues, and subject us to additional financial and operational risks. If they are not managed effectively, we could experience material risks to our operations, financial condition and business model.

As new or enhanced products are introduced, we must attempt to successfully manage the interoperability and transition from older products in order to minimize disruption in customers' ordering patterns, avoid excessive levels of older product inventories, and ensure that enough supplies of new products can be delivered to meet customers' demands.

As we enter new or emerging markets, we will likely increase demands on our service and support operations and may be exposed to additional competition. We may not be able to provide products, service and support to effectively compete for these market opportunities.

***Undetected software errors, hardware errors, or failures found in new products may result in loss of or delay in market acceptance of our products, which could increase our costs and reduce our revenues. Product quality problems could lead to reduced revenues, gross margins and operating results.***

Our products may contain undetected software errors, hardware errors or failures when first introduced or as new versions are released. Despite testing by us and by current and potential customers, errors may not be found in new products until after commencement of commercial shipments, resulting in loss of or delay in market acceptance, which could materially and adversely affect our operating results.

In addition, if we fail to remedy a product defect, we may experience a failure of a product line, temporary or permanent withdrawal from a product or market, damage to our reputation, inventory costs or product reengineering expenses and higher ongoing warranty and service costs, and these occurrences could have a material impact on our revenues, gross margins and operating results. We may be subject to losses that may result from or are alleged to result from defects in our products, which could subject us to claims for damages, including consequential damages.

***Due to the global nature of our business, risks inherent in our international operations could have a material adverse effect on our business.***

Although a substantial portion of our business is located and conducted in the U.S., a significant portion of our operations are located, and a significant portion of our revenues are derived, outside of the U.S. During the nine months ended January 25, 2013, our international revenues accounted for 50% of our total revenues. In addition, a substantial portion of our products are manufactured outside of the U.S., and we have research and development and service centers overseas. Accordingly, our business and our future operating results could be adversely affected by a variety of factors affecting our international operations, some of which are beyond our control, including political or economic conditions in specific countries or regions, trade protection measures, government spending patterns, acts of terrorism, and international conflicts. In addition, due to the global nature of our business, we are subject to complex legal and regulatory requirements in the U.S. and the foreign jurisdictions in which we operate and sell our products, including antitrust and anti-competition laws, rules and regulations, and regulations related to data privacy. We are also subject to the potential loss of proprietary information due to piracy, misappropriation, or laws that may be less protective of our intellectual property rights than U.S. laws. Such factors could have an adverse impact on our business, operating results and financial position.

---

## [Table of Contents](#)

We face exposure to adverse movements in foreign currency exchange rates as a result of our international operations. These exposures may change over time as business practices evolve, and they could have a material adverse impact on our financial results and cash flows. We utilize forward and option contracts in an attempt to reduce the adverse earnings impact from the effect of exchange rate fluctuations on certain assets and liabilities as well as certain anticipated foreign currency cash flows on a short-term basis. These hedging contracts attempt to reduce, but do not entirely eliminate, the impact of currency exchange movements. Factors that could have a negative impact on the effectiveness of our hedging program include inaccuracies in forecasting, widening interest rate differentials, and volatility in the foreign exchange market. Our hedging strategies may not be successful, and currency exchange rate fluctuations could have a material adverse effect on our operating results. In addition, our foreign currency exposure on assets and liabilities for which we do not hedge could have a material impact on our results of operations in periods when the U.S. dollar significantly fluctuates in relation to unhedged non-U.S. currencies in which we transact business. As a result of entering into these hedging contracts with major financial institutions, we may be subject to counterparty nonperformance risk. Should there be a counterparty default, we could be exposed to the net losses on the hedged arrangements or be unable to recover anticipated net gains from the transactions.

Additional risks inherent in our international business activities generally include, among others, longer accounts receivable payment cycles and difficulties in managing international operations.

Moreover, in many foreign countries, particularly in those with developing economies, it is common to engage in business practices that are prohibited by our internal policies and procedures, or U.S. laws and regulations applicable to us, such as the Foreign Corrupt Practices Act. There can be no assurance that all of our employees, contractors and agents, as well as those companies to which we outsource certain of our business operations, will comply with these policies, procedures, laws and/or regulations. Any such violation could subject us to fines and other penalties, which could have a material adverse effect on our business, financial condition or results of operations.

***Changes in our effective tax rate or adverse outcomes resulting from examination of our income tax returns could adversely affect our results.***

Our effective tax rate could be adversely affected by several factors, many of which are outside of our control, including:

- Earnings being lower than anticipated in countries where we are taxed at lower rates as compared to the U.S. statutory tax rate;
- Material differences between forecasted and actual tax rates as a result of a shift in the mix of pretax profits and losses by tax jurisdiction;
- Our ability to use tax credits or effective tax rates by tax jurisdiction that differ from our estimates;
- Changing tax laws or related interpretations, accounting standards, regulations, and interpretations in multiple tax jurisdictions in which we operate, as well as the requirements of certain tax rulings;
- An increase in expenses not deductible for tax purposes, including certain stock-based compensation, write-offs of acquired in-process research and development, and impairment of goodwill;
- The tax effects of purchase accounting for acquisitions and restructuring charges that may cause fluctuations between reporting periods;
- Changes related to our ability to ultimately realize future benefits attributed to our deferred tax assets, including those related to other-than-temporary impairments;
- Tax assessments resulting from income tax audits or any related tax interest or penalties could significantly affect our income tax provision for the period in which the settlements take place;
- Adverse tax consequences, including imposition of withholding or other taxes on payments by subsidiaries or customers; and
- A change in our decision to indefinitely reinvest foreign earnings.

