3PAR Inc.
Form 10-K
June 12, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended March 31, 2008

OR

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

For the transition period from to

Commission file number: 001-33823

3PAR Inc.

(Exact name of Registrant as specified in its charter)

DELAWARE	**77-0510671**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
4209 Technology Drive Fremont, CA	**94538**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (510) 413-5999

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class:	Name of Each Exchange on which Registered
Common Stock, par value $0.001 per share	NYSE Arca

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or section 15(d) of the Exchange Act. Yes ¨ No þ

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes ¨ No þ

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer a non accelerated filer, or a smaller reporting company. See definition of accelerated filer large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of September 30, 2007, the last business day of the Registrant s most recently completed second fiscal quarter, the Registrant s common stock was not listed on any exchange or over-the-counter market. The Registrant s common stock began trading on NYSE Arca on November 16, 2007. At March 31, 2008, the aggregate market value of the Registrant s common stock held by non-affiliates of the Registrant based upon the closing sale price of such shares on NYSE Arca on March 31, 2008 was approximately $188,451,167. Shares of the Registrant s common stock held by each executive officer and director and by each entity or person that, to the Registrant s knowledge, owned 5% or more of the Registrant s outstanding common stock as of March 31, 2008 have been excluded in that such persons may be deemed to be affiliates of the Registrant. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of the Registrant s Common Stock, $.001 par value, outstanding at May 31, 2008 was: 60,576,681

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Proxy Statement relating to the Registrant s 2008 Annual Meeting of Shareholders, to be held on September 10, 2008, are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

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This Annual Report on Form 10-K, including the Management s Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements regarding future events and our future results that are subject to the safe harbors created under the Securities Act of 1933 (the Securities Act) and the Securities Exchange Act of 1934 (the Exchange Act). All statements other than statements of historical facts are statements that could be deemed forward-looking statements. These statements are based on current expectations, estimates, forecasts, and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as expects, anticipates, targets, goals, projects, intends, plans, believes, seeks, estimates, continues, may, variations of such words, and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our business, and other characterizations of future events or circumstances are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict, including those identified below, under Item 1A. Risk Factors, and elsewhere herein. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. We undertake no obligation to revise or update any forward-looking statements for any reason.

PART I

ITEM 1. BUSINESS

Overview

We are the leading global provider of utility storage solutions for large to medium enterprises, business-oriented service providers, consumer-oriented Internet/Web 2.0 companies and government entities. Utility storage is a segment of the larger, global market for Fibre Channel and iSCSI open storage area networks, or SANs, a market in which we compete with larger, more established companies. Our utility storage products offer simple, efficient and massively scalable tiered storage arrays designed to be key building blocks for utility computing. Utility computing is an emerging IT architecture that virtualizes key IT infrastructure elements, primarily application servers and storage arrays, to create shared infrastructures for workload consolidation that can enable services to be delivered more rapidly, flexibly, reliably and economically. Virtualization presents a logical view of resources that is independent of the actual underlying physical assets. Utility computing aims to capture key advantages of both mainframe computing and client/server, or distributed computing, which utility storage helps enable by reducing complexity and inefficiency in the storage infrastructure.

We believe that our utility storage solution dramatically enhances the economics and performance of storage. Our utility storage solution is designed to provision storage services more rapidly than alternative approaches, reduce administrative costs, improve server and storage utilization, lower power and cooling requirements and scale efficiently to support the continuous growth of data.

We deliver our utility storage solution through our InServ Storage Server arrays, all of which are powered by our InForm Suite of software. IDC, a third-party market research firm, estimates in its December 2007 report Worldwide Disk Storage Systems 2007-2011 Forecast Update: Mature, But Still Growing and Changing that the global market for Fibre Channel and SANs will be approximately $12.7 billion in 2008. We compete in segments of this market that IDC estimates will be approximately $8.5 billion in 2008.

We began operations in May 1999 and are headquartered in Fremont, California. We began commercial shipments of our products in March 2002 and have shipped over 600 systems to more than 300 end customers, including Credit Suisse Group, Department of Justice (FBI), Dow Jones & Company, Inc., MySpace.com, Omniture, Inc., Priceline.com, SAVVIS, Inc., TransUnion LLC, United States Census Bureau, USinternetworking, Inc. (an AT&T company), Verizon Business and the Virginia Information Technologies Agency.

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Industry Background

Organizations that generate and retain large amounts of data use enterprise level storage systems for storing, protecting and recovering electronic information in the form of digital data. Efficient and accurate access to data can be critical to the success of an organization and can be a key competitive differentiator.

Data Growth and Increasing Regulatory Compliance

The increasing reliance on business-critical enterprise applications such as e-mail, relational databases, enterprise resource planning, customer relationship management and workgroup collaboration tools, as well as digital content for Internet services, online video and digital imaging, is resulting in the rapid growth of data across all enterprises and geographies. We believe the management and protection of this data throughout its lifecycle, from creation to archiving, is becoming a significant component of organizations IT budgets. In addition, global compliance initiatives and government regulations, such as those issued under the Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley, and the Health Insurance Portability and Accountability Act, as well as company-specific policies requiring data preservation, are contributing to the growing volumes of data that must be retained and managed for long periods of time or indefinitely.

Computing Architecture Transitions Create a Need for New Storage Architectures

The first storage technology used with general computing was based on directly attached disk drives. This computing paradigm evolved into mainframe computing with the development of mainframes by IBM, and other vendors using the MVS operating system. The first advanced storage systems were optimized building blocks designed to be attached to these mainframes. These storage systems, which became known as monolithic storage arrays, provide mainframe-specific storage features, such as large caches, as well as redundant disk protection, but at a significant up-front capital cost.

In the 1990s, distributed computing emerged as the predominant IT architecture. This approach uses open systems servers based on UNIX, Windows and Linux. As distributed computing emerged, monolithic storage arrays were modified to work in these new environments. In addition, a new design of storage array arose comprised of pairs of data storage engines, or controller nodes. This new design came to be known as a modular storage array. Modular storage arrays, which were designed specifically for distributed computing, emerged as the predominant way to store and manage data. Modular storage arrays were designed to be more affordable than monolithic storage arrays but were not equipped as well as monolithic storage arrays to handle the scalability requirements needed in rapidly growing data environments. The emergence of modular storage accelerated the development of networked storage in the form of both SANs and network attached storage, or NAS. SAN and NAS approaches can lead to many individual storage silos, which increases data center complexity. This growing number of storage silos required incremental networking equipment, such as switches and appliances, which in turn required management of more storage and networking resources and placed an additional strain on IT personnel and increased administrative costs.

Management and protection of data across an enterprise has been increasingly viewed as a mission-critical task. However, monolithic and modular storage arrays are increasingly challenged by the rapid rate of data growth and the need for regulatory data retention.

The Need for Virtualization and Utility Computing

Organizations face significant and increasing challenges in the current computing environment. Key challenges to distributed computing include:

- suboptimal system utilization;
- excessive power consumption;
- implementation complexity; and

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difficulty in keeping up with the demand for IT agility and responsiveness to address changing business requirements at an economic cost that appropriately matches business needs.

As a result, a new IT architecture called utility computing is emerging that leverages technologies that include virtualization, automation and clustering, which is the ability to aggregate processing capacity from a number of individual processing elements operating independently or in concert. Gartner, Inc., an information technology research and advisory company, states in its August 2006 report Magic Quadrant for North American Web Hosting, 2006 that utility computing offerings are the most significant innovations taking place in the Web-hosting services industry. Virtualization, automation and clustering work together in a utility computing architecture to create shared infrastructures for flexible workload consolidation. By employing these new technologies, we believe that organizations are able to significantly improve their computing environment with higher server and storage utilization, better data management and more predictable administrative costs. We believe that utility computing therefore enables customers to respond more quickly to business requirements while lowering the total lifetime cost of ownership. The table below illustrates historical computing and storage architecture transitions.

The Need for New Building Blocks for Utility Computing, Including Utility Storage

New generations of server and storage building blocks are emerging to optimize the deployment of utility computing such as server virtualization technologies. These new server technologies have created their own challenges within storage environments. These challenges include:

storage performance bottlenecks from using server virtualization to combine a greater number of applications on individual servers; and

a requirement for higher capacity upfront storage deployments, which are oftentimes suboptimally utilized.

We believe that the traditional categories of storage systems monolithic and modular arrays are not adequately equipped to meet these challenges because they typically:

require the dedication of significant administrative resources associated with planning, configuration management, provisioning, performance tuning, service level optimization and ongoing change management. These tasks inhibit the speed and agility with which IT departments can respond to changing business needs and increase operating expenditures associated with additional personnel, training and professional services fees. According to The 451 Group, a technology research company, the ongoing management and support costs associated with traditional enterprise storage systems are often more than two times the initial capital expenditure associated with the procurement of these systems;

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use a dedicate-on-allocation approach to storage provisioning. This approach requires customers to purchase and pre-dedicate large quantities of storage capacity to applications and servers significantly ahead of when data is actually written. According to data published by GlassHouse Technologies, Inc., an independent IT consulting firm, storage utilization rates have been estimated at an average of 25%. This low utilization increases customers capital expenditures, as well as operating expenditures associated with power, cooling and floor space consumption; and

create greater data center complexity through the proliferation of storage silos to address scalability requirements. In many cases, these silos require additional networking equipment and, due to this increased complexity, additional management software and appliances. This results in further costs, risks to service levels and increased administrative overhead.

In addition to these challenges, IT administrators need to accommodate the evolution towards IT architectures that can more quickly align and respond to changing business requirements, which are commonly referred to as Service Oriented Architectures, or SOA. We believe that organizations are increasingly interested in purchasing enterprise IT as a utility service because the variable cost basis more closely ties with their business needs and performance. Service providers, including those using Software as a Service, or SaaS, models, are emerging to fulfill this need for enterprises. We believe that utility computing will serve as the core IT infrastructure foundation for both the implementation of SOA in enterprise data centers and the delivery of enterprise IT, whether accomplished internally or through service providers.

We believe that the successful deployment of utility computing requires new architectural building blocks for storage provisioning. Using similar technologies to those used to create the new server building blocks for utility computing, we have designed and delivered a storage building block, which we call utility storage, that we believe is optimized for utility computing.

Our Solution

Our utility storage solution delivers simple, efficient and massively scalable tiered storage to our customers. Tiered storage enables users to store data of varying business values on different classes of disk drives to reduce overall storage cost and provide varying levels of service in a single system. We believe that our utility storage products dramatically enhance the economics and performance of storage by provisioning storage services more rapidly than alternative approaches, reducing administrative costs, improving server and storage utilization, lowering power and cooling requirements and scaling efficiently to support the continuous growth of data. We have designed our solution to overcome the limitations of both monolithic and modular storage arrays.

Our utility storage solution is designed to provide significant advantages to our customers, including:

Simplicity. Rapid and self-executing, or autonomic, provisioning of storage volumes of varied service levels and size can be achieved in just a few seconds, as compared to minutes, hours or days with monolithic and modular approaches, and without equivalent pre-planning or configuration. Our software autonomically load balances data on physical disks to optimize application performance. We refer to this as dynamic optimization. These benefits are recognized in initial deployments as well as subsequent storage planning, provisioning and ongoing management. In addition, our Dynamic Optimization software enables IT administrators to define desired service levels to allow users to provision capacity and manage data lifecycle management policies simply. Our software is designed to reduce training requirements and simplify cross-platform interoperability for remote backup and replication.

