Super Micro Computer, Inc.
Form 10-K
September 11, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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Form 10-K

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

For the fiscal year ended June 30, 2013

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 001-33383

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Super Micro Computer, Inc.
(Exact name of registrant as specified in its charter)

Delaware	77-0353939
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

980 Rock Avenue
San Jose, CA 95131
(Address of principal executive offices, including zip code)
(408) 503-8000
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock, $0.001 par value per share	The Nasdaq Stock Market LLC

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 x

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

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 x   No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).   Yes x   No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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.   ¨

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

Large accelerated filer ¨   Accelerated filer x

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

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

The aggregate market value of the registrant's Common Stock held by non-affiliates, based upon the closing price of the Common Stock on December 31, 2012, as reported by the Nasdaq Global Select Market, was approximately $331,423,204. Shares of Common Stock held by each executive officer and director and by each person who owns 5% or more of the outstanding Common Stock, based on filings with the Securities and Exchange Commission, have been excluded since such persons may be deemed affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of September 6, 2013 there were 42,702,605 shares of the registrant's common stock, $0.001 par value, outstanding, which is the only class of common stock of the registrant issued.

DOCUMENTS INCORPORATED BY REFERENCE

None

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SUPER MICRO COMPUTER, INC.

ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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This Annual Report on Form 10-K contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended that involve risks and uncertainties. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology including "would," "could," "may," "will," "should," "expect," "intend," "anticipate," "believe," "estimate," "predict," "potential," or "continue," the negative of these terms or other comparable terminology. In evaluating these statements, you should specifically consider various factors, including the risks described below, under "Item 1A Risk Factors", and in other parts of this Form 10-K as well as in our other filings with the SEC. These factors may cause our actual results to differ materially from those anticipated or implied in the forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. We cannot guarantee future results, levels of activity, performance or achievements.

PART I

Item 1.   Business

Overview

We are a global leader in high-performance, high-efficiency server technology and green computing innovation. We develop and provide advanced server Building Block Solutions to Data Center, Cloud Computing, Enterprise, Hadoop/Big Data, High Performance Computing, or HPC, and Embedded markets. Our solutions range from complete server, storage, blade, workstation and full rack solutions to networking devices and server management software, which can be used by distributors, original equipment manufacturers, or OEMs, and end customers. We offer our customers a high degree of flexibility and customization by providing what we believe to be the industry's broadest array of server configurations. Our server systems, subsystems and accessories are architecturally designed to provide highest levels of reliability, quality and scalability, thereby enabling our customers' benefits in the areas of compute performance, density, thermal management and power efficiency to lower their overall total cost of ownership.

We perform the majority of our research and development efforts in-house, which increases the communication and collaboration between design teams, streamlines the development process and reduces time-to-market. We have developed a set of design principles which allow us to aggregate individual industry standard materials to develop proprietary components, such as serverboards, chassis, power supplies, networking and storage devices. This building block approach allows us to provide a broad range of SKUs, and enables us to build and deliver application-optimized solutions based upon customers' requirements. Architecture innovations include Twin, FatTwin, SuperBlade, MicroCloud, Super Storage Bridge Bay, or SBB, Double-Sided Storage, Battery Backup Power, or BBP, modules, Universal I/O, or UIO, and WIO expansion technology. As of June 30, 2013, we offered over 5,200 SKUs, including SKUs for rackmount and blade server systems, serverboards, chassis and power supplies and other system accessories.

We conduct our operations principally from our headquarters in California and subsidiaries in Taiwan, the Netherlands, and China. We sell our server systems and server subsystems and accessories primarily through distributors, which include value added resellers and system integrators, and to a lesser extent to OEMs as well as through our direct sales force. During fiscal year 2013, our products were purchased by over 800 customers, most of which are distributors in 84 countries. None of our customers represent 10% or more of our net sales. We commenced operations in 1993 and have been profitable every year since inception. For fiscal years 2013, 2012 and 2011, our net sales were $1,162.6 million, $1,013.9 million and $942.6 million, respectively, and our net income was $21.3 million, $29.9 million and $40.2 million, respectively.

The Super Micro Solution

We develop and provide high performance server solutions based upon an innovative, modular and open-standard architecture. Our primary competitive advantages arise from how we use our integrated internal research and development organization to develop the intellectual property used in our server solutions. These have enabled us to develop a set of design principles and performance specifications that we refer to as Super SSI that meet industry standard SSI requirements and also incorporate advanced functionality and capabilities. Super SSI provides us with greater flexibility to quickly and efficiently develop new server solutions that are optimized for our customers' specific application requirements. Our modular architectural approach has allowed us to offer our customers interoperable designs across all of our product lines. This modular approach, in turn, enables us to provide what we believe to be the industry's largest array of server systems, subsystems and accessories.

Flexible and Customizable Server Solutions

We provide flexible and customizable server solutions to address the specific application needs of our customers. Our design principles allow us to aggregate industry standard materials to develop proprietary subsystems and accessories, such as serverboards, chassis and power supplies to deliver a broad range of products with superior features. Each subsystem and accessory is built to be backward compatible. We believe this building block approach allows us to provide a broad range of SKUs. As of June 30, 2013, we offered over 5,200 SKUs, including SKUs for rackmount and blade server systems, serverboards, chassis and power supplies and other system accessories.

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Rapid Time-to-Market

We are able to significantly reduce the design and development time required to incorporate the latest technologies and to deliver the next generation application optimized server solutions. Our in-house design competencies and control of the design of many of the components used within our server systems enable us to rapidly develop, build and test server systems, subsystems and accessories with unique configurations. As a result, when new products are brought to market we are generally able to quickly design, integrate and assemble server solutions with little need to re-engineer other portions of our solution. Our efficient design capabilities allow us to offer our customers server solutions incorporating the latest technology with a superior price-to-performance ratio. We work closely with the leading microprocessor vendors to coordinate the design of our new products with their product release schedules, thereby enhancing our ability to rapidly introduce new products incorporating the latest technology.

Improved Power Efficiency and Thermal Management

We leverage advanced technology and system design expertise to reduce the power consumption of our server, blade, workstation and storage systems. We believe that we are an industry leader in power saving technology. Our server solutions include many design innovations to optimize power consumption and manage heat dissipation. We have designed flexible power management systems which customize or eliminate components in an effort to reduce overall power consumption. We have proprietary power supplies that can be integrated across a wide range of server system form factors which can significantly enhance power efficiency. We have also developed technologies that are specifically designed to reduce the effects of heat dissipation from our servers. Our thermal management technology allows our products to achieve a superior price-to-performance ratio while minimizing energy costs and reducing the risk of server malfunction caused by overheating. We have also developed power management software that controls power consumption of server clusters by policy-based administration.

