

How to Lead and Build a Company from 30 to 11,00 Employees
Dan Warmenhoven

DAVID STEELE: Good evening, we have uh the pleasure of one of the Global Leadership Advancement Center uh speakers this evening and I will ask Dr. Joyce Osland to introduce the speaker, but as Dean of the College of Business and the Lucas Graduate School of Business I wanted to say a few words of introduction. And in particular we are honored tonight to have Don and Sally Lucas with us and they have been instrumental in forming the Lucas Graduate School of Business and I'd like to ask them to stand and be acknowledged.

The Global Leadership Advancement Center was formed about two and a half years ago and Joyce Osland is the Executive Director and she has made remarkable progress in this time in terms of initiating all kinds of activities, both at the student level and the faculty level and one of her ideas was to have the Speaker Series and I would like to have her introduce our speaker of the evening. Joyce?

JOYCE OSLAND: Good evening, I'm delighted to see so many of you here tonight. Uh I have to give you a commercial right? That's my job. I wanted to tell you a little bit about our center, our purpose is to advance and disseminate global leadership knowledge and best practices and of course you're probably wondering, 'what in the world is global leadership' so I'm going to tell you. Uh global leadership is the process of influencing the thinking, attitudes, and behaviors of a global community to work together synergistically toward a common vision and common goals. Tonight's speaker, Dan Warmenhoven is a true Global Leader and a Silicon Valley success story, but before I introduce Mr. Warmenhoven let me tell you a little bit about what we're doing these days about global leadership on San Jose State's Campus. There was an Iran study in 2003 that found that there was going to be a future shortage of global leaders in all three sectors: in the private sector, the public sector, and the non-profit sector. So they recommended that Universities start including global leadership curriculum and San Jose State, I'm happy to say, is one of the first Universities in the country to do this. We now have three courses in global leadership, one at the Undergraduate level, Business 165 in case you're fishing around for something in the future and two at the Graduate level. San Jose State also has the first ever Global Leadership and Innovation minor, which we're very proud of that's brand new and that's for all students on campus, it's an interdisciplinary minor. We have another program that is also for all students on campus and it's the Global Leadership Passport Program, again another first, no other University in the country has a program like this. So what does that mean? Well, you enter the program through my course or through a gateway weekend workshop...shop and one of them is coming up on November 12th and 13th in case you have nothing to do that weekend and then you earn stamps for coming to speeches like this, for taking foreign language courses, for attending anything that's global - study abroad, and when you've earned the right quantity of stamps you get this and you can show this to prospective employers to prove to them that you've

prepared yourself for global work.

In his roles as CEO or CEO and President from 1994 to 2005, Dan Warmenhoven grew a company, NetApp, from a start-up to a multibillion dollar global firm. NetApp is a recognized market leader in the field of network storage, if that weren't special enough, NetApp regularly wins awards for its innovative culture and also its organizational culture in general. I want to read something that one of the companies that gave him an award said, "Net App has a unique corporate culture that values creativity, teamwork, open communication, leadership, adaptability and trust." And you know these are all characteristics of global leaders. "This culture drives NetApp's innovative technologies, products, and business strategies, by living these values NetApp employees are empowered to develop new ideas every day and continue to make breakthroughs happen for its customers." NetApp is number thirty-four on the 2011 Forbes list of most innovative companies in the world. That's really a tremendous accomplishment. Because of these accomplishments, Dan, who is now Executive Chairman of NetApp has won a host of leadership awards and also entrepreneurship awards, here are just a few of them - he won the National Ernst and Young entrepreneur of the year, he was one of Business Week's top 25 managers of the year, one of Network world's 50 most powerful people in networking, but despite all this acclaim Dan has kept a low profile. I checked with some of his employees and they said he's one of the nicest people in the world you could ever work for and has no ego, and this brings me to another characteristic of global...characteristic of global leaders - not only are they capable of building an infrastructure and a corporate culture that works all around the world, they're also humble and listen to what one business writer wrote about Dan. "He's the best CEO you've never heard of", isn't that a great compliment? But I doubt that will be true after tonight, after you've had an opportunity to learn from him - how he managed to build such a successful innovative global company and not lose sight of the importance of the people working for him. So, Dan, It's all yours. Thank you.

DAN WARMENHOVEN: Thank you Joyce, good evening everybody. I understand most of the speakers here talk about current issues and the future and all those other kinds of things. Tonight's going to be a lot different, tonight's a history lesson. Tonight we're going to talk about the last twenty years, basically of the evolution of NetApp. Uh it was founded in 1992 and uh at the time I think um the genre of system's companies, companies like computer companies or networking companies or storage companies was really coming to an end. The venture capitalists really weren't funding many more, in fact I'm not aware of another company funded after NetApp. They reached a billion dollars in revenue or five billion in market cap. Now we were the last one, right? There are others who were funded, but couldn't quite get through break through, velocity and so on. But we're going to go on to build uh a a company that was uh widely successful and could break through uh all of different challenges and really to become uh uh one of the Fortune 500. You know I used to think when I was a kid in high school as a career I wanted to kinda become a CEO and lead a Fortune

500 company and I never thought at the time I'd build one from the ground up.