---

## [Table of Contents](#)

We receive significant tax benefits from sales to our non-U.S. customers. These benefits are contingent upon existing tax laws and regulations in the U.S. and in the countries in which our international operations are located. Future changes in domestic or international tax laws and regulations could adversely affect our ability to continue to realize these tax benefits. We have not provided for U.S. federal and state income taxes or foreign withholding taxes that may result from future remittances of undistributed earnings of foreign subsidiaries. The President's administration and Congress have announced several proposals to reform U.S. tax rules, including proposals that may result in a reduction or elimination of the deferral of U.S. income tax on our future unrepatriated earnings. Should such anti-deferral provisions be enacted, our effective tax rate could be adversely affected.

We are currently undergoing income tax audits in the U.S. and several foreign tax jurisdictions, as described in Note 12 to our Condensed Consolidated Financial Statements. The rights to some of our intellectual property (IP) are owned by certain of our foreign subsidiaries, and payments are made between U.S. and foreign tax jurisdictions relating to the use of this IP in a qualified cost sharing arrangement. In recent years, several other U.S. companies have had their foreign IP arrangements challenged as part of Internal Revenue Service (IRS) examinations, which have resulted in material proposed assessments and/or litigation with respect to those companies.

If the ultimate determination of income taxes or at-source withholding taxes assessed under the current IRS audits or under audits being conducted in any of the other tax jurisdictions in which we operate results in an amount in excess of the tax provision we have recorded or reserved for, our operating results, cash flows and financial condition could be adversely affected.

Our international operations currently benefit from a tax ruling concluded in the Netherlands which expires on April 30, 2015 and results in a lower level of earnings subject to tax in the Netherlands. If we are unable to negotiate a similar tax ruling upon expiration of the current ruling, our effective tax rate could increase and our operating results could be adversely affected. Our effective tax rate could also be adversely affected by different and evolving interpretations of existing law or regulations, which in turn would negatively impact our operating and financial results as a whole. Our effective tax rate could also be adversely affected if there is a change in international operations and how the operations are managed and structured. The price of our common stock could decline to the extent that our financial results are materially affected by an adverse change in our effective tax rate.

***Our Convertible Note conversion may adversely affect our financial condition, results of operations and earnings per share.***

Any conversion of the Convertible Notes may cause dilution to our stockholders and to our earnings per share. If the average trading price of our common stock in each fiscal quarter exceeds the conversion price of \$31.85 per share, the Convertible Notes will cause an increase in diluted share count and result in lower reported earnings per share. The Convertible Note hedge transactions discussed below, if exercised upon conversion of the Convertible Notes, are expected to reduce approximately 80% of the common stock potentially issuable on conversion of the Convertible Notes. Upon conversion of any Convertible Notes, we are required to deliver cash up to the principal amount of the Convertible Notes and, with respect to any excess conversion value greater than the principal amount of the Convertible Notes, shares of our common stock, which will result in dilution to our stockholders.

***The Convertible Note hedges and warrant transactions that we entered into in connection with the sale of the Convertible Notes may affect the trading price of our common stock.***

In connection with the issuance of the Convertible Notes, we entered into privately negotiated Convertible Note hedge transactions with certain option counterparties (the Counterparties), which are expected to offset the potential dilution to our common stock upon any conversion of the Convertible Notes. At the same time, we also entered into warrant transactions with the Counterparties pursuant to which we may issue shares of our common stock above a certain strike price. In connection with these hedging transactions, the Counterparties may have entered into various over-the-counter derivative transactions with respect to our common stock or purchased shares of our common stock in secondary market transactions at or following the pricing of the Convertible Notes. The Counterparties are likely to modify their hedge positions from time to time prior to conversion or maturity of the Convertible Notes by purchasing and selling shares of our common stock or entering into other derivative transactions. Additionally, these transactions may expose us to counterparty credit risk for nonperformance. The effect, if any, of any of these transactions and activities on the market price of our common stock or the Convertible Notes will depend, in part, on market conditions and cannot be ascertained at this time, but any of these activities could adversely affect the value of our common stock. In addition, if our stock price exceeds the strike price for the warrants, there could be additional dilution to our stockholders, which could adversely affect the value of our common stock.

The price of our common stock could also be affected by sales of our common stock by investors who view the Convertible Notes as a more attractive means of equity participation in our Company and by hedging or arbitrage trading activity that we expect to develop involving our common stock by holders of the Convertible Notes. The hedging or arbitrage could, in turn, affect the trading price of the Convertible Notes and warrants.

---

## [Table of Contents](#)

### ***Future issuances of common stock related to our Convertible Notes, warrants and employee equity awards may adversely affect the trading price of our common stock and the Convertible Notes.***

The conversion of some or all of our outstanding Convertible Notes will dilute the ownership interest of existing stockholders to the extent we deliver common stock upon conversion of the Convertible Notes. As of January 25, 2013, the contingent conversion thresholds of the Convertible Notes were not exceeded. Any new issuance of equity securities, including the issuance of shares upon conversion of the Convertible Notes or the exercise of related warrants which are not offset by our Convertible Note hedges, could dilute the interests of our then-existing stockholders, including holders who receive shares upon conversion of their Convertible Notes, and could substantially decrease the trading price of our common stock and the Convertible Notes. In addition, any sales in the public market of any common stock issuable upon such conversion or the exercise of warrants could adversely affect prevailing market prices of our common stock.

