

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the NetApp Conference Call. My name is Monica, and I will be your operator for today's call. At this time, all participants are in a listen-only mode. We will conduct a question-and-answer session at the end of the conference. [Operator Instructions] Please note that this conference is being recorded.

I'd now like to turn the call over to Ms. Tara Dhillon. Ms. Dhillon, you may begin.

Tara Dhillon, Vice President, Investor Relations

Good afternoon, everyone. Thank you for joining us on short notice to discuss our definitive agreement to purchase LSI's Engenio External Storage business.

Joining me on the call today are Tom Georgens, NetApp CEO, who will talk with you about the strategic rationale for the transaction and Steve Gomo, our CFO, who will discuss the financial aspects of the deal.

During today's call, we will make forward-looking statements and projections, including the amount of revenue, profitability and earnings per share we expect the Engenio Storage business to produce in our fiscal year 2012, and the growth rate of the market opportunity addressed by the Engenio product set, all of which involve risk and uncertainty.

Actual results may differ materially from our statements and projections. Factors that could cause actual results to differ from our projections are described in our accompanying press release, which we have filed on an 8-K with the SEC, all of which are incorporated by reference into today's discussion.

These factors include, among others, the risk that the costs savings and any other synergies from the transaction may not be fully realized, potential business disruption from the transaction and general economy and market conditions. This call is being webcast live and will be available for replay on our website at NetApp.com for a period of approximately 60 days.

At this point, I'll now turn the call over to Tom for his perspective. Tom?

Tom Georgens, President and Chief Executive Officer

Thanks, Tara and good afternoon, everyone. I am very excited about combination of the NetApp and Engenio. This transaction will allow us to significantly expand our total available market by addressing some new fast growing workloads. It will also greatly enhance our ongoing channel diversification strategy, further expanding our market reach.

In addition, this deal is consistent with our two previously stated acquisition criteria of affinity, meaning our channels can sell a new product or the new product will pull our existing product and minimal ongoing R&D overlap, meaning it will not dilute our investments by duplicating functionality on multiple platforms.

There will be several significant growth areas on the storage market over the next few years. We have talked at length about the most important one, virtualization and NetApp is the fastest growing major vendor in storage, partially as a result of establishing innovation leadership in this area.

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Another rapidly growing trend is around the set of applications which are highly bandwidth intensive like video, including full motion video capture and digital video surveillance. Engenio provides a high performance, big bandwidth storage platform that will enable us to achieve innovation leadership in some of these new and emerging applications.

We are already seeing existing and emerging opportunities in our current accounts both on the commercial and public sectors and we believe we can successfully drive new business in these high growth areas.

As we have discussed previously, we view the market in terms of workloads, or sets of customer storage requirements that drive specific product solutions that optimize the combination of performance, capacity, cost and software features.

Over the years, we have taken our core operating system, Data ONTAP and expanded its capabilities to serve new workloads and expand our total available market. As a result, our portfolio of workloads have grown from simply file services to also include scientific and technical computing, business applications and more recently, shared virtual infrastructures. We absolutely believe that the storage opportunity in these sectors is far from being fully exploited by NetApp. And we expect to add more workload to the ONTAP in the future.

However, we also recognize that there are workloads which have a set of requirements that lie outside the current and anticipated design center of ONTAP. While we remain best in class on performance for traditional enterprise business applications, there are new classes of applications emerging that are pushing elements of the performance profile especially in regard to bandwidth that will not be satisfied by products with design centers focused on today's enterprise needs.

Historically, these have been niche markets and have never warranted the separate investment necessary to participate. However, the video segments alone are estimated to be over \$1 billion and have a forecasted growth rate at around 30%. In addition, this capability will open up the general high performance computing category to us which holds another \$1 billion of TAM. At this point, given the growth rates and the TAM, it makes sense to make the investment to pursue these workloads.

In addition to the technology acquisition, Engenio helps us significantly augment our channel diversification strategy. The storage industry is a very large market but there is no player with dominant market share. The reason there is no dominant player is that the market is very fragmented. A fair percentage of it is captive to server OEMs and we believe using a direct model to try and reach any reasonably complete coverage model of this market is financially impossible for any of the current participants.

As a result, market reach can only be achieved by a broad multi channel go-to-market strategy that achieves meaningful partner leverage. With the server OEMs being a significant part of the market, they need to be part of any broad strategy since much of the customer base is inaccessible through other means. What Engenio brings to NetApp's already expanding OEM portfolio will enable us to have more powerful OEM channel, and further enhance our position as having the most diversified go-to-market motion in the industry.

In our last earnings call, I was specifically asked about our acquisition strategy. I referred to two criteria, affinity and overlap. I do not believe that shareholders are rewarded when mid-sized technology companies act as holding companies of dissimilar assets, even good ones. Therefore, there must be an unambiguous linkage between the businesses. And my test is whether our existing channels can sell the new products or will the new products create demand for our – the existing products.

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In the case of Engenio, I think they are both true. Our existing channel sales are already reporting opportunities for this class of product, despite being unaware of this deal. And Engenio has an installed base of several hundred thousand systems, many of which are candidates for our V-Series.

