



NetworkAppliance®

The evolution of storage.™

2003 | NETWORK APPLIANCE  
ANNUAL REPORT

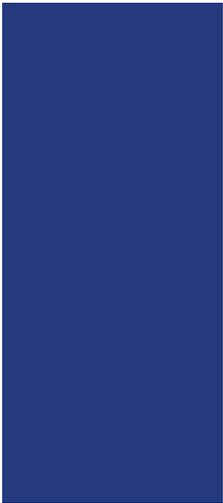


# Enterprise. Innovation.

# Southwest Airlines

Kerry Schwab  
Director of MidRange and Intel Computing, Southwest Airlines

“Southwest Airlines has become one of the largest carriers in America because of our commitment to excellent customer service. By implementing Oracle9i Real Application Clusters and Network Appliance storage systems, we have been able to provide our customers with fast account information retrieval and reduced waiting time.”



# Dear Stockholders,

Fiscal year 2003 was a watershed year for Network Appliance (NetApp). We are now recognized as one of the industry's leading full-line enterprise storage solutions providers, and have distinguished ourselves by achieving significant growth in both revenue and market share in a challenging economic environment. At the same time, we expanded our customer base and made great strides with our technology and distribution partners. In true NetApp fashion, our leadership in data management innovation continues to drive the evolution of the storage industry.

Our success is reflected in impressive financial and market share results. We generated growth in revenue and net income in all four quarters while maintaining gross margins and improving our operating leverage. We strengthened our balance sheet, generated cash, and instituted a stock repurchase program. We have worked diligently to build a solid financial foundation, thereby setting the stage for future growth.

Total revenue for the year increased by 12% over 2002. Revenue from services, including hardware support, professional services, and education services, was up 31%, year over year, and we extended our market share leadership in the network-attached storage (NAS) and content delivery markets, with 38.4% and 37%, respectively. Add-on software and software subscriptions revenue increased 35% over 2002, reflecting the demand for NetApp's data management solutions.

Indirect distribution channels accounted for over 46% of total revenue. Year over year, revenue from indirect channels increased 33%. This represents an important indicator of future growth potential. Our continued success with distribution partners will help accelerate the realization of our revenue goals and further extend our reach into the enterprise.

Relationships with other key industry leaders have been integral to our evolution. Enterprise customers require complete solutions that integrate seamlessly into their existing storage environments. By partnering with key technology and application providers, we have entered new markets and are addressing the data management challenges of today's global enterprise.

# Enterprise

Information is the lifeblood of the enterprise. For customers looking for solutions to business-critical information technology (IT) challenges, a core consideration is the way their data will be stored, protected, and managed. We have enabled our customers to meet their business challenges by working with our partners to develop such complete solutions as:

- Powerful database systems for more robust customer relationship management (CRM) and enterprise resource planning (ERP) applications;
- Server and storage resource consolidation for easier and more cost-effective IT management;
- Data access and protection in the event of a disaster;
- File archiving for rapid and easy recall on demand, or to meet a variety of new government regulations; and
- Data and content distribution to field offices around the world.

Data storage has become a highly strategic component of the enterprise IT infrastructure. Customers no longer have the luxury of ample IT budgets. They are replacing their monolithic, hardware-centric storage systems with modular, software-driven systems connected to corporate networks. This provides immense benefits to the real-time enterprise. With networked storage, the true value of information is shared throughout an organization, giving decision makers the tools they need to increase revenue, explore new markets, get closer to customers, and reduce expenses.

Another significant shift is that companies increasingly buy storage solutions from storage specialists rather than traditional server vendors. They recognize that storage specialists, like NetApp, are focused on solving data storage and management challenges that traditional server vendors are not able to address with general-purpose servers and general-purpose operating systems.



## eWeek

April 14, 2003  
Henry Baltazar

“FAS900 Series Appliances. After years of fighting with SAN vendors, Network Appliance has turned the tables on its competition by providing customers with a solution that has the benefits of both file- and block-level storage, with a single point of storage management.”

## Sony Ericsson Mobile Communications (USA) Inc.

Des Black

Director IS/IT, Region Americas, Sony Ericsson Mobile Communications (USA) Inc.