As of January 25, 2013, we had options outstanding to purchase approximately 20 million shares of our common stock and a total of approximately 13 million restricted stock units, for which common stock will be issued upon vesting of such. If all the outstanding options were exercised, the proceeds to the Company would average approximately \$31 per share. We also had 16 million shares of our common stock reserved for future issuance under our stock plans with respect to equity awards that have not been granted. The exercise of all of the outstanding options and/or the vesting of all outstanding restricted stock units would dilute the interests of our then-existing stockholders, and any sales in the public market of the common stock issuable upon such exercise/vesting could adversely affect the trading price of our common stock. As of January 25, 2013, we had approximately 6 million shares of our common stock available for future issuance under our Employee Stock Purchase Plan (ESPP). The issuance of shares under the ESPP would dilute the interests of our then-existing stockholders, and any sales in the public market of the common stock issuable upon such exercise could adversely affect the trading price of our common stock. In addition, the ESPP includes a purchase price adjustment provision such that employees who elect to participate are granted options to purchase common stock at a 15% discount from the market value of the common stock at certain specified dates within a two-year offering period. If the adjustment is triggered due to a decline in the market value of our common stock, we could incur a significant non-cash charge in our statement of operations. For example, during the three months ended January 27, 2012 and July 27, 2012, we recorded charges related to the purchase price adjustment provision of \$10.9 million and \$12.8 million, respectively. We may issue equity securities in the future for a number of reasons, including to finance our operations related to business strategy (including in connection with acquisitions, strategic alliances or other transactions), to increase our capital, to adjust our ratio of debt to equity, to satisfy our obligations upon the exercise of outstanding warrants or options upon conversion of the Convertible Notes, or for other reasons.

### ***Our acquisitions may disrupt our existing business and harm our results of operations.***

As part of our strategy, we are continuously evaluating opportunities to buy other businesses or technologies that would complement our current products, expand the breadth of our markets, or enhance our technical capabilities. In fiscal 2011, we completed acquisitions of two technology companies. In fiscal 2012, we completed the acquisition of certain assets related to Engenio, and in fiscal 2013, we completed the acquisition of CacheIQ. The acquisitions and ongoing integration of new businesses into our business may adversely affect our operations and profitability. We may not achieve the anticipated cost savings and synergies or realize our estimated revenue, gross margin, profit or other financial projections or business objectives in a timely manner or at all due to a number of factors, including the following:

- The inability to successfully integrate the operations, technologies, products, personnel and business systems of the acquired companies;
- In the case of an asset purchase, the failure to acquire all of the tangible and intangible assets necessary to operate the acquired business;
- The loss of key employees of the acquired businesses, which could adversely impact our ability to manage the business and our ability to realize our financial forecasts;
- The inability to retain the customers and partners of acquired businesses following the acquisition;
- Substantial transaction costs and accounting charges; and
- Exposure to litigation related to acquisitions.

---

## [Table of Contents](#)

Acquisitions may also result in risks to our existing business, including:

- The diversion of management's attention from daily operations of the existing business;
- Deterioration of our internal control over financial reporting as a result of inconsistencies between our standards, procedures and policies and those of acquired businesses;
- Reliance on the selling party's processes, data, supply chain management and reporting during the transition period following the completion of acquisitions;
- Dilution of our current stockholders' percentage ownership to the extent we issue new equity;
- Assumption of additional liabilities;
- Incurrence of additional debt or a decline in available cash;
- The need to incur restructuring charges or other non-recurring expenses;
- Liability for intellectual property infringement and other litigation claims, which we may or may not be aware of at the time of acquisition; and
- Intangible assets that could result in significant future amortization expense.

The failure to achieve the anticipated benefits of an acquisition may also result in impairment charges for goodwill and purchased intangible assets. Additional or realized risks of this nature could have a material adverse effect on our business, financial condition and results of operations.

***We are exposed to fluctuations in the market values of our portfolio investments and in interest rates; impairment of our investments could harm our financial results.***

As of January 25, 2013, we had \$6.8 billion in cash, cash equivalents, investments and restricted cash. We invest our cash in a variety of financial instruments, consisting principally of investments in corporate bonds, money market funds and U.S. Treasury securities. These investments are subject to general credit, liquidity, market and interest rate risks, which have been exacerbated by unusual events such as the financial and credit crisis, the downgrade in the U.S.'s credit rating, and bankruptcy filings in the U.S., which have affected various sectors of the financial markets and led to global credit and liquidity issues. The fair value of these financial investments may change significantly due to events and conditions in the credit and capital markets. Any investment securities that we hold or the issues comprising such securities could be subject to review for possible downgrade. Any downgrade in credit ratings may result in an additional decline in the estimated fair value of our investments. Changes in the various assumptions used to value these securities and any increase in the markets' perceived risk associated with such investments may also result in a decline in estimated fair value.

Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate debt securities may have their market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates. Currently, we do not use derivative financial instruments in our investment portfolio. We may suffer losses if forced to sell securities that have experienced a decline in market value because of changes in interest rates.

In addition, we hold investments in auction rate securities (ARS) with a par value of \$45.6 million and a fair value of \$42.2 million, which are securities with long-term nominal maturities. All of our ARS are backed by pools of student loans guaranteed by the U.S. Department of Education, and we believe the credit quality of these securities is high, based on this guarantee.

