STORAGE TECHNOLOGY CORP
Form 10-K
March 07, 2003

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 27, 2002

or

o **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 1-7534

STORAGE TECHNOLOGY CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**84-0593263**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
One StorageTek Drive, Louisville, Colorado	**80028-4309**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code **303-673-5151**

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
Common Stock, $0.10 par value	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:

None

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. ý Yes o 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. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). ý Yes o No

The aggregate market value of voting stock held by non-affiliates of the registrant was $1,497,200,755 based on the last reported sale price of the common stock of the registrant on the New York Stock Exchange's consolidated transactions reporting system on June 28, 2002, the last business day of the registrant's most recently completed second fiscal quarter. For purposes of this disclosure, shares of common stock held by persons who hold more than 10% of the outstanding common stock and common stock held by Section 16 officers and directors of the registrant have been excluded in that such persons may be deemed to be "affiliates" as that term is defined under the rules and regulations promulgated under the Securities Act of 1933. This determination is not necessarily conclusive for other purposes.

As of February 28, 2003, there were 107,591,024 shares of common stock of the registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant intends to file a definitive proxy statement pursuant to Regulation 14A under the Securities Exchange Act of 1934 within 120 days of its fiscal year ended December 27, 2002. Portions of the registrant's definitive proxy statement for its annual meeting of stockholders to be held May 21, 2003, are incorporated by reference into Part III of this Form 10-K.

PART I

ITEM 1. BUSINESS

All assumptions, anticipations, expectations, and forecasts contained in the following discussion regarding our business, future products, business plans, financial results, performance, and future events are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Our actual results may differ materially because of a number of risks and uncertainties. Some of these risks are detailed in Item 7, "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FACTORS THAT MAY AFFECT FUTURE RESULTS," and elsewhere in this Form 10-K. Forward-looking statements can be identified by the use of words such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "intends," "potential," "continue," or the negative of such terms, or other comparable words. Forward-looking statements also include the assumptions underlying or relating to any such statements. The forward-looking statements contained in this Form 10-K represent a good-faith assessment of our future performance for which management believes there is a reasonable basis. We disclaim any obligation to update the forward-looking statements contained herein, except as may be otherwise required by law.

GENERAL

Storage Technology Corporation (StorageTek or the Company) was incorporated in Delaware in 1969. Our principal executive offices are located at One StorageTek Drive, Louisville, Colorado 80028, telephone (303) 673-5151.

Storage has been our only business for more than 30 years. We design, develop, manufacture, and market a broad range of storage solutions for digitized data, including business continuity and disaster recovery solutions. These solutions are designed to be easy to manage and allow universal access to data across servers, media types, and storage networks in both the mainframe and open-systems environments. We are an innovator and global leader in virtual storage solutions for tape automation, disk subsystems, and storage networking.

We provide products and services to a broad range of customers, including large multinational companies, midsize and small businesses, universities, medical institutions, and governmental agencies. Our customers encompass a broad range of industry sectors around the world, including financial services, retail sales, healthcare, broadcasting, telecommunications, transportation, and a variety of manufacturing industries.

We market our products and services to end-user customers through our direct sales organization and through our indirect channel partners, including original equipment manufacturers (OEMs), value-added distributors (VADs), value-added resellers (VARs), and other distributors.

We maintain a presence in many major cities of the world. We operate sales and service offices throughout the United States and Canada, as well as throughout various international regions, including Europe, Asia-Pacific, and Latin America. U.S. operations accounted for approximately 51% of our total revenue in 2002, and international operations accounted for approximately 49%.

OUR STRATEGY

Our vision is to be the storage experts who deliver easy to use, industry-leading, innovative storage solutions to manage and protect business critical information. We intend to realize our vision of becoming the storage experts through Information Lifecycle Management (ILM), our view of an adaptive storage environment that dynamically balances information's changing value with the cost of managing it over time.