“Sony Ericsson Mobile Communications (USA) Inc. chose Network Appliance to supply a storage consolidation solution for our distributed enterprise of UNIX, Oracle, and Windows systems. The successful deployment has helped us to scale the current data center storage environment to meet our growing information needs. We see NetApp as a key part of our infrastructure, and an important business solution partner for Sony Ericsson Mobile Communications (USA) Inc.”



### Simplicity Drives Value

The NetApp installed base consists of over 45,000 systems in more than 100 countries. Our customers are leaders in their industries and have deployed our solutions throughout their companies, from their data centers to their remote offices. They buy the NetApp® solution because it simplifies the complexity associated with managing corporate data.

From product design through customer support processes, simplicity is reflected in everything we do. Our drive for simplicity provides our customers with real and measurable advantages. The prime example is our single, common software architecture, which supports all of our products and solutions. With NetApp storage solu-

tions, customers are more agile and can react quickly to changes by rapidly deploying or reconfiguring their storage assets.

This allows them to keep their information highly available to end users and improves the performance of their enterprise applications, enabling them to bring products and services to market sooner and to reduce their operating costs.

All of these benefits reduce our customers' total cost of ownership (TCO)—another NetApp hallmark. From initial purchase costs through deployment and ongoing maintenance, NetApp solutions meet our customers' stringent fiscal requirements, earning for us the reputation for having the industry's lowest TCO. Today's corporate chief information officer (CIO) has the

daunting task of doing more with less, while keeping the business operating all day, every day. NetApp products and solutions—blending simplicity with high performance, versatility with low TCO—help CIOs meet this challenge.

# Innovation



## Gartner, Inc.

Roger Cox  
Vice President, Storage Research, Gartner, Inc.

“The industry is rapidly evolving toward consolidated fabric-attached storage infrastructures that can be managed from a single platform. We recommend organizations seek vendors capable of seamlessly supporting unified storage infrastructures while offering solutions that leverage existing IT infrastructures.”

Network Appliance has fueled the evolution of the storage industry through leadership and innovation. This past year we introduced several groundbreaking technologies. We launched the industry’s first unified storage solution; we redefined nearline storage; we delivered an open-standard NAS gateway; and we took a leadership role within the storage industry with our iSCSI offerings.

### Unified Storage

In October 2002, we introduced the FAS900 series of fabric-attached storage (FAS) systems—the industry’s first unified SAN (storage area network) and NAS storage platform. Using one operating system—our flagship software product, Data ONTAP™—along with scalable hardware and a single management environment, NetApp has again set a new standard for simplified data management and customers’ returns on investment.

# Peugeot

Jean Pierre Dumoulin  
TIVV-ATI Support and Operation, PSA Peugeot Citroën

“Rapidly developing new automotive designs is critical to the success of our business, so Peugeot relies on NetApp to support its CAD manufacturing systems. Our systems engineers have been impressed by the astonishing simplicity of the NetApp solution, which has increased productivity and resource exploitation while dramatically simplifying administration. NetApp has enabled us to reduce our storage total cost of ownership to nearly half that of the former solution.”

## Storage Terms and Acronyms

**DAS** Direct-attached storage. Storage devices that are directly attached to a computing device, not a network. Data is only available to users and applications on that computing device.

**SAN** Storage area network. A special-purpose network based on peripheral channels such as *Fibre Channel* where storage devices store and serve *blocks* of data.

**NAS** Network-attached storage. Typically an *Ethernet* network, where storage devices store and serve *files* of data.

**FAS** Fabric-attached storage. Storage systems that support both SAN and NAS. Files and blocks of data share a common pool of disk drives, providing a unified management view of both types of data.

The NetApp unified storage architecture enables customers to consolidate their storage and data management onto one highly scalable platform. This alleviates the added costs and complexity of deploying and managing different operating environments to meet their many storage requirements.

In April 2003, NetApp introduced the newest member of the FAS product family. The FAS250 is a compact, entry-level enterprise storage appliance that is completely software-compatible with all NetApp products. The FAS250 provides customers with an attractive entry-level price point and a simple upgrade path to our higher-capacity, higher-performance servers, bringing the elegance and simplicity of unified storage to the low end of the storage market.

### Redefining Nearline Storage

NetApp redefined nearline storage with the introduction of our NearStore™ product line. Before this technological advance, customers had to choose between costly but highly available online disk-based data storage and economical, but offline, slow-access tape-based data storage. NearStore technology provides customers with a data protection solution that matches the low cost of traditional tape libraries, but with the exponentially greater performance of disk-based storage.