We have classified all of our ARS as other non-current assets in our condensed consolidated balance sheet as of January 25, 2013 as our ability to liquidate such securities in the next 12 months is uncertain. Although we currently have the ability and intent to hold these ARS investments until recovery in market value or until maturity, if current market conditions deteriorate, or the anticipated recovery in market values does not occur, we may be required to record additional impairment charges in future periods.

On occasion, we make strategic investments in other companies which may decline in value and/or not meet desired objectives. The success of these investments depends on various factors over which we may have limited or no control.

---

## [Table of Contents](#)

In the event of adverse conditions in the credit and capital markets, our investment portfolio may be impacted and our results of operations or financial condition could be adversely impacted.

***We are exposed to the credit and non-payment risk of our customers, resellers, and distributors, especially during times of economic uncertainty and tight credit markets, which could result in material losses.***

Most of our sales to customers are on an open credit basis, with typical payment terms of 30 days. While we monitor individual customer payment capability in granting such open credit arrangements, and seek to limit such open credit to amounts we believe are reasonable, we may experience losses due to a customer's inability to pay.

Beyond our open credit arrangements, some of our customers have entered into recourse and nonrecourse financing leasing arrangements using third-party leasing companies. Under the terms of recourse leases, which are generally three years or less, we remain liable for the aggregate unpaid remaining lease payments to the third-party leasing companies in the event of end-user customer default.

We expect demand for customer financing to continue. During periods of economic uncertainty, our exposure to credit risks from our customers increases. In addition, our exposure to credit risks of our customers may increase further if our customers and their customers or their lease financing sources are adversely affected by global economic conditions.

In the past, there have been bankruptcies by our customers to whom we had extended open credit, provided lease financing arrangements or guaranteed lease payments under full recourse lease arrangements. Such events have caused us to incur bad debt charges, in the case of financing arrangements have caused a loss of revenues, and in the case of recourse lease arrangements have caused us to make payments to third-party financiers. We may be subject to similar losses in future periods. Any future losses could harm our business and have a material adverse effect on our operating results and financial condition. Additionally, to the extent that the recent turmoil in the credit markets makes it more difficult for customers to obtain open credit or lease financing, those customers' ability to purchase our products could be adversely impacted, which in turn could have a material adverse impact on our financial condition and operating results.

***A significant portion of our cash and cash equivalents are held overseas. If we are not able to generate sufficient cash domestically in order to fund our U.S. operations and strategic opportunities, and to service our debt, we may incur a significant tax liability in order to repatriate the overseas cash balances, or we may need to raise additional capital in the future.***

As of January 25, 2013, \$3.3 billion of cash, cash equivalents and short-term investments were held in foreign countries. These amounts are not freely available for dividend repatriation to the U.S. without triggering significant adverse tax consequences in the U.S. As a result, if the cash generated by our domestic operations is not sufficient to fund our domestic operations, our broader corporate initiatives such as stock repurchases, acquisitions, and other strategic opportunities, and to service our outstanding indebtedness, we may need to raise additional funds through public or private debt or equity financings, or we may need to obtain new credit facilities to the extent we choose not to repatriate our overseas cash. Such additional financing may not be available on terms favorable to us, or at all, and any new equity financings or offerings would dilute our current stockholders' ownership. Furthermore, lenders, particularly in light of the current challenges in the credit markets, may not agree to extend us new, additional or continuing credit. If adequate funds are not available, or are not available on acceptable terms, we may be forced to repatriate our foreign sources of liquidity and incur a significant tax expense or we may not be able to take advantage of strategic opportunities, develop new products, respond to competitive pressures or repay our outstanding indebtedness. In any such case, our business, operating results or financial condition could be adversely impacted.

***We are subject to restrictive and financial covenants in our debt and credit facility arrangements. The restrictive covenants may restrict our ability to operate our business.***

Our debt and credit facility arrangement subject us to continued compliance with restrictive and financial covenants. If we do not comply with these covenants or otherwise default under the arrangements, we may be required to repay any outstanding amounts borrowed under these agreements.

***We may be unable to generate the cash flow to service our debt obligations, including our Convertible Notes and Senior Notes.***

We have Convertible Notes outstanding in the principal amount of \$1.265 billion that mature in calendar 2013 and Senior Notes outstanding in an aggregate principal amount of \$1.0 billion that mature at specific dates in calendar 2017 and 2022. We have also established a revolving credit facility under which we may borrow an aggregate amount outstanding at any time of \$250.0 million, under which we had no borrowings outstanding as of January 25, 2013.

---

## [Table of Contents](#)

We may not be able to generate sufficient cash flows to enable us to service our indebtedness or to make anticipated capital expenditures. Our ability to pay our expenses and satisfy our debt obligations, refinance our debt obligations and fund planned capital expenditures will depend on our future performance, which will be affected by general economic, financial, competitive, legislative, regulatory and other factors beyond our control. Based upon current levels of operations, we believe cash flows from operations and available cash will be adequate for the foreseeable future to meet our anticipated requirements for working capital, capital expenditures and scheduled payments of principal and interest on our debt. However, if we are unable to generate sufficient cash flows from operations or to borrow sufficient funds in the future to service our debt, we may be required to sell assets, reduce capital expenditures, refinance all or a portion of our existing debt or obtain additional financing. We cannot assure you that we will be able to refinance our debt, sell assets or borrow more money on terms acceptable to us, if at all.