Today, most businesses don't quantify the value of their information. Because storage device costs are steadily declining, there has been no perceived need to re-evaluate storage costs to align with information's value. However, we believe escalating information growth and changing business conditions are requiring businesses to reconsider how they manage and store their information.

We work to help our customers manage information according to its value, reduce complexity, and optimize storage device utilization. ILM may assist in this effort by giving our customers the tools to balance their storage costs with information's changing value. It is designed to help customers make the right information available when and where it is needed, all at the right cost. By applying the ILM building blocks described below, customers may be able to achieve a proper balance in managing their storage infrastructures.

The ILM framework consists of the following four building blocks:

Store	Providing flexible storage to meet every performance level
Manage	Making decisions about data and devices
Replicate	Placing data in multiple locations
Integrate	Applying services and networking

We provide a comprehensive range of storage solutions that protect our customers' information assets across industries, applications, and information life cycles. Customized storage strategies include a variety of storage devices and retrieval times to achieve the right level of data availability at the right cost. Proven tape, disk, storage integration, and software solutions are designed to be open and to integrate easily into the most data-intensive situations, helping to improve productivity in heterogeneous environments. Advanced virtual storage solutions allow our customers to expand their storage options while containing costs and floor space use. Superior scalability protects our customers' storage investments and assures a growth path with minimal disruption.

BUSINESS SEGMENTS

We are organized into two reportable business segments: storage products and storage services. Information concerning revenue and gross profit for each of our business segments is found in Item 7, "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS," and in Item 8, "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS," of this Form 10-K, which information is incorporated by reference into this Item 1. All of our assets are retained and analyzed at the corporate level and are not allocated to the individual segments.

STORAGE PRODUCTS

Within storage products, our principal products are divided into three classifications: tape products, disk products, and network products, in each case including related software.

Tape Products

Our tape products historically have generated a significant portion of our product revenue. These products are engineered to provide reliable, cost-effective storage of digital information and consist principally of the following:

Automated tape libraries. Our L-Series automated tape libraries range from the L20, with up to 2 tape drives and 20 tape cartridge slots, to the L5500, with up to 80 tape drives and 5,500 tape cartridge slots. L-Series libraries are used primarily in open-systems environments and support a wide variety of tape drives. These libraries provide significant flexibility to the customer because they can be easily installed, scaled, and upgraded.

The PowderHorn® 9310 automated tape library is our largest-capacity library, with two robotic hands and up to 80 tape drives and 6,000 tape cartridge slots. It is a high-capacity, high-performance system for use in mainframe and open-systems environments.

Tape drives. The T9840 series tape drives are designed to optimize access speed and are ideal for transaction-intensive applications. The T9940 series tape drives are designed to optimize capacity and are ideal for archiving, record retention, and disaster recovery applications. The T9840 series and T9940 series tape drives are used in both the mainframe and open-systems environments and can be attached by SCSI, ESCON, and native Fibre Channel. We also sell mainframe and open-systems tape media, Quantum tape drives, and Linear Tape Open (LTO) tape drives.

Virtual tape solutions. The Virtual Storage Manager (VSM) system is a virtual tape product that provides customers with an intelligent software-driven data storage management solution. It is designed to maximize tape utilization, free up floor space, and optimize batch processing. VSM uses a disk buffer and virtual tape technology to optimize access time, throughput, and physical media and transport use, which result in significant savings for the customer. It is currently available for the mainframe environment.

Disk Products

Our disk products are designed to maximize disk capacity utilization and provide fast access to business critical information, scale to customer storage requirements, and support storage area network (SAN) implementations. Our principal disk products include the following:

V-Series. The V2X Shared Virtual Array (SVA) subsystem is a virtual disk storage subsystem designed for both the mainframe and open-systems environments. The V2X utilizes a virtual architecture that permits customers to use 100% of their disk storage capacity, saving both time and money. The V2X facilitates rapid data restoration and maximizes application and system availability.