The R&D overlap concern is similarly important. Our new technology needs to have a separate and distinct market that will remain that way for the foreseeable future. Otherwise, the tendency will be for the two development teams to dilute resources by duplicating functionality on two platforms. The ability to deliver ONTAP functionality in the form of our V-Series for Engenio customers will substantially minimized the possibility for overlap.

The development leverage enabled by a single software architecture has enabled us to out innovate the market over a sustained period and remains to our advantage that every new feature is only created once and investment is not wasted on overlap and this deal is positioned well to achieve that outcome. We are also certainly aware this is the largest transaction in NetApp history. That said, at our size and maturity, acquisitions of this scale need to be an active part of our strategy and we need to have the capacity to ensure that successful execution.

In recent years, we have indeed successfully integrated a number of admittedly smaller acquisitions but through lessons learned, maturity of our internal teams and use of external resources, we are confident that we are ready to ensure the success of this deal. Elements that help further mitigate risk are that we are acquiring a mature, stable team with proven technology over multiple product generations. While never a sure thing, I believe that we have indeed developed the skills and readiness to execute this transaction and be aggressive with this element of our business strategy as we are on the product and go-to-market dimensions.

Before I wrap up, I would like to welcome Engenio team to the NetApp family and reiterate how excited I am by the innovation and market leadership opportunities we will pursue together. With the significant expansion of our TAM, far greater channel reach and a deal which will be accretive in fiscal year '12, we expect this combination to create a significant shareholder value.

At this point, I will turn it over to Steve to discuss the financial aspects of the transaction. Steve?

Steve Gomo, Executive Vice President and Chief Financial Officer

Thanks Tom. Good afternoon everyone. Today we announced that we have signed a definitive agreement to acquire LSI's Engenio external storage business for \$480 million in cash. We are not purchasing LSI's ONStor, 3ware or MegaRAID assets. As of today, we expect to close this transaction early in our fiscal Q1 subject to customary closing conditions including antitrust clearance.

In terms of the financial impact, assuming we close in early Q1 FY '12, we expect this transaction to add approximately \$750 million to NetApp's FY '12 revenues and believe that will be accretive to GAAP and non-GAAP EPS by the end of our second quarter.

Now let me walk you through some additional details. As I indicated, we expect this transaction to add approximately \$750 million to NetApp's FY'12 revenues. The mix of this revenue will consist mainly of Engenio's existing OEM business combined with some new business sold by NetApp sales force and channel into new applications and workloads in our existing accounts.

Over time, the mix of revenues sold by NetApp's direct sales force and channel partners will increase, as we exploit the opportunity provided by the expanded TAM. We expect revenue and

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expense synergies will occur as we penetrate these new workloads in existing and new customer accounts.

On a non-GAAP basis, we expect our FY'12 gross margin will be about three percentage points lower than what we would have otherwise anticipated, reflecting the absorption of the existing lower gross margin Engenio OEM business. Longer term, as the revenue mix between the existing OEM business and the new business becomes more balanced, this unfavorable impact will be reduced.

The absorption of the Engenio OEM business should have a favorable impact on our non-GAAP operating expense structure in FY'12. The improvement we expect in OpEx structure results from the low expense structure of the acquired OEM business plus the expense synergies we plan to realize in the sales and admin functions.

As Tom alluded to a moment ago, our sales team should benefit from leveraging the existing resources to sell to new workloads in existing accounts. Most of the administrative requirements for the additional sale are simply absorbed in to NetApp's existing infrastructure.

As a result, operating expense structure for the new combined business is expected to be about two percentage points lower than what NetApp would have otherwise anticipated in FY '12. For FY '12, we expect non-GAAP operating margin for the combined LSI External Storage and NetApp business to be about one percentage point below what NetApp would have otherwise planned before this transaction.

Over time, we expect to drive the P&L structure back toward NetApp's current standalone P&L structure as the incremental revenue mix becomes more balanced between the Engenio OEM business and the new more traditionally structured NetApp business.

We expect NetApp's non-GAAP effective tax rate to increase to approximately 17.5% in FY '12, as the revenue and profits of the acquired business are predominantly in the U.S. today. Over time, we expect the tax rate to decline as an increasing portion of the incremental revenues and profits of the combined business is generated overseas.

As I mentioned earlier, we believe the impact of this transaction will be accretive in FY '12 from both a GAAP and a non-GAAP standpoint. For FY '12, we expect GAAP EPS accretion of \$0.09 and non-GAAP EPS accretion of about \$0.11.

We expect the first quarter will experience a diluted non-GAAP EPS impact of about \$0.01. The transaction's impact is expected to be increasingly accretive to subsequent quarters. On an annual run rate basis, the accretion for EPS should be on the order of approximately \$0.20 to \$0.25 as we exit Q4 of FY '12. We expect to take a \$9 million to \$10 million restructuring charge after we close the transaction in order to right size the business and to aligned acquired resources with our strategic intent and synergy objective.