***Changes in market conditions have led, and in the future could lead, to charges related to the discontinuance of certain of our products and asset impairments.***

In response to changes in economic conditions and market demands, we may decide to strategically realign our resources and consider cost containment measures including restructuring, disposing of, or otherwise discontinuing certain products. Any decision to limit investment in, dispose of, or otherwise exit products may result in the recording of charges to earnings, including inventory and technology-related or other intangible asset write-offs, workforce reduction costs, charges relating to consolidation of excess facilities, cancellation penalties or claims from third parties who were resellers or users of discontinued products, which would harm our operating results. Our estimates with respect to the useful life or ultimate recoverability of our carrying basis of assets, including purchased intangible assets, could change as a result of such assessments and decisions. Additionally, we are required to perform goodwill impairment tests on an annual basis, and between annual tests in certain circumstances, such as when impairment indicators exist or if certain events or changes in circumstances have occurred. Future goodwill impairment tests may result in charges to earnings, which could materially harm our operating results.

***We may need to undertake cost-reduction initiatives and restructuring initiatives in the future.***

We have previously recognized restructuring and other charges related to initiatives to realign our business strategies and resize our business in response to economic and market conditions. We may undertake future cost-reduction initiatives and restructuring plans that may adversely impact our operations, and we may not realize all of the anticipated benefits of our prior or any future restructurings.

***Our business and operations have experienced rapid growth and organizational change. If we fail to effectively manage such growth and change in a manner that preserves our reputation and the key aspects of our corporate culture, our business and operating results could be harmed.***

Due to recent organic growth and acquisitions, we have experienced, and may continue to experience, rapid growth and organizational change, which has placed, and may continue to place, significant demands on our management, operational and financial resources. We incur significant expenditures and the allocation of valuable management resources to assimilate new human resources in a manner that preserves the key aspects of our corporate culture and enables us to maintain our reputation in the marketplace. If we do not effectively manage our growth and train, retain and manage our employee base, our corporate culture could be undermined, the quality of our products and customer service could suffer, and our reputation could be harmed, each of which could adversely impact our business, financial condition and results of operations.

In addition, as our headcount increases, our costs could also increase. Our business will be harmed if our efforts to expand our organization and headcount are not accompanied by a corresponding increase in revenues and profits.

***We are continually seeking ways to make our cost structure, business processes and systems more efficient, including moving activities from higher-cost to lower-cost owned locations, outsourcing certain business process functions and implementing new business information systems. Problems with the execution of these activities could have an adverse effect on our business or results of operations.***

We continuously seek to make our cost structure and business processes more efficient. We are focused on increasing workforce flexibility and scalability, and improving overall competitiveness by leveraging our global capabilities, as well as external talent and skills worldwide. For example, certain engineering activities and projects that were formerly performed in the U.S. have been moved to lower cost international locations and we rely on partners or third-party service providers for the provision of certain customer support and service, business process functions and activities in IT, human resources and accounting.



---

## [Table of Contents](#)

The challenges involved with moving or outsourcing activities include executing business functions in accordance with local laws and other obligations while maintaining adequate standards, controls and procedures. We are also subject to increased business continuity risks as we increase our reliance on outsource providers. For example, we may no longer be able to exercise control over some aspects of the future development, support or maintenance of outsourced operations and processes, including the management and internal controls associated with those outsourced business operations and processes, which could adversely affect our business. If we are unable to effectively utilize or integrate and interoperate with external resources or if our partners or third-party service providers experience business difficulties or are unable to provide business services as anticipated, we may need to seek alternative service providers or resume providing these business processes internally, which could be costly and time-consuming and have a material adverse effect on our operating results. In addition, we may not achieve the expected benefits of our business process improvement initiatives.

We are currently implementing changes to our business information systems and processes and other IT initiatives. These initiatives involve a large investment of capital and resources and significant changes to our current operating processes. Failure to properly implement one or more of these initiatives, or an interruption in service or unavailability of our systems could result in lost business and increased costs which could negatively impact our business, results of operations and cash flows.

***We are subject to risks related to the provision of employee health care benefits and recent health care reform legislation.***

We use a combination of insurance and self-insurance for workers' compensation coverage and health care plans. We record expenses under these plans based on estimates of the number and costs of expected claims, administrative costs and stop-loss premiums. These estimates are then adjusted each year to reflect actual costs incurred. Actual costs under these plans are subject to variability depending primarily upon participant enrollment and demographics, the actual number and costs of claims made and whether and how much the stop-loss insurance we purchase covers the cost of these claims. In the event that our cost estimates differ from actual costs, we could incur additional unplanned health care costs which could adversely impact our financial condition.

In March 2010, President Obama signed into law a comprehensive health care reform package. We cannot currently determine the impact that such legislation could have on our business, results of operations or financial condition.

***We depend on attracting and retaining qualified personnel. If we are unable to attract and retain such personnel, our operating results could be materially and adversely impacted.***

Our continued success depends, in part, on our ability to identify, attract, motivate and retain qualified personnel. Because our future success is dependent on our ability to continue to enhance and introduce new products, we are particularly dependent on our ability to identify, attract, motivate and retain qualified engineers with the requisite education, background and industry experience. Competition for qualified employees, particularly in Silicon Valley, can be intense. The loss of the services of a significant number of our employees, particularly our engineers, salespeople and key managers, could be disruptive to our development efforts or business relationships and could materially and adversely affect our operating results.