Uh a little bit on uh NetApp, I'm going to tell you about the last twenty years, we're going to do it in um kinda stages. This company uh went through a number of different phases of growth and evolution and uh and even personality, I will say however the culture remain remarkably constant during that time. Uh it was always one as uh as Joyce said of collaboration, uh one where where people really prized teamwork uh and uh and where that had a real focus on uh on the customer and the competitors and doing the right thing. But I'm going to break down the uh the history into uh basically six eras uh from the very beginning - the start-up phase to the IPO, uh the hypergrowth **area** where we basically you know almost doubled every year for five years. Of course anybody remember the dot com crash? Many of you were too young probably, you were probably about ten when it happened, but once upon a time a long time ago uh the dot com bubble burst and uh we went down with it. Um and then the crash recover, get back on your feet go survive and uh find a different set of markets and products and then of course uh we'll talk a little about what happened when the uh financial melt down occurred in crash number two and uh and now the drive towards market leadership so let's jump in at the beginning. Um **The Founding Vision was very simple.** ~~in founding visual is very simple~~, I am not a **founder** incidently, I was awarded an honorary founder status on my I think tenth anniversary of the company. I joined the company in 1994, it was actually founded in uh basically first of April 1992. It was founded by three engineers, uh **Dave Hits, James Lou and Mike Malcolm**, who kinda had a idea for what the next generation of storage system oughta be, prior storage systems were always very very hardware intensive right, heavy big boxes and they thought they could do most of that stuff with a very light weight model. And uh bring something to market that was easier to use, had terrific price performance, and uh was much more versatile; and so it was a vision. And uh they took this vision around uh a sand hill road and it met with absolutely no takers. In our series A there was not one venture capital firm that participated. They succeeded in raising about two million dollars from twenty four high net worth individuals, um two million dollars these days would not get a company started. Those three guys hired one young engineer and rented some space actually basically camped out, they did an occupy movement in somebody's rear corner and uh they're they're first test system I might point out, uh Dave and James went down to Fry's and booted up one of their demo PCs, James kept the uh the sales rep busy off on the side and and Dave used that PC as a first real life test system to test their code. And this is done on a shoe string you gotta understand, this is nothing right? Uh, but they did in fact build and ship the first product and uh it came out like they expected; it was much faster in terms of response time, customers loved it it was easy to use and uh and they generated uh a little bit of revenue. They then hired me. Uh I joined in uh series C in the October of 1994 and by this time uh they had a few customers, i think that the revenue for that year uh was fifteen million dollars. I joined about mid year, our fiscal year I should point out goes from because it was founded in first of April is actually the end of April uh is the end of fiscal year boundary so we are right now just completing our second quarter. Uh sounds a

little strange, but we're in the middle of fiscal year 2012 right which will end in April. Uh so they hired me in mid year and that year we finished at fifteen million i think they quarter where I joined the revenue was three and a half million uh and I only managed to uh go public with that. I joined in October of 94, we went public in November of 95. Not bad, I mean it was pretty quick really and and then after that uh we figured out how to become profitable. Think like Groupon you know, it was a good concept and investors actually liked it and we actually did make some money after we got public. And that was it I mean the uh the funding, Don Valentine who led the Series C from Sequoia later characterized this as a contrarian investment. Contrarian because it looked like it was a disc reseller and you can't make any money reselling discs. And uh it was up against established incumbents like Sun Microsystems and Hewlett-Packard, **Ospecks** was right there in that space and and he really felt like um the reason why another venture capitalists were attracted to it was because the odds of success were not particularly high.

However, let me kind of take you back in time a little bit. List the uh the top IPOs of last 30 years, you'll see I think NetApp is ranked number 9 in this particular list. Uh 1,2,3,4,5,6,7,8,9...10 excuse me 10. Uh however there's been a couple to crash and burn since I made this list. Uh Research in Motion **RIM** ~~rim~~, Blackberries uh they're toast. Uh Netflix screwed themselves up you know at the time I did this slide I think they were trading at 270 I think they're now under 100 so I think we're now number six actually on the list uh of top performing IPOs in the last 30 years. Not bad for an old box company that was a **disc brief reseller**.

Uh, Hypergrowth. So the very very first period was just uh figure out how to, you know find a customer and convince them that uh that we really had the right solution for them and um we thought we did have something special, this wasn't just a disc system uh we used a name at the time, network appliance. The idea was that uh this was going to be a storage refrigerator. Now everybody knows how to operate a refrigerator right? You store things there, you take them out when you want, you don't manage your refrigerator; it's kind of self managing all right. Could you build a storage system that was that easy to use, you know set a couple knobs like temperature and humidity and just let it run. And uh, so the concept here was really as a simple to use system, easy to install, easy to operate. and that really ~~resonate~~ **resonated** with customers at the time. And that really fueled an era that we call hypergrowth.