We will also incur about \$5 million to \$7 million of one-time expenses associated with transitioning back-office administrative support activities to NetApp. These charges will be recorded in our GAAP results and are expected to be incurred in Q1 of FY '12.

We do not anticipate any transformational changes to the balance sheet as a result of this transaction. We do expect to see an increase in a few asset categories like inventory, fixed assets, goodwill and intangible assets. We will also see a minor increase in certain liabilities as well.

Finally, we believe our target free cash flow range is still valid for the long haul. To summarize, we believe this transaction is a great move for NetApp. We are acquiring complementary technology that we can quickly monetize in addition to the existing base of OEM revenue associated with it.

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We expect this transaction to be accretive in the first year and that the accretion will further benefit from the combination of the expanded TAM and the channel reach over the longer term.

Our P&L structure has significant potential for improvement after the initial combination period as the revenue mix moves more towards NetApp's channels. Moreover, we expect the tax rate to recede towards our current level as the balance of domestic and international pre-tax profits shifts back towards the mix we have today. In short, I share Tom's enthusiasm about today's announcement and I look forward to welcoming the Engenio team to NetApp.

Before I open the floor to questions, we would like to solicit your opinion. We are currently scheduled to host the Technology Forum for the Investment Community on March 22nd, two weeks from now. It will be entirely focused on our corporate strategy and product differentiation as we will not be able to provide any financial update at that time.

We are considering postponing the event to mid to late June, after this transaction closes, at which time we would be able to host a complete meeting, including a financial discussion about today's transaction and a review of the pending accounting change and the impact it has on our financial statements.

Over the next 24 hours, we would like to hear from you, both the investors and the sell side analysts about what you would prefer. Please e-mail Tara or myself to share your thoughts and we'll let you know on Friday which alternative we choose.

At this point, I will open the floor to questions, reminding you to limit yourself to one question, so we may address as many folks as possible during our allotted time. Operator?

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Operator: Thank you. We'll now begin the question-and-answer session. [Operator Instructions]
Our first question comes from Keith Bachman of Bank of Montreal.

<Q – Keith Bachman>: Hi, many thanks team. My question, Steve, is as you get this up and running, is this asset accretive or dilutive to the growth rates of NetApp and what does it assume about your ability to retain Dell, IBM and Sun as OEM? Thank you.

<A – Steve Gomo>: Well, Keith, as we get it up and running, we eventually expect this to approximate the growth rate of NetApp. I think Tom went through in his script the amount of opportunities that exists out there in the expanded TAM that we see and we expect to be able to gather a fair share of that. So once we get through the first year, 18 months or so, I would expect the growth rate of this business to roughly approximate that of what NetApp would have seen anyway.

<Q – Keith Bachman>: Okay. And does that – Steve, does that mean you'll keep all of the OEMs you think?

<A – Steve Gomo>: I think that we're going to keep a number of them in a large portion of the OEM business, but I don't think we're going to keep every single dollar of OEM revenue that we have today.

<Q – Keith Bachman>: Okay.

<A – Tom Georgens>: Yeah. I think at the end of the Keith, this deal is going to win or lose ultimately on the success of us penetrating the new verticals with this technology on our own. That's where the real growth is going to come from, that's where the profitability is going to come from. It isn't that the OEMs don't matter. It's just that the OEM business is a lumpy business that's hard to predict over the long-term.

So I think the ability to kind of assign a three or four or five year growth rate to an OEM business when they have their challenges of their own, they have their products of their own, they could be acquired on their own, is a hard thing to do. So I think as we think about our growth rate going forward, we're primarily counting on the channels that we control. That said, the OEM business is going to reach a set of customers that we couldn't get to any other way.

<Q – Keith Bachman>: Right.

<A – Tom Georgens>: That business is like found money at this point, because it's not like we were going to make an investment in channel that would have otherwise solved that problem. So it's important, it's lucrative, it's going to allow us to fund the other activities, but I think the growth rate expectations are actually elsewhere.

<Q – Keith Bachman>: Okay. Many thanks.

<A – Tom Georgens>: Thank you.

Operator: Our next question comes from Jason Ader of William Blair. Please go ahead.

<Q – Jason Ader>: Yes, thanks. You guys seem to be talking a lot of about supply chain and I know Engenio is one of the large supplier – one of the largest suppliers of enclosures. Does this mean that you guys are going to essentially be vertically integrating on the enclosure side and

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won't be using suppliers for that anymore and what kind of impact does that have on your financials itself?

<A – Tom Georgens>: Well, I think we have been – we've been already moving in that direction. We – and the rationale is less from a supply chain management perspective and more from a control perspective.

So, most of our future enclosure business has moved towards an ODM model, meaning that – to be able to do the mechanical – the mechanical and the electrical designs, but our imperative here is that there was too much intellectual property, particularly too much software to treat the enclosure as essentially a black box. So, therefore, we felt over the last few years that that's technology that we needed to own and that's technology that in fact developed ourselves.