A component of our strategy to hire and retain personnel consists of long-term compensation in the form of equity-based grants. We face increased risk of the inability to continue to offer equity if we are unable to obtain shareholder approval in light of increased shareholder activism, heightened focus on corporate compensation practices, and increased scrutiny of the dilutive effects of such equity compensation programs. Such inability could adversely impact our ability to continue to attract and retain employees.

In addition, because of the structure of our incentive compensation plans, we may be at increased risk of losing employees at certain points in time. For example, the retention value of our compensation plans decreases after the payment of bonuses or the vesting of equity awards or other equity compensation. As a result, employees may be more likely to leave us during periods following such payments or the vesting of such awards. The loss of services of a significant number of our key employees during a short period of time could be disruptive to our product development and sales efforts and adversely impact our business relationships and operating results.

---

## [Table of Contents](#)

### ***Our business could be materially and adversely affected as a result of a natural disaster, terrorist acts or other catastrophic events.***

We depend on the ability of our personnel, raw materials, equipment and products to move reasonably unimpeded around the world. Any political, military, terrorism, global trade, world health or other issue that hinders this movement or restricts the import or export of materials could lead to significant business disruptions. Furthermore, any economic failure or other material disruption caused by natural disasters, including fires, floods, hurricanes, earthquakes, and volcanoes; power loss or shortages; environmental disasters; telecommunications or business information systems failures or break-ins and similar events could also adversely affect our ability to conduct business. If such disruptions result in cancellations of customer orders or contribute to a general decrease in economic activity or corporate spending on information technology, or directly impact our marketing, manufacturing, financial and logistics functions, or impair our ability to meet our customer demands, our results of operations and financial condition could be materially adversely affected. In addition, our headquarters and one of our major data centers are located in Northern California, an area susceptible to earthquakes. If any significant disaster were to occur, our ability to operate our business could be impaired.

### ***We are exposed to various risks related to legal proceedings or claims and protection of intellectual property rights, which could adversely affect our operating results.***

We may be a party to lawsuits and other claims in the normal course of our business from time to time, including intellectual property, commercial, product liability, employment, class action, whistleblower and other litigation and claims, and governmental and other regulatory investigations and proceedings. Litigation can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. An unfavorable resolution of a particular lawsuit could have a material adverse effect on our business, operating results, or financial condition.

If we are unable to protect our intellectual property, we may be subject to increased competition that could materially and adversely affect our operating results. Our success depends significantly upon our proprietary technology. We rely on a combination of copyright and trademark laws, trade secrets, confidentiality procedures, contractual provisions with employees, resellers, strategic partners and customers, 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. Some of our U.S. trademarks are registered internationally as well. We will continue to evaluate the registration of additional trademarks as appropriate. We currently have multiple U.S. and international patent applications pending and multiple U.S. patents issued. The pending applications may not be approved, and our existing and future patents may be challenged. If such challenges are brought, the patents may be invalidated. We may not be able to develop proprietary products or technologies that are patentable, and patents issued to us may not provide us with any competitive advantages and may be challenged by third parties. Further, the patents of others may materially and adversely affect our ability to do business. In addition, a failure to obtain and defend our trademark registrations may impede our marketing and branding efforts and competitive position.

Litigation may be necessary to protect our proprietary technology. Any such litigation may be time-consuming and costly. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or obtain and use information that we regard as proprietary. In addition, the laws of some foreign countries do not protect proprietary rights to as great an extent as do the laws of the U.S. Our means of protecting our proprietary rights may not be adequate or our competitors may independently develop similar technology, duplicate our products, or design around patents issued to us or other intellectual property rights of ours.

We are subject to intellectual property infringement claims. We may, from time to time, receive claims that we are infringing third parties' intellectual property rights. Third parties may in the future, claim infringement by us with respect to current or future products, patents, trademarks or other proprietary rights. We expect that companies in the network storage and data management market will increasingly be subject to infringement claims as the number of products and competitors in our industry segment grows and the functionality of products in different industry segments overlaps. Any such claims could be time consuming, result in costly litigation, cause product shipment delays, require us to redesign our products or enter into royalty or licensing agreements, any of which could materially and adversely affect our operating results. Such royalty or licensing agreements, if required, may not be available on terms acceptable to us or at all.

---

## [Table of Contents](#)

***Our business could be materially adversely affected by changes in regulations or standards regarding energy efficiency of our products and climate change issues and environmental disclosures.***

We are subject to a variety of environmental and safety regulations governing materials usage, packaging, climate control and other environmental impacts in the various countries in which we do business. For example, various international, federal, state, and local provisions regulate the use and discharge of certain hazardous materials used in the manufacture of our products. Environmental laws are complex, change frequently, and have tended to become more stringent over time. Failure to comply with such laws and regulations in the future could cause us to incur substantial costs or subject us to business interruptions.

Recently, governmental and non-governmental organizations have turned their attention to development of regulations and standards to drive technological improvements to reduce carbon emissions. While we continuously seek to optimize the energy efficiency of our products, there is a risk that the development of these standards will not fully address the complexity of the technology developed by the IT industry or will favor certain technological approaches. Depending on the regulations or standards that are ultimately adopted, the cost of compliance could adversely affect our business, financial condition or operating results.

