UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended October 26, 2012

or

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

For the transition period from to
Commission File Number 000-27130

NetApp, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**77-0307520**
(State or other jurisdiction of incorporation or organization)	*(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 þ No ¨

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

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

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

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

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

As of November 19, 2012, there were 358,283,903 shares of the registrant s common stock, $0.001 par value, outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

NETAPP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

(Unaudited)

	October 26, 2012	April 27, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,816.8	$ 1,549.8
Short-term investments	3,754.2	3,848.7
Accounts receivable, net of allowance of $0.8 million and $0.4 million as of October 26, 2012 and April 27, 2012, respectively	615.0	830.9
Inventories	213.2	161.5
Other current assets	488.5	435.6
Total current assets	6,887.7	6,826.5
Property and equipment, net	1,132.4	1,137.2
Goodwill	905.2	905.2
Other intangible assets, net	193.1	236.0
Other non-current assets	435.5	427.4
Total assets	$ 9,553.9	$ 9,532.3
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 246.6	$ 233.1
Accrued compensation and related benefits	311.0	340.3
Other current liabilities	378.2	377.6
1.75% Convertible Senior Notes due 2013	1,229.4	1,202.3
Short-term deferred revenue	1,408.5	1,366.5
Total current liabilities	3,573.7	3,519.8
Other long-term liabilities	216.3	206.9
Long-term deferred revenue	1,361.7	1,449.4
Total liabilities	5,151.7	5,176.1
Commitments and contingencies (Note 15)		
1.75% Convertible Senior Notes due 2013	0.0	62.6

Stockholders equity:		
Common stock, $0.001 par value, (462.4 and 468.9 shares issued as of October 26, 2012 and April 27, 2012, respectively)	0.5	0.5
Additional paid-in capital	4,585.9	4,410.3
Treasury stock, at cost (104.3 shares as of October 26, 2012 and April 27, 2012)	(2,927.4)	(2,927.4)
Retained earnings	2,735.0	2,805.3
Accumulated other comprehensive income	8.2	4.9
Total stockholders equity	4,402.2	4,293.6
Total liabilities and stockholders equity	$ 9,553.9	$ 9,532.3

See accompanying notes to condensed consolidated financial statements.

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NETAPP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	October 26, 2012	October 28, 2011	October 26, 2012	October 28, 2011
Revenues:				
Product	$ 995.8	$ 1,016.2	$ 1,893.8	$ 1,981.9
Software entitlements and maintenance	219.4	198.0	437.9	396.2
Service	326.0	292.8	654.1	587.1
Net revenues	1,541.2	1,507.0	2,985.8	2,965.2
Cost of revenues:				
Cost of product	477.3	460.7	929.5	898.1
Cost of software entitlements and maintenance	7.0	5.6	13.6	10.9
Cost of service	143.0	127.7	278.7	246.3
Total cost of revenues	627.3	594.0	1,221.8	1,155.3
Gross profit	913.9	913.0	1,764.0	1,809.9
Operating expenses:				
Sales and marketing	488.2	454.1	971.1	908.9
Research and development	223.8	199.7	445.2	398.3
General and administrative	66.6	65.1	132.2	130.2
Acquisition-related expense	0.0	1.7	0.0	3.9
Total operating expenses	778.6	720.6	1,548.5	1,441.3
Income from operations	135.3	192.4	215.5	368.6
Other expense, net:				
Interest income	11.0	8.3	21.8	18.9
Interest expense	(19.8)	(16.4)	(39.7)	(35.8)
Other income (expense), net	1.2	(0.4)	4.3	(0.7)
Total other expense, net	(7.6)	(8.5)	(13.6)	(17.6)
Income before income taxes	127.7	183.9	201.9	351.0
Provision for income taxes	18.1	18.3	28.5	45.9
Net income	$ 109.6	$ 165.6	$ 173.4	$ 305.1
Net income per share:				
Basic	$ 0.30	$ 0.46	$ 0.48	$ 0.83

Diluted	$ 0.30	$ 0.44	$ 0.47	$ 0.78
Shares used in net income per share calculations:				
Basic	362.0	361.5	364.1	365.9
Diluted	368.2	376.0	369.7	390.8

See accompanying notes to condensed consolidated financial statements.

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NETAPP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

(Unaudited)

	Three Months Ended		Six Months Ended	
	October 26, 2012	October 28, 2011	October 26, 2012	October 28, 2011
Net income	$ 109.6	$ 165.6	$ 173.4	$ 305.1
Other comprehensive income:				
Foreign currency translation adjustments	3.6	(2.1)	(1.6)	(3.1)
Defined benefit obligation adjustments	0.1	0.0	0.2	0.0
Unrealized gains (losses) on available-for-sale securities:				
Unrealized holding gains (losses) arising during the period	2.5	(7.8)	6.6	(6.8)
Income tax effect on unrealized holding gains (losses)	0.2	1.6	(0.3)	1.9
Reclassification adjustments for gains included in net income	(0.5)	(0.0)	(0.6)	(0.5)
Unrealized gains (losses) on cash flow hedges:				
Unrealized holding gains (losses) arising during the period	(5.5)	5.9	0.9	10.3
Reclassification adjustments for (gains) losses included in net income	2.6	(5.8)	(1.9)	(7.6)
Other comprehensive income (loss)	3.0	(8.2)	3.3	(5.8)
Comprehensive income	$ 112.6	$ 157.4	$ 176.7	$ 299.3

See accompanying notes to condensed consolidated financial statements.

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NETAPP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Six Months Ended	
	October 26, 2012	October 28, 2011
Cash flows from operating activities:		
Net income	$ 173.4	$ 305.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	169.1	136.9
Stock-based compensation	144.2	121.1
Accretion of discount and issuance costs on Notes	28.7	25.2
Deferred income tax provision	(50.0)	(71.2)
Tax benefit from stock-based compensation	28.2	79.1
Excess tax benefit from stock-based compensation	(43.6)	(84.7)
Other non-cash items, net	10.1	(3.2)
Changes in assets and liabilities, net of acquisition of business:		
Accounts receivable	212.9	115.6
Inventories	(51.7)	(18.3)
Other operating assets	(16.9)	(12.5)
Accounts payable	13.9	45.6
Accrued compensation and other current liabilities	(15.9)	(173.1)
Deferred revenue	(42.6)	126.9
Other operating liabilities	5.8	18.3
Net cash provided by operating activities	565.6	610.8
Cash flows from investing activities:		
Purchases of investments	(1,243.0)	(1,306.6)
Maturities and sales of investments	1,336.4	1,347.0
Purchases of property and equipment	(129.0)	(191.6)
Acquisition of business	0.0	(480.0)
Other investing activities, net	2.8	2.0
Net cash used in investing activities	(32.8)	(629.2)
Cash flows from financing activities:		
Issuance of common stock	45.1	51.9
Repurchase and retirement of common stock	(348.3)	(600.0)
Excess tax benefit from stock-based compensation	43.6	84.7
Other financing activities, net	(0.3)	1.6
Net cash used in financing activities	(259.9)	(461.8)
Effect of exchange rate changes on cash and cash equivalents	(5.9)	(8.1)
Net increase (decrease) in cash and cash equivalents	267.0	(488.3)
Cash and cash equivalents:		
Beginning of period	1,549.8	2,757.3

End of period	$ 1,816.8	$ 2,269.0

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 and second 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, 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 six months ended October 26, 2012 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 six months ended October 26, 2012, 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.

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4. Statements of Cash Flows

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

	Six Months Ended	
	October 26, 2012	October 28, 2011
Non-cash Investing and Financing Activities:		
Reclassification of equity component of convertible debt	$ 62.6	$ 114.6
Acquisition of property and equipment on account	$ 20.0	$ 41.0
Acquisition of property and equipment through long-term financing	$ 0.8	$ 2.5
Supplemental Cash Flow Information:		
Income taxes paid, net of refunds	$ 26.5	$ 22.7
Interest paid, net of capitalized interest	$ 11.3	$ 10.3

5. Business Combination

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
Identified 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	$ 480.0

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. Other Intangible Assets, Net

Other intangible assets, net consist of acquisition-related finite-lived intangibles, as summarized below (in millions):

	October 26, 2012	April 27, 2012

	Gross Carrying Amount	Accumulated Amortization	Other Intangible Assets, Net	Gross Carrying Amount	Accumulated Amortization	Other Intangible Assets, Net
Developed technology	$ 282.1	$ (106.9)	$ 175.2	$ 282.1	$ (79.0)	$ 203.1
Customer contracts/relationships	54.6	(40.5)	14.1	59.4	(32.7)	26.7
Trademarks and trade names	9.9	(6.9)	3.0	14.7	(9.7)	5.0
Covenants not to compete	2.2	(1.4)	0.8	2.2	(1.0)	1.2
Total other intangible assets	$ 348.8	$ (155.7)	$ 193.1	$ 358.4	$ (122.4)	$ 236.0