High Density Servers

Our servers are designed to enable customers to maximize computing power while minimizing the physical space utilized. We offer server systems with up to three times the density of conventional solutions, which allows our customers to efficiently deploy our server systems in scale-out configurations. Through our industry leading technology, we can offer significantly more memory and expansion slots than traditional server systems with a comparable server form factor. For example, we offer systems in a 2U configuration with features and capabilities generally offered by competitors only in a server with room for four racks or shelves, or a 4U server, configuration. Our 2U Twin² system contains four full feature DP compute nodes in a 2U chassis which are designed to address the ever-increasing efficiency, density and low total cost of ownership demands of today's high performance computing clusters and data centers. Our TwinBlade, supporting 20 DP nodes and 5 switches in 7U enclosure, achieve even higher performance, density and efficiency and make it the greenest, most power-saving blade solution available. Our MicroCloud, supporting up to 12 nodes in a 3U enclosure, provides a compelling, cost-effective solution for hosting, searching, or cloud computing applications. In addition, our FatTwin solutions contain eight or four full feature DP hot-pluggable compute nodes in a 4U server. The 8-node configuration provides high density and computing power for those compute-demanding applications, while the 4-node configuration offers up to 8 hot-pluggable 3.5" HDDs per U for those applications that require high storage capacity within a compact setting. FatTwin is designed to operate at high temperatures up to 47 degrees Celsius ambient and delivers the highest performance with the most energy efficient technologies and cooling designs currently available on the market.

Strategy

Our objective is to be the leading provider of application optimized, high performance server solutions worldwide. Key elements of our strategy include:

Maintain Our Time-to-Market Advantage

We believe one of our major competitive advantages is our ability to rapidly incorporate the latest computing innovations into our products. We intend to maintain our time-to-market advantage by continuing our investment in our research and development efforts to rapidly develop new proprietary server solutions based on industry standard components. We plan to continue to work closely with Intel, AMD and Nvidia, among others, to develop products that are compatible with the latest generation of industry standard technologies. We believe these efforts will allow us to continue to offer products that lead in price for performance as each generation of computing innovations becomes available.

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Expand Our Product Offerings

We plan to increase the number of products we offer to our customers. Our product portfolio will continue to include additional solutions based on the latest Intel and AMD technologies as well as other technology vendors such as Nvidia. We plan to continue to improve the energy efficiency of our products by enhancing our ability to deliver improved power and thermal management capabilities, as well as servers and subsystems and accessories that can operate in increasingly dense environments. We have introduced and also plan to continue developing and in the future offer additional management software capabilities that are integrated with our server products and will further enable our customers to simplify and automate the deployment, configuration and monitoring of our servers.

Further Develop Existing Markets and Expand Into New Markets

We intend to strengthen our relationships with existing customers and add new distributors and OEM partners. We will continue to target specific industry segments that require application optimized server solutions including data center environments, financial services, oil and gas exploration, biotechnology, entertainment and embedded applications. We have begun manufacturing and service operations in the Netherlands and Taiwan in support of European and Asian customers and we plan to continue to increase our overseas manufacturing capacity and logistics capabilities and expand our reach geographically.

Strengthen Our Relationships with Suppliers and Manufacturers

Our efficient supply chain and combined internal and outsourced manufacturing allow us to build systems to order that are customized, while minimizing costs. We plan to continue leveraging our relationships with suppliers and contract manufacturers in order to maintain and improve our cost structure as we benefit from economies of scale. We intend to continue to source non-core products from external suppliers. We also believe that as our solutions continue to gain greater market acceptance, we will generate growing and recurring business for our suppliers and contract manufacturers. We believe this increased volume will enable us to receive better pricing and achieve higher margins. We believe that a highly disciplined approach to cost control is critical to success in our industry. For example, we continue to maintain our warehousing capacity in Asia through our relationship with Ablecom Technology, Inc., or Ablecom, one of our major contract manufacturers and a related party, so that we continue to deliver products to our customers in Asia and elsewhere more quickly and in higher volumes.

Advanced Blade Server Technology

To meet the emerging demand for blade servers, we have developed and continued to improve our high-performance blade server solutions, called SuperBlades. Our SuperBlades are designed to share a common computing infrastructure, thereby saving additional space and power. Our SuperBlades are self-contained servers designed to achieve industry leading density and superior performance per square foot at a lower total cost of ownership. The SuperBlade's enclosure provides power, cooling, networking, various interconnects and system-level management and supports both Intel Xeon and AMD Opteron processors. By creating a range of unique blade server offerings, we provide our customers with solutions that can be customized to fit their needs. In addition, the SuperBlade power supplies provide 94%+ gold level or above efficiency, which is currently considered the highest AC power supply efficiency in today's blade solutions providing extreme electricity cost saving. We believe that our SuperBlade server system provides industry leading density, memory expandability, reliability, price-to-performance per square foot and energy saving. We also offer our TwinBlade SuperBlade configuration which includes two dual processor blades into one slot. The TwinBlade with the most current Infiniband fourteen data rate, or FDR, connection enables the new SuperBlade to achieve even higher performance, density and efficiency by doubling the number of dual-processor compute nodes per 7U enclosure from 10 to 20. In addition to its superior processing power, TwinBlade combines 94%+ power supply efficiency with our innovative and highly efficient thermal and cooling system designs making it

the greenest, most power-saving blade solution available. Our Graphics Processing Units (GPU) SuperBlade, which supports up to 30 GPUs and 20 Central Processing Units (CPUs) in a single 7U blade enclosure, delivers maximum performance with the best CPU to GPU balance and optimized I/O.

Products

We offer a broad range of application optimized server solutions, including complete rackmount and blade server systems and subsystems and accessories which customers can use to build complete server systems.

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Server Systems

We sell server systems in rackmount, standalone tower and blade form factors. We currently offer a complete range of server options with single, dual and quad CPU capability supporting Intel Pentium and Xeon multi-core architectures in 1U, 2U, 3U, 4U, tower and blade form factors. We also offer complete server systems based on AMD single, dual and quad Opteron in 1U, 2U, 4U and blade form factors. As of June 30, 2013, we offered over 950 different server systems. For each system, we offer multiple chassis designs and power supply options to best suit customer requirements. We also offer multiple configurations based on our latest generation systems with most comprehensive selections of chassis and serverboards. A majority of our most common systems are also available in minimum 1U or 1/2 depth form factors which are approximately one half of the size of standard sized rackmount servers.

The figure below depicts a typical rackmount server and the different components that we typically optimize for our customers. The layout presented is for illustrative purposes only and does not represent the typical layout of all our servers.

A. Chassis: Industry standard 1U rackmount chassis that allows server interoperability while efficiently housing key server components.