Our Virtual Power Suite software, which is offered in conjunction with our SVA products, is designed to provide virtual duplication and significantly reduce central processing unit and channel utilization costs associated with data movement.

D-Series. Our D-Series disk products are designed for open-systems environments and are offered through a strategic alliance with LSI Logic Storage Systems (LSI). The D280 disk subsystem is the newest D-Series disk product. It allows customers to efficiently and effectively consolidate their open-systems storage and is designed for high performance in bandwidth-intensive applications like video streaming, medical imaging, and seismic processing. Our D-Series disk products

also include the D178 disk subsystem, a midrange-class storage solution, and the D173 disk subsystem, a low-range-class storage solution.

B-Series. We introduced our BladeStore disk subsystem in October 2002. BladeStore is a cost-effective disk storage solution designed for open-systems environments. It utilizes Advanced Technology Attachment (ATA) disk drive technology to offer customers enterprise-class reliability and availability, extreme storage density, and scalable capacity at an affordable price. We believe that BladeStore will complement enterprise-class disk by driving down prices and will complement tape with faster access.

Network Products

Our storage network products provide a total integrated SAN solution to our customers by enabling cross-media, cross-platform, and cross-vendor accessibility. Our principal storage network products include the following:

StorageNet® 6000 (SN6000) storage domain manager. The SN6000 provides network-based virtualization that enables open-systems hosts and applications to share multiple tape storage devices that appear to be directly attached to each host. The SN6000 enables seamless, scalable, and highly efficient management of tape storage resources, allowing customers to more effectively manage their data.

Networking hardware. Our wide range of Fibre Channel connectivity devices allows our customers to leverage all of their digital assets. We provide or resell leading world-class products including Fibre Channel switches and multi-protocol storage routers for SAN solutions.

STORAGE SERVICES

We provide a broad portfolio of storage services to help our customers maintain, support, and manage their storage infrastructures while reducing their total cost of ownership. Our storage services offerings include the following:

Enterprise maintenance and support services. We provide global maintenance and support services for storage products and integrated-system solutions through a combination of service engineers, remote diagnostic tools, online and telephone assistance, and local third-party service providers. We have strategically located our distribution centers throughout our markets to provide spare parts on an expedited basis. We provide different levels of service to meet customer requirements, including on-site service, same-day or next-day service, and parts exchange.

Professional services. We provide global professional services that are designed to help customers solve their storage management and integration issues in a cost-effective manner. Our principal professional services offerings include the following:

- SAN design and implementation services
- Data center design, build, and relocation support
- Storage architecture consulting services
- Storage solutions integration
- Virtual tape optimization services
- Business continuity plans
- Enterprise backup and recovery services

BACKLOG

We generally manufacture our products based on our forecasts of near-term demand. In certain cases, customers may reschedule or cancel unfilled orders. For these reasons, we believe that backlog levels are not a meaningful indicator of future sales, and we cannot provide any assurance that we will ultimately recognize revenue for all of our backlog orders.

MARKETING AND DISTRIBUTION

We market our products and services on a global basis to end-user customers through our direct sales organization and through our indirect channel partners. Our worldwide direct sales organization includes sales representatives, service engineers, system engineers, system integrators, and administrative support staff. Sales made by our direct sales force accounted for approximately 55% of our product revenue in 2002, 59% in 2001, and 56% in 2000.

Our indirect channel partners expand our reach into new markets and provide access to new customers. Indirect channel sales accounted for approximately 45% of our product revenue in 2002, 41% in 2001, and 44% in 2000. We generally receive lower gross profit margins on indirect channel sales, as compared to sales generated by our direct sales organization.