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Amortization expense for finite-lived intangible assets is summarized below (in millions):

	Three Months Ended		Six Months Ended		Statements of Operations
	October 26, 2012	October 28, 2011	October 26, 2012	October 28, 2011	Classifications
Developed technology	$ 14.0	$ 14.0	$ 27.9	$ 27.9	Cost of product revenues
Customer contracts/relationships	6.3	6.4	12.6	15.4	Sales and marketing
Trademarks and trade names	1.0	1.1	2.0	2.3	Sales and marketing
Covenants not to compete	0.2	0.2	0.4	0.4	Sales and marketing
	$ 21.5	$ 21.7	$ 42.9	$ 46.0	

As of October 26, 2012, future amortization expense related to finite-lived intangible assets is as follows (in millions):

Fiscal Year	Amount
Remainder of 2013	$ 41.3
2014	52.0
2015	50.6
2016	46.9
2017	2.3
Total	$ 193.1

7. Balance Sheet Details

Cash and cash equivalents (in millions):

	October 26, 2012	April 27, 2012
Cash	$ 1,275.2	$ 649.8
Cash equivalents	541.6	900.0
Cash and cash equivalents	$ 1,816.8	$ 1,549.8

Inventories (in millions):

	October 26, 2012	April 27, 2012
Purchased components	$ 52.9	$ 30.9
Finished goods	160.3	130.6
Inventories	$ 213.2	$ 161.5

Other current assets (in millions):

	October 26, 2012	April 27, 2012
Deferred tax assets	$ 248.4	$ 201.6
Prepaid expenses and other current assets	233.5	225.4
Short-term restricted cash	6.6	8.6
Other current assets	$ 488.5	$ 435.6

Property and equipment, net (in millions):

	October 26, 2012	April 27, 2012
Land	$ 247.6	$ 247.6
Buildings and building improvements	447.6	417.9
Leasehold improvements	104.5	96.5
Computer, production, engineering and other equipment	695.9	638.1
Software	390.4	381.6
Furniture and fixtures	80.7	71.7
Construction-in-progress	99.9	107.1
	2,066.6	1,960.5
Accumulated depreciation and amortization	(934.2)	(823.3)
Property and equipment, net	$ 1,132.4	$ 1,137.2

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Software includes capitalized internal-use software development costs. The net book value of such is as follows (in millions):

	October 26, 2012	April 27, 2012
Computer software	$ 132.5	$ 160.1

Other non-current assets (in millions):

	October 26, 2012	April 27, 2012
Auction rate securities	$ 46.5	$ 51.0
Restricted cash	2.5	2.6
Deferred tax assets	190.3	203.8
Other assets	196.2	170.0
Other non-current assets	$ 435.5	$ 427.4

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

	October 26, 2012	April 27, 2012
Product	$ 18.6	$ 25.7
SEM and service	2,751.6	2,790.2
Total	$ 2,770.2	$ 2,815.9
Reported as:		
Short-term	$ 1,408.5	$ 1,366.5
Long-term	1,361.7	1,449.4
Total	$ 2,770.2	$ 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:

	October 26, 2012	April 27, 2012
Accumulated foreign currency translation adjustments	$ 3.3	$ 4.9
Accumulated defined benefit obligation adjustments	(4.2)	(4.4)

Accumulated unrealized gains on available-for-sale securities		10.6		4.9
Accumulated unrealized losses on derivatives instruments		(1.5)		(0.5)
Total accumulated other comprehensive income	$	8.2	$	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.

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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 investments (in millions):

	October 26, 2012				April 27, 2012			
		Gross Unrealized				Gross Unrealized		
	Cost or Amortized Cost	Gains	Losses	Estimated Fair Value	Cost or Amortized Cost	Gains	Losses	Estimated Fair Value
Corporate bonds	$ 2,964.3	$ 14.7	$ (0.7)	$ 2,978.3	$ 2,665.2	$ 9.5	$ (1.4)	$ 2,673.3
U.S. Treasury and government debt securities	518.9	0.8	0.0	519.7	836.7	1.2	(0.1)	837.8
Commercial paper	85.0	0.0	0.0	85.0	164.6	0.0	0.0	164.6
Certificates of deposit	222.6	0.3	0.0	222.9	347.7	0.5	0.0	348.2
Municipal bonds	8.4	0.0	(0.1)	8.3	0.0	0.0	0.0	0.0
Money market funds	481.6	0.0	0.0	481.6	724.8	0.0	0.0	724.8
Auction rate securities	49.1	0.9	(3.5)	46.5	54.1	0.9	(4.0)	51.0
Equity funds	26.1	0.0	0.0	26.1	25.5	0.0	0.0	25.5
Total debt and equity securities	$ 4,356.0	$ 16.7	$ (4.3)	$ 4,368.4	$ 4,818.6	$ 12.1	$ (5.5)	$ 4,825.2

The following table presents the contractual maturities of our debt investments as of October 26, 2012 (in millions):

	Amortized Cost	Fair Value
Due in one year or less	$ 1,586.3	$ 1,589.3
Due in one through five years	2,152.9	2,164.9
Due after ten years*	49.1	46.5
	$ 3,788.3	$ 3,800.7

* 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 October 26, 2012 (in millions):

	Total	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

		(Level 1)		
Assets				
Corporate bonds	$ 2,978.3	$ 0.0	$ 2,978.3	$ 0.0
U.S. Treasury and government debt securities	519.7	203.6	316.1	0.0
Commercial paper	85.0	0.0	85.0	0.0
Certificates of deposit	222.9	0.0	222.9	0.0
Municipal bonds	8.3	0.0	8.3	0.0
Money market funds	481.6	481.6	0.0	0.0
Auction rate securities	46.5	0.0	0.0	46.5
Equity funds	26.1	26.1	0.0	0.0
Foreign currency contracts	2.9	0.0	2.9	0.0
Total	$ 4,371.3	$ 711.3	$ 3,613.5	$ 46.5
Liabilities				
Foreign currency contracts	$ 1.8	$ 0.0	$ 1.8	$ 0.0

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The following table summarizes the balance sheet classifications of our financial assets and liabilities measured at fair value on a recurring basis as of October 26, 2012 (in millions):

		Fair Value Measurements at Reporting Date Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash equivalents	$ 541.6	$ 481.6	$ 60.0	$ 0.0
Short-term investments	3,754.2	203.6	3,550.6	0.0
Other current assets	8.9	6.0	2.9	0.0
Other non-current assets	66.6	20.1	0.0	46.5
Total	$ 4,371.3	$ 711.3	$ 3,613.5	$ 46.5
Liabilities				
Other current liabilities	$ 1.8	$ 0.0	$ 1.8	$ 0.0

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 October 26, 2012 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 October 26, 2012.

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

	Fair Value at October 26, 2012	Valuation Techniques	Unobservable Inputs	Range (Weighted average)
ARS	$ 46.5	Discounted cash flow	Time-to-economic maturity	6.7 yrs 13.7 yrs (9.2 yrs)
			Liquidity risk premium, market credit spread and other factors	1.8% - 2.4% (2.0%)
			Coupon rate	0.0% - 2.7% (1.4%)
		Market comparable securities	Discount rate	4.7% - 15.0% (9.0%)

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 providers. 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		Six Months Ended	
	October 26, 2012	**October 28, 2011**	**October 26, 2012**	**October 28, 2011**
Balance at beginning of period	$ 46.3	$ 56.3	$ 51.0	$ 65.1
Total unrealized gains, net included in other comprehensive income (loss)	0.2	0.4	0.5	1.3
Settlements	(0.0)	(0.7)	(5.0)	(10.4)
Balance at end of period	$ 46.5	$ 56.0	$ 46.5	$ 56.0

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9. Financing Arrangements

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 Notes). The Notes are unsecured, unsubordinated obligations of the Company, which pay interest in cash semi-annually at a rate of 1.75% per annum. The Notes will mature on June 1, 2013 unless earlier repurchased or converted in accordance with their terms prior to such date. The 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 Notes (which represents an initial effective conversion price of the Notes of $31.85 per share), subject to adjustment as described in the indenture governing the Notes.

The 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 Notes), holders of the Notes may require us to repurchase all or a portion of their Notes at a repurchase price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest, if any, to, but excluding, the fundamental change repurchase date.

The holders of the Notes may convert their 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 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 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 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 Notes. On or after March 1, 2013, until the scheduled trading day immediately preceding the maturity date, holders of the Notes may convert their 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 Notes, and shares of our common stock for any conversion value in excess of the principal amount of the Notes, if any. Holders of the Notes who convert their 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 Notes for at least 20 trading days during the 30 consecutive trading days ended September 30, 2012, and accordingly, as of October 26, 2012, the Notes were not convertible at the option of the holder. Since the Notes were not convertible, the difference between the principal amount and the carrying value of the Notes was reflected as equity on our condensed consolidated balance sheet as of October 26, 2012.