The end-of-year rollout of the NearStore R150, coupled with our Open Systems SnapVault™ software technology, provides a cost-effective, high-performance solution for data backup and recovery. These technologies enable our enterprise customers

to store and replicate any kind of data (not just NetApp data), and they provide the foundation for highly differentiated data protection solutions unavailable from other providers.

NearStore, together with our new SnapLock™ software technology, will help to open new market opportunities. SnapLock is designed to meet the requirements of “data permanence” mandated by various government regulations—most notably SEC Regulation 17a-4 for financial services broker-dealers. Other industries, such as healthcare and life sciences, have similar regulations. SnapLock provides WORM (write once, read many) attributes such as nonerasability and nonrewritability that prevent data from being altered or deleted once it is stored on NearStore with SnapLock. This emerging market is generally referred to as “regulated data” and NetApp is well positioned, with our data protection solutions, to garner significant market share.

### NAS Gateway

In January 2003, NetApp introduced a new product line, the gFiler™ gateway—a bridge between NAS and SAN storage. The NetApp gFiler gateway provides file-level access over an Internet protocol (IP) network to data stored in Fibre Channel storage area networks. It brings the ease and simplicity of NAS data management capabilities to SAN environments.

# Product Timeline

## October 2002

**FAS900 Series**  
Industry's first unified  
SAN/NAS storage platform

## December 2002

**gFiler Gateway**  
Open-standard NAS  
gateway

## February 2003

**Open Systems SnapVault**  
Enterprise software for  
heterogeneous data  
replication and protection

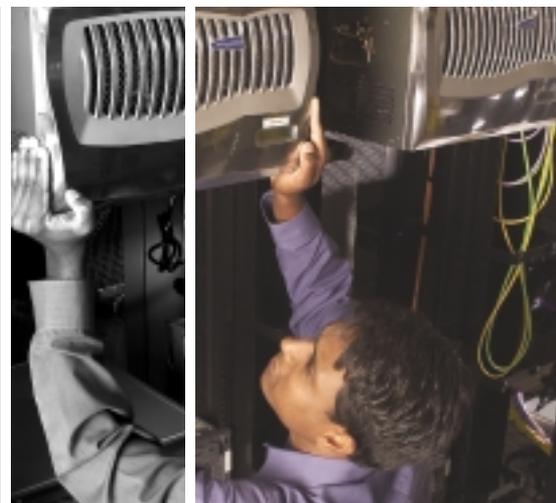
**iSCSI Protocol Support**  
Enables the creation of  
SANs using pervasive  
Ethernet infrastructures

**NearStore R150**  
Capacity and performance  
upgrade to flagship nearline  
storage product line

## April 2003

**FAS250**  
Unified storage in an entry-  
level enterprise server

**SnapLock**  
Enterprise software for  
online data protection  
and archiving to meet  
government regulations  
for data "permanence"



## The Emerging iSCSI Market

NetApp gains an additional foothold in the storage industry by including iSCSI support throughout our entire product line. Identified as a \$10 billion market opportunity, iSCSI, or Internet SCSI, enables SAN capabilities through existing Ethernet infrastructures and brings the advantages of storage networking to remote locations and the extended enterprise. iSCSI is especially appealing to customers because it enables affordable, network storage for Windows® and Linux® server environments, where simplicity, flexibility, and price/performance are critical IT decision factors.

## Advanced Data Management

Fundamental to data storage and access is data management. Identifying available resources, managing the movement of data, and serving and protecting data

throughout its lifecycle requires a sophisticated software engine. NetApp's core value to our customers is the simplicity we bring to a very complex and business-critical function. With Data ONTAP, the operating system at the heart of our unified storage architecture, customers rely on a single platform to store, manage, move, and protect the information that runs their businesses.

## Manage ONTAP™ Application Development Program

The announcement of our Manage ONTAP program has significant and far-reaching implications. It allows third-party software developers to integrate their products and technology with the NetApp operating environment. By providing our technology partners with open application program interfaces (APIs), we have expanded the

capabilities and reach of our core technology and demonstrated our commitment to truly open storage network environments.

## NetCache® Solutions

The NetCache product line is a scalable suite of appliances, designed to solve the complex Web-content delivery challenges faced by enterprises and service providers. NetCache appliances currently power some of the world's largest enterprises and telecommunications networks. With the introduction of the C1200 and C2100 appliances, we have enhanced our ability to meet demanding customer price/performance requirements by supporting a wide range of capacity and reliability features.