So, most of the IP in the enclosures has already been coming from NetApp and the manufacturing partners that we have are primarily focused on the mechanical and the electrical side and less on the software side. One thing that will happen is there are some enclosure technology in terms of super dense enclosures that we did not have on the FAS offering, we will probably integrate those and there will probably be some rationalization of the roadmaps going forward. But at the end of the day, as far as – as far as an overall strategy is concerned, I wouldn't think it would change too much.

<Q – Jason Ader>: Thanks.

Operator: Our next question comes from Shebly Seyrafi of Capstone Investments.

<Q – Shebly Seyrafi>: Yes, thank you very much. So looking at LSI's results, it looks like they had about \$954 million in Storage System revenue in calendar 2010 and you are talking about \$750 million in revenue going forward.

I was wondering if you can reconcile the two; where you see some of the revenue dis-synergies if there are any, whether you expect to strengthen your relationship for example with IBM and maybe lesser with Oracle/Sun? Maybe you could elaborate on this? Thank you.

<A – Tom Georgens>: Yeah, the number that you referred to, I believe, refers to the entire storage business of LSI which is not what we are buying. We are only buying the systems business. There is a plug-in RAID business, there is an ONStor business, there is a 3ware business. There is a number of those.

So, I wouldn't imply that there is suddenly \$200 million of revenue shrinkage that we're suddenly – that was suddenly taken out of this business. So yes, from our perspective that \$940 million reported number of LSI is not the total for the business we're buying. So the business we're buying has a certain set of assumptions to it.

We're being relatively modest about the OEM business and probably a bit more bullish about the NetApp business, but if you're implying that somehow there is some \$200 million worth of revenue leakage from the reported number, that's not a fact because that's not what we actually bought.

<Q – Shebly Seyrafi>: And your relationship with Sun going forward?

<A – Tom Georgens>: Oracle – I think – and clearly we need to have dialog with them, certainly since the Sun relationship was clearly tenuous because of the lawsuit, once they became part of Oracle that I think we had a very, very amicable resolution to that, that I think served both parties. So, our relationship with Oracle is just fine.

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As far as the future of the product within their portfolio, clearly, that's something that we need to continue to work with and we'll be having those customer dialogs over the next few days, but all-in-all, I don't think that the transition to NetApp would make their position of continuing to develop and use those products any different.

<Q – Shebly Seyrafi>: Thank you.

Operator: Our next question comes from Paul Mansky of Canaccord.

<Q – Paul Mansky>: Yeah, thank you for taking the question. I guess, Steve, getting after that \$0.20 to \$0.25 of your run rate accretion number that you threw out there; what is the underlying mix OEM versus NetApp traditional channel driving that number? Do you have a specific split in mind that we should be thinking about?

<A – Steve Gomo>: Well, I think that we start out with kind of a 80-20 type of relationship OEM to NetApp in the first fiscal year. And after that, over time to Tom's point, we see the NetApp base business and NetApp structured business growing faster and basically increasing in the mix to the point where it becomes 50-50. And frankly after that, we are getting out there in time. So I just expect that the NetApp base business is going to grow a lot faster than the OEM business but will increase in the mix over time and that will help the financials as well.

<Q – Paul Mansky>: Okay. Thank you.

Operator: Our next question comes from Bill Fearnley of Janney Capital Markets.

<Q – Bill Fearnley>: Yes, thanks. Just a quick question, any additional color here on the customer segments of the channel partner traction in terms of resellers, VARs, systems integrators, any additional color you could provide there please?

<A – Tom Georgens>: In regard to their products or our -

<Q – Bill Fearnley>: In terms of where their – in terms of their customer segments, in terms of federal – is it federal, financial services where the best traction is?

<A – Tom Georgens>: Well, in that particular case, that business is overwhelmingly OEM. And within those OEM's, they clearly have some providers – SCI would be an example that, that are relatively strong in the federal government. But the bulk of their business was IBM or Dell or Oracle is more general market business; I wouldn't say is that vertically oriented. However, LSI does have or did have a channel business that was very, very high performance computing centric and the number of their other vertical partners in their portfolio are very vertically oriented around high performance computing and that's really the appeal of the product.

As far as we are concerned, we are – our intention is not to basically unleash this product into our own channel broadly as a low cost alternative or a low function alternative or a low end alternative to what we currently have. For the primary business application customers and the enterprise customers, we have a solution to that and it's called FAS, our existing product line.

Our real goal here is to really target these incremental workloads and these incremental target markets. A number of them, as you can well imagine, are on the public sector where as you know our channels are exceptionally strong and our partnerships are very strong, and there is a tremendous need particularly on the video side in those segments, and I think we've got the most compelling channel presence in those segments of anybody in this industry, and I think we're uniquely capable to take advantage of that with this technology.

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So, I think the federal side will be important, and I think the commercial side, but it's not going to be a general market product per se, certainly not initially, and probably certainly not in the near future. It's primarily going to be targeted at individual workloads through a set of direct people and a set of focused resellers that are aimed at a set of very, very targeted customers.

<Q – Bill Fearnley>: Thank you.

Operator: Our next question comes from Glenn Hanus of Needham & Company. Please go ahead.