B. Power Supply: High efficiency, cost effective AC energy saving power supply. DC power supplies and Battery Backup Power BBP® modules are also available.

C. Memory: Scalable memory expansion capability.

D. Intelligent Platform Management Interface: Monitors onboard instrumentation for server health and allows remote management and KVM-over-LAN for the entire network via a single keyboard, monitor and mouse.

E. Processor: Programmable CPUs, Many Integrated Core (MIC) co-processors, and GPUs, that performs all server instructions and logic processing, plus some cache memory and I/O functions. Supermicro servers support single, dual, and quad multi core processors from major suppliers such as Intel, NVIDA, and AMD.

F. Expansion Modules: Allows increased functionality, I/O customization and flexibility.

G. Thermal Management: Pulse Width Modulated counter rotating and redundant fan controls that provide optimum cooling and energy saving and dissipation of server component heat.

H. Disk Drives: Storage medium for operating system, applications, and data. We offer "power-on" hot-swappable capability.

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Below is a table that summarizes the most common server configurations purchased by our customers. We also design and build other customized systems using these and other building blocks to meet specific customer requirements.

Server System Model	CPU	Memory	Drive Bays	Form Factor	SKUs
5000 Series	Core 2 Duo, Core 2 Quad, Xeon, Core i7, Core i5, Core i3, E5-2600/1600, E3-1200, Atom, Celeron Pentium	Unbuffered DDR3, ECC Registered DDR3	1 to 8 drives	1U, 2U, Mid-tower	105 models
6000 Series	Dual Xeon (Dual/Quad/Six/Eight Core)	DDR3, ECC Registered DDR3	1 to 16 drives	1U, 2U, 3U	239 models
7000 Series	Dual Xeon (Dual/Quad/Six/Eight Core)	DDR3, ECC Registered DDR3	1 to 8 drives	4U, Tower	52 models
8000 Series	Quad Xeon (Quad/Six/Eight/Ten Core), MP Xeon (Quad/Six/Eight Core)	ECC Registered DDR3	1 to 48 drives	1U, 2U, 4U, Tower	17 models
FatTwin	Dual Xeon (Quad, Six, Eight Core)	ECC Registered DDR3	1 to 12 drives	4U	27 models
MicroCloud	Single Xeon, Core i3 & Pentium	Unbuffered DDR3, ECC Registered DDR3	1 to 4 drives	3U	5 models
SuperBlade	Dual Xeon (Quad/Six/Eight Core), Dual/Quad/MP Opteron (Quad Core/ Six/Eight/Twelve/Sixteen Core)	ECC Registered DDR3	1 to 6 drives	7U	65 models
SuperStorage	Dual Xeon (Quad/Six/Eight Core)	ECC Registered DDR3	12 to 72 drives	2U, 3U, 4U	16 models

We offer a variety of server storage options depending upon the system, with disk drive alternatives including small computer system interface, serial advanced technology attachment, or SATA, SATAII, or SAS, SASII and SAS3.0, Intelligent Drive Electronics, or IDE, and serial attached SCSI.

For our remote system management solutions, we offer server management utilities in addition to the standard features provided by the baseboard management controller, or BMC, through our Intelligent Platform Management Interface, or IPMI 2.0. BMCs, which are specialized processors that perform monitoring and control functions independently of the CPU, are sold as part of our server systems and as a standard for almost all our serverboards and server systems. Server management information from the BMC can be received through the built-in BMC Web User Interface, and standalone IPMI utilities. The IPMI solutions provide remote access for debugging, monitoring system health and administration functionality for our server platforms. Our IPMI solutions include key capabilities such as remote hardware status, failure notification, as well as the ability to power-cycle non-responsive servers and to manage the system through out-of-band network or KVM (keyboard, video and mouse) functionality over LAN. As a part of the system management solution, our BMC monitors onboard instrumentation such as temperature sensors, power status, voltages and fan speed, and provides remote power control capabilities to reboot and reset the server. It also includes remote access to the Basic Input/Output System, or BIOS, configuration and operating system console information.

Furthermore, Supermicro Power Management software, or SPM, Supermicro Command Manager, or SCM, Supermicro Update Manager, or SUM, and SuperDoctor 5, or SD5, have been designed for server farm or datacenters' system administration and management. These remote management software utilities provide the ability to manage large-scale servers and storage in an organization's IT infrastructure. It includes optional modules as well as the capability of incorporating third-party plug-in software, which is connected within a common framework and enables communication between devices. SUM remotely updates BIOS, firmware and system settings through an Out-of-Band, or OOB, interface and can perform operations independent of the operating system environment. SD5 is the latest generation of SuperDoctor products and builds upon over 15 years of in-production service assisting our customers with their server system health monitoring. SPM is designed specifically for HPC/Data Center cluster deployment and management. The Command Line Interface, or CLI, which utilizes the Linux operating system, provides a convenient working environment for our system integrator or the cluster administrator

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to deploy, configure, control, and manage the HPC cluster. Our server management utilities mentioned above can leverage the existing IPMI solutions to integrate management functions.

Server Subsystems and Accessories

We believe we offer the largest array of modular server subsystems and accessories or building blocks in the industry that are sold off the shelf or built-to-order. These components are the foundation of our server solutions and span product offerings from the entry-level single and dual processor server segment to the high-end multi-processor market. The majority of the subsystems and accessories we sell individually are optimized to work together and are ultimately integrated into complete server systems.

Serverboards

We design our serverboards with the latest chipset and networking technologies. Each serverboard is designed and optimized to adhere to specific physical, electrical and design requirements in order to work with certain combinations of chassis and power supplies and achieve maximum functionality. For our rackmount server systems, we not only adhere to SSI specifications, but our Super SSI specifications provide an advanced set of features that increase the functionality and flexibility of our products.

The following table displays some of our most common serverboard configurations purchased by our customers including X10 Haswell (Intel's 4th generation Core i3 Dual and Quad Core Xeon E3-1200 v3 family), X9 Sandy Bridge (Intel's generation of Dual, Quad and Eight Core Xeon E3-1200/E5 2600 family), X8 (Intel's generation of Six and Eight Core, Dual and Quad Core Xeon 5600/5500/3600/3500 series) and H8 (AMD's generation of Six, Eight, Twelve, Sixteen, Dual and Quad Core Opteron 200, 800 and 6000 series). As of June 30, 2013, we offered more than 550 SKUs for serverboards.