In addition, we are subject to provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act intended to improve transparency and accountability concerning the supply of minerals originating from the conflict zones of the Democratic Republic of Congo or adjoining countries. We may incur costs to comply with the new disclosure requirements of this law and may realize other costs relating to the sourcing and availability of minerals used in our products. Further, since our supply chain is complex, we may face reputational harm if our customers or other stakeholders conclude that we are unable to verify sufficiently the origins of the minerals used in the products we sell.

***Our business is subject to increasingly complex corporate governance, public disclosure, and accounting and tax requirements that have increased both our costs and the risk of noncompliance.***

Because our common stock is publicly traded, we are subject to certain rules and regulations of federal, state and financial market exchange entities charged with the protection of investors and the oversight of companies whose securities are publicly traded. For example, in July 2010, the President signed into law the Dodd-Frank Act. Because new and modified laws, regulations, and standards are subject to varying interpretations in many cases due to their lack of specificity, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This evolution may result in continuing uncertainty regarding compliance matters and additional costs necessitated by ongoing revisions to our disclosure and governance practices.

***If a data center or other third-party who relies on our products experiences a disruption in service or a loss of data, such disruption or loss could be attributed to the quality of our products, thereby causing financial or reputational harm to our business.***

Our clients (including data centers, Software-as-a-Service (SaaS), cloud computing and Internet infrastructure and bandwidth providers) rely on our products for their data storage needs. We exercise little control over how our clients use or maintain our products, and in some cases improper usage or maintenance could impair the performance of our products.

Our clients may authorize third-party technology providers to access their data on our systems. Because we do not control the transmissions between our clients, their customers, and third-party technology providers, or the processing of such data by third-party technology providers, we cannot ensure the complete integrity or security of such transmissions or processing. Errors or wrongdoing by clients, their customers, or third-party technology providers resulting in security breaches may be attributed to us.

A failure or inability to meet our clients' expectations with respect to security and confidentiality through a disruption in the services provided by these third-party vendors, or the loss of data stored by such vendors, could result in financial or reputational harm to our business to the extent that such disruption or loss is caused by, or perceived by our customers to have been caused by, defects in our products. Moreover, the risk of reputational harm may be magnified and/or distorted through the rapid dissemination of information over the Internet, including through news articles, blogs, chat rooms, and social media sites. This may affect our ability to retain clients and attract new business.

---

## [Table of Contents](#)

***If our security measures are breached or unauthorized access to client data is otherwise obtained, our solutions may be perceived as not being secure, clients may curtail or cease their use of our solutions, our reputation may be harmed and we may incur significant liabilities.***

Our operations involve the storage and transmission of sensitive and proprietary data related to our employees, clients and partners (including third-party vendors such as data centers and providers of SaaS, cloud computing, and Internet infrastructure and bandwidth), and their respective customers, including intellectual property, books of record and personally identifiable information. Security breaches could result in unauthorized access to, or loss or unauthorized disclosure of, such information, litigation, indemnity obligations and other possible liabilities, as well as negative publicity, which could damage our reputation. We do not regularly monitor or review the content that our clients and their customers upload and store, and, therefore, we have no direct control over the substance of the content stored within our platforms. Therefore, if employees, clients, partners or their respective customers use our platforms for the transmission or storage of personally identifiable information and our security measures are breached as a result of third-party action, employee error, malfeasance, stolen or fraudulently obtained log-in credentials or otherwise, our reputation could be damaged, our business may be harmed and we could incur significant liability. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. As we continue to increase our client base and expand our brand, we may become more of a target for third parties seeking to compromise our security systems.

Many states have enacted laws requiring companies to notify individuals of data security breaches involving certain types of personal data. These mandatory disclosures regarding security breaches often lead to widespread negative publicity. Moreover, the risk of reputational harm may be magnified and/or distorted through the rapid dissemination of information over the Internet, including through news articles, blogs, chat rooms, and social media sites. Any security breach, whether actual or perceived, could harm our reputation, erode client confidence in the effectiveness of our data security measures, negatively impact our ability to attract new clients, cause existing clients to elect not to renew their subscriptions, or subject us to third-party lawsuits, regulatory fines or other action or liability, which could materially and adversely affect our business and operating results.

There can be no assurance that the limitations of liability in our contracts would be enforceable or adequate or would otherwise protect us from any such liabilities or damages with respect to any particular claim. We also cannot assure you that our existing general liability insurance coverage and coverage for errors and omissions will continue to be available on acceptable terms or will be available in sufficient amounts to cover one or more large claims, or that our insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceeds available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, financial condition and results of operations.

***Changes in financial accounting standards may cause adverse unexpected fluctuations and affect our reported results of operations.***

A change in accounting standards or practices and varying interpretations of existing accounting pronouncements, the increased use of fair value measures, changes to revenue recognition, lease accounting, financial instruments and other accounting standards, and the potential requirement that U.S. registrants prepare financial statements in accordance with International Financial Reporting Standards (IFRS), could have a significant effect on our reported financial results or the way we conduct our business.

Implementation of accounting regulations and related interpretations and policies, particularly those related to revenue recognition, could cause us to defer recognition of revenue or recognize lower revenue, which may affect our results of operations.

---

[Table of Contents](#)**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds***Sale of unregistered securities*

In connection with our acquisition of CacheIQ, on November 14, 2012, we issued 135,436 restricted shares of common stock to one of the founders of CacheIQ. Subject to certain conditions, the stock becomes unrestricted in equal installments on the 6 month, 12 month and 18 month anniversary of November 14, 2012. The restricted stock was issued as a private placement pursuant to Section 4(2) of the Securities Act.