The determination of whether or not the Notes are convertible must continue to be performed quarterly. Consequently, if the conversion threshold is exceeded during the quarter ending January 25, 2013, the Notes will become unconditionally convertible at that time. At such time that the Notes become convertible at the option of the holder, the difference between the principal amount and the carrying value of the Notes would be reflected as convertible debt in mezzanine on our condensed consolidated balance sheets.

Upon conversion of the Notes, we deliver cash up to the principal amount of the Notes and, with respect to any excess conversion value greater than the principal amount of the Notes, shares of our common stock. As of October 26, 2012, shares issued related to the Notes were minimal. Based on the closing price of our common stock of $27.88 on October 26, 2012, the if-converted value of our Notes was below their principal amount.

We separately account for the liability and equity components of the Notes. The initial debt component of the 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 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 Notes using the effective interest method and an effective interest rate of 6.31% for all periods presented.

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The following table reflects the carrying value of the Notes (in millions):

	October 26, 2012	April 27, 2012
1.75% Convertible Senior Notes due 2013	$ 1,264.9	$ 1,264.9
Less: Unamortized discount	(35.5)	(62.6)
Net carrying amount of Notes	$ 1,229.4	$ 1,202.3

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

	Three Months Ended		Six Months Ended	
	October 26, 2012	October 28, 2011	October 26, 2012	October 28, 2011
Contractual coupon interest expense	$ 5.5	$ 5.5	$ 11.0	$ 11.0
Amortization of debt discount	13.6	12.8	27.1	25.4
Amortization of debt issuance costs	1.2	1.1	2.4	2.2
Less capitalized interest	(0.6)	(3.5)	(1.1)	(3.5)
Total interest expense related to Notes	$ 19.7	$ 15.9	$ 39.4	$ 35.1

The following table reflects the remaining debt discount and issuance costs as of October 26, 2012 (in millions):

Remaining debt discount	$ 35.5
Remaining issuance costs	3.0
Remaining life of the Notes (years)	0.6

Note Hedges and Warrants

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

Note Hedges: As of October 26, 2012 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 Note hedge transactions will expire at the earlier of (1) the last day on which any Notes remain outstanding or (2) the scheduled trading day immediately preceding the maturity date of the Notes. Upon exercise of the 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 hedges.

Warrants: As of October 26, 2012 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 October 26, 2012, we were subject to potential dilution on the approximately 20% unhedged portion of our 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 October 26, 2012, we received a minimal number of shares related to the Note hedge transactions and no cash or shares were delivered related to the warrant transactions.

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Fair Value of Notes

As of October 26, 2012, the fair value of the principal amount of the Notes, which includes the debt and equity components, was approximately $1,340.2 million, or 106.0% of the face value of the Notes, based upon quoted market information provided by third-party pricing providers (Level 1).

Other Long-Term Financing Arrangements

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

	October 26, 2012	April 27, 2012
Current portion of other long-term financing arrangements	$ 6.0	$ 9.1
Non-current portion of other long-term financing arrangements	6.3	3.5
Total	$ 12.3	$ 12.6

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 at April 27, 2012	20.6	$ 29.98		
Options granted	2.2	30.03		
Options exercised	(1.1)	18.05		
Options forfeited and expired	(0.6)	39.75		
Outstanding at October 26, 2012	21.1	30.31	3.66	$ 75.3
Options vested and expected to vest as of October 26, 2012	20.5	30.07	3.59	75.2
Exercisable at October 26, 2012	15.0	27.46	2.95	69.3

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 October 26, 2012, the total unrecognized compensation expense related to stock options was $68.6 million, which is expected to be recognized on a straight-line basis over a weighted-average remaining service period of 2.3 years.

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

	Three Months Ended		Six Months Ended	
	October 26, 2012	October 28, 2011	October 26, 2012	October 28, 2011

Weighted-average fair value per share granted	$ 12.40	$ 13.77	$ 10.86	$ 16.96
Intrinsic value of options exercised	$ 10.4	$ 6.8	$ 15.8	$ 50.6
Proceeds received from the exercise of stock options	$ 12.8	$ 7.7	$ 19.5	$ 42.7
Fair value of options vested	$ 15.1	$ 20.3	$ 29.5	$ 38.7

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 at April 27, 2012	12.0	$ 43.28
RSUs granted	5.0	29.31
RSUs vested	(2.3)	39.74
RSUs forfeited	(0.7)	41.32
Outstanding at October 26, 2012	14.0	39.01

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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 and retired 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		Six Months Ended	
	October 26, 2012	October 28, 2011	October 26, 2012	October 28, 2011
Shares withheld for taxes	0.1	0.1	0.7	0.6
Fair value of shares withheld and retired	$ 2.8	$ 2.5	$ 22.6	$ 27.8

As of October 26, 2012, the total unrecognized compensation expense related to RSUs was $379.1 million, which is expected to be recognized on a straight-line basis over a weighted-average remaining service period of 2.8 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):

	Six Months Ended	
	October 26, 2012	October 28, 2011
Weighted-average fair value per right granted	$ 10.25	$ 15.88
Shares issued under the ESPP	1.9	1.1
Weighted-average price per share issued	$ 25.30	$ 39.17

As of October 26, 2012, the total unrecognized compensation expense related to the ESPP was $63.5 million, which is expected to be recognized on a straight-line basis over a weighted-average remaining service period of 1.6 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		Six Months Ended	
	October 26, 2012	October 28, 2011	October 26, 2012	October 28, 2011
Cost of product revenues	$ 1.5	$ 1.4	$ 3.3	$ 2.5
Cost of service revenues	4.6	4.2	10.2	8.1
Sales and marketing	30.9	30.4	69.9	59.0
Research and development	19.3	18.2	43.0	34.2
General and administrative	8.7	8.8	17.8	17.3
Total stock-based compensation expense	$ 65.0	$ 63.0	$ 144.2	$ 121.1

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

	Three Months Ended		Six Months Ended	
	October 26, 2012	October 28, 2011	October 26, 2012	October 28, 2011

Employee stock options	$ 11.7	$ 14.7	$ 23.7	$ 29.2
RSUs	43.3	38.9	87.8	73.3
ESPP	10.0	9.4	32.7	18.6
Total stock-based compensation expense	$ 65.0	$ 63.0	$ 144.2	$ 121.1

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

	Six Months Ended	
	October 26, 2012	October 28, 2011
Income tax benefit associated with employee stock transactions	$ 28.2	$ 79.1

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		Six Months Ended	
	October 26, 2012	October 28, 2011	October 26, 2012	October 28, 2011
Expected term in years	4.8	4.8	4.8	4.8
Risk-free interest rate	0.62%	0.97%	0.63%	1.55%
Volatility	43%	41%	41%	36%

	ESPP	
	Six Months Ended	
	October 26, 2012	October 28, 2011
Expected term in years	1.2	1.2
Risk-free interest rate	0.18%	0.25%
Volatility	38%	35%

Stock Repurchase Program

During the six months ended October 26, 2012, we repurchased and retired 10.9 million shares of our common stock at an average price of $31.86 per share, for an aggregate purchase price of $348.3 million, of which $104.6 million and $243.7 million was allocated to additional paid-in capital and retained earnings, respectively. Since the May 13, 2003 inception of our stock repurchase program through October 26, 2012, we repurchased a total of 129.9 million shares of our common stock at an average price of $29.84 per share, for an aggregate purchase price of $3.9 billion.

As of October 26, 2012, our Board of Directors had authorized the repurchase of up to $4.0 billion of our common stock under our stock repurchase program. As of October 26, 2012, the remaining authorized amount for stock repurchases under this program was $0.1 billion with no termination date. On November 14, 2012, our Board of Directors approved an increase of $1.5 billion to our stock repurchase program. 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 denominated sales and our foreign currency denominated monetary asset and liability exposures consisted of the following (in millions):

	October 26, 2012	April 27, 2012
Cash Flow Hedges		
Euro	$ 142.4	$ 96.9
British Pound Sterling	39.6	29.8
Balance Sheet Contracts		
Euro	179.0	267.4
British Pound Sterling	76.2	86.4
Australian Dollar	95.4	38.5
Canadian Dollar	30.4	54.3

Swiss Franc	24.8	7.3
Israeli Shekel	24.4	17.2
Other	45.1	44.0

The fair value of our short-term foreign currency contracts was not material as of October 26, 2012 and April 27, 2012. We did not recognize any gains and losses in earnings due to hedge ineffectiveness for any period presented.