Um, now I hope all of you are familiar with uh Michael Treacy. I we lifted uh some of his book to kind of guide our strategy. Uh Michael was a professor at uh Harvard business school, he wrote a book uh *Discipline of Market Leaders* around the time that uh that I joined the company and he basically put out a premise that said there are three strategies you can chose for long term success in in any any market. Uh the first one was product leadership, there was always a segment in market that is is excited about the new product right, think uh Iphone 4. The second one is customer intimacy, and uh my best example there is probably Nordstroms, I I don't get Nordstroms. Um, you know they sell basically the same merchandise as everybody else, they sell it basically at list price I mean they really don't have that many sales throughout the year and yet you see these

license plate frames that say, 'I'd rather be shopping at Nordstroms.' You don't see 'I'd rather be shopping at Kmart' you know um, but they really have a model of customer intimacy, from the moment you walk in the store right you're made to feel welcome and uh and uh there's somebody there to help you. And the third is operational excellence and the best example I can give you there is Dell, Dell computer. Uh, Dellville's **Dell builds** basically the same product as everybody else, they spend almost no money on R&D, if you look at their patent portfolio it's around processes not about technologies and products. And uh, and yet for years they had the most efficient model, they could build you know the most modern PC for lower costs than anybody else and they had a fabulous business model. Uh you guys here in the business school will understand this, their their um receivables were shorter in duration than their payables. They got paid for the product they ship before they paid the suppliers for the components. Wow ya that's a model, that's beautiful, uh so that's really operational excellence right? You can turn the material around so fast you can get it in the stores, get it sold, get it shipped whatever before you actually pay for it. Ours is product leadership, we decided we were going to lead with best product and we wrote this statement in my staff meeting in March of 96, remember we went public in 95 so this is basically about four months later. And just really quickly, the word double is up there, we're going to double every year. Unfortunately I picked net profit, that was pretty stupid, uh uh the base line here we didn't pay any tax and it's really hard to double net when all of a sudden Uncle Sam comes in and takes 30% so we changed that to be double the operating profit. And uh and lead a market shift to the appliance, simple to use devices uh through demonstrated product superiority and create a new market segment known as Network Attached Storage, I mean it didn't exist - nobody knew what Network Attached Storage was so we had to go create the segment and if you can create it you can lead it. Very simple. In fact I remember a guy who ran sales said 'ya it's easy for you guys to do that' he says 'I'm the one that's gotta double every year.' It's true, uh uh it was all a sales issue.

So the whole idea was how fast can you grow and not have the wheels come off? How fast can you ramp up and uh and continue to build a company. Uh we didn't quite hit the double every year that was really hard to do, but during this period it was 87% compounded I should say for that's not that bad. I will show you the graph in a minute, but as your growing that fast everything inside is broken, whatever system you put together you're **outgrown** **outgrowing** before you get there. You're perpetually out of space, the organization changes every three or four months, you know you got to think about it doubling every year, if you're a first level manager and you have five employees then next year you have ten, the next year you have twenty, next year forty, give people skill that fast right? Uh and it was a real challenge to figure out how fast could we go without actually having the wheels come off. That's the line for employee growth, 1996 was actually the year we went public, at the time we went public in November it was actually 100 people so this is April of 96 we were at 130 and uh by April of 2001 it was 2,430. Um like I said, during that period nothing worked right. Now I want to point out to you one thing, if you really have an objective of

double every year and you draw this kind of curve and all. The first conclusion you come to is you don't manage that growth. You cannot manage it. You cannot control it because if you control it you'll stifle it, and you'll underperform. So you gotta build some sort of system internally that allows it to essentially grow in a viral manner without getting out of control and so you place a great deal of emphasis not on **rules** and procedures and all the rest, but on building a culture where we hired people who really had terrific uh head room if you will in terms of scalability but also terrific self motivation and uh and we gave them a set of principles to base their behavior on and said okay go do it. And so we try to create a new segment of the business let's say you know we go to Germany, we hire a guy from Germany and we tell him look you're the first employee, you go build NetApp Germany, you're it, uh here's the rule book it's very short, but don't do anything wrong and uh call if you need help. And you do that time and time and time and time again right and uh you know that's about, the guy who we hired **around to run** Germany is now running all of Europe and Europe right now is about a uh roughly speaking about a two billion dollar region.