NetCache is also at the core of our Internet access and security solutions, which provide highly cost-effective, scalable, and secure Web access environments.



## Oracle Corporation

Dave Dargo  
Vice President, System Platforms Division, Oracle Corporation

“Oracle uses over 700 terabytes of NetApp storage every day throughout its business. We rely on NetApp to support the development and testing of our next-generation products. NetApp also equips Oracle E-Business Suite Outsourcing (EBSO)—which supports over 500 customers worldwide—providing managed services at a lower cost of ownership for ourselves, and ultimately for our customers, without sacrificing quality of service.”

### Customer Satisfaction

Customer satisfaction is at the heart of our success and a NetApp core value. Our customers are large global enterprises that must have access to their data at all times. Downtime is not an option. All facets of our company, from manufacturing to product quality to global service and support, endeavor to deliver the highest-quality, most reliable products and services, bar none.

NetApp's commitment to customer satisfaction is reflected in our Global Support Center (GSC) operations. As part of our “follow the sun” strategy, GSCs provide around-the-clock support regardless of where our customers are located. All GSCs have earned the Support Center Practices (SCP) certification, an internationally recognized standard. The Service

and Support Association (SSA) and a consortium of IT companies created the SCP certification as a recognized quality certification for support centers.

Rounding out our portfolio of integrated service offerings, the award-winning NOW™ (NetApp on the Web) support site provides constant online monitoring of installed equipment, along with a variety of professional and learning services offered through the NetApp University. NetApp's comprehensive, global service and support solutions help our customers achieve optimal data availability while preserving a low total cost of ownership.

Fiscal year 2003 will surely be remembered as one of amazing success and accomplishment for NetApp. Our more than 2,300 worldwide employees are very proud of our achievements and of the model company we have built. This year FORTUNE magazine recognized NetApp as one of the “100 Best Companies to Work For.” Debuting at number 39 on an impressive list of top U.S. companies, Network Appliance is the only enterprise storage company recognized this year for its premier work environment.

As we move into fiscal year 2004, we are confident and excited about the opportunities that await us. Building upon our leadership in innovation, the dedication of our employees, and the support of our partners, we will continue to deliver unparalleled value to our customers.

On behalf of the entire NetApp executive management team, thank you for your continued support and commitment to our success.