Serverboard Model	CPU	System Bus	Form Factor	Memory	SKUs
X10 Series	UP Xeon (Dual/Quad Core)	1600MHz	Advanced Technology Extended (ATX), Micro Advanced Technology Extended (uATX), MicroCloud	Unbuffered DIMM, DDR3	13 models
X9 Series	DP/UP Xeon (Dual/Quad/Eight Core)	QPI up to 8.0 GT/s	Twin, WIO, ATX, uATX	ECC Registered DDR3, Unbuffered DIMM	138 models
X8 Series	Dual Xeon (Dual/Quad/Six Core), UP Xeon (Dual/Quad/Six Core), MP Xeon (Quad/Six/Eight Core)	QPI up to 6.4 GT/s	Twin, UIO, Extended ATX (EATX), ATX	ECC Registered DDR3, Unbuffered DIMM	110 models
C2, C7 Series	Pentium D (Dual/Quad/Six Core)	1333/1066/800 MHz	ATX, uATX	Unbuffered DIMM, DDR3	28 models

| H8 Series | Dual/Quad/MP Opteron (Dual/Quad/Six/Eight/ Twelve/Sixteen Core) | Hypertransport/HT3 | Twin, UIO, ATX, EATX | ECC Registered DDR3, Unbuffered DIMM | 80 models |

Chassis and Power Supplies

Our chassis are designed to efficiently house our servers while maintaining interoperability, adhering to industry standards and increasing output efficiency through power supply design. We believe that our latest generation of power supplies achieves the maximum power efficiency available in the industry. In addition, we have developed a remote management system that offers the ability to stagger the startup of systems and reduce the aggregate power draw at system boot to allow customers to increase the number of systems attached to a power circuit. We design DC power solutions to be

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compatible with data centers that have AC, DC or AC and DC based power distribution infrastructures. We believe our unique power design technology reduces power consumption by increasing power efficiency up to 95%, which we believe is among the most efficient available in the industry. Our server chassis come with hot-plug, heavy-duty fans, fan speed control and an advanced air shroud design to maximize airflow redundancy. We have developed Battery Backup Power, or BBP, modules which provide the same dimension, output pin assignment and work with some existing AC hot swap redundant module models seamlessly. BBP can further increase datacenter power efficiency 5% to 15% by replacing existing datacenter UPS systems with BBP modules.

The table below depicts some of the most common chassis configurations purchased by our customers including 500-series (front I/O options and space constrained environments), 700-series (Tower, 4U rackmount servers and workstations), 800-series (most widely used for single, dual and quad processor servers and storage systems), 900-series (for high-density storage applications) and 100/200/400-series (for 2.5" hard disk drives server and ultra high density storage) chassis products. These chassis solutions offer redundant power, hold swap power supply, redundant cooling fan options and high efficiency AC and DC power combinations. As of June 30, 2013, we offered more than 700 SKUs for chassis and power supplies.

Chassis Model	CPU Support	Expansions	Drive Bays	Power Supply	Form Factor	SKUs
SC100 Series	Xeon, Pentium, Opteron, Atom	Up to 5 slots	4 to 10 drives (2.5" HDD)	330W to 1800W – single/redundant	1U, Mini-1U, Box PC	40 models
SC200 Series	Xeon, Pentium, Opteron, Atom	Up to 7 slots	8 to 26 drives (2.5" HDD)	500W to 1800W – single/redundant	2U	47 models
SC400 Series	Xeon, Pentium, Opteron, Atom	Up to 11 slots	24 to 88 drives (2.5" HDD)	1400W to 1800W – single/redundant	4U	6 models
SC500 Series	Xeon, Pentium, Opteron, Atom	Up to 7 slots	1 to 4 drives	200W to 600W	Mini-1U, 2U	52 models
SC700 Series	Xeon, Pentium, Opteron, Atom	Up to 11 slots	4 to 10 drives	300W to 1600W – single/redundant	4U, Tower, Mid-tower	102 models
SC800 Series	Xeon, Pentium, Opteron, Quad Processer, Atom	Up to 11 slots	2 to 72 drives	260W to 1800W – single/redundant	1U, 2U, 3U, 4U	328 models
SC900 Series	Xeon, Pentium, Opteron, Atom	Up to 8 slots	Up to 16 drives	550W to 1600W – single/redundant	3U, 4U, Tower	20 models

Other System Accessories

As part of our server component offerings, we also offer other system accessories that our customers may require or that we use to build our server solutions. These other products include, among others, microprocessors, memory and disc drives that generally are third party developed and manufactured products that we resell without modification. As of June 30, 2013, we offered more than 3,000 SKUs for other system accessories.

Technology

We are focused on providing leading edge, high performance products for our customers. We have developed a design process to rapidly deliver products with superior features. The technology incorporated in our products is designed to provide high levels of reliability, quality, security and scalability. Our most advanced technology is developed in-house, which allows us to efficiently implement advanced capabilities into our server solutions. We work in collaboration with our key customers and suppliers to constantly improve upon our designs, reduce complexity and improve reliability.

Our rackmount and tower server solutions are based on our Super SSI architecture, which incorporates proprietary I/O expansion, thermal and cooling design features as well as high-efficiency power supplies. For example, our 1U servers now offer up to 5 I/O expansion slots with up to 32 DIMM slots to accommodate up to 1TB of memory, which, prior to Super SSI, was only possible in a 2U chassis. We also achieved higher memory densities by designing customized serverboards to include 16 memory slots without sacrificing I/O expansion capability. The result is what we believe to be a superior serverboard design

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that provides our customers with increased flexibility for their new and legacy add-on card support and the ability to keep up with the growing memory requirements needed to maintain system performance requirements.

Our latest chassis designs include advanced cooling mechanisms such as proprietary air shrouds to help deliver cool air directly to the hottest components of the system resulting in improved cooling efficiency and consequently increased system reliability. Our newest generation of power supplies incorporates advanced design features that provide what we believe to be the highest level of efficiency in the industry and therefore reduce overall power consumption. Our advanced power supply solutions include volume shipments of the industry's first 1U chassis and servers with up to 95% power efficiency.

Our 1U Twin, 2U Twin, 2U Twin², 2U Twin³, TwinBlade and FatTwin product lines are optimized for density, performance and efficiency, and have been rapidly adopted by customers and other manufacturers. Our FatTwin line featuring superior architecture, high efficiency power supplies and an advanced thermal solution is optimized for customers' storage, HPC and cloud computing requirements. This line includes power saving system featuring 16% lower power consumption over the life of the system, HPC GPU/Xeon Phi system accommodating up to 12 GPU or Xeon Phi cards in 4U and Haddop Big/Data system accommodating up to 12 fixed 3.5" HDDs plus optional 2 fixed 2.5" HDDs in 4U. Our GPU/Xeon Phi optimized product line in 1U, 2U, 4U and blade platforms provides extreme performance in calculation intensive applications. Our Atom server line featuring low power, low noise and small form factor is optimized for embedded and server appliance applications. Our innovative double-sided storage provides high density with the ability of hot-plug from front and back sides. Our Super Storage Bridge Bay (SBB) is optimized for mission-critical, enterprise-level storage applications which can incorporate or bridge SATA, SAS, and FC storage solutions and provides hot-swappable canisters for all active components in the server.