Uh here's the business model I want to show you this real quick because it's actually has an interesting couple points to it. Now I want to draw your attention really to the center where all these flat **things lines** are. These three lines; the gold line is gross margin, the blue line is our operating expense and the green line is our operating income as a percent of revenue. It's remarkably stable, once we got through the start-up period out here we had some adjustments to take and before we got to the crash in the dot com era, the company ran for basically five years with 60 percent gross margins: not bad for a disk reseller and operating expense line that was right at 40 percent and an operating income line that was right around 20 and that was the business model for five years. Uh as you can see things kinda blew up out there at the other end, but uh that is quite a performance when you think about it you can't find the company that does the same thing. I'm going to come back to this later on.

Uh 60 percent gross margins, I should make a comment there too. The number one issue uh that the analysts had in terms of concerns with the company when we first went public was sustainability to gross margins. How can you sell disks at 60 percent gross margin? That just doesn't make any sense. How how you know how long can you do that, how long is your competitive advantage going to hold up and when do the margins come down. The margins last quarter were 62.7 percent, the number one issue in the analyst community is how can we sustain **the** a gross margins, well geees we've done it for almost 20 years. How about giving us a little slack here you know. Uh maybe this was something they don't understand. Uh anyway I talked about how do you grow this thing so fast and the whole foundation was around we're going to build a culture that's very unique, uh a minimal set of controls. Uh it was really based on uh on a very strong core value set that we spent a great deal of time trying to **refined** define and really get fully embodied in the organization. Here's the here's the theory right, if you can create the right value set then when people behave a certain way based on those values right, because values shape behavior then the collective experience is what you call a corporate culture. So start with the right values,

values drive a certain set of behaviors and those behaviors when you **aggregate** them are what we think of as culture. Buy that? What you experience in terms of how people work together is what a... is a corporate culture. And uh it comes right back to some very core ingredients, I just want to spend a a moment on ours. Um every company has a set of values, but I'd argue not every company really implements them thoroughly and not every company measures people on a conformance to it. Uh we are more interested in values than we were on people making the schedule or making a sales plan and uh and it's what allows us to grow so rapidly. Um let me just back up before I get into details of the values. Uh this became so self governing that when we hired someone that didn't quite fit in the management team didn't have to do anything about it. There's a uh study that was conducted and published in the Harvard Business Review about uh corporate cultures and really it talked about three different outcomes when a new employee hires into an organization. If the organization you hire into has a weak culture then, and of course you as a new employee if your not...if you've been experienced your expectation of your new employers environment is exactly the same as what you left because you have no framework, no understanding of the difference. So you walk into the new environment and what happens. If it's a weak culture, that culture just morphs to adapt to whatever you do as the new person, if it's a strong culture then generally successful employees change their behavior to adapt to their new environment. The third outcome is when the employee can't make **the** a change, the culture is not going to change and so you build up a tension to such the employee blows out and that's what it was at NetApp. If we hired somebody that didn't really fit in culturally uh the management team like I said didn't have to take any action, the employee was essentially starved of every organizational nutrient: they were not invited to meetings, they were not copied on e-mails, they were just ostracized until they left. I mean they were unproductive and they would get frustrated and leave and uh it was a really self reinforcing kind of model. It wasn't brutal in any way it was just if you didn't fit in, get out and uh it was almost that easy.

The value set we picked actually had a uh an inside and an outside. The outside was all about the five constituents we serve, why do we do what we do. Well, delight customers, produce return to shareholders, provide environment employees would love, have business partners that believe that we were the best of breed, and make sure that we were a good neighbor; that wherever there were NetApp employees that we would get involved in local community and be viewed as a contributing member. That's the outside, that's who we served. The inside is all about how we want to behave behind the walls. About individual leadership, that every person has a leadership responsibility in the company, every single person is expected to step up in to some leadership role along the way. Trust and integrity, pretty straight forward but here's how some of these things are linked, simplicity, trust and integrity. Uh most corporations have a system where by if you as an employee need to take a business trip you need to get a manager's approval in advance. Our ~~argue~~ **view** is why? Why do you need approval? If you're going to do something in the best interest of the company and the shareholders and the customers just go do it. When you turn in your expense

report and try to get reimbursed we'll settle up and everything would be good. If you went to Tahiti we'll probably have a discussion about well you know who was the customer you were you know helping in Tahiti, but you didn't need to put in a control system to avoid it. So we made it very simple because we believed, we trusted the employees that they would do the right thing. And that kind of behavior becomes so free enforcing. The fewer controls there are the better behavior you get, uh I think that's generally true. **Strong..??** **Strong emphasis on** **Uh** teamwork, **on** ~~um~~ going beyond the basics of your job, uh really an emphasis on uh on performance results and adaptability; be able to change quickly. Alright, so how did we do? Well I said we uh did 87 percent compounded fiscal year 96 recalls the year we went public, that's the baseline. We hit a billion dollars in five years, 87 percent compounded growth.