We participate in OEM agreements that provide for the sale of our products by other manufacturers. Some of our OEM customers include Bull Alliance Compagnie, Fujitsu, NCR Corporation, NEC Corporation, Sun Microsystems, Inc., and Unisys Corporation. We also participate in VAD and VAR agreements with a number of companies. Our revenue recognition accounting policies for indirect channel sales differ from those used for direct sales. See Note 2 of "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS" in Item 8 of this Form 10-K for a discussion of our revenue recognition policies. We are subject to various risks associated with our indirect channel partners, as detailed in Item 7, "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FACTORS THAT MAY AFFECT FUTURE RESULTS We may be materially affected by our ability to grow our indirect channels successfully," which information is incorporated by reference into this Item 1.

International revenue accounted for approximately 49% of total revenue in 2002, 51% in 2001, and 51% in 2000. In each of these three fiscal years, over two-thirds of our international revenue was derived from Europe, with the majority of the remaining balance coming from Australia, Canada, Japan, and South Korea. We are subject to various risks associated with conducting business outside the U.S. See Item 7, "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FACTORS THAT MAY AFFECT FUTURE RESULTS We may be materially affected by the risks of conducting business outside the United States," which information is incorporated by reference into this Item 1, for a discussion of risks associated with international operations.

MANUFACTURING AND MATERIALS

Our primary manufacturing and assembly facility is located in Puerto Rico. We also perform limited manufacturing and assembly in Colorado and France. All of our manufacturing and assembly facilities are currently in compliance with ISO 9001, 9002, or 9003.

We purchase subassemblies, parts, and components for our products from both U.S. and international vendors. These purchases make up a substantial portion of our production costs. In-house manufacturing, assembly, and testing make up the remaining balance of our production costs.

We use proprietary design and manufacturing technologies to perform certain critical manufacturing steps for the read/write heads used in our T9840 and T9940 series tape drives. The sophisticated nature of the exacting manufacturing process requires a clean room environment. Even within a clean room environment, problems such as chemical contamination, power surges, optical misalignments, and temperature variations in any one of the many processes used in manufacturing could halt production for an indeterminate period of time.

Certain parts and components included in our products are obtained from a sole source supplier or a limited group of suppliers. For a discussion of risks associated with sole source suppliers, see Item 7, "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FACTORS THAT MAY AFFECT FUTURE RESULTS We may be materially affected by the risks associated with sole source suppliers," which information is incorporated by reference into this Item 1.

We have long-term supply contracts with certain suppliers, and we obtain other parts and components through purchase orders. Our suppliers are not obligated to supply products for an extended period or at specific quantities or prices. Our dependence on suppliers involves a number of risks, including the possibility of a shortage of key parts or components, longer lead times, and reduced control over production and delivery schedules. See Item 7, "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FACTORS THAT MAY AFFECT FUTURE RESULTS We may be materially affected by a failure to obtain quality parts and components in a timely manner or by a failure to effectively manage inventory levels," which information is incorporated by reference into this Item 1.

COMPETITION

The data storage industry is intensely competitive and is characterized by rapid and continuous technological change, short product life cycles, changing customer requirements, and aggressive pricing. Our competitors vary in size and offer a broad range of products and services. We compete primarily on the basis of technology, product availability, performance, quality, reliability, price, and customer service. Strong competition has resulted in price erosion in the past, and we expect this trend to continue.

Competition for data storage products and services is characterized based on the class of products or services, as described below:

Tape products. We are a leading provider of automated tape libraries, tape drives, and virtual tape solutions. Our main competitors in these markets include Advanced Digital Information Corporation, Hewlett-Packard, IBM, and Quantum.

Disk products. Our disk product offerings compete in the mainframe and open-systems disk markets. EMC, Hitachi, and IBM hold dominant positions in the mainframe disk market. These competitors also have much larger research and development programs, as well as substantially greater financial, technical, and marketing resources, than we do. Competition is much more diverse in the open-systems disk market, which is characterized by low barriers to entry.

Network products. Our SN6000 has a limited install base as it is targeted for tape networking applications. We also offer third-party network products in conjunction with storage integration offerings for our customers. The market for network products is highly competitive and characterized by low barriers to entry and rapidly changing standards for protocols and interconnects.