<Q – Glenn Hanus>: Hi. So could you just talk about the technology/product integration, if any, as we go forward between the two platforms, or will there be much, or should we think of this as fairly distinct platform over the next three to five years?

<A – Tom Georgens>: Okay. Well, first, I guess you look like the smart guy today, given your report yesterday.

<Q – Glenn Hanus>: Yeah.

<A – Tom Georgens>: So – and of course, we'll try and kill the guy who leaked that to you but that aside, our attention isn't to integrate these. We've done plenty of acquisitions where our intention was to integrate them but this one actually is not our intention. And the reason is, is because the fundamental design point of the platform is different. So, from the hardware on down, it's going to have a very, very different focus than our core offering and as a result, there's not going to be a desire to integrate.

Now, one of the risks that you have when you don't – when you choose not to integrate is you need to believe that you've got a workload separation, a vertical separation, that's going to sustain. Otherwise, if they bleed into each other's markets, there is going to be a desire to replicate each other's functionality.

I think that's one of the powers of the uniqueness of V-Series and that is there is no need for – that this product ultimately reaches a set of customers that not only wants the benefits of the bandwidth but also want some of these premium features. We can deliver those features in the form of our V-Series and they don't need to be replicated natively on the platform. So, I think that reduces the temptation to move in that direction.

So, I think what it will allow us to do is keep this project focused. I think the low end and mid range versions of these products are going to be aimed primarily for the server attach and the OEMs and the high end of version of that will certainly continue to go through the OEMs. But it's going to have a very, very high performance focus and we're going to be looking to basically drive price performance to the highest level as possible and that's a design center that's different than ONTAP and that goes all the way to the hardware level. And therefore, I don't believe that that will make sense to ultimately converge them.

<Q – Glenn Hanus>: Okay. Thank you.

Operator: Our next question comes from Ben Reitzes of Barclays Capital. Please go ahead.

<Q – Ben Reitzes>: Yeah, thanks. Tom, I want to understand why you did this deal now. I would think given your relationship with these guys and given that we know that they've wanted to IPO for a long time, that this deal has been out there for a while and you're choosing to do it now. And I was wondering, why you felt increased sense of urgency or what was with the timing? And then I had a follow-up.

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<A – Tom Georgens>: Yeah. I think the – I wouldn't say – I was there six years ago, and I wouldn't say it's been for sale for six years. In fact, part of the timing of the deal is that it needs to be done at a time when it's actually for sale.

And I think that their interest in actually doing this because this is obviously a very, very important strategic decision for them, has been relatively recent – by relatively recent, they would probably speak better than I do, but in terms of our understanding of the availability of this, it's certainly been well less than six months. So, I think there was a timing opportunity now.

The other thing is that maybe three years from now, we will view this business primarily as an incremental OEM business, but without the opportunity to lay a growth on top of it. What we've been seeing in the demand from our field, particularly in certain segments, is that very, very, very large data stores with massive ingest requirements and very, very high bandwidth requirements that are very, very substantial.

So I think what we believe now that we might not have believed three years ago if we had the opportunity then is that if we bought this business, we could actually grow it. If we're tied primarily to the OEMs, then we kind of have to live with their OEM growth rate because they've done a pretty good job penetrating most of the OEM opportunity.

On the other hand, I think we believe now with a product of this class, our own channel can generate substantial incremental sales in markets that are just recently emerging. And so if I had to look at this about what's different today than three years ago and six years ago, it's the belief that once we have this thing in our portfolio, we could actually grow it at a rate that would be commensurate with the rest of our business.

<Q – Ben Reitzes>: And then with regard to the rest of your business, do you mind just – has that – does the fact you're buying this change anything? Does – do you still have the same confidence that NetApp without Engenio is a 2 to 3X the storage market grower and nothing has changed there whatsoever?

<A – Tom Georgens>: Yes, this is a workload story, and I think in the workloads where we currently participate, and I think there is a ton of headroom and a ton of market share opportunity. Several years ago, we pursued Data Domain, and we didn't get it. The big headline was, 'Can NetApp grow without Data Domain?'

But, in fact, in the intervening period of time, we're the only company who grew. So now, we're going to do another transaction now, so I don't think you should read into the fact that we're doing a transaction a belief that we couldn't grow, because clearly the last time we went through this, we proved that wrong. So, there is no – nothing in this transaction, should be viewed as a referendum on the health or our belief about our core business. What's here is a belief that we've got the channels to exploit this technology in a way that the seller could not.

<Q – Ben Reitzes>: All right, thanks, Tom.

Operator: Our next question comes from Brent Bracelin of Pacific Crest Securities.

<Q – Brent Bracelin>: Thank you, Tom. Still trying to wrap my head around this acquisition, clearly a departure from kind of the last 12 years, as I followed the company. As I think about this – the logic here, you're acquiring a lower growth business, I think it grew 10% last year, much lower gross margin, 34%, that it's actually a supplier into the server OEMs, that as I look at the storage share, those server OEMs have been losing share over the last eight years. So I guess my question here is, what has changed in the server industry, specifically with the shift of virtualization

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that looks like is decoupling the value-add of a server vendor, supplying storage that makes you more bullish around this business that again is largely tied to the server OEMs?