Then, the world changed. The dot com bubble burst, this is one of my favorite slides coming up. This is our stock price, it was pretty...it performed pretty well and then about here it took off. When this is the bubble right and uh and we hit a peak per share price of 153 dollars roughly and in just a few months it was trading at six. I gotta tell ya if you have a compensation scheme that includes **incentive** ~~instead of~~ stock options, you thought you were rich and then you were poor and that's shocking to a lot of employees right? I mean they were already starting to think oh gee I can buy the new house I can send the kids to college, I mean and then all of a sudden the next day it's just gone. Look how quickly it dropped, I mean it was just absolute ~~catachistic~~ **cataclysmic** decline. Uh that was probably the biggest test for our culture, while you're winning it's pretty easy to have a lot of fun, enjoy the camaraderie and come out every day and play another round. All of a sudden when you go from 153 to 6 it does test your metal so to speak. And uh we didn't keep growing in fact the revenues declined and we went from that billion dollars I showed you down 20 percent the next year and uh it took us three years to get back to uh to the billion dollar mark. In fact the joke was for a while I'm I'm one of the few CEOs in Silicon Valley that's taken a start up to a billion dollars twice, and I did it with the same firm you know. So, it was a tough period I mean uh we had a layoff for the first time in our history, you can see the head count dropped. It wasn't severe, it wasn't you know as deep as some companies uh but this period right here we actually laid off about uh roughly eight percent of the work force. It was really the first test for is this corporate culture really any good or not. I remember I was sitting in my staff meeting with uh my VP of Human Resources, Chris Carlton, and we figured the number we had to cut to break even was 12 percent and she said "no no no studies show that for every two employees you cut one more will self select out because they feel as though opportunities are over or their friends are gone or whatever and they'll go find a different job." We had a lay off in August and a subsequent of three months we didn't lose one employee, not one. There was no place to go, unemployment was high, but none the less uh we really struggled to remain profitable and in fact uh we we went negative a little bit in a gap sense and actually posted a loss one quarter. The recovery was uh it was really complex, it really reinvent the whole company. In the first five years we were really successful selling to two primary customer groups, technology companies

like Semiconductor designers, Software developers, system builders like Cisco, uh doing all of the uh engineering tool support right, software build libraries, chip simulations and things like that. Those needed uh really high performance in fact I'll tell you a quick story. The highest ~~in~~ **end** system in the market at the time was the **plot** **deployed** and one of our customers Western Digital, they had the biggest server the biggest storage system, the biggest everything you could buy and uh they had a particular chip that was very complicated and they they ran an application called **Cadence** **Caten's Dracula** it's a place where the wirings go, how do you place the circuits and wire them up. That job ran 18 hours and it was killing **em** because it gave them one cycle per day and it really stretched out time to market. They replaced that great big machine with ours and simulation from the same chip went from 18 hours to two, two hours which allowed them to get basically four or five cycles a day and uh to shrink the time to market. And that was basically the uh economic **dissertation** **justification** to go buy our box. But at the end of the dot com bubble burst oh and the second vertical I should tell you about is internet providers. Anybody here remember uh NetCom? Ya oh uh you're a local. NetCom was one of the first internet providers in San Jose they were located in downtown San Jose not too far from here, and uh they provided us services for dial up access to the web like America Online, and so on. And uh the two big applications we had were internet mail and uh remember Use Net News. Anybody remember Use Net News? Ya you ya it's still around? You never hear about it. Um and so we basically became the **defacto to defacto** **infrastructure from for almost all the mail systems**: America online, Yahoo, uh Yahoo right now I think has somewhere in in a range of about 400 **pedibytes** **petabytes** of storage of ours, everything you see on Yahoo is on a NetApp system so it's still a long term relationship. But they didn't have any money anymore, I mean we built this great business to those two verticals and those two verticals are gone and uh so we **reengineered** the company; we picked a whole new set of verticals and uh we picked in particular kinda core industry stuff: major manufacturers, oil and gas, uh telcos, financial services, federal government, uh pharmaceutical, and uh they were very different than anybody we'd ever talked to before. They also had a requirement for a different type of product, it wasn't just fast and simple, they wanted something that was ~~underprice~~ **enterprise** class right? High availability, replication to a second data center in case they had an outage, all those other kinds of things. So we basically reengineered the product.

We had to change the way we supported it. In the technical world most of our customers expected to have support via the phone. You ship them a box, they install it, they operate it, they call you if they got a problem. In financial services they don't expect to ever see the box, they sign a PO, you install it, you configure it, you operate it for them, if there's a problem it's your problem it's not their problem. That's a whole different support model than where we were.