Efficiency. Our software allows our customers to significantly improve their utilization of physical storage capacity by minimizing the use of pre-allocated, unused storage capacity that is common in traditional monolithic and modular storage provisioning methodologies. Our Thin Provisioning software allows an application to be allocated the virtual storage capacity it requires, without having to dedicate all of the associated physical capacity up front. The technology underlying thin provisioning uses a dedicate-on-write approach that differs from the traditional dedicate-on-allocation approach employed by monolithic and modular storage provisioning methodologies. Our Thin Provisioning

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software dedicates storage capacity to a unit of storage allocation, or volume, only when an application actually writes data to it. As a result, each storage volume is driven towards full utilization. Our software also allows new applications to be implemented immediately using virtual capacity.

The graphic below illustrates how our Thin Provisioning software dedicates storage capacity. Traditional storage provisioning methodologies, such as those commonly used by monolithic and modular storage arrays, require the allocation and purchase of physical storage capacity up front even when an application only requires a fraction of this capacity to store actual written data. However, our thin provisioning methodology does not require the allocation of this volume-specific storage capacity up front. Instead, applications are able to draw upon a shared storage pool when those applications require additional physical storage capacity to write data to their volumes. As this shared pool is consumed, additional shared storage can be purchased as needed, thereby minimizing premature use of capital for storage.

Scalability. Our InServ Storage Server products can support up to 600 terabytes of storage in a single tightly clustered system. This storage capacity can be mixed between various types of enterprise-class and nearline disk drives to meet the differing needs of a variety of applications supported on a single system. Our clustered controller architecture is designed to enable non-disruptive scalability within a single, tiered storage system as customer storage needs change over time, without requiring a high initial cost of ownership. Our systems allow Fibre Channel and iSCSI host connectivity concurrently, which permits the consolidation of a wide variety of applications and servers. In addition, through our alliances with NAS gateway vendors, we are able to offer open, unified storage solutions for overall storage consolidation. Capacity can be purchased incrementally or on an as-needed basis, enabling customers to pay only for what they need when they need it.

Availability. Our clustered controller architecture allows our utility storage solutions to be configured to target demands for high availability. The architecture has been designed to tolerate component failures in hardware, including individual controller nodes, without servers losing access to storage volumes. We offer sophisticated, remote replication software to protect customers from single-system and site failures over both short and long geographic distances. Flexible copy-on-write snapshot technology, which captures only changes in written data, integrated with leading databases and backup software, is designed to allow rapid application recovery. This combination of features is designed to allow customers to maintain data availability, minimize the impact to customers of component failures and allow faster recovery if application failures require rapid retrieval of previous copies of data.

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Faster Storage Provisioning. We believe that our storage solution provides our customers with greater business agility, allowing our customers to provision storage more quickly for new applications and projects. Faster storage provisioning enables our customers to realize benefits and address new business opportunities more rapidly than with monolithic and modular storage arrays, which often take days or weeks to configure and provision.

Our Strategy

Our mission is to provide storage solutions that are simple and efficient. Key elements of our strategy include:

Promoting the Benefits and Adoption of Utility Storage. We believe that the market for utility computing is in its early stages and developing strong momentum. We intend to increase market awareness of the benefits of utility storage by targeting organizations that can benefit from server virtualization and other aspects of utility computing. We believe that when compared to monolithic and modular storage solutions, our utility storage products enhance service delivery and storage economics by offering higher performance at a lower total cost of ownership.

Building Substantial Repeat Business with Existing Customers. We will seek to further penetrate our existing customer base as customers data requirements increase and as customers increasingly realize the performance and cost benefits of our utility storage solution. We intend to continue generating significant repeat business by selling easily expandable tiered storage arrays as our customers storage needs increase and by delivering a broad and interoperable product line suitable for a wide variety of deployments with a focus on achieving high levels of customer satisfaction. We believe that customer references have been, and will continue to be, an important factor in winning new business.

Expanding Our Customer Base Through Direct Customer Relationships in Core Markets. We are focused on developing relationships directly with large aggregators of storage demand using our direct sales force. Because of the importance of the data our customers and prospective customers are entrusting to our products, we believe that it is important to have a direct relationship with them. We have direct sales and customer service personnel in the United States, the United Kingdom, Germany and Japan. We plan to invest in the expansion of our direct sales force, both in the United States and internationally.

Expanding Strategic Relationships. We have developed strategic relationships with a variety of companies that provide servers, network infrastructure components and professional services to our target customer base. We intend to continue these relationships to provide our customers with the ability to more easily integrate our utility storage products within their existing and planned IT infrastructures, as well as to extend the range of applications for which the use of our storage solution is appropriate. In markets in which we do not have a direct presence, in addition to expanding our direct sales force, we intend to continue to engage resellers to broaden our distribution channels and develop strategic relationships to expand the distribution of our storage systems.

Extending Our Technology Leadership Position in Utility Storage. We intend to utilize our existing intellectual property, industry experience, internal research and development capabilities and our strategic industry relationships to extend our technology leadership in providing simple, efficient and scalable utility storage systems. Specifically, we intend to continue enhancing our InForm software suite, other software applications and our underlying clustered controller hardware architecture with greater levels of functionality, performance and availability.

Offering the Highest Level of Customer Support. We have developed advanced remote support capabilities that include event reporting and analysis as well as remote software maintenance. We believe that this enables us to cost-effectively deliver high levels of customer service. We intend to continue enhancing these tools in order to further differentiate our utility storage products.

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Products

Our InServ Storage Server family, powered by our InForm Suite, consists of the E200, S400 and S800 models, and addresses the needs of customers ranging from small branch offices and departmental deployments to large data center locations.

InServ Storage Servers

Our storage arrays support a wide range of open systems-based servers including various implementations of UNIX, Windows and Linux. Our storage servers are modular in design to enable our customers to add capacity and increase performance in a cost-efficient manner.

The following table outlines the features of each of our InServ Storage Servers:

Model	**E200**	**S400**	**S800**
Deployment Profile	Departmental or remote office consolidation	Enterprise storage consolidation	Large enterprises and service providers
Controller Nodes	2	2 4	2 8
Disk Drives	16 128	16 640	16 1,280
Maximum Capacity	96 Terabytes	300 Terabytes	600 Terabytes

InForm Suite

The 3PAR InForm Suite is our proprietary software platform that provides the core intelligence for each of our InServ Storage Servers. Our InForm Suite, which includes our operating system software and other software products, is designed to enable the management and protection of data across a global IT environment simply and economically. Our InForm Suite is comprised of the following elements:

3PAR InForm OS. InForm OS is our core operating system that utilizes advanced internal virtualization capabilities within a massively scalable tiered storage array.

3PAR Rapid Provisioning. Rapid Provisioning provides built-in autonomic and load-balanced provisioning.

3PAR Full Copy. Full Copy offers flexible point-in-time cloning of storage volumes. It is built on thin copy technology and can clone both traditional and thin provisioned volumes.

3PAR Access Guard. Access Guard provides volume access security at the logical or physical level, or both.

3PAR LDAP. LDAP provides centralized authentication and authorization using industry standard lightweight directory access protocol.

Optional Software Applications

We also provide our customers with a number of optional software applications, which we sell under perpetual license agreements and which customers may purchase with or after the initial system sale, including:

3PAR Thin Provisioning. Thin Provisioning improves storage utilization by reducing the need to over-allocate physical storage capacity by application. The software enables IT departments to over-allocate logical storage capacity while only utilizing physical

storage capacity on an as-needed basis.

3PAR Dynamic Optimization. Dynamic Optimization enables users to modify service levels across all stages of the disk-based lifecycle online and non-disruptively. With a single command, customers can increase service levels during peak demand and subsequently return to standard levels on demand.

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3PAR Virtual Copy. Virtual Copy provides instant copy-on-write snapshots of data with no impact to applications. Virtual Copy uses thin copy technology that consumes minimal physical capacity by referring to existing data rather than duplicating it.

3PAR Recovery Manager for Microsoft Exchange, Microsoft SQL Server and Oracle. Recovery Manager creates and manages snapshots and allows users to quickly restore application data and files from disks. Recovery Manager integrates Virtual Copy with Microsoft Exchange and Microsoft SQL Server as well as Oracle databases to allow consistent snapshots and integrated backup.

3PAR Remote Copy. Remote Copy enables users to copy data from one InServ Storage Server to another in a remote location to maintain data availability for business continuity. Remote Copy is based on thin copy technology so it can replicate both traditional and thin provisioned volumes. Remote Copy offers both synchronous and periodic asynchronous remote replication over short and long geographic distances.

3PAR System Reporter. System Reporter is a web-based performance and data capacity management tool. System Reporter collects and analyzes historical system data from one or more InServ Storage Servers that can then be used for troubleshooting, consolidated monitoring and service level agreement reporting.

3PAR System Tuner. System Tuner automatically analyzes data on InServ Storage Servers to identify underperforming groupings of data. System Tuner targets underperforming groupings of data and non-disruptively relocates the data to help maintain optimal system performance.

3PAR Multipath I/O for IBM AIX and Microsoft Windows. Multipath I/O provides for path redundancy and helps to eliminate information bottlenecks, allowing data to be intelligently routed through multiple system paths between the host server and storage subsystem. Multipath I/O provides users with greater data availability and more efficient load balancing of data.

3PAR Virtual Domains. Virtual Domains is virtual machine software that delivers secure access and improved storage services for different applications and user groups. Since users (or groups) have access to only those virtual domains to which they have been granted access, they can independently and confidently administer and monitor the system without concern for the actions or visibility of other users.

Technology

Our utility storage solution features an integrated system of software and hardware, enabled by our advanced InSpire architecture. Our InSpire architecture delivers a simple, tiered storage array for open systems. Central to the design is a high-bandwidth, low-latency backplane that unifies cost-effective, modular and expandable components into a highly available, fully and autonomically load-balanced cluster.

InServ Storage Servers

Our clustered InSpire architecture offers customers an alternative to the higher initial cost of ownership and scaling complexity typically associated with monolithic and modular array architectures, respectively. Customers can start small and affordably with as few as two controller nodes yet scale massively and non-disruptively within a single, fully tiered system. The core hardware elements of our InSpire architecture include the 3PAR ASIC, a full mesh backplane, storage controller nodes, host bus adaptors for server and disk connectivity, drive chassis, drive magazines and disk drives. All active hardware components can be configured redundantly within the system.

Our InServ Storage Server products utilize a cluster-based approach and feature a full mesh backplane that connects all storage controller nodes over low-latency, high-bandwidth links to form an active cluster. The low-latency, high-bandwidth interconnect means that all workloads are distributed and shared across all system resources in a massively parallel fashion. This is designed to deliver high and predictable levels of performance for all workloads even under failure conditions as well as high utilization of purchased resources.

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This combination of nodes and backplane forms our proprietary data movement engine that delivers performance and connectivity within the InServ Storage Server products. Each controller node contains several components, including one or more processors, separate control and data cache and our custom-designed ASIC. Unlike traditional designs that process commands and move data using the same processor, the 3PAR node design separates control command processing and data movement. Control command processing is managed by the on-board processors and dedicated control cache, while all data movement is executed by 3PAR s ASIC and dedicated data cache. We believe that this innovative design eliminates the performance bottlenecks of traditional storage systems when serving competing workloads such as online transaction processing and data warehousing simultaneously from a single processor complex.

Our InServ Storage Servers represent the first storage arrays to apply a full-mesh interconnect to reduce latencies and address scalability requirements. Our proprietary backplane on each of our InServ Storage Servers is a passive circuit board that contains connectors for our controller nodes. These connectors and associated paths on the backplane form a full-mesh connected network between the controller nodes. The availability of a low-latency, high-bandwidth backplane enabled us to develop an advanced volume management function that was both clustered and distributed across all available controller nodes. This enables the delivery of a cost-effective, cache-coherent architecture that permits a specific volume to be actively accessed through any number of controller nodes configured within a single system, delivering performance scalability and highly available access to data. The entire clustered storage architecture is managed as a single entity.