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The effect of derivative instruments designated as cash flow hedges recognized in net revenues on our condensed consolidated statements of operations was as follows (in millions):

	Three Months Ended October 26, 2012		Three Months Ended October 28, 2011	
Derivatives in Cash Flow Hedging Relationships	**Loss Recognized in AOCI**	**Loss Reclassified from AOCI into Income**	**Gain Recognized in AOCI**	**Gain Reclassified from AOCI into Income**
Foreign exchange forward purchase contracts	$ 5.5	$ 2.6	$ 5.9	$ 5.8

	Six Months Ended October 26, 2012		Six Months Ended October 28, 2011	
Derivatives in Cash Flow Hedging Relationships	**Gain Recognized in AOCI**	**Gain Reclassified from AOCI into Income**	**Gain Recognized in AOCI**	**Gain Reclassified from AOCI into Income**
Foreign exchange forward purchase contracts	$ 0.9	$ 1.9	$ 10.3	$ 7.6

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):

	Three Months Ended		Six Months Ended	
	October 26, 2012	**October 28, 2011**	**October 26, 2012**	**October 28, 2011**
Derivatives Not Designated as Hedging Instruments	**Gain (Loss) Recognized into Income**		**Gain Recognized into Income**	
Foreign exchange forward purchase contracts	$ (9.7)	$ 7.9	$ 6.2	$ 14.1

12. Income Taxes

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

	Six Months Ended	
	October 26, 2012	**October 28, 2011**
Effective tax rates	14.1%	13.1%

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. As of October 26, 2012, we had $165.3 million of unrecognized tax benefits, of which $109.7 million has been recorded in other long-term liabilities and $98.3 million, including penalties and interest, would affect our provision for income taxes if recognized.

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 of Taxation. In February 2012, the IRS commenced an examination of our fiscal 2008 through 2010 income tax returns. We are also under audit by the California Franchise Tax Board for our fiscal 2007 and 2008 California 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.

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13. Net Income per Share

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

	Three Months Ended		Six Months Ended	
	October 26, 2012	October 28, 2011	October 26, 2012	October 28, 2011
Numerator:				
Net income	$ 109.6	$ 165.6	$ 173.4	$ 305.1
Denominator:				
Shares used in basic computation	362.0	361.5	364.1	365.9
Dilutive potential shares related to employee equity award plans	5.2	7.8	5.1	9.8
Dilutive impact of assumed conversion of Notes	1.0	6.7	0.5	11.1
Dilutive impact of warrants	0.0	0.0	0.0	4.0
Shares used in diluted computation	368.2	376.0	369.7	390.8
Net Income per Share:				
Basic	$ 0.30	$ 0.46	$ 0.48	$ 0.83
Diluted	$ 0.30	$ 0.44	$ 0.47	$ 0.78

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):

	Three Months Ended		Six Months Ended	
	October 26, 2012	October 28, 2011	October 26, 2012	October 28, 2011
Employee equity award plans	16.3	15.6	17.1	9.6

Dilutive shares outstanding during the three and six months ended October 26, 2012 and during the three months ended October 28, 2011 do not include any effect resulting from warrants, as their impact would have been anti-dilutive. The Note hedges are not included in the calculation of earnings per share for any period as their effect would have been anti-dilutive. The Note hedges, if exercised upon conversion of the Notes, are expected to reduce approximately 80% of the dilutive effect of the Notes when our stock price is above $31.85 per share.

14. Segment, Geographic, and Significant Customer Information

We operate in one reportable 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):

	Three Months Ended				Six Months Ended			
	October 26, 2012		October 28, 2011		October 26, 2012		October 28, 2011	
Americas (United States, Canada and Latin America)	$	897.3	$	897.1	$	1,698.4	$	1,710.5
Europe, Middle East and Africa		437.7		428.9		877.0		885.6
Asia Pacific and Japan		206.2		181.0		410.4		369.1
Net revenues	$	1,541.2	$	1,507.0	$	2,985.8	$	2,965.2

Americas revenues consist of Americas commercial and U.S. public sector markets. Sales to customers inside the United States accounted for $797.6 million and $770.4 million of Americas net revenues during the three months ended October 26, 2012 and October 28, 2011, respectively, and $1,509.0 million and $1,459.7 million of Americas net revenues during the six months ended October 26, 2012 and October 28, 2011, respectively. No single foreign country accounted for 10% or more of net revenues in any of the periods presented.

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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):

	October 26, 2012	April 27, 2012
United States	$ 2,470.5	$ 2,697.6
International	3,100.5	2,763.8
Total	$ 5,571.0	$ 5,461.4

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):

	October 26, 2012	April 27, 2012
United States	$ 1,032.7	$ 1,038.9
International	99.7	98.3
Total	$ 1,132.4	$ 1,137.2

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

	Three Months Ended		Six Months Ended	
	October 26, 2012	October 28, 2011	October 26, 2012	October 28, 2011
Arrow Electronics, Inc.	20%	18%	18%	16%
Avnet, Inc.	15%	13%	14%	12%

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

	October 26, 2012	April 27, 2012
Arrow Electronics, Inc.	11%	N/A
Avnet, Inc.	11%	11%

N/A - Not Applicable

15. Commitments and Contingencies

Lease Commitments

As of October 26, 2012, future annual minimum lease payments under all non-cancelable facilities and equipment operating leases with an initial term in excess of one year totaled $334.6 million.

As of October 26, 2012, we have three leasing arrangements with BNP Paribas LLC (BNPPLC), one of which require us to lease certain of our land to BNPPLC for a period of 99 years and all of which require us to lease approximately 0.3 million square feet of office space from BNPPLC for our headquarters in Sunnyvale, California, which had an original cost of $69.6 million. Under these leasing arrangements, we pay BNPPLC minimum lease payments, which vary based on a fixed rate on the costs of the facilities on the respective lease commencement dates. We make payments for each of the leases for a term of five years. We have the option to renew each of the leases for two consecutive five-year periods upon approval by BNPPLC. The initial lease terms expire in December 2012 and January 2013. Upon expiration (or upon any earlier termination) of the lease terms, we must elect one of the following options: (i) purchase the buildings from BNPPLC at cost; (ii) if certain conditions are met, arrange for the sale of the buildings by BNPPLC to a third-party, and be liable for any deficiency between the net proceeds received from the third-party and BNPPLC s cost, up to 85% of cost (residual guarantee); or (iii) pay BNPPLC supplemental payments for an amount equal to the difference between BNPPLC s cost and fair value, up to the residual guarantee, in which event we may recoup some or all of such payments by arranging for a sale of each or all buildings by BNPPLC during the ensuing two-year period.

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These leases require us to maintain specified financial covenants with which we were in compliance as of October 26, 2012. Such financial covenants include a maximum ratio of Total Debt to Earnings before Interest, Taxes, Depreciation and Amortization of less than 3:1 and a minimum amount of Unencumbered Cash and Short-Term Investments of $300.0 million.

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 October 26, 2012, we had $266.7 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 October 26, 2012 and April 27, 2012, such liability amounted to $8.5 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 October 26, 2012, we had $41.5 million in capital purchase commitments and $190.1 million in other purchase commitments.

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		Six Months Ended	
	October 26, 2012	**October 28, 2011**	**October 26, 2012**	**October 28, 2011**
Beginning balance	$ 96.5	$ 59.5	$ 83.1	$ 40.5
Liability assumed in acquisition	0.0	0.0	0.0	17.5
Expense accrued during the period	27.1	15.7	50.8	27.4
Warranty costs incurred	(11.8)	(10.2)	(22.1)	(20.4)
Ending balance	$ 111.8	$ 65.0	$ 111.8	$ 65.0

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):

	October 26, 2012	**April 27, 2012**

Maximum guaranteed payment contingencies	$ 170.8	$ 169.0
Deferred revenue associated with financing guarantees	(154.5)	(149.9)
Maximum potential future payments relating to financing guarantees, net of associated deferred revenue	$ 16.3	$ 19.1

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

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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 October 26, 2012 related to such matters.

16. Subsequent Event

On November 14, 2012, we completed the acquisition of CacheIQ, Inc., a privately held storage solutions company based in Austin, Texas, for approximately $90.0 million in cash. This acquisition provides us with intellectual property that extends our capabilities to support non-disruptive operations for enterprise data center environments. We will integrate this intellectual property into our product offerings over time. Through October 26, 2012, acquisition-related expenses associated with the transaction were immaterial. We are in the process of completing the purchase price allocation for this acquisition. Pro forma results of operations have not been presented because the acquisition was not material to our results of operations.