<A – Tom Georgens>: I think it's tied to the server OEMs today. And I think if you look at the hierarchy of the storage industry, the place where the server OEMs are losing share are clearly in the larger systems, but in the more volume oriented server attached segment, they are still maintaining their market share and for a company like us or another independent company, it's darn near possible to go in there and separate that. So, it still opens up an opportunity for us.

I think the big play here, I think is very consistent with my answer to the previous question. If this was only about the OEM business, then I think I'd agree with you. But what this is, is it's a way for us to participate in new workloads that we believe are in their infancy and are going to be very, very large going forward. And that's really what's driving it.

<Q – Brent Bracelin>: Are those workloads changing enough to really change the growth profile of a \$750 million business?

<A – Tom Georgens>: Sure. Sure. Absolutely, despite a short answer to that question, I mean, if you look at the size they are today, what they are forecasted and you look at all of this, our belief that this adds \$5 billion to our total available market by 2014, not only can that change your trajectory of a \$750 million business, it could change your trajectory of a \$5 billion business.

<Q – Brent Bracelin>: Fair enough. More to discuss later. Thank you.

Operator: Our next question comes from Richard Gardner of Citi. Please go ahead.

<Q – Richard Gardner>: Hi, thank you. Just a couple of follow-ups with an added twist to the last line of questioning, I guess. Number one is, given that this is a revenue synergy deal, Tom, can you talk about what your top priorities are on revenue synergy capture in terms of expanding Engenio's product into your channels and vice versa and then I have a follow-up as well.

<A – Tom Georgens>: Well, I think we have – I mean, I see immediate opportunity in the U.S. federal business. I see immediate opportunity in places where we have participated before whether it'd be movie making or oil and gas exploration. I mean, these are all places where NetApp has a footprint, NetApp has got credibility and NetApp has trust and here is an opportunity to basically in – leverage that and introduce a product.

You know, so the previous question about, you know, 30% growth on the \$750 million a year business is \$200 million and I am not going to say that \$200 million is a trivial sum. But for a \$5 billion company with our channels then I think we should be able to do that. And – so from our perspective, yeah, I think we can grow. So, where are our priorities? Our priorities are first of all, we have a set of people that have been – that have all been very quick to email me already, wanting to know how they can start quoting this thing and bidding this thing. So, we have opportunities out there today that I think are measured in hundreds of millions of dollars already that we can visualize.

I am not saying that we're going to close them or they're all going to come to fruition this year, but there is certainly a pipeline of opportunities that are substantial and that's before anybody knew we had this in the portfolio. So, I think that those accounts that basically have needs of this type, we're going to focus on getting them trained, getting them up to speed, getting them to understand the product and we're probably going to go after or probably a targeted list of maybe 50 accounts right out of chute and then train the organization a bit more broadly after that.

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<A – Steve Gomo>: You know, one other – I'd add here is that, remember I told you that the mix of business, the first year alone is 20% new NetApp business that's being sold into existing accounts where we have sales presence and addressing workloads that we previously haven't been able to touch.

<Q – Richard Gardner>: Okay. I'm sorry, Steve, just to clarify. 20% of Engenio's current business is non-OEM, right?

<A – Steve Gomo>: That's right.

<Q – Richard Gardner>: But are you saying that in the \$750 million, you're assuming 20% revenue synergies in year one, is that the read?

<A – Steve Gomo>: Correct.

<Q – Richard Gardner>: Okay.

<A – Steve Gomo>: Correct.

<Q – Richard Gardner>: All right. And you partially answered this one as well. But can you just talk about what workloads you're most excited about? And say, what the top five opportunities are in terms of – for the Engenio business over the next three to five years?

<A – Tom Georgens>: Well, I think that multimedia in general and all of its aspects I think is a key component. The traditional high performance computing, semiconductor simulation, weather simulation, oil and gas exploration all of those, it will allow us to participate in those. So, I think that business is not a 20% to 30% year-over-year growth business, but it's still a \$1 billion TAM that we can penetrate where we already have the channels to reach.

But when you look at some of this multimedia stuff, whether it's medical imaging or whether it's video ingest or it's surveillance or content distribution, all of those are huge and going to be some of the biggest growth drivers in the storage industry overall and there's an opportunity for us to get involved in them really in their early days.

A lot of the players in that particular space today are either smaller players or niche players and here's an opportunity for a brand name player with a technology that's been developed over 20 years, that can come in and help them craft a solution they can bring to market. I think that's a pretty compelling story that we're excited about.

<Q – Richard Gardner>: Okay. All right. Thank you.

Operator: Our next question comes from Alex Kurtz of Merriman Capital.

<Q – Alex Kurtz>: Yeah. Thanks for taking the question. Just looking at this acquisition in a different light; going back to the Storage 5000 analysis you guys did a couple of years ago, and this acquisition gets you into new workloads and maybe some new verticals, what about the opportunity to get core NetApp gear into some account base and verticals that you guys weren't penetrating that you guys wanted to sort of increase your footprint in? And how – sort of reversing this a little bit and looking it through the core NetApp business and being able to go into new accounts on the back of the LSI Technology?