InForm Suite

The 3PAR InForm Suite provides the core intelligence and software for our InServ Storage Servers. At the heart of our InForm Suite is the 3PAR InForm OS, the operating system software that provides internal storage virtualization and volume management.

The 3PAR InForm OS employs a three-level mapping methodology similar to the virtual memory architectures of high-end enterprise operating systems. The first level of mapping virtualizes physical disk drives of any size into a pool of small uniform- sized data segments, or chunklets, and manages the dual paths between each chunklet and disk drive. We believe that the fine-grained nature of this mapping methodology, utilizing chunklets, significantly reduces under-utilization of storage assets. The second level of mapping associates chunklets with logical disks. This association allows logical devices to be created with template properties based upon RAID, or redundant array of independent disks, characteristics and the physical location of chunklets across the system. Logical disks can be tailored to meet a variety of cost, capacity, performance and availability characteristics, depending upon the quality of service required. The third level of mapping associates virtual volumes with all or portions of an underlying logical disk or of multiple logical disks. Virtual volumes are the capacity representations exported to hosts and applications. As a result of this approach, a very small portion of a virtual volume associated with a particular logical disk can be quickly and non-disruptively migrated to a different logical disk for performance or other policy-based reasons.

The underlying fine-grain virtualization of our mapping methodology allows us to support both dedicate-on-write and copy-on-write capabilities that are the foundation of our thin provisioning and thin copy technologies, respectively. Thin provisioning utilizes a shared storage pool from which applications are dedicated storage capacity only when these applications actually write data. Our thin technologies enable higher storage utilization rates than their traditional fat equivalents. Our thin copy technologies include the ability to make readable and writeable snapshots, thin clone copies and thin-provisioning-aware remote data replication.

We have integrated our thin copy snapshot technology Virtual Copy with a variety of applications including Microsoft Exchange, Microsoft SQL Server and Oracle databases. This integration is designed to ensure that snapshots taken of data stores are consistent, enable integration with back-up products and facilitate rapid application recovery. Hundreds of copy-on-write snapshots of a single volume may be taken over consecutive periods to deliver a near-Continuous Data Protection, or CDP, facility with many recovery points.

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Alliances

We have developed alliances with a variety of companies that provide servers, operating systems, host bus adaptors, SAN Fabric components, NAS gateways, clustered file systems, databases, applications, networking infrastructure, appliances and professional services. The structure of these alliances varies but includes joint agreements that cover interoperability testing and certification, cooperative support (either direct agreements or through TSAnet, an industry consortium for collaborative support) and cooperative development, marketing and sales. We leverage these alliances to provide our customers with the ability to more easily integrate our utility storage within their existing and planned IT infrastructures, as well as extending the range of applications for which the use of our InServ Storage Servers is appropriate.

We have alliances with companies that include Brocade Communication Systems, Inc., Cisco Systems, Inc., Data Domain, Inc., Egenera, Inc., Emulex Corporation, FalconStor Software, Inc., Hewlett-Packard Company, or HP, IBM, IBRIX Inc., Incipient, Inc., Microsoft Corporation, NetApp, Inc., Novell Inc., ONStor, Inc., Oracle Corporation, QLogic Corp., Red Hat, Inc., Riverbed Technology, Inc., Sun Microsystems, Inc., or Sun, Symantec Corporation and VMware, Inc.

Customers

As of March 31, 2008, we have sold our utility storage systems to over 300 end customers. Our customers include large to medium enterprises, business-oriented service providers, consumer-oriented Internet/Web 2.0 companies and government entities.

Large to Medium Enterprises: Across the spectrum of large to medium enterprises, there are IT organizations that have transformed, or are in the process of transforming themselves, into internal service bureaus that leverage shared, virtualized infrastructures for open systems-based workload consolidation and flexible resource allocation. This customer category includes companies such as Credit Suisse Group, Dow Jones & Company, Inc. and TransUnion LLC.

Business-Oriented Service Providers: Our businesses-oriented service provider customer category includes companies with a business-to-business focus, including infrastructure and application hosting providers, SaaS providers and business transaction and business information service providers. These customers include SAVVIS, Inc., USinternetworking, Inc. (an AT&T company) and Verizon Business.

Consumer-Oriented Internet/Web 2.0 Companies: Our consumer-oriented Internet/Web 2.0 customer category includes companies with a business-to-consumer focus. These include Web 2.0, social networking companies and other primarily Internet-based businesses serving the needs of a large number of consumers. These customers include MySpace.com, Omniture, Inc. and Priceline.com.

Government Entities: Our government end customers include the Department of Justice (FBI), United States Census Bureau and the Virginia Information Technologies Agency. Orders placed with our resellers by government end customers may generally be terminated unilaterally by the government end customer or may be subject to additional conditions not typically found in our other end customer contracts. During fiscal 2008 and 2007, approximately 9% and 7% of our revenue resulted from sales by our resellers to government end customers, respectively.

In our fiscal years ended March 31, 2008 and 2007, no customer represented more than 10% of our revenue. In our fiscal year ended March 31, 2006, IBM and MySpace.com represented 11% and 10% of our revenue, respectively. We do not have agreements in place with these customers, or any other customer, that obligate such customers to long-term purchase or repeat order requirements. The loss of any of these customers could have a material adverse effect on our results of operations and cash flows. In fiscal 2008, we derived 83% of our revenue from shipments to customer locations within the United States. See Note 12 to the Consolidated Financial Statements for a summary of revenue by geographic area.

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Sales and Marketing

We market and sell our products and support services primarily through our direct sales force but also use indirect resellers. Our sales and marketing team consisted of 157 employees as of March 31, 2008.

Direct Sales: Our direct sales team, with assistance from our marketing team, sells directly to large enterprises worldwide. We maintain sales offices in the United States, the United Kingdom, Germany and Japan.

Indirect Sales: Our indirect resellers primarily sell to United States government accounts, as well as in limited situations in our United States commercial business and in non-English speaking countries where we do not have a significant direct sales presence.

Marketing and Product Management

In addition to building brand awareness and broadly marketing our products, our marketing team actively supports our sales process and team. Our marketing activities include lead generation, tele-sales, advertising, website operations, direct marketing and public relations, as well as participation at technology conferences and trade shows.

Customer Services

We offer different maintenance support programs depending upon the needs of our customers deployments. Our customer service and support programs involve hardware support, software support and software upgrades on a when-and-if available basis for our InForm Suite and other software applications. Our customer services department includes support personnel located in California, the United Kingdom, Belgium, Switzerland, Singapore and Japan, who are available to respond 24 hours a day, every day of the year. We extend our support capabilities by qualifying and training resellers that can provide service and support to end customers in locations in which we do not provide direct support. We provide on-going support to our resellers through backline support maintenance programs.

Research and Development

Continued investment in research and development is critical to our business. Because our utility storage solution is an integrated system of hardware and software, our research and development organization contains both hardware and software engineers. We employ ASIC and storage systems engineers in the design, development, test and certification of our storage systems. We also employ software engineers in the design, development and test of our InForm Suite. As of March 31, 2008, our research and development team consisted of 159 full-time employees primarily located in Fremont, California. In June 2007, we opened a software development office in Belfast, Northern Ireland, which as of March 31, 2008 had a team of 10 engineers. We test and certify our platforms against a variety of third-party servers, operating systems, drivers, gateways, host bus adaptors and SAN fabric components. We plan to continue to dedicate significant resources to these continued research and development efforts. Further, as we continue to expand internationally, we may incur additional costs to conform our products to comply with local laws and local product specifications.

Research and development expense totaled $34.1 million, $24.5 million and $18.5 million for fiscal years ended March 31, 2008, 2007 and 2006, respectively.

Manufacturing

Our manufacturing strategy is to supply high quality products in a timely fashion to our customers, while making efforts to maximize our gross margins. We perform manufacturing tasks internally that we believe cannot be outsourced and performed more effectively by specialized manufacturing partners. Our manufacturing operation located in our new 56,000 sq. ft facility in Fremont, California, consists primarily of materials procurement, product assembly, product testing, quality assurance and global logistics. As of March 31, 2008 our manufacturing operations team consisted of 24 full-time employees.

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We also rely on a number of key suppliers in the manufacture and assembly of our products. These suppliers include Xyratex Technology Limited, or Xyratex, and Hitachi Global Storage Technologies, from which we acquire our disk drives; Power-One, Inc., our supplier of power systems; and Renesas Technology Corp., our supplier of application-specific integrated circuits, or ASICs, which are a component of our processor nodes. In addition, we rely on Flash Electronics, Inc. and Xyratex as contract manufacturers of our disk chassis.

Competition

The market for storage infrastructure is competitive and continually evolving. We compete against vendors in the data storage market that provide mid-range and high-end storage array solutions. We expect competition to persist and intensify. Our main competitors that provide monolithic storage arrays include EMC Corporation, or EMC, Hitachi Data Systems Corporation, or Hitachi, and IBM and their respective resellers and original equipment manufacturers, or OEMs. Our main competitors that provide modular storage arrays include EMC, HP, NetApp, Hitachi, IBM, Sun and Dell Inc. as well as their respective resellers and OEMs. As the storage market opportunity grows, we expect competition from emerging private companies and networking and telecommunications equipment suppliers that increasingly compete with our product offerings.

Many of our current and potential competitors may have significantly greater financial, technical, marketing and other resources than we do and may be able to devote greater resources to the development, promotion, sale and support of their products. Our competitors may have more extensive customer bases and broader customer relationships than we do, including long-standing relationships with our current or potential customers. In addition, these companies may have longer operating histories and greater name recognition than we do. Our competitors may be in a stronger position to respond quickly to new technologies and may be able to market and sell their products more effectively. Moreover, if one or more of our competitors were to merge or partner with another of our competitors, the change in the competitive landscape could adversely affect our ability to compete effectively.

We believe that the principal factors on which we compete are the ease of use and the scalability of our products, the total cost of ownership of our utility storage solution and the quality of our customer service and support. The product features that we emphasize from a competitive perspective are our ability to:

- deliver rapid and autonomic provisioning of storage volumes;
- autonomically load balance data on physical disks;
- minimize the use of pre-allocated, unused storage capacity;
- efficiently allocate an application the virtual storage capacity it requires;
- scale non-disruptively within a single, tiered storage system; and
- configure our utility storage solutions to target demands for high availability.

Intellectual Property and Proprietary Rights

We rely on a combination of intellectual property rights, including patents, trade secrets, copyrights and trademarks, as well as customary contractual protections.

We have been issued 22 United States patents, which expire between 2020 and 2024. We have 19 United States utility patent applications pending. We also have counterparts granted and pending in other jurisdictions around the world. Our registered trademarks in the United States are the 3 design logo, 3PAR, InServ, InForm, InSpire and Serving Information. In Europe, the 3 design logo, 3PAR, InServ, In registered Community Trade Marks. In Japan, the 3 design logo, 3PAR, InServ and InSpire are registered trademarks. If not renewed, our

trademarks expire between 2012 and 2016.

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In addition to the protections described above, we generally control access to and use of our proprietary software and other confidential information through the use of internal and external controls, including contractual protections with employees, contractors, customers and resellers, and our software is protected by United States and international copyright laws.