Sincerely,



**Dan Warmenhoven**  
Chief Executive Officer



**Tom Mendoza**  
President

**Dave Hitz**  
Executive Vice President  
Engineering and Founder

**Jeff Allen**  
Executive Vice President  
Business Operations

**Dan Warmenhoven**  
Chief Executive Officer

**Tom Mendoza**  
President

**Chris Carlton**  
Senior Vice President  
People and Places

**Steve Gomo**  
Chief Financial Officer  
and Senior Vice President  
Finance

**James Lau**  
Executive Vice President  
Chief Strategy Officer  
and Founder



# Financial Contents

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# Executive Staff

## Directors

**Donald Valentine**  
Chairman, Founder  
Sequoia Capital

**Sanjiv Ahuja**  
Chief Operating Officer  
Orange SA

**Carol Bartz**  
Chairman and Chief Executive  
Officer, Autodesk, Inc.

**Michael Hallman**  
President  
The Hallman Group

**Nicholas Moore**  
Chairman (retired)  
PricewaterhouseCoopers

**Dr. Sachio Semmoto**  
Chairman and  
Chief Executive Officer  
eAccess Ltd.

**Robert Wall**  
President  
On Point Developments, LLC

**Dan Warmenhoven**  
Chief Executive Officer  
Network Appliance, Inc.

## Corporate Officers and Executive Vice Presidents

**Dan Warmenhoven**  
Chief Executive Officer

**Tom Mendoza**  
President

**Steve Gomo**  
Chief Financial Officer and  
Senior Vice President  
Finance

**Andy Kryder**  
Secretary, General Counsel  
and Vice President  
Legal and Tax

**Jeff Allen**  
Executive Vice President  
Business Operations

**Ed Deenihan**  
Executive Vice President  
Customer Satisfaction

**Dave Hitz**  
Executive Vice President  
Engineering and Founder

**James Lau**  
Executive Vice President  
Chief Strategy Officer  
and Founder

## Senior Vice Presidents

**Mark Jon Bluth**  
Senior Vice President  
Operations

**Chris Carlton**  
Senior Vice President  
People and Places

**Steve Kleiman**  
Senior Vice President  
Chief Technology Officer

**Pat Linehan**  
Senior Vice President and  
General Manager  
Europe, Middle East and Africa

**Rob Salmon**  
Senior Vice President  
Worldwide Sales

**Mark Santora**  
Senior Vice President  
Worldwide Marketing

## Vice Presidents

**Nancy Aiello**  
Vice President  
Corporate Sales and Service  
Marketing

**Roger Anderson**  
Vice President  
Systems Engineering

**Buz Battle**  
Vice President  
Worldwide Sales Operations

**George Bennett**  
Vice President  
Sales—Central Americas

**Thom Bryant**  
Vice President  
Workplace Resources

**Jay Chabrow**  
Vice President  
and General Manager  
Network Appliance Federal  
Systems, Inc.

**Tom Chin**  
Vice President  
Asia Pacific

**Rich Clifton**  
Vice President  
SAN/iSAN Business Unit

**Gerry Conboy**  
Vice President  
Strategic Accounts and  
Global Partners

**Diptish Datta**  
Vice President  
Customer Satisfaction

**Becky Deyo**  
Vice President  
Global Support

**Manish Goel**  
Vice President and  
General Manager—India

**Elaine Hamilton**  
Vice President  
Human Resources

**Ken Hibbard**  
Vice President  
Product Development and  
East Coast Operation

**Leonard Iventosch**  
Vice President  
Channel Sales

**Scot Klimke**  
Vice President  
Information Technologies  
and Chief Information Officer

**Andreas Koenig**  
Vice President  
Sales—Central Europe

**Ingemar Lanevi**  
Vice President  
Finance and Corporate Treasurer

**Jerry Lopatin**  
Vice President  
Platform and Storage

**Eric Mann**  
Vice President  
Sales—Eastern Americas

**Amit Pandey**  
Vice President and  
General Manager  
Content Delivery Business Unit

**Leslie Paulides**  
Vice President  
Finance and Corporate Controller

**Brian Pawlowski**  
Vice President  
Engineering

**Tim Pitcher**  
Vice President  
Sales—Northern Europe

**Patrick Rogers**  
Vice President  
Strategic Alliances

**Whitney Tomlin**  
Vice President  
Sales—Western Americas

**Kort van Bronkhorst**  
Vice President  
Corporate Communications

**Andy Watson**  
Vice President  
Strategic Technology

**Mark Weiner**  
Vice President  
Sales—Western Europe

**Phil Williams**  
Vice President  
Strategic Marketing

## Independent Auditors

Deloitte & Touche, LLP  
San Jose, California

## Transfer Agent and Registrar

Computershare Investor Services, LLC  
Chicago, Illinois

## Annual Meeting

The Annual Meeting of Stockholders will be held at 3:00 P.M. Pacific Time on Tuesday, September 2, 2003, at the company's headquarters located at 495 East Java Drive, Sunnyvale, California.

## Investor Relations

Network Appliance, Inc. welcomes inquiries from stockholders and other interested investors.

To obtain a copy of the company's quarterly financial results and other corporate information, please direct your request to our Web site: [www.investors.netapp.com](http://www.investors.netapp.com)

or send an e-mail to:  
[investor\\_relations@netapp.com](mailto:investor_relations@netapp.com).

You may also contact us by phone:  
(800) 445-2234 (U.S.) or  
(408) 822-7098

or by writing to:  
Investor Relations  
Network Appliance, Inc.  
495 East Java Drive  
Sunnyvale, California 94089

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#### **United States Main Offices**

Network Appliance, Inc.  
495 East Java Drive  
Sunnyvale, CA 94089

Network Appliance  
Federal Systems, Inc.  
8405 Greensboro Drive,  
Suite 1000  
McLean, VA 22012

Network Appliance  
Research Triangle Park  
627 Davis Drive, Suite 200  
Durham, NC 27713

#### **International Main Offices**

Network Appliance BV  
The Netherlands  
Scorpius 2  
2132 LR Hoofddorp  
The Netherlands

Network Appliance  
India-BTC  
The Estate, 6th Floor  
121 Dickenson Road  
Bangalore, India 560042