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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), and is subject to the safe harbor provisions set forth in the Exchange Act. Forward-looking statements usually contain the words estimate, intend, plan, predict, seek, may, wil would, could, anticipate, expect, believe, or similar expressions and variations or negatives of these words or expressions. In addition statements that refer to expectations, projections, or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. All forward-looking statements, including but not limited to, statements about:

our future financial and operating results;

our business strategies;

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

economic and industry trends or trend analysis;

product introductions, development, enhancements and acceptance;

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

competitive positions;

future cash flows and cash deployment strategies;

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

our anticipated tax rate;

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

the conversion, maturation or repurchase of the Notes;

compliance with laws, regulations and debt covenants; and the continuation of our stock repurchase program

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

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

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

general global macroeconomic and market conditions, particularly in the Eurozone, and the continuing deliberations regarding future tax and fiscal policy in the United States;

the amount of orders received in future periods;

our ability to ship our products in a timely manner;

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

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our ability to successfully manage our backlog and increase revenue;

our ability to successfully execute on our strategies;

our ability to effectively integrate acquired products and technologies;

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

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

our ability to adapt to changes in market demand;

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

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

the impact of industry consolidation;

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

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

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

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

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

variability in our gross margins;

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

our cash requirements and terms and availability of financing;

- valuation and liquidity of our investment portfolio;
- our ability to finance business acquisitions, construction projects and capital expenditures through cash from operations and/or financing;
- our ability to finance the exercise of our option to buy out our synthetic leases when their terms expire;
- 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.

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.

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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.

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		Six Months Ended	
	October 26, 2012	October 28, 2011	October 26, 2012	October 28, 2011
Revenues:				
Product	64.6%	67.4%	63.4%	66.8%
Software entitlements and maintenance	14.2	13.1	14.7	13.4
Service	21.2	19.5	21.9	19.8
Net revenues	100.0	100.0	100.0	100.0
Cost of revenues:				
Cost of product	31.0	30.5	31.1	30.3
Cost of software entitlements and maintenance	0.4	0.4	0.5	0.4
Cost of service	9.3	8.5	9.3	8.3
Gross profit	59.3	60.6	59.1	61.0
Operating expenses:				
Sales and marketing	31.7	30.1	32.5	30.7
Research and development	14.5	13.3	14.9	13.4
General and administrative	4.3	4.3	4.5	4.4
Acquisition-related expense		0.1		0.1
Total operating expenses	50.5	47.8	51.9	48.6
Income from operations	8.8	12.8	7.2	12.4
Other expense, net	(0.5)	(0.6)	(0.4)	(0.6)
Income before income taxes	8.3	12.2	6.8	11.8
Provision for income taxes	1.2	1.2	1.0	1.5
Net income	7.1%	11.0%	5.8%	10.3%

Discussion and Analysis of Results of Operations

Overview

Net revenues for the three and six months ended October 26, 2012 were $1,541.2 million, up $34.2 million, or 2%, and $2,985.8 million, up $20.6 million, or 1%, respectively, compared to the prior year. The increases were due to increases in hardware maintenance contract and software entitlements and maintenance (SEM) revenues, partially offset by decreases in product revenues.

Gross margin percentage decreased during the three and six months ended October 26, 2012 compared to the prior year, primarily due to changes in mix, hardware-related warranty expense and unfavorable exchange rates.

Sales and marketing, research and development, and general and administrative expenses for the three and six months ended October 26, 2012 totaled $778.6 million and $1,548.5 million, respectively, up 8% in each period, compared to the prior year. These increases were primarily due to a 7% and 11% increase in the average headcount during the three and six months ended October 26, 2012, respectively, compared to the prior year and higher compensation cost per headcount. Exchange rates had a favorable impact on expenses.

Net Revenues (in millions, except percentages):

	Three Months Ended			Six Months Ended		
	October 26, 2012	October 28, 2011	% Change	October 26, 2012	October 28, 2011	% Change
Net revenues	$ 1,541.2	$ 1,507.0	2%	$ 2,985.8	$ 2,965.2	1%

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Net revenues increased by $34.2 million, or 2% for the three months ended October 26, 2012, compared to the prior year. The increase in net revenues was due to increases in service and SEM revenues of $54.6 million, partially offset by a decrease in product revenues of $20.4 million. Product revenues comprised 65% of net revenues for the three months ended October 26, 2012, compared to 67% of net revenues for the three months ended October 28, 2011.

Net revenues increased by $20.6 million, or 1%, for the six months ended October 26, 2012, compared to the prior year. The increase in net revenues was due to increases in service and SEM revenues of $108.7 million, partially offset by a decrease in product revenues of $88.1 million. Product revenue comprised 63% of net revenues for the six months ended October 26, 2012, compared to 67% of net revenues for the six months ended October 28, 2011.

Sales through our indirect channels represented 82% and 80% of net revenues for the three and six months ended October 26, 2012, respectively, compared to 80% and 78% of net revenues for the three and six months ended October 28, 2011, respectively. Included in indirect channel sales were $209.6 million and $418.5 million of OEM revenue during the three and six months ended October 26, 2012, respectively, compared to $229.6 million and $443.0 million during the three and six months ended October 28, 2011, respectively.

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

	Three Months Ended		Six Months Ended	
	October 26, 2012	**October 28, 2011**	**October 26, 2012**	**October 28, 2011**
Arrow Electronics, Inc.	20%	18%	18%	16%
Avnet, Inc.	15%	13%	14%	12%

Product Revenues (in millions, except percentages):

	Three Months Ended			Six Months Ended		
	October 26, 2012	**October 28, 2011**	**% Change**	**October 26, 2012**	**October 28, 2011**	**% Change**
Product revenues	$ 995.8	$ 1,016.2	(2)%	$ 1,893.8	$ 1,981.9	(4)%

Product revenues decreased by $20.4 million, or 2%, and by $88.1 million, or 4%, during the three and six months ended October 26, 2012, respectively, compared to the prior year. 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 $531.2 million increased by $10.1 million, or 2%, during the three months ended October 26, 2012, compared to the prior year, primarily due to increases in the 2000 and 6000 series systems, partially offset by a decrease in the 3000 series systems. Configured systems unit volume increased 15% during the three months ended October 26, 2012, compared to the prior year. Unit volume of the 2000 and 6000 series increased and unit volume of the 3000 series systems decreased, reflecting a shift in customer demand from certain 3000 series systems to recently introduced 2000 series systems and increased demand for 6000 series systems. The average selling prices (ASPs) of total configured systems decreased during the three months ended October 26, 2012, compared to the prior year, due to a shift in sales from higher priced 3000 series systems to lower priced 2000 series systems, as well as product mix within the various series, partially offset by an increase in sales from the higher priced 6000 series systems. In addition, ASPs were negatively impacted by unfavorable foreign currency rates and higher discounting.

Non-configured product revenues of $464.6 million decreased $30.5 million, or 6%, during the three months ended October 26, 2012, compared to the prior year. This decrease was primarily due to lower revenue from non-configured OEM products, which declined 13% during the three months ended October 26, 2012 compared to the prior year. Non-configured product revenues were unfavorably impacted by product mix.

Total configured system revenues of $993.4 million decreased by $37.8 million, or 4%, during the six months ended October 26, 2012, compared to the prior year, primarily due to a decrease in the 3000 series systems, partially offset by an increase in the 2000 series systems. Configured systems unit volume increased 12% during the six months ended October 26, 2012, compared to the same period in the prior year. Unit volume of the 2000 series increased and unit volume of the 3000 series systems decreased, reflecting a shift in customer demand from certain 3000 series systems to the recently introduced 2000 series systems. The ASPs of total configured systems decreased during the six months ended October 26, 2012, compared to the prior year, primarily due to a shift in sales from higher priced 3000 series systems to lower priced 2000 series systems, as well as product mix within the various series. In addition, ASPs decreased due to unfavorable foreign currency rates.

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Non-configured product revenues of $900.4 million decreased $50.3 million, or 5%, during the six months ended October 26, 2012, compared to the prior year. This decrease was primarily due to lower revenue from non-configured OEM products, which declined 8%, and lower add-on storage revenue. Non-configured product revenues were unfavorably impacted by product and customer mix.

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.

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

	Three Months Ended			Six Months Ended		
	October 26, 2012	October 28, 2011	% Change	October 26, 2012	October 28, 2011	% Change
Software entitlements and maintenance revenues	$ 219.4	$ 198.0	11%	$ 437.9	$ 396.2	11%

SEM revenues increased $21.4 million and $41.7 million, or 11% each, during the three and six months ended October 26, 2012, respectively, compared to the prior year. The increases 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			Six Months Ended		
	October 26, 2012	October 28, 2011	% Change	October 26, 2012	October 28, 2011	% Change
Service revenues	$ 326.0	$ 292.8	11%	$ 654.1	$ 587.1	11%

Service revenues include hardware maintenance, professional services and educational and training services. Service revenues increased $33.2 million and $67.0 million, or 11% each, during the three and six months ended October 26, 2012, respectively, compared to the prior year.

Hardware maintenance contract revenues comprised 74% and 72% of service revenues for the three and six months ended October 26, 2012, respectively, and 71% and 70% for the three and six months ended October 28, 2011, respectively. These revenues increased $33.0 million, or 16%, and $62.6 million, or 15%, during the three and six months ended October 26, 2012, 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 26% and 28% of service revenues for the three and six months ended October 26, 2012, respectively, and 29% and 30% of service revenues for the three and six months ended October 28, 2011, respectively.