We may not receive competitive advantages from the rights granted under our patents and other intellectual property rights. Our competitors may develop technologies that are similar or superior to our proprietary technologies, duplicate our proprietary technologies or design around the patents we own or license. Our existing and future patents may be circumvented, blocked, licensed to others or challenged as to inventorship, ownership, scope, validity or enforceability. It is possible that literature we may advised of by third parties in the future could negatively affect the scope or enforceability of either our present or future patents. Furthermore, our pending and future patent applications may not issue with the scope of claims sought by us, if at all, or the scope of claims we are seeking may not be sufficiently broad to protect our proprietary technologies. Moreover, we have adopted a strategy of seeking limited patent protection with respect to the technologies used in or relating to our products. If our products, patents or patent applications are found to conflict with any patents held by third parties, we could be prevented from selling our products, our patents may be declared invalid or our patent applications may be denied. In foreign countries, our intellectual property rights may be substantially limited or entirely denied due to differences in applicable intellectual property laws or due to our inability to effectively enforce our rights under laws, or due to certain facts that are currently unforeseen or unforeseeable. We may be required to initiate litigation in order to enforce any patents issued to us, or to determine the scope or validity of a third-party s patent or other proprietary rights. Third parties could claim that our products or technology infringe their proprietary rights. We have in the past and may in the future be contacted by third parties suggesting that we seek a license to intellectual property rights that they may believe we are infringing. In addition, in the future, we may be subject to lawsuits by third parties seeking to enforce their own intellectual property rights, as described in Risk Factors Risks Related to Our Business and Industry Claims by other parties that we infringe their proprietary rights could harm our business.

We license our software pursuant to agreements that impose restrictions on customers ability to use the software, such as prohibiting reverse engineering and limiting the use of copies. We also seek to avoid disclosure of our intellectual property by requiring employees and consultants with access to our proprietary information to execute nondisclosure and assignment of intellectual property agreements and by restricting access to our source code. Other parties may not comply with the terms of their agreements with us, and we may not be able to enforce our rights adequately against these parties.

Backlog

We do not believe that our backlog at any particular time is meaningful because it is not necessarily indicative of future revenue. In particular, a substantial number of our purchase orders do not include a shipment date, and shipments to customers may be delayed for substantial periods based on the customer s specific needs.

Employees

As of March 31, 2008, we had 451 full-time employees consisting of 169 employees in research and development, 157 employees in sales and marketing, 44 employees in general and administration and 81 employees in customer services and manufacturing operations. A total of 41 of these employees were located outside of the United States. None of our employees are represented by labor unions or covered by a collective bargaining agreement. We have not experienced any work stoppages, and we consider our employee relations to be good.

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Executive Officers of the Registrant

The following table shows the name, age and position as of March 31, 2008 of each of our executive officers:

Name	Age	Position
David C. Scott	46	President, Chief Executive Officer and Director
Adriel G. Lares	35	Vice President of Finance and Chief Financial Officer
Jeffrey A. Price	47	Vice President of Engineering, Co-Founder and Director
Ashok Singhal	48	Chief Technical Officer and Co-Founder
James L. Dawson	46	Vice President of Worldwide Sales
Paul L. Harvey	56	Vice President of Customer Service
Craig S. Nunes	46	Vice President of Marketing
Stephen F. Crimi	47	Vice President of Business Development and Alliances
Randall T. Gast	46	Vice President of Corporate Operations
Alastair A. Short	51	Vice President, General Counsel and Secretary
Jeannette Robinson	57	Vice President of Human Resources

David C. Scott has served as our president and chief executive officer since January 2001. From October 1991 to January 2001, Mr. Scott held various management positions at Hewlett-Packard Company, a computing technology solutions and services company, most recently as the general manager of the XP enterprise storage business in its Network Storage Solutions organization. Mr. Scott holds a B.S. degree in Computer Science and Mathematics from Bristol University in the United Kingdom.

Adriel G. Lares has served as our chief financial officer since January 2005. From March 2004 to January 2005, Mr. Lares served as our treasurer, and from March 2001 to March 2004, he served as our director of finance. From January 1999 to March 2001, Mr. Lares served as the chief financial officer of Techfuel Inc., a reseller of computer storage products. From February 1996 to December 1998, Mr. Lares was an investment banking analyst in the technology practice at Morgan Stanley, a financial services firm. From June 1994 to January 1996, Mr. Lares served as a treasury analyst at The Walt Disney Company, a diversified worldwide entertainment company. Mr. Lares holds a B.A. degree in Economics from Stanford University.

Jeffrey A. Price is one of our co-founders and has served as our vice president of engineering since May 1999 and as a member of our board of directors since May 2001. From February 1989 to April 1999, Mr. Price was a member of the architecture team at Sun Microsystems, Inc., a networking computing infrastructure solutions company, most recently as the director of systems engineering.

Ashok Singhal is one of our co-founders and has served as our chief technical officer since May 1999. From September 1990 to April 1999, Mr. Singhal was a member of the architecture team at Sun Microsystems, Inc. where he served as the chief architect for mid-range servers from 1993 until April 1999. Mr. Singhal holds a BTech degree in Electrical Engineering from the Indian Institute of Technology, Kanpur and an M.S. and a Ph.D. in Computer Science from the University of California at Berkeley.

James L. Dawson has served as our vice president of worldwide sales since April 2004. From April 2002 to March 2004, Mr. Dawson served as vice president, strategic sales and business development for Neoscale Systems, Inc., an enterprise storage security company. From May 2000 to March 2002, Mr. Dawson served as vice president of worldwide sales for Scale Eight, Inc., a storage solutions company. From October 1987 to February 2000, Mr. Dawson served in various positions with Data General Corporation, a supplier of storage and enterprise computing solutions, most recently as vice president of EMEA and Asia Pacific for its CLARiiON Storage Division. Mr. Dawson holds a B.A. degree in Economics from Weber State College.

Paul L. Harvey has served as our vice president of customer services since December 2000. From February 1997 to November 2000, Mr. Harvey served as vice president of customer service at Livingston Enterprises, Inc. and Lucent Technologies Inc., a communications technology and services company. From 1976 to 1997, Mr. Harvey held various customer service positions, including senior director of customer services, at Amdahl Corporation, a computer manufacturing company.

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Craig S. Nunes has served as our vice president of marketing since January 2005. From July 2000 to December 2004, Mr. Nunes served as our senior director of marketing. From June 1989 to July 2000, Mr. Nunes served in various positions with Hewlett-Packard Company, most recently as its director of enterprise storage marketing. Mr. Nunes holds B.S. and M.S. degrees in Petroleum Engineering from Stanford University and an M.B.A. from The Wharton School at the University of Pennsylvania.

Stephen F. Crimi has served as our vice president of business development and alliances since July 2006. From February 2005 to July 2006, Mr. Crimi served as our senior director of business development and alliances, and from October 2002 to February 2005, as our director of business development and alliances. From January 2002 to October 2002, Mr. Crimi was a principal in a management consulting company he founded. From February 2000 to December 2001, Mr. Crimi was vice president of business development and alliances at Acta Technology, Inc., a data integration vendor. Mr. Crimi holds a B.S. degree in Mechanical Engineering from Union College, an M.B.A. from the Haas School of Business at the University of California at Berkeley and an M.S. in Mechanical Engineering, also from the University of California at Berkeley.

Randall T. Gast has served as our vice president of corporate operations since May 2006. From August 2004 to April 2006, Mr. Gast served as vice president of global operations at Adaptec, Inc., an enterprise storage vendor. From October 2002 to July 2004, Mr. Gast was vice president of worldwide operations and customer support for Snap Appliance, Inc., a division of Adaptec, Inc. From September 1999 to September 2002, he served as acting vice president of worldwide operations and materials for Maxtor Corporation, a storage solution company. Mr. Gast holds a B.S. degree with a dual major in Manufacturing and Mechanical Engineering from Arizona State University.

Alastair A. Short has served as our vice president and general counsel since July 2002. From October 2001 to June 2002, Mr. Short served as vice president and general counsel of MetaTV, Inc., an interactive media software company. From April 2000 to September 2001, Mr. Short served as chief legal officer and assistant secretary for Netigy Corporation, a network infrastructure and services company. From July 1989 to March 2000, Mr. Short held various senior management positions at Hitachi Data Systems Corporation, a storage systems vendor, including executive vice president and general counsel. Mr. Short holds a Bachelor of Law Degree from the University of Warwick, England.

Jeannette Robinson has served as our vice president of human resources since March 2001. From January 1996 to February 2001, Ms. Robinson was vice president of human resources for Corsair Communications, a provider of business solutions for the wireless industry. From June 1990 to January 1996, Ms. Robinson held various human resources management positions at Cisco Systems, Inc., an Internet networking equipment and network management company. Ms. Robinson holds a B.A. degree in Sociology/Criminology and a B.S. degree in Business Administration/Marketing from San Jose State University.

Corporate Information

We began operations in May 1999 and were incorporated in Delaware in May 2007. Our principal executive offices are located at 4209 Technology Drive, Fremont, California 94538, and our telephone number is (510) 413-5999. Our website address is *www.3PAR.com*.

Website Posting of SEC Filings

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports are available, free of charge, on our website and can be accessed by clicking on the Investors tab. Further, a copy of this annual report on Form 10-K is located at the SEC s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding our filings at *www.sec.gov*.

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ITEM 1A. RISK FACTORS

Risks Related to Our Business and Industry

We have a history of losses and may never achieve profitability.

Since our formation, we have recorded a net loss in all of our fiscal periods. We recorded a net loss of $10.1 million, $15.5 million and $16.3 million in fiscal 2008, 2007 and 2006, respectively. As of March 31, 2008, our accumulated deficit was $174.0 million. During fiscal 2009, we expect to significantly increase expenditures in connection with the expansion of our business, including the hiring of additional direct sales and engineering personnel. In addition, as a public company, we anticipate that we will incur additional legal, auditing, accounting and other expenses resulting from regulatory requirements that did not apply to us as a private company. As a result of these increased expenditures, we will be required to increase our revenue substantially in order to achieve profitability. We may not be able to improve our revenue as compared to prior fiscal periods, and therefore, may never achieve profitability.

Our operating results may fluctuate significantly, which makes our future operating results difficult to predict. If our operating results fall below expectations, the price of our common stock could decline.

Our annual and quarterly operating results have fluctuated in the past and may fluctuate significantly in the future due to a variety of factors, many of which are outside of our control. We typically receive a substantial portion of our orders in the last two weeks of each fiscal quarter, which makes forecasting our future operating results difficult. In addition, many of the orders we receive may include conditions, such as customer acceptance provisions, or may not ship or be installed during the quarter in which they are received, in which case we cannot recognize revenue for those orders. Many of our orders are conditioned upon successful testing of our products, and orders placed with our resellers by governmental entities may generally be terminated unilaterally or may be subject to additional conditions. As a result, predicting when orders will translate to revenue, and consequently predicting our future operating results, is extremely difficult.

In any quarter, our revenue may be largely attributable to a single customer s orders. For example, in the first quarter of fiscal 2008, 25% of our revenue was attributable to sales to one customer. In addition, our quarterly and annual expenses as a percentage of our revenue may be significantly different from our historical or projected rates, and our operating results in future quarters may fall below expectations. For these reasons, comparing our operating results on a period-to-period basis may not be meaningful. You should not rely on our past results as an indication of our future performance.