We have developed standalone switch products, which include 1G Ethernet and 10G Ethernet for rack-mount servers. These switch products not only help us to up-sell our server products, but also generate additional revenues.

Our SuperRack product lines offer a wide range of flexible accessory options including front, rear and side expansion units to provide modular solutions for system configuration. Data center, high-performance Cloud Computing and server farm customers can use us as a one-stop shop for all of their IT hardware needs. Our SuperRack offers easy installation and rear access with no obstructions for hot-swap devices, user-friendly cabling and cable identification, and effortless integration of our high-density server, storage and blade systems.

Our MicroCloud product lines are high-density, multi-node UP servers with up to 12 hot-pluggable nodes and 16 hot-swappable HDDs in a compact 3U form factor. MicroCloud integrates advanced technologies within a compact functional design to deliver high performance in environments with space and power limitations. The entire system is designed with efficiency in mind from its ease of maintenance to is high-efficiency, redundant Platinum Level (94%+) power modules. These combined features provide a compelling, cost-effective solution for IT professionals implementing new hosting architectures for SMB and Public/Private Cloud Computing applications.

Research and Development

We have over 20 years of research and development experience in server subsystems and accessories design and in recent years, have devoted additional resources to the design of server systems. Our engineering staff is responsible for the design, development, quality, documentation and release of our products. We continuously seek ways to optimize and improve the performance of our existing product portfolio and introduce new products to address market opportunities. We perform the majority of our research and development efforts in-house, increasing the communication and collaboration between design teams to streamline the development process and reducing time-to-market. We are determined to continue to reduce our design and manufacturing costs and improve the performance, cost effectiveness and thermal and space efficiency of our solutions.

Over the years, our research and development team has focused on the development of new and enhanced products that can support emerging protocols while continuing to accommodate legacy technologies. Much of our research and development activity is focused on the new product cycles of leading chipset vendors. We work closely with Intel, AMD and Nvidia, among others, to develop products that are compatible with the latest generation of industry standard technologies under development. Our collaborative approach with the chipset vendors allows us to coordinate the design of our new products with their product release schedules, thereby enhancing our ability to rapidly introduce new products incorporating the latest technology. We work closely with their development teams to optimize chip performance and reduce system level issues. Similarly, we work very closely with our customers to identify their needs and develop our new product plans accordingly.

We believe that the combination of our focus on internal research and development activities, our close working relationships with chipset vendors and our modular design approach allow us to minimize time-to-market. Since 2007, we believe we were the first to introduce the following new technologies to the market:

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- 1U Twin design, including two DP boards configured in a 1U chassis which increases the density and reduces the power consumption;
- The industry's first 1U multiple-output silver-level certified power supply supporting our 2.5" HDD server / storage solutions;
- 2U Twin² design, including four DP boards configured in a 2U chassis with hot-plug servers and redundant power which increases the density and reduces the power consumption;
- The industry's first optimized GPU 1U server providing extreme performance in graphics and computationally intensive applications;
- TwinBlade design, supporting up to 20 dual-socket server blades in a 7U enclosure with 56Gb/s Infiniband, or 10Gb Ethernet connectivity as options which provides the maximum density and reduces the power consumption by doubling the number of dual-processor compute nodes per 7U enclosure from 10 to 20;
- The industry's first line of double-sided storage chassis enabling extra high-density storage with ability of hot-plug front and back sides;
- 2U Twin³ design, including eight UP nodes configured in a 2U chassis with hot-plug servers and redundant power which increases the density and reduces the power consumption particularly for Cloud Computing;
- The 8-way server, the first glueless design 5U including 8 CPUs with 80 cores, 2TB of memory and high-efficiency redundant platform-level power supplies. It's ideal for enterprise mission critical and virtualization applications;
- MicroCloud design, supporting up to 12 UP nodes in a 3U enclosure with its high density and high efficiency features make it an optimized solution for hosting and cloud applications in an extremely low power consumption configuration;
- GPU SuperBlade, supporting 20 GPUs in a single 7U blade enclosure which delivers maximum performance with the design CPU to GPU balance and optimized I/O;
- Redundant BBP module design, using less than 1W at 99.9% power efficiency to maintain a full charge which provides maximum system protection against power disruption. It's ideal for environments with AC reliability issues or in need of backup power solutions;
- The 4-way MP server design, supporting up to 4 CPUs with 8 or 6 cores, 1TB of memory, up to 8 PCI-E 3.0 and dual 1Gbe or 10GBase-T interconnectivity which makes it ideal for mission critical and data-intensive applications; and
- FatTwin design, offering versatile configurations for HPC with multi-node models that support up to 135W processors, up to 8 hot-swap 3.5"HDDs in 1U and up to 8 dual-processor nodes in a standard 4U rackmount server while eliminating costly air-conditioning and cooling methods. With free-air cooling designs and an extreme operational temperature up to 47 degrees Celsius ambient, it helps Data Centers achieve the best power usage effectiveness.

As of June 30, 2013, we had 660 employees and 4 engineering consultants dedicated to research and development. Our total research and development expenses were $75.2 million, $64.2 million, and $48.1 million for fiscal years 2013, 2012 and 2011, respectively. The increase in our research and development expenses in fiscal year 2013 and 2012 was primarily due to our growth in research and development personnel related to expanded product development initiatives in the United States and in Taiwan and an increase in development costs incurred for new products associated with the Intel's Sandy Bridge, Haswell, Ivy Bridge processors and our FatTwin products.

Sales, Marketing and Customer Service

Our sales and marketing program is primarily focused on indirect sales channels. As of June 30, 2013, our sales and marketing organization consisted of 191 employees and 27 independent sales representatives in 18 locations worldwide.

We work with distributors, including resellers and system integrators, and OEMs to market and sell customized solutions to their end customers. We provide sales and marketing assistance and training to our distributors and

OEMs, who in turn provide service and support to end customers. We intend to leverage our relationships with key distributors and OEMs to penetrate select industry segments where our products can provide a superior alternative to existing solutions. For a more limited group of customers who do not normally purchase through distributors or OEMs, we have implemented a direct sales approach.

We maintain close contact with our distributors and end customers. We often collaborate during the sales process with our distributors and the customer's technical point of contact to help determine the optimal system configuration for the customer's needs. Our interaction with distributors and end customers allows us to monitor customer requirements and develop new products to better meet end customer needs.