Storage services. We compete with a wide range of service providers who vary in terms of size and service offerings, no one of which is dominant in the storage services industry.

See Item 7, "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FACTORS THAT MAY AFFECT FUTURE RESULTS We may be materially affected by aggressive competition," which information is incorporated by reference into this Item 1, for a discussion of risk factors related to competition.

RESEARCH AND PRODUCT DEVELOPMENT

We incurred research and product development costs of approximately $215 million in 2002, $245 million in 2001, and $258 million in 2000. We are focusing research and product development activities on the core businesses of tape products, virtual storage, and SAN products and related services. We conduct research and product development activities primarily internally, but we also enter into strategic partnerships and outsourcing arrangements for certain research and product development activities.

We anticipate that we will continue to incur significant research and product development costs in order to maintain or improve our competitive position. We cannot provide any assurance that we will successfully develop future products in a timely or cost-efficient manner. For further discussion of risk factors concerning product development, see Item 7, "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FACTORS THAT MAY AFFECT FUTURE RESULTS We may be materially affected by risks associated with new product development," which information is incorporated by reference into this Item 1.

INTELLECTUAL PROPERTY AND LICENSES

We protect our proprietary rights through a combination of patents, copyrights, trademarks, and trade secret laws. We enter into confidentiality agreements relating to our intellectual property with our employees and consultants, and we include confidentiality provisions in license and non-exclusive sales agreements with our customers. Our policy is to apply for patents or other appropriate proprietary or statutory protection in both the United States and selected foreign countries. We believe that the duration and effect of our patents is adequate relative to the expected lives of our products.

We presently hold approximately 500 U.S. patents, approximately 60 of which were issued in 2002. We also have numerous patent applications pending in the United States, including several that have been allowed and that we expect to be formally issued. Each patent generally has a 20-year term from the first effective filing date. We also hold foreign counterparts to many of our U.S. patents, and we have numerous applications pending in foreign countries. In addition, we have licenses to use patents held by others. No individual patent, license, or other item of proprietary information is material to our business.

We have obtained certain trademarks and trade names for our products as part of our ongoing branding.

For discussion of risk factors concerning intellectual property, see Item 7, "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FACTORS THAT MAY AFFECT FUTURE RESULTS We may be materially affected by the risks associated with developing and protecting intellectual property," which information is incorporated by reference into this Item 1.

ENVIRONMENTAL COMPLIANCE

Compliance with the provisions of federal, state, local, and international laws regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had a material effect on our capital expenditures, earnings, or competitive position.

EMPLOYEES

As of December 27, 2002, we had approximately 7,100 full-time employees.

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 Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on our website at www.storagetek.com as soon as reasonably practicable after electronic filing of such material with the Securities and Exchange Commission.

OTHER MATTERS

Our business, particularly the storage products segment, has experienced seasonality in the past. The fourth quarter has historically generated the most revenue, while the first quarter has generated the least revenue. See Item 7, "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FACTORS THAT MAY AFFECT FUTURE RESULTS We may be materially affected by uneven sales patterns and by our ability to forecast customer demand accurately," which information is incorporated by reference into this Item 1, for a discussion of risk factors related to seasonality.

No single customer accounted for 10% or more of our total revenue in 2002. No material portion of our business is subject to contract termination at the election of the U.S. government.

Reference is made to the following "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS" set forth in Item 8 of this Form 10-K for certain additional information, which information is incorporated by reference into this Item 1:

Note 5 Description of our derivative instruments.

Note 6 Description of our credit facilities, debt, and lease obligations.

Note 11 Information on the operations of business segments and geographic areas.

Reference is also made to Item 7, "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS," of this Form 10-K for information regarding liquidity, capital resources, and risk factors that may affect future results.

ITEM 2. PROPERTIES

Our headquarters are located in Louisville, Colorado. As of December 27, 2002, we owned or leased a total of approximately 3,539,700 square feet of space worldwide. At the present time, we believe that our existing properties are suitable and adequate to meet our business needs.