In addition to other risk factors listed in this Risk Factors section, factors that may affect or result in period-to-period variability in our operating results include:

- reductions in customers budgets for information technology purchases and delays in their budgeting and purchasing cycles, such as occurred earlier in this decade and which could have an adverse effect on our business and operating results because the purchase of our products requires our customers to make strategic and capital investment decisions about their storage requirements and IT infrastructures;

- the length of time between our receipt of orders and the recognition of revenue from those orders, which can be several quarters because many of our orders contain terms that do not permit us to recognize revenue until certain conditions have been satisfied;

- reductions in the size of our individual sale transactions, because smaller transactions tend to have a smaller software component and, therefore, could decrease our gross margins;

- our ability to develop, introduce and ship, in a timely manner, new products and product enhancements that meet customer requirements; and

- the timing of product releases or upgrades by us or by our competitors, which could have an adverse effect on our revenue if customers delay orders pending the new release or upgrade.

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We face significant competition from a number of established companies, which may offer substantial pricing discounts and pursue other aggressive competitive tactics in order to attract and maintain customers.

We face intense competition from a number of established companies that seek to provide storage solutions similar to our utility storage solution. Currently, these competitors include EMC Corporation, Hitachi Data Systems Corporation, IBM, NetApp, Inc., Hewlett-Packard Company, Sun Microsystems, Inc. and Dell Inc. All of these competitors, as well as other potential competitors, have longer operating histories, significantly greater resources, more employees, better name recognition, a larger base of customers and more established customer relations than we have. Consequently, some of these companies have substantial control and influence regarding acceptance of a particular industry standard or competing technology. These companies may also be able to devote greater resources to the development, promotion and sale of products and may be able to deliver competitive products or technologies at a lower price than our products. In addition, they may be able to adopt more aggressive pricing policies than we can adopt. For example, our competitors may offer their products at significant discounts in response to our efforts to market the technological merits and overall cost benefits of our products.

Some of our competitors may also have the ability to manufacture competitive products at lower costs. Our current or potential competitors may also offer bundled arrangements that include IT solutions, such as document management or security, that we do not currently offer and that are unrelated to storage, but that may be desirable and beneficial features for our current and prospective customers. We also face competition from current and prospective customers that continually evaluate our capabilities against the merits of manufacturing storage products internally. Competition may also arise due to the development of cooperative relationships among our current and potential competitors or third parties, some of which already exist, to increase the ability of their products to address the needs of our prospective customers. Accordingly, it is possible that new competitors or alliances among competitors may emerge and rapidly acquire significant market share.

We also have many competitors that have developed competing technologies. For example, some of our competitors have recently released or announced plans to release a storage technology that will directly compete with our utility storage solution, including our 3PAR Thin Provisioning software application. We expect our competitors to continue to improve the performance of their current products, reduce their prices and introduce new services and technologies that may offer greater performance and improved pricing compared to our products, any of which could harm our business. In addition, our competitors may develop enhancements to, or future generations of, competitive products that may render our services or technologies obsolete or uncompetitive. These and other competitive pressures may prevent us from competing successfully against current or future competitors.

Many of our established competitors have long-standing relationships with key decision makers at many of our current and prospective customers. As a result, we may not be able to compete effectively and maintain or increase our market share.

Many of our competitors benefit from established brand awareness and long-standing relationships with key decision makers at many of our current and prospective customers. We expect that our competitors will seek to leverage these existing relationships to discourage customers from purchasing our products. In particular, when competing against us, we expect our competitors to emphasize the importance of data storage retention, the high cost of data storage failure and the perceived risks of relying on products from a company with a shorter operating history and less predictable operating results. These factors may cause our current or prospective customers to be unwilling to purchase our products and instead to purchase the products of our better-known and more established competitors. In the event that we are unable to successfully sell our products to new customers, persuade customers of our competitors to purchase our products instead, or prevent our competitors from persuading our customers to purchase our competitors products, we may not be able to maintain or increase our market share. This would have a negative impact on our future operating results.

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Our ability to increase our revenue will depend substantially on our ability to attract and retain key sales and engineering personnel, and any failure to attract and retain these employees could harm our future revenues, business, operating results and financial condition.

Our ability to increase our revenue will depend substantially on our ability to attract and retain qualified sales personnel, and our ability to offer competitive products will require that we attract and retain additional qualified engineers. In particular, we anticipate hiring a significant number of direct sales and engineering personnel in fiscal 2009, and our operating plan assumes that we will be able to attract and retain required employees. These positions require candidates with specific sales and engineering backgrounds in the storage industry, and competition for employees with this required expertise is intense. In addition, we believe that there are only a limited number of individuals with the specific skills required for many of our key positions in these areas. We face substantial competition in our hiring efforts and also in our retention efforts as our personnel are frequently recruited by other companies, including our competitors. As a result, we may be unable to locate, hire, and retain sufficient numbers of qualified individuals, which could have a material adverse effect on our future revenues, business, operating results, and financial condition.

To the extent that we are successful in hiring new employees to fill these positions, we need a significant amount of time to train the new employees before they can become effective and efficient in performing their jobs. As a result of the difficulty in finding and training qualified candidates, it is critical for us to retain the individuals who currently fill these positions. In particular, because competition for highly skilled sales and engineering employees is intense in our industry, recruitment practices can be aggressive. Substantial groups of our employees in key functional areas such as sales and systems engineers have recently been targets of aggressive recruiting efforts, which could continue and which could result in a loss of additional employees. Many of the employers with whom we compete for talent, or who may target our employee base, are larger with substantially greater resources than we have and may be able to offer compensation packages or other benefits that we do not provide or that are substantially more lucrative than our operating budgets permit. Any loss of our existing or future key sales, system engineers, or management personnel could harm our business, operating results and financial condition.

Our future success depends on the continued service of our key management personnel. All of the members of our management and other employees can terminate their employment at any time, and the loss of the services of any of our executive officers or other key employees could harm our business. Our future success is also dependent upon our ability to attract additional personnel for all other areas of our organization, including our customer services and finance department. Competition for qualified personnel is intense, and we may not be successful in attracting and retaining such personnel on a timely basis, on competitive terms, or at all. If we are unable to attract and retain the necessary technical, sales and other personnel on a cost-effective basis, we may be unable to grow our business and increase our revenue.

Our sales cycle can be long and unpredictable, and our sales efforts require considerable time and expense. As a result, our sales are difficult to predict and may vary substantially from quarter to quarter, which may cause our operating results to fluctuate.

Our sales efforts involve substantial education of our current and prospective customers about the use and benefits of our products, including their technical merits and capabilities and potential cost savings to the organization as compared to the incumbent storage solutions or other storage solutions that our customers or prospective customers may be considering. This education process can be extremely time consuming and typically involves a significant product evaluation process. Historically, our sales cycle averages three to four months, but has, in some cases, exceeded 12 months. Despite the substantial time and money that we invest in our sales efforts, we cannot assure you that these efforts will produce any sales. In addition, product purchases by our current and prospective customers are frequently subject to their budget constraints, approval processes, and a variety of unpredictable administrative, processing and other delays. A substantial number of our purchase orders do not include a shipment date, and shipments to customers may be delayed for substantial periods based on the customer s specific needs. Our sales cycle may prevent us from recognizing revenue in a particular quarter, is relatively long and costly and may not produce any sales, which may cause our operating results to fluctuate and harm our business.

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We purchase our disk drives, power supplies and certain components for our processor nodes from a limited number of qualified suppliers. If these or any of our other suppliers are not able to meet our requirements, it could harm our business.

We purchase sophisticated components from a limited number of qualified suppliers. We purchase our disk drives from Xyratex Technology Limited or Hitachi Global Storage Technologies, our power supplies from Power-One Inc., and application-specific integrated circuits, or ASICs, for our processor nodes from Renesas Technology Corp. Initially, suppliers of our disk drives, power supplies and ASICs require up to several months to qualify through a lengthy testing process, and a substantial amount of work to enable interoperability with our products. In the event that it became necessary for us to find another supplier of these or any of the other components of our products, the time required to transition to the new supplier could take up to 12 months, due to the lengthy qualification and technology development process.

We have in the past and may in the future experience quality control issues and delivery delays with our suppliers due to factors such as high industry demand or the inability of some vendors to consistently meet our quality or delivery requirements. We do not have a long-term contract with any of our current suppliers, and we purchase all components from our suppliers on a purchase order basis. If any of our suppliers were to cancel or materially change their commitments with us or fail to meet the quality or delivery requirements needed to satisfy customer orders for our products, we could lose time-sensitive customer orders, be unable to develop or sell certain products cost-effectively or on a timely basis, if at all, and have significantly decreased revenue, which would harm our business, operating results and financial condition.

Additionally, we periodically transition our product line to incorporate new technologies developed by us or our suppliers. For example, from time to time our suppliers may discontinue production of underlying components and products due to new technologies that have been incorporated into such components and products. Such discontinuance often occurs unexpectedly and our suppliers may require a significant amount of time to qualify the new technologies to ensure that they are compatible with our products.

We rely principally on two contract manufacturers to assemble portions of our products, and our failure to accurately forecast demand for our products or successfully manage our relationships with our contract manufacturers could negatively impact our ability to sell our products.

We rely principally on two contract manufacturers to assemble the disk chassis and processor nodes for each of our InServ Storage Server products, manage our supply chain and, alone or together with us, negotiate component costs. Specifically, we rely on Flash Electronics, Inc., or Flash, to assemble our processor nodes and on Flash and Xyratex Technology Limited to assemble our disk chassis. Our reliance on our contract manufacturers for these disk chassis and processor nodes reduces our control over the assembly process, quality assurance, production costs and product supply. If we fail to manage our relationship with our contract manufacturers or if either of our contract manufacturers experiences delays, disruptions, capacity constraints or quality control problems in its operations, our ability to ship products to our customers could be impaired and our competitive position and reputation could be harmed. If we or our contract manufacturers are unable to negotiate with suppliers for reduced component costs, our operating results could be harmed. In addition, our contract manufacturers may terminate our agreements with them upon prior notice to us or for reasons such as if we become insolvent, or if we fail to perform a material obligation under the agreement. If we are required to change contract manufacturers or assume internal manufacturing operations for any reason, including the termination of one of our contracts, we may lose revenue, incur increased costs and damage our customer relationships. Qualifying a new contract manufacturer and commencing volume production are expensive and time-consuming. We are required to provide forecasts to our contract manufacturers regarding product demand and production levels. We maintain with our contract manufacturers a rolling 90-day firm order for products they manufacture for us, and these orders may only be rescheduled or cancelled under certain limited conditions. If we inaccurately forecast demand for our products, we may have excess or inadequate inventory or incur cancellation charges or penalties, which could adversely impact our operating results.

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We intend to introduce new products and product enhancements, which could require us to achieve volume production rapidly by coordinating with our contract manufacturers and component suppliers. We may need to increase our component purchases, contract manufacturing capacity and internal test and quality functions if we experience increased demand. If our contract manufacturers are unable to provide us with adequate supplies of high-quality products, or if we or either of our contract manufacturers are unable to obtain adequate quantities of components, it could cause a delay in our order fulfillment, in which case our business, operating results and financial condition could be adversely affected.

Because of a recent change to our business model, our past results may not be meaningful as compared to our current and future results, and you should not rely on them as an indication of our future performance.

Beginning in March 2007, in connection with sales of our products, we began offering our customers post-contract customer support, which we refer to as PCS, that includes obligations to provide unspecified software upgrades and enhancements to our customers on a when-and-if-available basis. Thus, beginning with the first quarter of fiscal 2008, we began recognizing software support revenue ratably over the term of our software support contract, rather than recognizing the entire arrangement at the time of shipment or installation as we had done previously, provided that the remaining revenue recognition criteria were satisfied. As a result of this change to our business model, comparing our operating results on a period-to-period basis may not be meaningful, and you should not rely on our past results, particularly the growth in our revenue in absolute dollars on a year-over-year basis, as an indication of our future performance. In addition, if for whatever reason we are unable to maintain vendor-specific objective evidence, or VSOE, of the fair value of our software support, decide to discontinue offering PCS or otherwise change our business model, it could further complicate period-to-period comparisons of our operating results.