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International Sales

Product fulfillment and first level support for our international customers are provided by our distributors and OEMs. Our international sales efforts are supported both by our international offices in the Netherlands, Taiwan and China as well as by our U.S. sales organization. Sales to customers located outside of the U.S. represented 45.8%, 41.8% and 41.7% of net sales in fiscal years 2013, 2012 and 2011, respectively.

Marketing

Our marketing programs are designed to inform existing and potential customers, the trade press, distributors and OEMs about the capabilities and benefits of using our products and solutions. Our marketing efforts support the sale and distribution of our products through our distribution channels. We rely on a variety of marketing vehicles, including advertising, public relations, participation in industry trade shows and conferences to help gain market acceptance. We also provide funds for cooperative marketing to our distributors. These funds reimburse our distributors for promotional spending they may do on behalf of promoting Supermicro products. Promotional spending by distributors is subject to our pre-approval and includes items such as film or video for television, magazine or newspaper advertisements, trade show promotions and sales force promotions. The amount available to each distributor is based on its amount of purchases. We also work closely with leading microprocessor vendors in cooperative marketing programs and benefit from market development funds that they make available. These programs are similar to the programs we make available to our distributors in that we are reimbursed for expenses incurred related to promoting the vendor's product.

Customer Service

We provide customer support for our blade and rackmount server systems through our website and 24-hour continuous direct phone based support. For strategic direct and OEM customers, we also have higher levels of customer service available, including, in some cases, on site service and support.

Customers

For fiscal year 2013, our products were purchased by over 800 customers, most of which are distributors, in 84 countries. None of our customers accounted for 10% or more of our net sales in fiscal years 2013, 2012 and 2011. End users of our products span a broad range of industries.

Intellectual Property

We seek to protect our intellectual property rights with a combination of trademark, copyright, trade secret laws and disclosure restrictions. We rely primarily on trade secrets, technical know-how and other unpatented proprietary information relating to our design and product development activities. We have issued patents and pending patent applications in the U.S. We also enter into confidentiality and proprietary rights agreements with our employees, consultants and other third parties and control access to our designs, documentation and other proprietary information.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or obtain and use information that we regard as proprietary. We cannot assure you that the steps taken by us will prevent misappropriation of our technology. We cannot assure you that patents will issue from our pending or future applications or that, with respect to our issued or any future patents, they will not be challenged, invalidated or circumvented, or that the rights granted under the patents will provide us with meaningful protection or any commercial advantage. In addition, the laws of some foreign countries do not protect our proprietary rights to as great

an extent as the laws of the United States, and many foreign countries do not enforce these laws as diligently as government agencies and private parties in the United States.

Our industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patent and other intellectual property rights. From time-to-time, third parties, including competitors, may assert patent, copyright, trademark or other intellectual property rights against us, our channel partners or our end-customers. Successful claims of infringement by a third party could prevent us from performing certain services or require us to pay substantial damages, royalties or other fees. Even if third parties may offer a license to their technology, the terms of any offered license may not be acceptable and the failure to obtain a license or the costs associated with any license could cause our business, operating results or financial condition to be materially and adversely affected. We typically indemnify our end-customers and distributors against claims that our products infringe the intellectual property of third parties.

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Manufacturing and Quality Control

We use several third party suppliers and contract manufacturers for materials and sub-assemblies, such as serverboards, chassis, disk drives, power supplies, fans and computer processors. We believe that selectively using outsourced manufacturing services allows us to focus on our core competencies in product design and development and increases our operational flexibility. Our manufacturing strategy allows us to quickly adjust manufacturing capacity in response to changes in customer demand and to rapidly introduce new products to the market. We use Ablecom, a related party, for contract design and manufacturing coordination support. We work with Ablecom to optimize modular designs for our chassis and certain of our other components. Ablecom coordinates the manufacturing of chassis for us. In addition to providing a larger volume of contract manufacturing services for us, Ablecom continues to warehouse for us a number of components and subassemblies manufactured by multiple suppliers prior to shipment to our facilities in the U.S., Europe and Asia.

Assembly, test and quality control of our servers are performed at our wholly-owned manufacturing facility in San Jose, California which Quality / Environmental Management System or, Q/EMS, has been certified according to ISO 9001 and ISO 14001 standards since 2001 and 2010, respectively. In fiscal year 2010, we began server integration operations in our Netherlands and Taiwan facilities to be closer to our key international customers and to reduce costs of shipping our products to our customers. The Q/EMS of these facilities have also been certified according to ISO 9001:2008 and ISO 14001:2004 standards. Consequently, our suppliers and contract manufacturers are required to comply with the same standards in order to maintain consistent product and service quality and continuous improvement of quality and environmental performances.

We seek to maintain sufficient inventory such that most of our orders can be filled within 14 days. We monitor our inventory on a continuous basis in order to be able to meet customer orders and to avoid inventory obsolescence. Due to our modular designs, our inventory can generally be used with multiple different products, further reducing the risk of inventory write-downs.

Competition

The market for our products is highly competitive, rapidly evolving and subject to new technological developments, changing customer needs and new product introductions. We compete primarily with large vendors of x86 general purpose servers and components. In addition, we also compete with a number of smaller vendors who specialize in the sale of server components and systems. We believe our principal competitors include:

- Global technology vendors such as Dell Inc., Hewlett-Packard Company, International Business Machines Corporation, Cisco and Intel;
- Original Design Manufacturers, or ODMs, such as Quanta Computer, Inc.

The principal competitive factors in our market include the following:

- first to market with new emerging technologies;
- flexible and customizable products to fit customers' objectives;
- high product performance and reliability;
- early identification of emerging opportunities;
- cost-effectiveness;
- interoperability of products;
- scalability; and
- localized and responsive customer support on a worldwide basis.

We believe that we compete favorably with respect to most of these factors. However, most of our competitors have longer operating histories, significantly greater resources and greater name recognition. They may be able to devote greater resources to the development, promotion and sale of their products than we can, which could allow them to respond more quickly to new technologies and changes in customer needs.

Employees

As of June 30, 2013, we employed 1,564 full time employees and 31 consultants, consisting of 660 employees in research and development, 191 employees in sales and marketing, 134 employees in general and administrative and 579 employees in manufacturing. Of these employees, 1,084 employees are based in our San Jose facility. We consider our highly qualified and motivated employees to be a key factor in our business success. Our employees are not represented by any

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collective bargaining organization and we have never experienced a work stoppage. We believe that our relations with our employees are good.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act are available free of charge, on or through our website at www.supermicro.com, as soon as reasonably practicable after we electronically file such reports with, or furnish those reports to, the Securities and Exchange Commission. Information contained on our website is not incorporated by reference in, or made part of this Annual Report on Form 10-K or our other filings with or reports furnished to the Securities and Exchange Commission.