<A – Tom Georgens>: Well, absolutely. Now obviously, we need to be careful of how we do that because of the OEM relationships, but I believe the installed base of this product is in the 350,000

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range. So, the amount of them that could be approached through V-Series as a migration tool, I think is a pretty compelling story.

So, some of the OEMs have that option today and already deploy it, but some of them don't, and I think that that's something that would – because clearly IBM is a partner with both of us, but some of the other ones don't. So, here's an opportunity to integrate even a greater set of technology that wasn't previously possible, because there wasn't a connection between NetApp and the OEM.

So, I think from that perspective, I think there is a big opportunity for pulling of our existing products. The other thing is the sense of a portfolio. A lot of this data that gets drawn in, that get ingested has to be stored more broadly and has to be disseminated more broadly and there's an opportunity for our replication products to come into play.

So there is an opportunity for one product to kind of be the front end data acquisition tool and the rest – and then the rest of our portfolio to be the overall data management infrastructure is clearly something that we see here as well. Right now, we have one end-to-end solution that – from a single vendor that can acquire the data and also store and manage and back up and archive the data, is a pretty strong story and clearly, we have a little bit of integration work to do for that to happen, but nonetheless, there is an opportunity for this to be synergistic as well.

<Q – Alex Kurtz>: And as a quick follow-up, of that 350,000 customers, have you guys done an analysis, a quick analysis yet of what the overlap is with NetApp?

<A – Tom Georgens>: Well, a lot of it frankly is through a – is through the OEM.

<Q – Alex Kurtz>: Right.

<A – Tom Georgens>: So it's not like they're sitting on a installed base – or a customer name list, however, a substantial amount of that is sold indirect through a set of channel partners, many of which are also NetApp channel partners. So, I want to be real clear is that what – our objective here is not to undermine the OEM business.

The OEMs have a channel and we want to support that channel and not compete with them. Obviously, if they – if things change and the relationship becomes less friendly then I think we have a lot of tools to compete that the other alternative or the other – the previous owners of this business did not. But all-in-all, our objective is to work collaboratively with the OEMs because to compete for a handful of businesses and jeopardize their channel to thousands of businesses, doesn't make any sense to us. So, we don't want to create a channel conflict around a small number of accounts that jeopardizes the entire motion.

So, I think we're going to do this more collaboratively but it's also an opportunity for them to add value. It's an opportunity for them to do some upselling. It's an opportunity for them to protect their installed base from other interlopers and other competitors. It's an opportunity for them to do upsells and sell software. It's an opportunity for them to do storage consolidation. So, I think having NetApp own this and also have access to NetApp's broader portfolio, I think also gives them selling opportunities they didn't previously have.

<Q – Alex Kurtz>: Thank you.

Operator: Our next question comes from Aaron Rakers of Stifel Nicolaus. Please go ahead.

<Q – Aaron Rakers>: Yeah. Thanks guys. First question for me, and I have a follow-up, is I want to go back to your ability to possibly leverage some of the supply chain aspects or the changing potential backend enclosure opportunity that could exist with Engenio. When I think about what you

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guys do on your FAS series product, is there an opportunity that you are saying to take Engenio and put your FAS filers in front of Engenio backend enclosures or am I reading that wrong?

<A – Tom Georgens>: Well, not necessarily the backend enclosures, but the entire product, right. We can do it either way. I don't think we'd want to with the backend enclosures, because then we might as well just sell our own enclosures. But there's 350,000 systems out there that don't have deduplication and don't have the replication technology that we have and don't have the application integration. So here would be an opportunity for us to bring the V-Series in, consolidate many of their existing backend products, have a common user interface in front of it and then bring our storage efficiency to an infrastructure that's already been sold.

And I think that that's powerful, because absent that, I would say, the installed base is probably vulnerable to a stronger value story from potentially somebody else over time. And here's a way to protect the installed base, refresh the infrastructure with a V-Series. And ultimately have a software revenue stream and a software value-add on top of it. So, I think that there's no doubt that installed base represents an opportunity for us to deliver ONTAP less at the system level and more at effectively the V-Series and software level.

<Q – Aaron Rakers>: And you guys – to delve into that a little bit, you guys have had your – clustered your Data ONTAP 8 clustered operating system out for a while and I think a lot of people consider that to be somewhat competitive with what EMC has with Isilon. You talked a lot about video and HPC environment as being a big part of the vertical expansion with Engenio, is there something to read in that the Data ONTAP 8 was not finding traction in those markets and this really accelerates that, or is something else to consider there?

<A – Tom Georgens>: No, I'd say they are separate. Data ONTAP 8 and the clustering technology is not a – I should say – let me be careful. Well, definitely the clustering technology brings the performance capability to the product that you can't get with a single node. I wouldn't want to confuse that the clustering technology is only about performance and only about high performance computing. The clustering technology is a scalability and a management and extensibility technology that is just as relevant in the business application world as it is in high performance computing.