Our ability to sell our products is highly dependent on the quality of our support and service offerings, and any failure to offer high-quality support and services would harm our business, operating results and financial condition.

Once our products are deployed within our customers networks, our customers depend on our support organization to resolve any issues relating to our products. Our products provide mission-critical services to our customers and a high level of post-sale support is necessary to maintain our customer relationships. We rely on authorized service providers in certain locations in the United States to deliver our initial level of customer support. As a result, it may be more difficult for us to ensure the proper delivery and installation of our products or the quality or responsiveness of our support and service offerings. Our ability to provide effective support and service offerings is largely dependent on our ability to attract, train and retain qualified service personnel. As we expand our operations internationally, our support organization will face additional challenges, including those associated with delivering support, training and documentation in languages other than English. In addition, our sales process is highly dependent on strong word-of-mouth recommendations from our existing customers. We believe that communication among our customers is both rapid and frequent. Any failure to maintain high-quality support and services, or a market perception that we do not maintain high-quality support and services, could harm our reputation, adversely affect our ability to sell our products to existing and prospective customers, and could harm our business, operating results and financial condition.

We rely on resellers and authorized service providers to sell, service and support our products in markets where we do not have a direct sales force or support and service personnel. Any disruptions to, or failure to develop and manage, our relationships with resellers and authorized service providers could have an adverse effect on our existing customer relationships and on our ability to increase revenue.

Our future success is highly dependent upon establishing and maintaining successful relationships with a variety of resellers and authorized service providers in markets where we do not have a direct sales force or service and support personnel. We currently have a direct sales force in the United States, the United Kingdom, Germany and Japan. In other markets, we rely and expect to continue to rely on establishing relationships with resellers and authorized service providers. Our ability to maintain or grow our revenue will depend, in part, on

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our ability to manage and expand our relationships with our existing resellers and authorized service providers and to establish relationships with new resellers and authorized service providers. In addition to their sales activities, our resellers also, in certain instances, provide post-sale service and support on our behalf in their local markets. We also have agreements with authorized service providers that, although they do not sell our products, provide delivery and installation of our products as well as post-sale service and support on our behalf in their local markets. In markets where we rely on resellers and authorized service providers, we have less contact with our end customers and less control over the sales process and the quality and responsiveness of our resellers and authorized service partners. As a result, it may be more difficult for us to ensure the proper delivery and installation of our products or the quality or responsiveness of our service and support offerings. Any failure on our part to train our resellers and authorized service providers and to manage their sales, service and support activities could harm our business, operating results and financial condition. For example, many of our customers are large, multinational organizations that may from time to time purchase products intended for deployment in markets where we do not have operations, which would require us to qualify and retain reliable service and support offerings in those markets. If our resellers or authorized service providers, as the case may be, fail to provide high-quality service and support in those local markets, it could harm our relationships with key customers in our principal markets.

Recruiting and retaining qualified resellers and authorized service providers and training them in our technology and product offerings requires significant time and resources. In order to develop and expand our relationships with our resellers and authorized service providers, we must continue to scale and improve our processes and procedures that support our resellers and authorized service providers, including investments in systems and training. Those processes and procedures may become increasingly complex, difficult and expensive to manage, particularly as the geographic scope of our customer base expands.

We typically enter into non-exclusive, written distribution and service agreements with our resellers and authorized service providers. These agreements generally have a one-year, self- renewing term, have no minimum sales commitment and do not prohibit our resellers and authorized service providers from offering products and services that compete with ours. Accordingly, our resellers and authorized service providers may choose to discontinue offering our products and services or may not devote sufficient attention and resources toward selling our products and services. Our competitors may provide incentives to our existing and potential resellers and authorized service providers to use or purchase their products and services or to prevent or reduce sales of our products and services. The occurrence of any of these events could harm our business, operating results and financial condition.

If we fail to manage future growth effectively, our business would be harmed.

In recent years, we have experienced substantial growth in the size and scope of our business, and if that growth continues, it will place significant demands on our management, infrastructure and other resources. From March 31, 2004 to March 31, 2008, our number of employees increased from 139 to 451, and we currently anticipate hiring additional employees in future periods. We have also expanded the geographic scope of our business during that period, including the recent establishment of research and development operations in Northern Ireland. We expect to continue to expand internationally through direct sales efforts and by establishing indirect sales and support relationships with vendors in select international markets. Continued growth in the size and scope, including the geographic scope, of our business operations will require substantial management attention with respect to recruiting, hiring, integrating and retaining highly skilled and motivated individuals; managing increasingly dispersed geographic locations and facilities; establishing an integrated information technology infrastructure; and establishing company-wide processes and procedures to address human resource, financial reporting and financial management matters that are consistent across our organization but that address both U.S. and international regulatory and legal requirements. If we are not successful in effectively managing any future growth, it could harm our business, operating results and financial condition.

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Our international sales and operations introduce risks that can harm our business, operating results and financial condition.

In fiscal 2008, 2007 and 2006, we derived 17%, 10% and 14% of our revenue, respectively, from end customers outside the United States, and we expect to continue to expand our international operations. We have direct sales personnel in the United States, the United Kingdom, Germany and Japan, and agreements with third-party resellers in Poland, Japan, the United Kingdom, Korea, Italy, the Netherlands, Australia and South Africa. In addition, we currently have international subsidiaries in the United Kingdom, Germany and Japan. We expect to continue to hire additional personnel and enter into agreements with third-party resellers in additional countries, and as a result may need to establish additional international subsidiaries and offices. Our international operations subject us to a variety of risks, including:

- our inability to attract, hire and retain qualified management and other personnel;
- the increased travel, infrastructure and legal compliance costs associated with multiple international locations;
- difficulties in enforcing contracts, collecting accounts receivable and longer payment cycles, especially in emerging markets;
- the need to localize our products and licensing programs for international customers;
- tariffs and trade barriers and other regulatory or contractual limitations on our ability to sell or develop our products in certain foreign markets;
- increased exposure to foreign currency exchange rate risk; and
- reduced protection for intellectual property rights in some countries.

As we continue to expand our business globally, our success will depend, in large part, on our ability to anticipate and effectively manage these and other risks associated with our international operations. Our failure to manage any of these risks successfully could harm our international operations and reduce our international sales, which in turn could adversely affect our business, operating results and financial condition.

We are subject to governmental export and import controls that could subject us to liability or impair our ability to compete in foreign markets.

Because we incorporate encryption technology into our products, our products are subject to United States export controls and may be exported outside the United States only with the required level of export license or through an export license exception. In addition, various countries regulate the import of certain encryption technology and have enacted laws that could limit our ability to introduce products or could limit our customers ability to implement our products in those countries. Changes in our products or changes in export and import regulations may create delays in the introduction of our products in international markets, prevent our customers with international operations from deploying our products throughout their global systems or, in some cases, prevent the export or import of our products to certain countries altogether. Any change in export or import regulations or related legislation, shift in approach to the enforcement or scope of existing regulations, or change in the countries, persons or technologies targeted by such regulations, could result in decreased use of our products by, or an inability to export or sell our products to, existing or prospective customers with international operations and harm our business.

We are subject to laws and regulations governing the environment and may incur substantial environmental regulation costs, which could harm our operating results.

We are subject to various state, federal and international laws and regulations governing the environment, including those restricting the presence of certain substances in electronic products and making producers of those products financially responsible for the collection, treatment, recycling and disposal of certain products. These laws and regulations have been enacted in several jurisdictions in which we sell our

products, including

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various European Union, or EU, member countries. For example, the EU has enacted the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment, or RoHS, and the Waste Electrical and Electronic Equipment, or WEEE, directives. RoHS prohibits the use of certain substances, including lead, in certain products, including hard drives, sold after July 1, 2006. The WEEE directive obligates parties that sell electrical and electronic equipment in the EU to put a clearly identifiable mark on the equipment, register with and report to EU member countries regarding distribution of the equipment and provide a mechanism to take back and properly dispose of the equipment. There is still some uncertainty in certain EU countries as to which party involved in the manufacture, distribution and sale of electronic equipment will be ultimately responsible for registration, reporting and disposal. Similar legislation may be enacted in other locations where we sell our products. We will need to ensure that we comply with these laws and regulations as they are enacted, and that our component suppliers also comply with these laws and regulations. If we or our component suppliers fail to comply with the legislation, our customers may refuse or be unable to purchase our products, which could harm our business, operating results and financial condition.

In connection with our compliance with these environmental laws and regulations, we could incur substantial costs and be subject to disruptions to our operations and logistics. In addition, if we were found to be in violation of these laws, we could be subject to governmental fines and liability to our customers. If we have to make significant capital expenditures to comply with environmental laws, or if we are subject to significant expenses in connection with a violation of these laws, our business, operating results and financial condition could suffer.

As we seek to increase our sales to the public sector, we may face difficulties and risks unique to government contracts that may have a detrimental impact on our business, operating results and financial condition.

Historically, we have sold products to United States government agencies through third-party resellers. We recently established a wholly owned subsidiary through which we intend to sell directly to more entities and agencies within the United States government and state and local governments. Developing new business in the public sector often requires companies to develop relationships with different agencies or entities, as well as with other government contractors. If we are unable to develop or sustain such relationships, we may be unable to procure new contracts within the timeframes we expect, and our business, operating results and financial condition may be adversely affected. Contracting with the United States government often requires businesses to participate in a highly competitive bidding process to obtain new contracts. We may be unable to bid competitively if our products or services are improperly priced, or if we are incapable of providing our products and services at a competitive price. The bidding process is an expensive and time-consuming endeavor that may result in a financial loss for us if we fail to win a contract on which we submitted a bid. Further, some agencies within the United States government may also require some or all of our personnel to obtain a security clearance or may require us to add features or functionality to our products that could require a significant amount of time and prevent our employees from working on other critical projects. If our key personnel are unable to obtain or retain this clearance or if we cannot or do not provide required features or functionality, we may be unsuccessful in our bid for some government contracts.

Contracts with governmental entities also frequently include provisions not found in private sector contracts and are often governed by laws and regulations that do not affect private sector contracts. These unique provisions may permit public sector customers to take actions not available to customers in the private sector. These actions may include termination of contracts for convenience or due to a default. The United States government can also suspend operations if Congress does not allocate sufficient funds to a particular agency or organization, and the United States government may allow our competitors to protest our successful bids. The occurrence of any of these events may negatively affect our business, operating results and financial condition.

In order to maintain contracts we may obtain with government entities, we must also comply with many rules and regulations that may affect our relationships with other customers. For example, the United States government could terminate its contracts with us if we come under foreign government control or influence, may

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require that we disclose our pricing data during the course of negotiations, and may require us to prevent access to classified data. If the United States government requires us to meet any of these demands, it could increase our costs or prevent us from taking advantage of certain opportunities that may present themselves in the future. United States government agencies routinely investigate and audit government contractors administrative processes. They may audit our performance and our pricing, and review our compliance with rules and regulations. If they find that we have improperly allocated costs, they may require us to refund those costs or may refuse to pay us for outstanding balances related to the improper allocation. An unfavorable audit could reduce our revenue, and may result in civil or criminal liability if the audit uncovers improper or illegal activities. This could harm our business, operating results and financial condition.