Item 1A.   Risk Factors

Risks Related to Our Business and Industry
Our quarterly operating results will likely fluctuate in the future, which could cause rapid declines in our stock price.
As our business continues to grow, we believe that our quarterly operating results will be subject to greater fluctuation due to various factors, many of which are beyond our control. Factors that may affect quarterly operating results in the future include:

- unpredictability of the timing and size of customer orders, since most of our customers purchase our products on a purchase order basis rather than pursuant to a long term contract;
- fluctuations in availability and costs associated with key components and other materials needed to satisfy customer requirements;
- variability of our margins based on the mix of server systems, subsystems and accessories we sell;
- the timing of the introduction of new products by leading microprocessor vendors and other suppliers;
- our ability to address technology issues as they arise, improve our products' functionality and expand our product offerings;
- changes in our product pricing policies, including those made in response to new product announcements and pricing changes of our competitors;
- mix of whether customer purchases are of full systems or subsystems and accessories and whether made directly or through indirect sales channels;
- fluctuations based upon seasonality, with the quarters ending March 31 and September 30 typically being weaker;
- the effect of mergers and acquisitions among our competitors, suppliers or partners;
- general economic conditions in our geographic markets; and
- impact of regulatory changes on our cost of doing business.

Accordingly, it is difficult to accurately forecast our growth and results of operations on a quarterly basis. If we fail to meet expectations of investors or analysts, our stock price may fall rapidly and without notice. Furthermore, the fluctuation of quarterly operating results may render less meaningful period-to-period comparisons of our operating results, and you should not rely upon them as an indication of future performance.

We may fail to meet publicly announced financial guidance or other expectations about our business, which would cause our stock to decline in value.
We typically provide forward looking financial guidance when we announce our financial results from the prior quarter. We undertake no obligation to update such guidance at any time. Frequently in the past, and in particularly during the last two

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fiscal years, our financial results have failed to meet the guidance we provided. There are a number of reasons why we might fail, including, but not limited to, the factors described in the preceding Risk Factor.

Our cost structure and ability to deliver server solutions to customers in a timely manner may be adversely affected by volatility of the market for core components and materials for our products.

Prices of materials and core components utilized in the manufacture of our server solutions, such as serverboards, chassis, central processing units, or CPUs, memory and hard drives represent a significant portion of our cost of sales. We generally do not enter into long-term supply contracts for these materials and core components, but instead purchase these materials and components on a purchase order basis. Prices of these core components and materials are volatile, and, as a result, it is difficult to predict expense levels and operating results. In addition, if our business growth renders it necessary or appropriate to transition to longer term contracts with materials and core component suppliers, our costs may increase and our gross margins could correspondingly decrease.

Because we often acquire materials and core components on an as needed basis, we may be limited in our ability to effectively and efficiently respond to customer orders because of the then-current availability or the terms and pricing of materials and core components. Our industry has experienced materials shortages and delivery delays in the past, and we may experience shortages or delays of critical materials in the future. From time to time, we have been forced to delay the introduction of certain of our products or the fulfillment of customer orders as a result of shortages of materials and core components. For example, we were unable to fulfill certain orders at the end of the quarter ended June 30, 2010 due to component shortages and our net sales were adversely impacted in fiscal year 2012 and 2013 by disk drive shortages resulting from the flooding in Thailand. If shortages or delays arise, the prices of these materials and core components may increase or the materials and core components may not be available at all. In addition, in the event of shortages, some of our larger competitors may have greater abilities to obtain materials and core components due to their larger purchasing power. We may not be able to secure enough core components or materials at reasonable prices or of acceptable quality to build new products to meet customer demand, which could adversely affect our business and financial results.

We may incur additional expenses and suffer lower margins if our expectations regarding long term hard disk drive commitments prove incorrect.

Notwithstanding our general practice of not entering into long term supply contracts, as a result of severe flooding in Thailand during the first quarter of fiscal year 2012, we have entered into purchase agreements with selected suppliers of hard disk drives in order to ensure continuity of supply for these components. The hard disk drive purchase commitments totaled approximately $132.1 million as of June 30, 2013 and will be paid through December 2014. Higher costs compared to the lower selling prices for these components incurred under these agreements contributed to our lower gross profit in fiscal year 2013 and will likely impact our gross profit in the future. This and any other similar future supply commitments that we may enter into expose us to risk for lower margins or loss on disposal of such inventory if our expectations of customer demand are incorrect and the market price of the material or component inventory decline.

We may lose sales or incur unexpected expenses relating to insufficient, excess or obsolete inventory.

As a result of our strategy to provide greater choice and customization of our products to our customers, we are required to maintain a high level of inventory. If we fail to maintain sufficient inventory, we may not be able to meet demand for our products on a timely basis, and our sales may suffer. If we overestimate customer demand for our products, we could experience excess inventory of our products and be unable to sell those products at a reasonable price, or at all. As a result, we may need to record higher inventory reserves. In addition, from time to time we assume greater inventory risk in connection with the purchase or manufacture of more specialized components in connection

with higher volume sales opportunities. We have from time to time experienced inventory write downs associated with higher volume sales that were not completed as anticipated. For example, we recorded a reserve in the quarter ended March 31, 2013 and the quarter ended June 30, 2013 relating to specialized inventory purchased for one customer. We expect that we will experience such write downs from time to time in the future related to existing and future commitments. If we are later able to sell inventory with respect to which we have taken a reserve at a profit, it may increase the quarterly variances in our operating results. Additionally, the rapid pace of innovation in our industry could render significant portions of our existing inventory obsolete. Certain of our distributors and OEMs have rights to return products, limited to purchases over a specified period of time, generally within 60 to 90 days of the purchase, or to products in the distributor's or OEM's inventory at certain times, such as termination of the agreement or product obsolescence. Any returns under these arrangements could result in additional obsolete inventory. In addition, server systems, subsystems and accessories that have been customized and later returned by those of our customers and partners who have return rights or stock rotation rights may be unusable for other purposes or may require reformation at additional cost to be made ready for sale to other customers. Excess or obsolete inventory levels for these or other reasons could result in

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unexpected expenses or increases in our reserves against potential future charges which would adversely affect our business and financial results. For example, during fiscal years 2013, 2012 and 2011, we recorded inventory write-downs charged to cost of sales of $9.7 million, $8.6 million and $3.4 million, for lower of cost or market and excess and obsolete inventory. For additional information regarding customer return rights, see "Management's Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Policies-Revenue Recognition."

If we do not successfully manage the expansion of our international manufacturing operations, our business could be harmed.