The point is on the server side, as you build internal clouds of virtualized servers, you want to build a big array of servers that are all clustered together that applications can move between. You want to do the same thing from a storage side. You want to build a big array of storage devices that are capable of supporting multiple servers with application mobility and that's where our Cluster-Mode comes in. So, basically say, well, Cluster-Mode was our HPC solution and now we've another one is not really a fair statement. Cluster-Mode is a broad technology and applies across all of our workloads.

Now that said, the technology that we are talking about here is very, very, very high performance controller-based technology that doesn't need to be clustered to deliver the bandwidth requirements that we are talking about.

<Q – Aaron Rakers>: Good answer. And then where does this leave your domestic cash and I'll cede the floor.

<A – Steve Gomo>: This leaves our domestic cash – when we get done with this quarter, almost unchanged. It will dip slightly, but it is not – you are not going to see a material dip based on the fourth quarter. Remember fourth quarter is going to be a pretty solid quarter for us from a cash standpoint.

<Q – Aaron Rakers>: Okay. Perfect. Thanks.

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<A – Steve Gomo>: You bet.

Operator: Next question comes from Jason Ader of William Blair.

<Q – Jason Ader>: Yeah. I am sorry. It is just a follow-up, guys. Just on the 80/20, just wanted to clarify that for fiscal '12, Steve; you said that 20% of the revenue you expect to come from revenue synergy. And so are you assuming that – is it right to assume that all of the rest – I mean all of the business pre-fiscal '12 was OEM for Engenio?

<A – Tom Georgens>: I think that's probably close enough to being right for your model.

<A – Steve Gomo>: For your model, I think that's right.

<Q – Jason Ader>: Okay. And the – I guess the problem I'm having with the rationale on the accretion, it just seems like you are assuming that the OEM business over time, I guess, doesn't decline. I guess, to get 30% growth off of the 20% of the business and the 80% of the business declines 20% in fiscal '13. I mean you're not going to grow 30% obviously on the whole piece. So, even the math that way still doesn't really get you to your historical growth rates that you've been at; so how can you give us comfort that the 80% is like a stable number?

<A – Steve Gomo>: Well, two things. First, I think we've been a little bit conservative on the OEM side in our FY '12 plan. If you go back and you look at their run rates et cetera, you're going see that we've been a little conservative. And we expect there could be some pull-ins or some unusual behavior from the OEMs as we go through this transaction, and that would be a natural thing. So we chose to be conservative about that. So I think there's potentially upside to the FY'12 number on the OEM business.

Over the long haul, if you go back and do – if you heard the numbers that Tom was reading about the size of those TAM expansions that we see and the kinds of workloads that are emerging and the dollars behind those, it doesn't take much from a market share gain to generate the kind of revenue to put this total – to put the combination business here that we're putting together on the same growth rate path as what we see with the old NetApp business.

<Q – Jason Ader>: Okay. So it does assume that the 80% or the OEM piece stays relatively stable?

<A – Steve Gomo>: On that order, we're actually expecting it to roll off a little bit. Certainly, it's not going to be a growth element. The growth element is going to come from the new business that we generate through our channels and through our expanded TAM.

<Q – Jason Ader>: Okay. Thanks.

<A – Steve Gomo>: You bet.

Operator: Our next question is from Richard Gardner of Citi. Please go ahead.

<Q – Richard Gardner>: Actually that was my question. Thank you.

<A – Tom Georgens>: You know, I think for the opportunity that we're looking at and the price that we're paying for it compared to the potential return, I think we would have justified this transaction with no OEM business. And the fact that it comes with an OEM business that's profitable, that's going to fund it, is so much the better. But the OEM business is something that we want to

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continue, something that we want to continue to support, something that is important to us, but it's not going to be the growth engine here.

Now that said, from an aggregate overall NetApp growth perspective, we're going – if it is flat, there is \$750 million of flat or potentially declining revenue, as Steve said, that we're going to need to overcome.

But on the other hand, I don't know what you put in for NetApp's overall growth number as a company over the next three years. But when you multiply that, it's only measured in \$200 million or \$300 million a year. To think that we can't generate \$300 million a year of incremental revenue per year out of this, at a company our size, given the market opportunities that are out there that we currently see, and the pipeline that we currently see – I'm not saying it's a slam dunk, but no matter how you look at the math, it's not that intimidating, and we just need to execute on it.

These opportunities need to materialize, we need to close them and this technology needs to do what we think it will do. And if all that happens, then I absolutely believe we can actually grow this business at the rate of the rest of the company, despite what happens with the OEM business over time.

<A – Tara Dhillon>: Operator?

Operator: We have no further questions at this time. I'll turn it back over to the speakers for closing remarks.

Tara Dhillon, Vice President, Investor Relations

Thank you. As a reminder, please do take a moment over the next 24 hours to let us know whether you would prefer that we go ahead with our Technology Forum in two weeks or postpone until post-deal close in mid to late June, where we would be able to include a financial section with more information about the transaction today, and the coming accounting change. My email is tara@netapp.com and we will update you with our decision on Friday. Thank you for your time today everyone.

Operator: Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.

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