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

	Three Months Ended			Six Months Ended		
	October 26, 2012	October 28, 2011	% Change	October 26, 2012	October 28, 2011	% Change
Americas (United States, Canada and Latin America)	$ 897.3	$ 897.1	%	$ 1,698.4	$ 1,710.5	(1)%
Europe, Middle East and Africa (EMEA)	437.7	428.9	2%	877.0	885.6	(1)%
Asia Pacific and Japan (APAC)	206.2	181.0	14%	410.4	369.1	11%
Net revenues	$ 1,541.2	$ 1,507.0		$ 2,985.8	$ 2,965.2	

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Americas revenues consist of Americas commercial and U.S. public sector markets.

Sales to customers inside the United States comprised 89% and 86% of Americas net revenues during the three months ended October 26, 2012 and October 28, 2011, respectively, and 89% and 85% of Americas net revenues during the six months ended October 26, 2012 and October 28, 2011, respectively. During both the three and six months ended October 26, 2012, EMEA revenues were negatively impacted by the general macroeconomic conditions in the region, as well as unfavorable foreign currency rates. No single foreign country accounted for 10% or more of net revenues in any of the periods presented.

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.

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

	Three Months Ended			Six Months Ended		
	October 26, 2012	October 28, 2011	% Change	October 26, 2012	October 28, 2011	% Change
Cost of product revenues	$ 477.3	$ 460.7	4%	$ 929.5	$ 898.1	3%

Cost of product revenues increased $16.6 million, or 4%, and $31.4 million, or 3%, during the three and six months ended October 26, 2012, respectively, compared to the prior year. The changes consisted of the following elements (in percentage points of the total change):

	Three Months Ended Fiscal 2013 to Fiscal 2012 Percentage Change Points	Six Months Ended Fiscal 2013 to Fiscal 2012 Percentage Change Points
Materials cost	1	1
Warranty	3	3
Excess and obsolete inventory		(1)
Total change	4	3

Materials cost represented 83% and 85% of product costs for the three months ended October 26, 2012 and October 28, 2011, respectively, and increased $6.3 million from the prior year primarily due to a 15% unit volume increase in configured systems, partially offset by materials cost reductions due to a change in mix towards lower cost 2000 series systems. Other product costs of sales for the three months ended October 26, 2012 included an $11.4 million increase in hardware-related warranty expense compared to the prior year.

Materials cost represented 82% and 84% of product costs for the six months ended October 26, 2012 and October 28, 2011, respectively, and increased $7.7 million from the prior year primarily due to a 12% unit volume increase in configured systems, partially offset by materials cost reductions due to a change in mix towards lower cost 2000 series systems. Other product costs of sales for the six months ended October 26, 2012 included a $23.4 million increase in hardware-related warranty expense.

Cost of product revenues represented 48% and 49% of product revenue for the three and six months ended October 26, 2012, respectively, compared to 45% for each of the three and six months ended October 28, 2011.

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

	Three Months Ended			Six Months Ended		
	October 26, 2012	October 28, 2011	% Change	October 26, 2012	October 28, 2011	% Change
Cost of software entitlements and maintenance revenues	$ 7.0	$ 5.6	25%	$ 13.6	$ 10.9	25%

Cost of SEM revenues increased $1.4 million and $2.7 million, or 25% in each period, during the three and six months ended October 26, 2012, respectively, compared to the prior year, 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			Six Months Ended		
	October 26, 2012	October 28, 2011	% Change	October 26, 2012	October 28, 2011	% Change
Cost of service revenues	$ 143.0	$ 127.7	12%	$ 278.7	$ 246.3	13%

Cost of service revenues increased $15.3 million, or 12%, and $32.4 million, or 13% during the three and six months ended October 26, 2012, respectively, compared to the prior year primarily due to increases in contract fulfillment, logistics and service delivery costs. Costs represented 44% of service revenues for each of the three months ended October 26, 2012 and October 28, 2011, respectively, and represented 43% and 42% of service revenues for the six months ended October 26, 2012 and October 28, 2011, respectively.

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 $41.7 million and $81.4 million, or 11% for each of the three and six months ended October 26, 2012, respectively, compared to the prior year, primarily due to:

(i) an increase in salaries, benefits and other compensation-related costs of $28.0 million and $41.7 million for the three and six months ended October 26, 2012, respectively, due to increases in average headcount;

(ii) an increase in stock-based compensation of $20.2 million for the six months ended October 26, 2012, which included $12.8 million of expense in the three months ended July 27, 2012 related to the reset of the employee stock purchase plan offering triggered by the decline in our stock price below the grant date prices of the offerings that vested in May 2012 and

(iii) an increase in incentive compensation expense of $12.1 million and $19.5 million for the three and six months ended October 26, 2012, respectively, reflecting increased headcount and stronger revenue and operating performance against goals as compared to the prior year.

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

	Three Months Ended			Six Months Ended		
	October 26, 2012	October 28, 2011	% Change	October 26, 2012	October 28, 2011	% Change
Sales and marketing expenses	$ 488.2	$ 454.1	8%	$ 971.1	$ 908.9	7%

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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	Six Months Ended Fiscal 2013 to Fiscal 2012 Percentage Change Points
Salaries	2	2
Incentive plan compensation	1	1
Stock-based compensation		1
Other compensation and benefit costs	2	1
Total compensation costs	5	5
Commissions	1	
Facilities and IT support costs	2	2
Advertising and marketing promotional expense	1	1
Other	(1)	(1)
Total change	8	7

The increases in total compensation costs during the three and six months ended October 26, 2012 reflect increases of 9% and 11%, respectively, in average sales and marketing headcount and higher compensation cost per employee compared to the prior year. The increase in total compensation costs during the six months ended October 26, 2012 also reflects higher stock-based compensation expense. The increases in facilities and IT support costs during the three and six months ended October 26, 2012 reflects an increase in our investment in IT systems.

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

	Three Months Ended			Six Months Ended		
	October 26, 2012	October 28, 2011	% Change	October 26, 2012	October 28, 2011	% Change
Research and development expenses	$ 223.8	$ 199.7	12%	$ 445.2	$ 398.3	12%

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	Six Months Ended Fiscal 2013 to Fiscal 2012 Percentage Change Points
Salaries	4	3
Incentive plan compensation	2	2
Stock-based compensation	1	2
Other compensation and benefit costs	1	1
Total compensation costs	8	8

Depreciation and amortization	2	2
Development projects	1	2
Other	1	
Total change	12	12

The increases in total compensation costs during the three and six months ended October 26, 2012 reflect increases of 5% and 11%, respectively, in average engineering headcount and higher compensation cost per employee compared to the prior year. The increase in total compensation costs during the six months ended October 26, 2012 also reflects higher stock-based compensation expense. Depreciation and amortization increased during the three and six months ended October 26, 2012 due to higher levels of investment in engineering equipment. The increase in development project expense during the three and six months ended October 26, 2012 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.

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

	Three Months Ended			Six Months Ended		
	October 26, 2012	October 28, 2011	% Change	October 26, 2012	October 28, 2011	% Change
General and administrative expenses	$ 66.6	$ 65.1	2%	$ 132.2	$ 130.2	2%

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	Six Months Ended Fiscal 2013 to Fiscal 2012 Percentage Change Points
Salaries	1	1
Incentive plan compensation	3	3
Other compensation and benefit costs	1	1
Total compensation costs	5	5
Outside services	(3)	(4)
Professional and corporate legal fees	(1)	
Other	1	1
Total change	2	2

The increases in total compensation costs reflect increases of 8% in average general and administrative headcount during each of the three and six months ended October 26, 2012 and higher incentive compensation expense compared to the prior year. The decreases in outside services during the three and six months ended October 26, 2012 reflect lower spending on contractors and various operational projects. Additionally, the decrease in outside services during the six months ended October 26, 2012 reflects costs associated with Engenio integration activities that were completed in fiscal 2012.

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

	Three Months Ended			Six Months Ended		
	October 26, 2012	October 28, 2011	% Change	October 26, 2012	October 28, 2011	% Change
Acquisition-related expense	$	$ 1.7	(100)%	$	$ 3.9	(100)%

During the three and six months ended October 28, 2011, we incurred due diligence, legal and integration costs of $1.7 million and $3.9 million, respectively, associated with our fiscal 2012 acquisition of Engenio.

Other Expense, Net

Interest Income (in millions, except percentages):

	Three Months Ended		Six Months Ended	
		% Change		% Change

	October 26, 2012	October 28, 2011		October 26, 2012	October 28, 2011	
Interest income	$ 11.0	$ 8.3	33%	$ 21.8	$ 18.9	15%

The increases in interest income during the three and six months ended October 26, 2012, compared to the prior year, were primarily due to increases in our investment portfolio.