Since inception we have conducted substantially all of our manufacturing operations near our corporate headquarters in California. We have recently begun significant manufacturing operations in Taiwan and more limited manufacturing operations in the Netherlands. The commencement of new manufacturing operations in new locations, particularly in other jurisdictions, entails additional risks and challenges. If we are unable to successfully ramp up these operations we may incur unanticipated costs, difficulties in making timely delivery of products or suffer other business disruptions which could adversely impact our results of operations.

We may not be able to successfully manage our planned growth and expansion.

Over time we expect to continue to make investments to pursue new customers and expand our product offerings to grow our business rapidly. We expect that our annual operating expenses will continue to increase as we invest in sales and marketing, research and development, manufacturing and production infrastructure, and strengthen customer service and support resources for our customers. Our failure to expand operational and financial systems timely or efficiently could result in additional operating inefficiencies, which could increase our costs and expenses more than we had planned and prevent us from successfully executing our business plan. We may not be able to offset the costs of operation expansion by leveraging the economies of scale from our growth in negotiations with our suppliers and contract manufacturers. Additionally, if we increase our operating expenses in anticipation of the growth of our business and this growth does not meet our expectations, our financial results will be negatively impacted.

If our business grows, we will have to manage additional product design projects, materials procurement processes, and sales efforts and marketing for an increasing number of SKUs, as well as expand the number and scope of our relationships with suppliers, distributors and end customers. If we fail to manage these additional responsibilities and relationships successfully, we may incur significant costs, which may negatively impact our operating results. Additionally, in our efforts to be first to market with new products with innovative functionality and features, we may devote significant research and development resources to products and product features for which a market does not develop quickly, or at all. If we are not able to predict market trends accurately, we may not benefit from such research and development activities, and our results of operations may suffer.

We may encounter difficulties with our ERP Systems.

We have been in the process of planning for the implementation of a new enterprise resource planning, or ERP, System. We have incurred and expect to continue to incur additional expenses to prepare for the implementation and when we commence the implementation. Many companies have experienced delays and difficulties with the implementation of new or changed ERP systems that have had a negative effect on their business. Any disruptions, delays or deficiencies in the design and implementation of a revised or new ERP system could result in potentially much higher costs than we had anticipated and could adversely affect our ability to develop new products, provide services, fulfill contractual obligations, file reports with the SEC in a timely manner and/or otherwise operate our business, or otherwise impact our controls environment. Any of these consequences could have an adverse effect on our results of operations and financial condition.

The market in which we participate is highly competitive, and if we do not compete effectively, we may not be able to increase our market penetration, grow our net sales or improve our gross margins.

The market for server solutions is intensely competitive and rapidly changing. Barriers to entry in our market are relatively low and we expect increased challenges from existing as well as new competitors. Some of our principal competitors offer server solutions at a lower price, which has resulted in pricing pressures on sales of our server solutions. We expect further downward pricing pressure from our competitors and expect that we will have to price some of our server solutions aggressively to increase our market share with respect to those products, particularly for datacenter customers. If we are unable to maintain the margins on our server solutions, our operating results could be negatively impacted. In addition, if we do not develop new innovative server solutions, or enhance the reliability, performance, efficiency and other features of our existing server solutions, our customers may turn to our competitors for alternatives. In addition, pricing pressures and increased

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competition generally may also result in reduced sales, lower margins or the failure of our products to achieve or maintain widespread market acceptance, any of which could have a material adverse effect on our business, results of operations and financial condition.

Our principal competitors include global technology companies such as Dell, Inc., Hewlett-Packard Company, IBM, Cisco and Intel. In addition, we also compete with a number of other vendors who also sell application optimized servers, contract manufacturers and original design manufacturers, or ODMs, such as Quanta Computer Incorporated. ODMs sell server solutions marketed or sold under a third party brand.

Many of our competitors enjoy substantial competitive advantages, such as:

- greater name recognition and deeper market penetration;
- longer operating histories;
- larger sales and marketing organizations and research and development teams and budgets;
- more established relationships with customers, contract manufacturers and suppliers and better channels to reach larger customer bases and larger sales volume allowing for better costs;
- larger customer service and support organizations with greater geographic scope;
- a broader and more diversified array of products and services; and
- substantially greater financial, technical and other resources.

As a result, our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer requirements. Competitors may seek to copy our innovations and use cost advantages from greater size to compete aggressively with us on price. Certain customers are also current or prospective competitors and as a result, assistance that we provide to them as customers may ultimately result in increased competitive pressure against us. Furthermore, because of these advantages, even if our application optimized server solutions are more effective than the products that our competitors offer, potential customers might accept competitive products in lieu of purchasing our products. The challenges we face from larger competitors will become even greater if consolidation or collaboration between or among our competitors occurs in our industry. In addition, in recent periods there has been substantial speculation regarding the future plans of Hewlett-Packard and Dell. A substantial change by either with respect to their strategy in the server market could have a significant impact on the market and impact our results of operations. For all of these reasons, we may not be able to compete successfully against our current or future competitors, and if we do not compete effectively, our ability to increase our net sales may be impaired.

As we increasingly target larger customers, our customer base may become less diversified, our cost of sales may increase, and our sales may be less predictable.

We expect that as our business continues to grow, we will be increasingly dependent upon larger sales to maintain our rate of growth and that selling our server solutions to larger customers will create new challenges. However, if certain customers buy our products in greater volumes, and their business becomes a larger percentage of our net sales, we may grow increasingly dependent on those customers to maintain our growth. If our largest customers do not purchase our products at the levels or in the timeframes that we expect, our ability to maintain or grow our net sales will be adversely affected.

Additionally, as we and our distribution partners focus increasingly on selling to larger customers and attracting larger orders, we expect greater costs of sales. Our sales cycle may become longer and more expensive, as larger customers typically spend more time negotiating contracts than smaller customers. Larger customers often seek to gain greater pricing concessions, as well as greater levels of support in the implementation and use of our server solutions. These factors can result in lower margins for our products.

Increased sales to larger companies may also cause fluctuations in results of operations. A larger customer may seek to fulfill all or substantially all of its requirements in a single order, and not make another purchase for a significant period of time. Accordingly, a significant increase in revenue during the period in which we recognize the revenue from the sale may be followed by a period of time during which the customer purchases none or few of our products. A significant decline in net sales in periods following a significant order could adversely affect our stock price.

We must work closely with our suppliers to make timely new product introductions.

We rely on our close working relationships with our suppliers, including Intel, AMD and Nvidia, to anticipate and deliver new products on a timely basis when new generation materials and core components are made available. Intel, AMD and Nvidia are the only suppliers of the microprocessors we use in our server systems. If we are not able to maintain our

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relationships with our suppliers or continue to leverage their research and development capabilities to develop new technologies desired by our customers, our ability