Uh we had to broaden our partner ecosystem. We were now selling in to application environments like Microsoft Exchange, Oracle, SAP, uh so we needed a whole new set of partners. We had to rebrand the company, our slogan was fast, simple and reliable, but somehow didn't resonate with the financial services community. You know, and everything..you think about it, every aspect

of the business had to change and it had to change fast or we were going to go down and uh and we also had to get the employees to understand that what they used to do isn't what we need to do going forward. There wasn't one person who was going to do the same thing in 2004 that they did in 2001, but you'll have fun none the less right. I mean that was the promise. We can we can do this together and uh and we'll have a lot of fun doing it. Now the way to engage it was we actually wrote a, Dave Hitts, I think many of you heard speak a couple weeks ago actually was the integrator and the editor to pull together a story that we call Future History, now what's a Future History. This is 2011 right? so let's put us in ten years ago 2001, we wrote standing in time three years out or four years out the history of the company for the last four years. So we basically, instead of writing here's what we're going to do going forward we kinda jumped the clock forward four years and said here's what we did to get here. So it starts off with we're a three billion dollar company, we did recover, right. I mean so you gotta you gotta remember this is all theoretical right and it came out really, really good. We became an Enterprise player and uh horizontal infrastructure. What do I mean by that? Uh in a world of IT there's two ways to think about your systems. One is for every application you choose the application, the server, do I want Linux, Sun, or HP or uh and then you pick the storage to go with it and that's a vertical approach. The other approach is horizontal. I'm going to have one horizontal infrastructure for all my data and all the servers and applications just plug in and use it. So rather than sell application by application you had to be able to solve every application in the enterprise all at once. That's, that's a big agenda. So that was the three major pieces that uh Dave jumped forward in 2004. We wrote this in 2001. And uh again, I want to point to my beautiful operating model. Notice how flat everything is through uh, we're now talking about, the the fall was in 01. The recovery period, gross margins are 60 percent, operating expenses are uh 45, operating income...16. And it stayed remarkably flat until we started hitting turbulence out near uh the Lehman Munde Monday period. And that was the, the next that growth period is what we refer to as adolescence. So that is uh a period we thought we're all grown up, thought we had all these great enterprise customers, thought we had world class support and uh we're very naive about what we're missing. But none the less we continued to do extraordinarily well in uh in revenue. Here is the prior peak of a billion, the recovery peak, the 1.1 and then guess what, four years later we hit 3 billion. It didn't quite happen in the time frame we outlined, but it sure did happen the way we outlined. And uh it was it was quite a story.

The headcount took off and followed the revenue uh here's the decline we had in uh 01 to 02, 2400 to 2200 and uh by the end of 08 we were at 7.6 K operating uh globally. Uh somebody asked me what percentage of the revenue comes from the U.S., 48 percent from North America, 52 percent are outside. The rebranding was also very simple, it wasn't anything about product. You know fast, simple, reliable defines a box, this is all about our customers' business that would help their budgets go farther and their business go faster. It was all about a value proposition to them and uh and that really resonated as well. And that's when we rebranded from Network Appliance to NetApp back in uh 2006.

Everything was running swimmingly, until the famous Lehman Munde Monday, boy was that a shocker. Uh anybody remember those days? One could argue we haven't quite fully recovered. Netapp has but the global economy sure hasn't. So we did it again, we crashed again right? We we ran head long in front of this growth curve right into the wall and boom. Uh but it wasn't quite as dramatic as the prior period uh we got to 3.3 like I said, right we kept growing, this is the down here, this is Lehman Munde Monday. We actually had a growth year. Now any time we grow at seven or eight percent that's a bad year when you put it in context, but like most companies we didn't actually have a down year. We were down in earnings, but not down in revenues. We were down slightly in employees, but as you can see it was minimal, we uh we had to take out this time five percent of the employees. This time we knew it was going to be five percent and it was five percent, it wasn't three uh and uh and we hired them back as soon as we could. Uh we stand here right now in uh ~~five~~ fiscal year 2012 with over 12 thousand employees. So that's kinda the the story, that's the six phases. I went through those pretty quick. I wanted you to understand the background so you can understand uh kinda what we did relative to the uh the culture. I'm going to spend some...a fair amount of time on that because that's where where everybody always goes "well what'd you do? How'd you become a great place to work?" They make it sound like gee if you could just give me this word, this this you know this simple answer they could go do it too. It's not quite that easy. Oh I should point out our goal now, going forward, is all about market leadership. Uh if you look at uh market shares, we've climbed quite nicely. Uh we now have a very broad solution portfolio, its uh, we've got great partners like Microsoft and others, Accenture, we're in 150 countries around the globe uh if you look backwards the last five years have been 20 percent compounded growth per year on not many billion dollar class companies do that. And uh and we've got a pretty strong balance sheet with no debt. Here's a market share, we historically were you know kinda number four, kinda got in to the bunch you know number three, two, and the past couple years we've really broken out to uh clearly number two and uh we've by...we've passed all the server vendors and major computer manufacturers in market share and uh that trend line continues. Uh so now there are two pure plays EMC headquartering in Hopkinton, Mass and ourselves as the global market leaders and uh some of these are terrific. We targetted HP, actually you don't see Sun on here either, the first one we really targetted way back when in the tech era was uh Sun. We had a competitive campaign we called "Sun down" and uh and that worked pretty well. Uh HP was the "hardly potent" uh I mean you you you know you just kinda go after them. And you can see as our share went up HP went down, they're the ones that took the biggest hit. Um, love to compete be with HP.