Interest Expense (in millions, except percentages):

	Three Months Ended			Six Months Ended		
	October 26, 2012	October 28, 2011	% Change	October 26, 2012	October 28, 2011	% Change
Interest expense	$ (19.8)	$ (16.4)	21%	$ (39.7)	$ (35.8)	11%

During the three months ended October 26, 2012 and October 28, 2011, we recognized non-cash interest expense from the amortization of debt discount and issuance costs related to our Notes, net of capitalized interest, of $14.4 million and $11.5 million, respectively. The coupon interest expense related to our Notes, net of capitalized interest, was $5.3 million and $4.5 million during the three months ended October 26, 2012 and October 28, 2011, respectively.

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During the six months ended October 26, 2012 and October 28, 2011, we recognized non-cash interest expense from the amortization of debt discount and issuance costs related to our Notes, net of capitalized interest, of $28.7 million and $25.2 million, respectively. The coupon interest expense related to our Notes, net of capitalized interest, was $10.7 million and $10.0 million during the six months ended October 26, 2012 and October 28, 2011, respectively.

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

	Three Months Ended			Six Months Ended		
	October 26, 2012	**October 28, 2011**	**% Change**	**October 26, 2012**	**October 28, 2011**	**% Change**
Other income (expense), net	$ 1.2	$ (0.4)	NM	$ 4.3	$ (0.7)	NM

NM - Not Meaningful

Other income (expense), net, increased $1.6 million and $5.0 million, during the three and six months ended October 26, 2012, respectively, compared to the prior year. The increase during the six months ended October 26, 2012 is primarily due to net foreign exchange gains of $3.3 million.

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

	Three Months Ended			Six Months Ended		
	October 26, 2012	**October 28, 2011**	**% Change**	**October 26, 2012**	**October 28, 2011**	**% Change**
Provision for income taxes	$ 18.1	$ 18.3	(1)%	$ 28.5	$ 45.9	(38)%

Our effective tax rate for the three months ended October 26, 2012 was 14.2% compared to an effective tax rate of 10.0% for the three months ended October 28, 2011. Our effective tax rate for the six months ended October 26, 2012 was 14.1% compared to an effective tax rate of 13.1% for the six months ended October 28, 2011. Our effective tax rates for the three and six months ended October 26, 2012 and October 28, 2011 differ from the U.S. statutory rate of 35% because our foreign earnings are taxed at rates lower than the U.S. statutory rate. Our provision for income taxes decreased for the three and six months ended October 26, 2012 compared to the prior year as a result of lower pre-tax income, primarily in the United States. Our effective tax rates increased for the three and six months ended October 26, 2012 compared to the prior year as a result of higher non-deductible stock-based compensation expense and the expiration of the federal research credit, partially offset by the tax benefit from reduced profits, primarily in the United States.

As of October 26, 2012, we had $165.3 million of unrecognized tax benefits, of which $109.7 million has been recorded in other long-term liabilities and of which $98.3 million, including penalties and interest, would affect our provision for income taxes if recognized.

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 October 26, 2012.

Liquidity Sources and Cash Requirements

Our principal sources of liquidity as of October 26, 2012 consisted of $5.6 billion in 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):

	October 26, 2012	April 27, 2012
Cash and cash equivalents	$ 1,816.8	$ 1,549.8
Short-term investments	3,754.2	3,848.7
Total	$ 5,571.0	$ 5,398.5

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As of October 26, 2012, $2.5 billion of cash, cash equivalents and short-term investments were held in the United States, while $3.1 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 U.S., 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 October 26, 2012 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 conversions of our Notes by holders. 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 Notes 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 intend to and believe that we have the ability to hold these investments until the market recovers. If current market conditions deteriorate, we may be required to record additional charges to earnings in future periods. 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.

Debt Conversion and Redemption Requirements

Our Notes, which have a principal amount of $1.265 billion, become unconditionally convertible at the option of the holders of the Notes 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). Our common stock price did not exceed the conversion threshold for the Notes for at least 20 trading days during the 30 consecutive trading days ended September 30, 2012, and accordingly, as of October 26, 2012 the Notes were not convertible at the option of the holder. Upon conversion of our Notes, we will deliver cash up to the principal amount of the Notes and, with respect to any excess conversion value greater than the principal amount of the Notes, shares of our common stock.

We are actively evaluating our options for retiring this debt. These options range from paying off the Notes by drawing from available cash to issuing new debt, which may be in the form of convertible notes or conventional debt.

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 Sunnyvale, California; Research Triangle Park, 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 $129.0 million during the six months ended October 26, 2012. We anticipate capital expenditures for the remainder of fiscal 2013 to be between $150.0 million and $200.0 million, including $69.6 million for the anticipated buyout of our properties subject to synthetic leases.

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Share Repurchase

As of October 26, 2012, our Board of Directors had authorized the repurchase of up to $4.0 billion of our common stock under our stock repurchase program. As of October 26, 2012, the remaining authorized amount for stock repurchases under our stock repurchase program was $0.1 billion with no termination date. On November 14, 2012, our Board of Directors approved an increase of $1.5 billion to our stock repurchase program. 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.

Acquisition Requirements

On November 14, 2012, we completed the acquisition of CacheIQ, a privately held storage solutions software company based in Austin, Texas, for approximately $90.0 million in cash.

Cash Flows

As of October 26, 2012, our cash, cash equivalents and short-term investments increased by $172.5 million from April 27, 2012, to $5.6 billion. The increase was primarily a result of $565.6 million of cash provided by operating activities and $45.1 million from issuances of common stock under employee equity award plans, partially offset by $348.3 million in cash paid for the repurchase of common stock and $129.0 million in capital expenditures. We derive our liquidity and capital resources primarily from our operating cash flows and from working capital. Accounts receivable days sales outstanding as of October 26, 2012 decreased to 36 days, compared to 44 days as of April 27, 2012, primarily due to improvements in shipment linearity and faster collections. Working capital increased by $7.3 million to $3.3 billion as of October 26, 2012, primarily due to a net increase in cash, cash equivalents and short-term investments, inventory and short-term deferred revenue, partially offset by a decrease in accounts receivable and accrued compensation and related benefits.

Cash Flows from Operating Activities

During the six months ended October 26, 2012, we generated cash from operating activities of $565.6 million. The primary sources of cash from operating activities during the six months ended October 26, 2012 consisted of net income of $173.4 million, adjusted by depreciation and amortization of $169.1 million and stock-based compensation of $144.2 million. Significant changes in assets and liabilities impacting operating cash flows included a decrease in accounts receivable of $212.9 million.

We expect that cash provided by operating activities may 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 six months ended October 26, 2012, we generated $93.4 million from maturities and sales of investments, net of purchases, and paid $129.0 million for capital expenditures.

Cash Flows from Financing Activities

During the six months ended October 26, 2012, we used $259.9 million in financing activities, which included $348.3 million for the repurchase of 10.9 million shares of common stock at an average price of $31.86 per share.

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Contractual Obligations

The following table summarizes our contractual obligations as of October 26, 2012 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
Off-balance sheet commitments:							
Office operating lease payments	$ 20.2	$ 43.7	$ 40.2	$ 36.6	$ 21.4	$ 59.1	$ 221.2
Real estate lease payments(1)	59.6						59.6
Less: sublease income	(0.5)	(1.2)	(1.2)	(0.9)			(3.8)
Equipment operating lease payments	14.1	21.3	11.8	5.8	0.8		53.8
Purchase commitments with contract manufacturers(2)	265.3	1.2	0.2				266.7
Capital expenditures	23.1	17.7	0.5	0.2			41.5
Other purchase obligations(3)	80.4	47.1	32.8	16.8	11.5	1.5	190.1
Total off balance-sheet commitments	462.2	129.8	84.3	58.5	33.7	60.6	829.1
1.75% Convertible Notes(4)	1,275.9	11.1					1,287.0
Long-term financing arrangements	3.8	6.3	4.0	3.6	1.3		19.0
Uncertain tax positions(5)							112.2
Total	$ 1,741.9	$ 147.2	$ 88.3	$ 62.1	$ 35.0	$ 60.6	$ 2,247.3
Other Commercial Commitments:							
Letters of credit	$ 3.6	$ 2.2	$ 0.2	$ 0.5	$ 1.8	$ 1.7	$ 10.0

(1) Included in real estate lease payments pursuant to three financing arrangements with BNP Paribas LLC (BNPPLC) are (i) lease commitments of $0.5 million, which are based on a fixed rate for terms of five years, and (ii) at the expiration or termination of the leasing arrangements, a supplemental payment obligation equal to our minimum guarantee of $59.1 million in the event that we elect not to purchase or arrange for sale of the buildings.

(2) Contract manufacturer commitments consist of obligations for on-hand inventories and non-cancelable purchase orders with our contract manufacturers. As of October 26, 2012, we recorded accruals of $8.5 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.