If we are unable to protect our intellectual property rights, our competitive position could be harmed and we could be required to incur significant expenses to enforce our rights.

We depend on our ability to protect our proprietary technology. We rely on trade secret, patent, copyright and trademark laws and confidentiality agreements with employees and third parties, all of which offer only limited protection. Despite our efforts, the steps we have taken to protect our proprietary rights may not be adequate to preclude misappropriation of our proprietary information or infringement of our intellectual property rights, particularly outside of the United States. Further, with respect to patent rights, we do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims, and even if patents are issued, they may be contested, circumvented or invalidated over the course of our business. Moreover, the rights granted under any of our issued patents or patents that may be issued in the future may not provide us with proprietary protection or competitive advantages, and, as with any technology, competitors may be able to develop similar or superior technologies to our own now or in the future. Protecting against the unauthorized use of our products, trademarks and other proprietary rights is expensive, difficult and, in some cases, impossible. Litigation may be necessary in the future to enforce or defend our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. This litigation could result in substantial costs and diversion of management resources, either of which could harm our business. Furthermore, many of our current and potential competitors have the ability to dedicate substantially greater resources to enforce their intellectual property rights than we do. Accordingly, despite our efforts, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property.

Claims by others that we infringe their proprietary rights could harm our business.

Third parties could claim that our products or technology infringe their proprietary rights. In addition, we have in the past and may in the future be contacted by third parties suggesting that we seek a license to certain of their intellectual property rights that they may believe we are infringing. We expect that infringement claims against us may increase as the number of products and competitors in our market increases and overlaps occur. In addition, to the extent that we gain greater visibility, we believe that we will face a higher risk of being the subject of intellectual property infringement claims. Any claim of infringement by a third party, even those without merit, could cause us to incur substantial costs defending against the claim, and could distract our management from our business. Furthermore, a party making such a claim, if successful, could secure a judgment that requires us to pay substantial damages. A judgment against us could also include an injunction or other court order that could prevent us from offering our products. In addition, we might be required to seek a license for the use of such intellectual property, which may not be available on commercially reasonable terms, or at all. Alternatively, we may be required to develop non-infringing technology, which could require significant effort and expense and may ultimately not be successful. Any of these events could seriously harm our business. Third parties may also assert infringement claims against our customers, resellers and authorized service providers. Because we generally indemnify our customers, resellers and authorized service providers if our products infringe the proprietary rights of third parties, any such claims would require us to initiate or defend protracted and costly litigation on their behalf, regardless of the merits of these claims. If any of these claims succeed, we may be forced to pay damages on behalf of our customers, resellers and authorized service providers.

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We may not generate positive returns on our research and development investments.

Developing our products is expensive. In fiscal 2008, 2007 and 2006, our research and development expenses were $34.1 million, or 29% of our total revenue, $24.5 million, or 37% of our total revenue and $18.5 million, or 48% of our total revenue, respectively. Our future plans include significant investments in research and development and related product opportunities. We believe that we must continue to dedicate a significant amount of resources to our research and development efforts to maintain our competitive position. However, our ability to generate positive returns on these investments may take several years, if we are able to do so at all.

If we do not successfully anticipate market needs and develop products and product enhancements that meet those needs, or if those products do not gain market acceptance, our business, operating results and financial condition could be adversely affected.

We compete in a market characterized by rapid technological change, frequent new product introductions, evolving industry standards and changing customer needs. We cannot assure you that we will be able to anticipate future market needs or be able to develop new products or product enhancements to meet those needs in a timely manner, or at all. For example, our failure to develop additional features that our competitors are able to provide could adversely affect our business. In addition, although we invest a considerable amount of money into our research and development efforts, any new products or product enhancements that we develop may not achieve widespread market acceptance. As competition increases in the storage industry and the IT industry in general, it may become even more difficult for us to stay abreast of technological changes or develop new technologies or introduce new products as quickly as our competitors, many of which have substantially greater financial and engineering resources than we do. Additionally, risks associated with the introduction of new products or product enhancements include difficulty in predicting customer needs or preferences, transitioning existing products to incorporate new technologies, the capability of our suppliers to deliver high-quality components required by such new products or product enhancements in a timely fashion, and unknown defects in such new products or product enhancements. If we are unable to keep pace with rapid industry, technological or market changes or effectively manage the transitions to new products or new technologies, it could harm our business, operating results and financial condition.

Our products are highly technical and may contain undetected software or hardware errors or failures, which could cause harm to our financial condition and our reputation and adversely affect our business.

Our products are highly technical and complex and are critical to the operation of storage networks. We test our products prior to commercial release and during such testing have discovered and may in the future discover errors and defects that need to be resolved prior to release. Resolving these errors and defects can take a significant amount of time and prevent our technical personnel from working on other important tasks. In addition, our products have contained and may in the future contain one or more errors, defects or security vulnerabilities that were not detected prior to commercial release to our customers. Some errors in our products may only be discovered after a product has been installed and used by customers. Any errors, defects or security vulnerabilities discovered in our products after commercial release, as well as any computer virus or human error on the part of our customer support personnel or authorized service providers that result in a customer s data unavailability, loss or corruption, could result in loss of revenue or delay in revenue recognition, loss of customers and increased service and warranty cost, any of which could adversely affect our business, operating results and financial condition. In addition, we could face claims for product liability, tort or breach of warranty, including in relation to changes to our products made by our resellers or authorized service providers. Our contracts with our customers contain provisions relating to warranty disclaimers and liability limitations, which may not be upheld. Defending a lawsuit, regardless of its merit, is costly and may divert management s attention and adversely affect the market s perception of us and our products. In addition, if our business liability insurance coverage proves inadequate or future coverage is unavailable on acceptable terms or at all, our business, operating results and financial condition could be harmed.

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If flaws in the design, production, assembly or testing of our products or our suppliers components were to occur, we could experience a rate of failure in our products that would result in substantial repair, replacement or service costs and potential damage to our reputation. Continued improvement in manufacturing capabilities, control of material and manufacturing quality and costs and product testing are critical factors in our future growth. We cannot assure you that our efforts to monitor, develop, modify and implement appropriate test and manufacturing processes for our products will be sufficient to permit us to avoid a rate of failure in our products that results in substantial delays in shipment, significant repair or replacement costs or potential damage to our reputation, any of which could harm our business, operating results and financial condition.

Adverse changes in economic conditions and reduced information technology spending may adversely impact our business.

Our business depends on the overall demand for information technology, and in particular for storage infrastructure, and on the economic health of our current and prospective customers. In addition, the purchase of our products is often discretionary and may require our customers to make significant initial commitments of capital and other resources. During the most recent economic downturn, business spending on technology infrastructure decreased dramatically. Weak economic conditions, or a reduction in information technology spending even if economic conditions improve, could adversely impact our business, operating results and financial condition in a number of ways, including longer sales cycles, lower prices for our products and services and reduced unit sales.

Changes in financial accounting standards or business practices may cause adverse, unexpected financial reporting fluctuations and affect our reported operating results.

A change in accounting standards or business practices can have a significant impact on our operating results and may affect our reporting of transactions completed before the change is effective. New accounting pronouncements and varying interpretations of existing pronouncements have occurred and may occur in the future. Changes to existing accounting rules or our business or accounting practices, such as our change to a software support model in March 2007, may adversely affect our reported financial results.

We may seek to engage in future acquisitions, all or many of which could be viewed negatively, lead to integration problems, disrupt our business, increase our expenses, reduce our cash, cause dilution to our stockholders and harm our financial condition and operating results.

In the future, we may seek to acquire companies or assets that we believe may enhance our market position. We may not be able to find suitable acquisition candidates and we may not be able to complete acquisitions on favorable terms, if at all. If we do complete acquisitions, we cannot assure you that they will not be viewed negatively by customers, financial markets or investors. In addition, any acquisitions that we make could lead to difficulties in integrating personnel and operations from the acquired businesses and in retaining and motivating key personnel from these businesses. Acquisitions may disrupt our ongoing operations, divert management from day-to-day responsibilities and increase our expenses. Future acquisitions may reduce our cash available for operations and other uses and could result in an increase in amortization expense related to identifiable assets acquired, potentially dilutive issuances of equity securities or the incurrence of debt, any of which could harm our business, operating results and financial condition.

We are incurring significantly increased costs as a result of operating as a public company, and our management is required to devote substantial time to new compliance initiatives.

As a public company, we are incurring significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley, as well as rules subsequently implemented by the Securities and Exchange Commission, or the SEC, and NYSE Arca have imposed various new requirements on public companies, including requiring changes in corporate governance practices. Our management and other personnel are required to devote a substantial amount of time to these new compliance initiatives. Moreover, these rules and regulations have increased our legal and financial compliance

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costs and made some activities more time-consuming and costly. For example, these new rules and regulations made it more expensive for us to obtain director and officer liability insurance. These rules and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers.

In addition, Sarbanes-Oxley requires, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. In particular, for our fiscal year ending on March 31, 2009, we must perform system and process evaluation and testing of our internal control over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of Sarbanes-Oxley. Our testing, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal control over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 will require that we incur substantial expenses and expend significant management time on compliance-related issues.

In order to respond to additional regulations applicable to public companies, such as Section 404, we hired a controller in fiscal 2007 and have recently added a number of other finance and accounting personnel. We are also currently using independent contractors to fill certain positions and provide certain accounting functions. We intend to hire additional full-time accounting employees in fiscal 2009 to fill these and other related finance and accounting positions. Some of these positions require candidates with public company experience, and we may be unable to locate and hire such individuals as quickly as needed, if at all. In addition, new employees will require time and training to learn our business and operating processes and procedures. If our finance and accounting organization is unable for any reason to respond adequately to the increased demands that result from being a public company, the quality and timeliness of our financial reporting may suffer, which could result in identification of internal control weaknesses. Any consequences resulting from inaccuracies or delays in our reported financial statements could have an adverse effect on the trading price of our common stock as well as an adverse effect on our business, operating results, and financial condition.

Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identifies deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline and we could be subject to sanctions or investigations by the SEC, NYSE Arca or other regulatory authorities, which would require additional financial and management resources.

If we need additional capital in the future, it may not be available on favorable terms, or at all.

We may require additional capital from equity or debt financing in the future to fund our operations, or respond to competitive pressures or strategic opportunities. We may not be able to secure additional financing on favorable terms, or at all. The terms of additional financing may place limits on our financial and operating flexibility. If we raise additional funds through further issuances of equity, convertible debt securities or other securities convertible into equity, our existing stockholders could suffer significant dilution in their percentage ownership of our company, and any new securities we issue could have rights, preferences or privileges senior to those of existing or future holders of our common stock. If we are unable to obtain necessary financing on terms satisfactory to us, if and when we require it, our ability to grow or support our business and to respond to business challenges could be significantly limited.

Interruption or failure of our information technology and communications systems or services provided by our suppliers and manufacturers could impair our ability to effectively provide our products and services, which could damage our reputation and harm our operating results.

The availability of our products and services depends on the continuing operation of our information technology and communications systems. Our servers are vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems. Any damage to or failure of our systems could result in interruptions in our service, which could reduce our revenue. Our systems are vulnerable to

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damage or interruption from earthquakes, terrorist attacks, floods, fires, power losses, telecommunications failures, computer viruses, computer denial of service attacks or other attempts to harm our systems. In addition, our corporate headquarters, inventory storage facilities and product assembly centers, as well as the facilities of many of our suppliers and manufacturers, are located in areas with a high risk of major earthquakes. Some of our manufacturers also have facilities located in Asia, which could be adversely impacted by political or economic stability, inadequacy of local infrastructure to support our needs and difficulty in maintaining sufficient quality control over manufactured components and products. The occurrence of a natural disaster or other unanticipated problems at one or more of these locations could result in delays or cancellations of customer orders or the deployment of our products, and lengthy interruptions in our service, any of which could adversely affect our business, operating results and financial condition.