*Purchases of equity securities*

The following table provides information with respect to the shares of common stock repurchased by us during the three months ended January 25, 2013:

<u>Period</u>	<u>Total Number of Shares Purchased</u> (Shares in thousands)	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Program <sup>(1)</sup></u> (Shares in thousands)	<u>Approximate Dollar Value of Shares That May Yet Be Purchased Under The Repurchase Program <sup>(1)</sup></u> (Dollars in millions)
October 27, 2012 - November 23, 2012	59	\$ 29.20	129,961	\$ 1,646.3
November 24, 2012 - December 21, 2012	786	\$ 33.21	130,747	1,620.2
December 22, 2012 - January 25, 2013	998	\$ 33.96	131,745	1,586.3
Total	<u>1,843</u>	\$ 33.49	131,745	1,586.3

<sup>(1)</sup> As of January 25, 2013, our Board of Directors had authorized the repurchase of up to \$5.5 billion of our common stock under a stock repurchase program, including an increase of \$1.5 billion approved by our Board of Directors on November 14, 2012. Since the May 13, 2003 inception of this program through January 25, 2013, we repurchased a total of 131.7 million shares of our common stock at an average price of \$29.89 per share, for an aggregate purchase price of \$3.9 billion. As of January 25, 2013, the remaining authorized amount for stock repurchases under this program was \$1.6 billion with no termination date. The stock repurchase program may be suspended or discontinued at any time.

**Item 3. Defaults upon Senior Securities**

None

**Item 4. Mine Safety Disclosures**

Not Applicable.

**Item 5. Other Information**

None

**Item 6. Exhibits**

See the Exhibit Index immediately following the signature page of this Quarterly Report on Form 10-Q.

**SIGNATURE**

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

NETAPP, INC.  
(Registrant)

/s/ NICHOLAS R. NOVIELLO  
Nicholas R. Noviello  
Executive Vice President and  
Chief Financial Officer

Dated: February 28, 2013

**EXHIBIT INDEX**

<u>Exhibit No</u>	<u>Description</u>
3.1 <sup>(1)</sup>	Certificate of Incorporation of the Company, as amended.
3.2 <sup>(2)</sup>	Bylaws of the Company.
4.1 <sup>(3)*</sup>	Indenture dated December 12, 2012, by and between NetApp, Inc. and U.S. Bank National Association.
4.2 <sup>(3)*</sup>	First Supplemental Indenture dated December 12, 2012, by and between NetApp, Inc. and U.S. Bank National Association.
10.1 <sup>(4)*</sup>	Credit Agreement, dated December 21, 2012, by and among NetApp, Inc., the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent, Morgan Stanley Senior Funding, Inc. and Wells Fargo Bank, National Association, as Co-Syndication Agents, and J.P. Morgan Securities LLC, Morgan Stanley Senior Funding, Inc. and Wells Fargo Securities, LLC, as Joint Bookrunners and Joint Lead Arrangers.
31.1	Certification of the Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

<sup>(1)</sup> Previously filed as an exhibit to the Company's Annual Report on Form 10-K dated June 24, 2008.

<sup>(2)</sup> Previously filed as an exhibit to the Company's Current Report on Form 8-K dated September 6, 2012.

<sup>(3)</sup> Previously filed as an appendix to the Company's Current Report on Form 8-K dated December 12, 2012.

<sup>(4)</sup> Previously filed as an appendix to the Company's Current Report on Form 8-K dated December 28, 2012.

\* Identifies management contract or compensatory plan or arrangement

**CERTIFICATION PURSUANT TO SECTION 302(a)  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Thomas Georgens, certify that:

- 1) I have reviewed this Quarterly Report on Form 10-Q of NetApp, Inc.;
- 2) Based on my knowledge, this 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 report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this 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 report;
- 4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ THOMAS GEORGENS

Thomas Georgens

*President and Chief Executive Officer,*

*(Principal Executive Officer and Principal Operating Officer)*

Dated: February 28, 2013



**CERTIFICATION PURSUANT TO SECTION 302(a)  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Nicholas R. Noviello, certify that:

- 1) I have reviewed this Quarterly Report on Form 10-Q of NetApp, Inc.;
- 2) Based on my knowledge, this 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 report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this 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 report;
- 4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ NICHOLAS R. NOVIELLO

\_\_\_\_\_  
Nicholas R. Noviello  
*Executive Vice President and Chief Financial Officer*  
*(Principal Financial Officer and Principal Accounting Officer)*

Dated: February 28, 2013

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Thomas Georgens, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of NetApp, Inc., on Form 10-Q for the quarterly period ended January 25, 2013 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of NetApp, Inc.

/s/ THOMAS GEORGENS

Thomas Georgens  
*President and Chief Executive Officer,*  
*(Principal Executive Officer and Principal Operating Officer)*

Dated: February 28, 2013

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Nicholas R. Noviello, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of NetApp, Inc., on Form 10-Q for the quarterly period ended January 25, 2013 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of NetApp, Inc.

/s/ NICHOLAS R. NOVIELLO

Nicholas R. Noviello

*Executive Vice President and Chief Financial Officer*

*(Principal Financial Officer and Principal Accounting Officer)*

Dated: February 28, 2013