Um I talked about product leadership earlier, uh this is an award that uh Joyce mentioned we received actually uh this past year. Uh Forbes did a ranking of the world's most innovative companies, we came in number 34 on the list. We continue to emphasize product leadership as a primary competitive differentiator in a company's strength. There's another piece about it. The our solutions, they are very innovative, they're very different. I meant they they don't look like

competitors at all. When you talk about innovation that means you're different, that means their **that your** customers have to be use to something that's different right. I mean they got they got to think differently too. And uh and sure enough I was please to see that even though our market share if you recall was 15 percent, 85 percent of the top 100 companies at the...in the world of innovation are NetApp customers. They're open minded, they're progressive, they see an opportunity to uh to improve their own infrastructure and uh you know, I really think that uh because they're innovative we we are more successful selling to them.

Alright a little bit about the history of the company. I I talk about selling to uh basic technical computing files services like e-mail and that drove the first wave. And then we did business applications, remember Oracle and Microsoft Exchange and all those other kinds of things like that and and then all of a sudden we got into a new theme which is uh more for less. So a whole new technology here **era** uh that was all around storage efficiency - let's help people use more of what they have. Turns out most storage infrastructures which are very expensive were about 40 percent utilized, so they're paying two and a half times you know what they should. So we ~~se~~ **said** we can help them over provision to get back empty space, we can help them deduplicate so if they got two copies of something we'll (at **least ??????????** it along) all the rest of those things to the point where uh now in general our customers' efficiency approaches 100. There is a server in our one of our systems in the Oracle Davis Center in Austin that when you list the contents of that server, it is four times the amount of physical storage then that box. Four x, that's pretty good. So you know so instead of 40 percent utilization it's 400 percent utilization. Uh that speaks volumes to the business community about you know cut your costs, go further with less. And then it got into shared virtual infrastructure, we became the leader in uh basically storage for virtualized servers. So catch the next wave. Each one of these is basically different products, different technologies, different partners, I mean different everything when you get right down to it. And uh and yet the company responded just without ever missing a beat. Uh the employee community was remarkably responsive to every change in strategy. Right now we're focused on public and private cloud opportunities, big data, um and uh and really building essentially an infinitely scalable infrastructure. Remember I said Yahoo has 400 petabytes, that's hard to manage even when it's simple. Uh so we're trying to crack those problems.

Alright, culture. At the time that I joined NetApp, kinda the uh the prevailing wisdom was that you could have your choice whether you wanted to be a really high performing company or a great place to work, but it was not possible to do both. That the technology world moves so fast if you're really going to be in a high performing sustain mode you're going to have to drive people to the limit just to stay at the leading edge. Products get obsolete in 18 months, they can't take two years to develop alright. And then the concept was you really gotta push people right to the limit and our view is you know, maybe you can do both. Maybe we can be a really high performance organization and a place where people like to come to work every day and you don't burn 'em out. Wouldn't that

be a concept? And this truly was culture by design, we wanted to hit both objectives. And uh, it was done pretty well. This is a summary of the covers from Fortune magazine over the last nine years. Uh we have been ranked in the top 100, in fact top 50 in North America for the last nine years of great places to work. Uh they also do country level and regional rankings, so this particular year in Canada we were number two, USA number five, we slipped from number one in 09. You can read them here in EMEA, Switzerland number two, UK number two, France number four, Netherlands number five, Germany number eight, Australia number three, Japan number eight, and India our only double digit ranking this year was in India. That sucks. We got to pay them a visit. Alright so how? What was this by design. So the premise around building a corporate...corporate culture, people ask me "you know how, is this hard?" Not really, but it takes time. Uh it takes a real premeditation. You recognize this, this Maslow's curve of hierarchy needs? Anybody been to the shrink's you know, seen this kind of stuff. I know it's it's kinda old, I mean you know it's my generation right. Do you still teach this in Business School? Oh great, okay then you understand the premise right? Uh and you gotta remember, you gotta do this thing in layers. Nobody is worried about self actualization if they're starving to death right. You gotta solve the basic needs of life sustaining kind of stuff followed by security and safety, right? followed by then companionship, love, community followed by esteem, I want to feel like I'm valued here followed by then personal growth, and personal fulfillment.

And so I basically took this as a model and said alright if we're going to be a great place to work we gotta we gotta deal with the same layers. So we took each one of the layers and tried to figure out what does that mean in business environment?

So the the bottom was pretty straight forward, right(?) living wages and and basic benefits: salary, healthcare, insurance, childcare, right(?) I mean that's, that's the ..????????????? ante.