Risks Related to Ownership of Our Common Stock

The trading price of our common stock is likely to be volatile.

The trading prices of the securities of technology companies have been highly volatile, and our common stock has limited trading history. Factors that could affect the trading price of our common stock include:

- variations in our operating results;
- announcements of technological innovations, new or enhanced services, strategic alliances or significant agreements by us or by our competitors;
- gain or loss of significant customers;
- recruitment or departure of our key personnel;
- changes in the estimates of our operating results or changes in recommendations by any securities analysts that elect to follow our common stock;
- market conditions in our industry, the industries of our customers and the economy as a whole; and
- adoption or modification of regulations, policies, procedures or programs applicable to our business.

In addition, if the market for technology stocks or the stock market in general experiences loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business. The trading price of our common stock might also decline as a result of events that affect other companies in our industry even if these events do not directly affect us. Some companies that have had volatile market prices for their securities have had securities class actions filed against them. If a suit were filed against us, regardless of its merits or outcome, it could result in substantial costs and divert management s attention and resources. This could harm our business, operating results and financial condition.

Reports published by securities or industry analysts, including projections in those reports that exceed our actual results, could adversely affect our stock price and trading volume.

Securities research analysts establish and publish their own quarterly projections regarding us and our business. These projections may vary widely from one another and may not accurately predict the results we actually achieve. Our stock price may decline if we fail to meet securities research analysts projections. Similarly, if one or more of the analysts who covers us downgrades our stock or publishes inaccurate or unfavorable research about our business, our stock price could decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly our stock price or trading volume could decline.

In addition, if securities or industry analysts cease coverage of our company, the trading price for our stock and the trading volume could decline.

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Future sales of shares by our existing stockholders could cause our stock price to decline.

The lock-up agreements that most of our stockholders entered into at the time of our initial public offering, or IPO, expired on May 24, 2008. If our existing stockholders sell, or indicate an intention to sell, substantial amounts of our common stock in the public market that were subject to such lock-up agreements or that otherwise become freely tradable upon the expiration of other legal restrictions on resale, the trading price of our common stock could decline.

Insiders have substantial control over us and are able to influence corporate matters.

At March 31, 2008, our directors and executive officers and their affiliates beneficially own, in the aggregate, approximately 57.5% of our outstanding common stock. As a result, these stockholders are able to exercise significant influence over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership limits our stockholders ability to influence corporate matters and may have the effect of delaying or preventing a third party from acquiring control over us.

Anti-takeover provisions in our charter documents and under Delaware law could discourage, delay or prevent a change in control of our company and may affect the trading price of our common stock.

Provisions in our certificate of incorporation and bylaws, as amended and restated upon the closing of our IPO, may have the effect of delaying or preventing a change of control or changes in our management. Our amended and restated certificate of incorporation and amended and restated bylaws include provisions that:

- authorize our board of directors to issue, without further action by the stockholders, up to 20,000,000 shares of undesignated preferred stock;
- require that any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent;
- specify that special meetings of our stockholders can be called only by our board of directors, the chairman of the board, the chief executive officer or the president;
- establish an advance notice procedure for stockholder approvals to be brought before an annual meeting of our stockholders, including proposed nominations of persons for election to our board of directors;
- establish that our board of directors is divided into three classes, Class I, Class II and Class III, with each class serving staggered terms;
- provide that our directors may be removed only for cause;
- provide that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum;
- specify that no stockholder is permitted to cumulate votes at any election of directors; and

require a super-majority of votes to amend certain of the above-mentioned provisions.

In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law regulating corporate takeovers. Section 203 generally prohibits us from engaging in a business combination with an interested stockholder subject to certain exceptions.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

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ITEM 2. PROPERTIES

We lease approximately 180,000 square feet of office space in Fremont, California pursuant to leases that expire in 2010 and 2014. We also maintain domestic sales offices in New York, Maryland and Texas, and international sales offices in the United Kingdom, Germany, Switzerland, Singapore and Japan. We lease office space for research and development in Northern Ireland and Washington. We believe that our facilities are suitable and adequate to meet our current needs. We intend to add new facilities or expand existing facilities as we add employees, and we believe that suitable additional or substitute space will be available as needed to accommodate any such expansion of our operations.

ITEM 3. LEGAL PROCEEDINGS

We are not currently a party to any material litigation, and we are not aware of any pending or threatened litigation against us that we believe would adversely affect our business, operating results, financial condition or cash flows. The software and storage infrastructure industries are characterized by frequent claims and litigation, including claims regarding patent and other intellectual property rights as well as improper hiring practices. As a result, in the future, we may be involved in various legal proceedings from time to time.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our security holders during the quarter ended March 31, 2008.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER REPURCHASES OF EQUITY SECURITIES

Our common stock has been listed on NYSE Arca under the symbol PAR since our initial public offering, or IPO, in November 2007. The following table sets forth, for the periods indicated, the high and low intra-day prices for our common stock as reported on NYSE Arca.

	High	Low
2008		
Third Quarter (beginning November 16, 2007)	$ 17.99	$ 11.75
Fourth Quarter	$ 14.50	$ 6.07

As of May 31, 2008 the number of stockholders of record of our common stock was 379.

Stock Performance Graph

The graph set forth below shows a comparison of the cumulative total stockholder return on our common stock between November 16, 2007 (the date of our IPO) and March 31, 2008, with the cumulative total return of (i) the NYSE Arca Tech 100 Index and (ii) the NYSE Composite Index, over the same period. This graph assumes the investment of $100 on November 16, 2007 in our common stock, the NYSE Arca Tech 100 Index and the NYSE Composite Index, and assumes the reinvestment of dividends, if any. The graph assumes the initial value of our common stock on November 16, 2007 was the closing sales price of $15.75 per share. The stockholder return shown in the graph below is not necessarily indicative of, nor is it intended to forecast, the potential future performance of our common stock, and we do not make or endorse any predictions as to future stockholder returns. Information used in the graph was obtained from NYSE MarkeTrac®, a source believed to be reliable, but we are not responsible for any errors or omissions in such information.

	11/16/2007	12/31/2007	3/31/2008
3PAR Inc.	100.00	81.90	43.68
NYSE Composite	100.00	100.40	90.68
NYSE Arca Tech 100	100.00	98.85	88.36

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Use of Proceeds from Public Offering of Common Stock

On November 15, 2007, our registration statement (No. 333-145437) on Form S-1 was declared effective for our IPO, pursuant to which we registered the offering and sale of an aggregate of 8,625,000 shares of common stock, including the underwriters over-allotment option, at a public offering price of $14.00 per share or aggregate offering price of $120.8 million. The offering, which closed on November 21, 2007, did not terminate until after the sale of 7,702,479 of the shares registered on the registration statement for an aggregate offering price of $107.8 million. The managing underwriters were Goldman, Sachs & Co., Credit Suisse, UBS Investment Bank, Thomas Weisel Partners LLC, and RBC Capital Markets.

As a result of the offering, we received net proceeds of approximately $97.4 million, after deducting underwriting discounts and commissions of $7.5 million and additional offering-related expenses of approximately $2.9 million. No payments for such expenses were made directly or indirectly to (i) any of our officers or directors or their associates, (ii) any persons owning 10% or more of any class of our equity securities, or (iii) any of our affiliates. In November 2007 we used $5.8 million of the net proceeds to repay outstanding balances under our revolving line of credit with Silicon Valley Bank. We anticipate that we will use the remaining net proceeds from our IPO for working capital and other general corporate purposes, including to finance our growth, develop new products, fund capital expenditures, or to expand our existing business through acquisitions of other businesses, products or technologies. However, we do not have agreements or commitments for acquisitions at this time. Pending such uses, we plan to invest the net proceeds in short-term, interest-bearing, investment grade securities. There has been no material change in the planned use of proceeds from our IPO from that described in the final prospectus filed with the SEC pursuant to Rule 424(b) of the Exchange Act.

Dividend Policy

We have never declared or paid any cash dividend on our capital stock. We currently intend to retain any future earnings and do not expect to pay any dividends in the foreseeable future.

Recent Sales of Unregistered Securities

Between April 1, 2007 and November 27, 2007 (the date of the filing of our registration statement on Form S-8, No. 333-147632), we issued an aggregate of 106,424 shares of common stock that were not registered under the Securities Act of 1933 to our employees and directors pursuant to the exercise of stock options for cash consideration with aggregate exercise proceeds of approximately $296,000. These issuances were undertaken in reliance upon the exemption from registration requirements of Rule 701 of the Securities Act of 1933. The recipients of these shares of common stock represented their intentions to acquire the shares for investment only and not with a view to or for sale in connection with any distribution, and appropriate legends were affixed to the share certificates issued in these transactions. All recipients had adequate access, through their relationships with us, to information about us.

On December 4, 2007 we issued an aggregate of 117,211 shares of common stock upon net issuance exercise of warrants to purchase 134,742 shares of our common stock at an exercise price of $1.88 per share originally issued to a lender of the company from June 2005 through October 2005. We received no cash consideration at the time such shares were issued. We believe the issuance was exempt from the registration requirements of the Securities Act of 1933 in reliance on Section 4(2) thereof, as transactions by an issuer not involving a public offering. The lender agreed that the shares would be subject to the standard restrictions applicable to a private placement of securities under applicable state and federal securities laws, and appropriate legends were affixed to the share certificate issued to the lender. We believe that the lender received adequate information about the company or had access, through its relationship with the company, to such information.

On December 17, 2007 we issued an aggregate of 96,630 shares of common stock upon net issuance exercise of warrants to purchase 35,458 shares of our common stock at an exercise price of $1.88 per share and 66,485 shares of our common stock at an exercise price of $0.02 per share originally issued to a lender of the company from June 2005 through October 2005. We received no cash consideration at the time such shares were

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issued. We believe the issuance was exempt from the registration requirements of the Securities Act of 1933 in reliance on Section 4(2) thereof, as transactions by an issuer not involving a public offering. The lender agreed that the shares would be subject to the standard restrictions applicable to a private placement of securities under applicable state and federal securities laws, and appropriate legends were affixed to the share certificate issued to the lender. We believe that the lender received adequate information about the company or had access, through its relationship with the company, to such information.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

	Total Number of Shares Purchased	Average Price Paid per Share	Shares Purchased as Part of Publicly Announced Plans or Programs	Maxium Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 January 31, 2008	4,583(1)	$ 0.58		
February 1 February 29, 2008	2,239(1)	0.02		
March 1 March 31, 2008	803(1)	0.46		
Total	7,625	$ 0.40		

(1) Represents unvested shares of common stock repurchased by us upon the termination of employment or service pursuant to the provisions of our 1999 and 2000 Stock Option Plans.

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

You should read the following selected consolidated historical financial data below in conjunction with the section titled Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements, related notes and schedule, and other financial information included in this Form 10-K. The selected consolidated financial data in this section is not intended to replace the consolidated financial statements and is qualified in its entirety by the consolidated financial statements and related notes and schedule included in this Form 10-K.

	Years Ended March 31,				
	2008 (2)	2007 (2)(3)	2006	2005	2004
	(in thousands, except per share amounts)				
Consolidated Statements of Operations Data:					
Revenue:					
Product	$ 111,683	$ 64,977	$ 37,876	$ 23,698	$ 8,833
Support	6,335	1,191	308		