(3) 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.

(4) Included in these amounts are obligations related to the $1.265 billion principal amount of our Notes (see Note 9 of the accompanying condensed consolidated financial statements), which become unconditionally convertible at the option of the holders in fiscal 2013 and mature in fiscal 2014 unless earlier repurchased or converted. Estimated interest payments for the Notes are $11.0 million and $11.1 million for the remainder of fiscal 2013 and fiscal 2014, respectively.

(5) As of October 26, 2012, our liability for uncertain tax positions was $112.2 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.

As of October 26, 2012, we have three leasing arrangements with BNPPLC, one of which requires us to lease certain of our land to BNPPLC for a period of 99 years and all of which require us to lease approximately 0.3 million square feet of office space from BNPPLC for our headquarters in Sunnyvale, California, which had an aggregate original cost of $69.6 million. Under these leasing arrangements, we pay BNPPLC minimum lease payments, which vary based on a fixed rate on the costs of the facilities on the respective lease commencement dates.

We make payments for each of the leases for a term of five years. We have the option to renew each of the leases for two consecutive five-year periods upon approval by BNPPLC. Upon expiration (or upon any earlier termination) of the lease terms, we must elect one of the following options: (i) purchase the buildings from BNPPLC at cost; (ii) if certain conditions are met, arrange for the sale of the buildings by BNPPLC to a third-party, and be liable for any deficiency between the net proceeds received from the third-party and BNPPLC s cost, up to 85% of cost (residual guarantee); or (iii) pay BNPPLC supplemental payments for an amount equal to the difference between BNPPLC s cost and fair value, up to the residual guarantee, in which event we may recoup some or all of such payments by arranging for a sale of each or all buildings by BNPPLC during the ensuing two-year period. The following table summarizes the aggregate cost, the aggregate residual guarantee, the applicable fixed rates at October 26, 2012 and the lease commencement dates for our leasing arrangements:

Cost	Residual Guarantee	Fixed Rates	Lease Commencement Dates	Term
$ 69.6 million	$ 59.1 million	3.67% - 3.69%	December 2007 - January 2008	5 years

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These leasing arrangements require us to maintain specified financial covenants with which we were in compliance as of October 26, 2012. Such financial covenants include a maximum ratio of Total Debt to Earnings before Interest, Taxes, Depreciation and Amortization of less than 3:1 and a minimum amount of Unencumbered Cash and Short-Term Investments of $300.0 million. Our failure to comply with these financial covenants could result in a default under the leases, which, subject to our right and ability to exercise our purchase option, would give BNPPLC the right to, among other things, (i) terminate our possession of the leased property and require us to pay lease termination damages and other amounts as set forth in the lease agreements or (ii) exercise certain foreclosure remedies.

Our current intention, subject to change at our election, is to exercise our option to buy out our synthetic leases when their five year terms expire in December 2012 through January 2013.

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 October 26, 2012, our financial guarantees of $10.0 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.

We use derivative instruments to manage exposures to foreign currency risk. Our primary objective in holding derivatives is to reduce the volatility of earnings and cash flows associated with changes in foreign currency. The program is not designated for trading or speculative purposes. Currently, we do not enter into any foreign exchange forward contracts to hedge exposures related to firm commitments or nonmarketable investments. Our major foreign currency exchange exposures and related hedging programs are described below:

- We use monthly foreign currency forward and options contracts to hedge exchange rate fluctuations related to certain foreign monetary assets and liabilities.

- We use foreign currency forward contracts to hedge exposures related to forecasted sales denominated in certain foreign currencies. These contracts are designated as cash flow hedges and in general closely match the underlying forecasted transactions in duration.

As of October 26, 2012, the notional fair value of foreign currency forward and option contracts totaled $657.3 million. We do not believe that these derivatives present significant credit risks because of the short term maturity of the outstanding contracts at any point in time, the counterparties to the derivatives consist of major financial institutions and we manage the notional amount of contracts entered into with any one counterparty. Other than the risk associated with the financial condition of the counterparties, our maximum exposure related to foreign currency forward and option contracts is limited to the premiums paid. See Note 11 of the accompanying condensed consolidated financial statements for more information related to our hedging activities.

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 October 26, 2012, the maximum guaranteed payment contingencies under our financing arrangements totaled $170.8 million, and the related deferred revenue totaled $154.5 million.

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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.

We have commitments related to three leasing arrangements with BNPPLC for approximately 0.3 million square feet of office space for our headquarters in Sunnyvale, California (as further described above under Contractual Obligations). Our future minimum lease payments and residual guarantees under these real estate leases will amount to a total of $59.6 million as discussed above in Contractual Obligations.

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 October 26, 2012, we had debt investments of $3.8 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 and U.S. Treasury and government debt 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 October 26, 2012 would have resulted in a decrease in the fair value of our fixed-income securities of approximately $41 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 October 26, 2012, our holdings in these securities had a par value of $50.6 million and an estimated fair value of $46.5 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.

If current market conditions deteriorate, or the anticipated recovery in market values does not occur, we may be required to record additional unrealized losses in accumulated other comprehensive income (loss) or other-than-temporary impairment charges to earnings in future quarters. We intend, and have the ability, to hold these investments until the market recovers. We do not believe that the lack of liquidity relating to our portfolio investments will impact our ability to fund working capital needs, capital expenditures or other operating requirements.

Convertible Notes In June 2008, we issued $1.265 billion principal amount of 1.75% Notes due 2013, of which $1,017.0 million was allocated to debt and $248.0 million was allocated to equity. Holders may convert the Notes prior to March 1, 2013 upon the occurrence of certain circumstances, including, but not limited to:

- during the five business day period after any five consecutive trading day period in which the trading price of the Notes for each day in this five consecutive trading day 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 of the Notes on each such day;

- 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 Notes on the last trading day of such immediately preceding calendar quarter; or

- upon the occurrence of specified corporate transactions described in the indenture for the Notes.

The Notes are convertible into the right to receive cash in an amount up to the principal amount and shares of our common stock for the conversion value in excess of the principal amount, if any, at an initial conversion rate of 31.40 shares of common stock per $1,000 principal amount of Notes (which represents an initial effective conversion price of the Notes of $31.85 per share), subject to adjustment as described in the indenture governing the Notes.

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Our common stock price did not exceed the conversion threshold price of $41.41 per share set forth for these Notes for at least 20 trading days during the 30 consecutive trading days ended September 30, 2012. Accordingly, as of October 26, 2012, the Notes were not convertible at the option of the holder. Since the Notes were not convertible, the difference between the principal amount and the carrying value of the Notes was reflected as equity on our condensed consolidated balance sheet as of October 26, 2012.

Upon conversion of any Notes, we deliver cash up to the principal amount of the Notes and, with respect to any excess conversion value greater than the principal amount of the Notes, shares of our common stock. As of October 26, 2012, shares issued related to the Notes were minimal. Based on the closing price of our common stock of $27.88 on October 26, 2012, the if-converted value of our Notes was below their principal amount.

The fair value of our Notes is subject to interest rate risk, market risk and other factors due to the convertible feature. Generally, the fair value of the Notes will increase as interest rates fall and/or our common stock price increases, and decrease as interest rates rise and/or our common stock price decreases. The interest and market value changes affect the fair value of our Notes, but do not impact our financial position, cash flows, or results of operations due to the fixed nature of the debt obligations. We do not carry the Notes at fair value, but present the fair value of the principal amount of the Notes for disclosure purposes. As of October 26, 2012, the principal amount of the Notes was $1.265 billion, and the total estimated fair value of the principal amount was approximately $1.340 billion, or 106.0% of the face value of the Notes, based upon quoted market information as of that date.

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. All balance sheet hedges are marked-to-market through earnings each period. 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. For cash flow hedges outstanding at October 26, 2012, the time-value component is recorded in earnings while all other unrealized gains or losses are included in other comprehensive income.

We do not enter into foreign exchange contracts for speculative or trading purposes. In entering into forward and option foreign exchange contracts, we have assumed the risk that might arise from the possible inability of counterparties to meet the terms of their 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.

The following table provides information about our currency forward contracts outstanding as of October 26, 2012 (in millions):

Currency	**Local Currency Amount**	**Notional Contract Amount (USD)**	**Fair Value (USD)**
Forward Purchase Contracts:			
Euro	248.6	$ 321.4	$ 321.7
British Pound Sterling	72.0	115.8	115.9
Australian Dollar	92.3	95.4	95.5
Canadian Dollar	30.3	30.4	30.4
Swiss Franc	23.2	24.8	24.8
Israeli Shekel	94.5	24.4	24.4
Other	N/A	45.1	45.2

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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 October 26, 2012, 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.

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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;
- Counterparty failures that negatively impact our treasury operations;
- 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;

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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 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).

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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.