The second was job security and enhance benefits: protection, security, code of conduct, stability of the company, job security right things of that nature. And that became an area where we spent a great deal of time it's the, gee that's pretty straight forward, but it's really not. We did some really innovative things around uh innovative benefits, for instance a volunteer time off program this is a very simple concept. Every employee gets 40 hours a year to use uh in non-profit activities. Could be your kid's school, could be ..??????the March of Dimes, could be anything you want right, but please go get involved in the community and we will pay you 40 hours a year, one week, right(?) salary to go get involved in non-profits. Employees loved it, they absolutely loved it, it gave them personal freedom to get involved in the things they wanted to do without feeling guilty about not being at work. And you know what, I don't believe I lost one hour of productivity, 96 percent of our employees are college graduates, they are professionals, they understand the nature of long-term goals, deliverables on projects, all those other kinds of things. The fact they took eight hours to go be at their kid's school means they probably made it up at night or on the weekend right(?). But they had the freedom to do what they wanted.

Benefits for special needs, we're the first I think to have an Autism benefit. It's both support for the parents, uh refunds uh ohh uh tuition assistance for the children, uh collectives etcetera. Adoption assistance, disaster...personal disaster assistance. So really unique stuff. Uh but that only gets you to level two right(?).

The third was all around collaboration and communication: being part of a group, part of a team, and being on a winning team and really liking who you work with. And uh and part I was trying to build uh an organization for thousands of people around the globe that speak different languages across 150 countries, how do you communicate with them so that they all feel like they're a part of the same family? And we did everything you know, videos and I mean you name it. It was ...???? everything. Roving reporter was a good one. We had a couple people that just went from site to site to site and did on the spot interviews and posted them on the web. We had our own version of YouTube before there was a YouTube. And uh published all these kinds of things you know. Uh the great places to work website. I mean you name it was I mean I don't know how many we got up there. The program has changed a little bit over the last couple of years, it's probably got twice as many things. All new formats you know and communications was uh was actually the backbone of that whole culture.

The next one up was responsibility and recognition and that's achievement, status, rewards, etcetera. Um and we had a lot of different programs that recognized people uh if Silicon Valley is guilty of one shortcoming it is individual recognition. You know it it the companies around here just not very good at that. About saying 'you did a great thing' and doing it all the time. My favorite up here is 'catch someone doing something right.' So, the President, Tom Mendoza, who's worked there a little longer than I have. He's now Vice Chairman, he's no longer... an active role. He came up with a great idea. he came up with the idea when he was running worldwide sales in his organization running with 300 people, and uh basically the notion was if you see anybody, anywhere doing something special, help with a customer you know, doing something really know note worthy, please send me a note and I'll call that person and tell them how much we appreciate it. And when you get a call from the President that's a big deal. That worked fine at 300, he now spends most of his time just doing that. Uh first he moved to the President role right, and then he moved, it's like 11,000 employees, but that is something he does personally. He sends e-mails, he's now got a couple people to help him with it uh kinda filter through it, but uh it still has a huge impact on employees when uh when they get a message from Tom.

And last one's on the personal development and uh self actualization right. And again, there's a number of things there that start off with the day you arrive. Cultural assimilation, a new2netApp is uh is a website there that once you get uh an offer letter we give you a uh basically a link to a website that is outside the firewall - you're not yet an employee and it's all about you know new things at NetApp, I mean you as a new employee. And it's got everything from benefits packages to what you're going to be working on and whose at the company and anything you want to know. And then when you start every employee goes through this thing we call T.O.A.S.T., the name was actually picked by one of our

engineers, uh it stands for Training On All Special Things. You get toasted you know, bottoms up. Uh this is a very unusual employee training orientation in fact it went on today I happened to be at the office today. Uh I don't do it anymore, but this was a program that ran for six hours between eight a.m. and two p.m. We fly in people from all over and they go through subsequent training programs afterwards: sales training, whatever. The first six hours, monday morning the presenters are every member in the Executive team: CEO to CFO, Dave Hitts the founder, the head of Human Resources, the head of Product Operations, and the head of Sales. It's not taught by HR, it's not taught by middle executives, that period everybody can be in town that day and we can run through the through the T.O.A.S.T. orientation. We had a problem getting people from Bengalor over here. It turns out the costs of flying an individual over from Benglor and back can be as great as their annual salary. They kinda go whoa you know they'd rather have the money. So we sent the entire executive team over there and did the T.O.A.S.T. over there. And I mean you get the idea, it was very much a uh an orientation to the company that we thought was very important to get on the right page right from the very start.

And that's it, and we try to do the whole layered model and it's worked out pretty well. Uh, the one thing that Joyce did not mention, because I asked her not to, was that last week Fortune listed, for the very first time, the World's best places to work and we came in number three. Thank you.