The following is a summary of the locations, functions, approximate square footage, and estimated utilization of those properties:

		Square Footage		
Location	**Function**	**Owned**	**Leased**	**Utilization**
United States				
Boulder County, CO	Executive and administrative offices, as well as manufacturing, research and product development, spare parts, and finished goods facilities	1,652,800	158,800	76%
Minneapolis, MN	Research and product development facilities and administrative offices	193,000		60%
Norcross, GA	Shared service center		35,600	100%
Other U.S. locations	Sales, customer service, and logistics facilities		487,500	100%
Puerto Rico	Manufacturing and assembly facilities	83,100	85,900	100%
International				
Toulouse, France	Engineering, consulting integration, and marketing facilities		200,000	50%
Europe	Sales and customer service facilities		430,200	92%
Canada	Sales and customer service facilities		88,700	100%
Asia/Pacific region	Sales and customer service facilities		107,800	99%
Latin America	Sales and customer service facilities		16,300	100%

ITEM 3. LEGAL PROCEEDINGS

For information regarding legal proceedings, see Note 8 of "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS," included in Item 8 of this Form 10-K, which information is incorporated by reference into this Item 3.

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

No matter was submitted to a vote of our security holders during the fourth quarter of the fiscal year ended December 27, 2002.

Executive Officers and Certain Significant Employees of the Registrant

The following persons were serving as our executive officers or significant employees as of February 28, 2003.

Name	Position	Age
Thomas G. Arnold	Vice President and Corporate Controller	41

Name	Position	Age
Pierre J. Cousin	Vice President and General Manager, Storage Networking Business Unit	42
Gary D. Francis	Corporate Vice President and General Manager, Automated Tape Solutions	55
Angel P. Garcia	Corporate Vice President, Growth Markets and Global Services	50
Roger C. Gaston	Corporate Vice President, Human Resources	46
Jill F. Kenney	Corporate Vice President, Worldwide Marketing and Strategy	47
Robert S. Kocol	Corporate Vice President and Chief Financial Officer	45
Thomas M. Major	Vice President and General Manager, Disk Business Unit	44
Patrick J. Martin	Chairman of the Board, President, and Chief Executive Officer	61
Michael R. McLay	Vice President, U.S./Canada Sales and Service, Global Channels, and Strategic Alliances	43
Roy G. Perry	Corporate Vice President, Global Supply Chain, Manufacturing, Logistics, and Quality Processes	46
Mark D. Roellig	Vice President, General Counsel, and Secretary	47

Mr. Arnold was appointed Vice President and Corporate Controller in April 1997. From November 1995 to April 1997, he served as Director of Worldwide Consolidation and Reporting. Mr. Arnold served as Manager of External Reporting from April 1991 to November 1995. He has been employed in various other capacities since 1989. Mr. Arnold is not an executive officer of StorageTek.

Mr. Cousin was appointed Vice President and General Manager, Storage Networking Business Unit, in January 2002. From November 2000 until this appointment, he served as Vice President, Assistant to the Chairman. From November 1997 until February 2000, he served as General Manager, Southern Region, EAME and President of StorageTek France. From 1996 to 1997, Mr. Cousin was Vice President, Mid-End Servers for Bull Corporation, an information technology solutions group based in Europe.

Mr. Francis was appointed Corporate Vice President and General Manager, Automated Tape Solutions, in May 2001. Prior to this appointment, Mr. Francis was Vice President and General Manager, Automated Tape Solutions, from November 2000 to May 2001. From February 2000 to November 2000, Mr. Francis was Vice President, Corporate Strategy. From February 1997 to February 2000, Mr. Francis was Vice President and General Manager, Enterprise Nearline® Business Group. From September 1993 to February 1997, Mr. Francis served as Vice President of the Nearline Business.

Mr. Garcia was appointed Corporate Vice President, Growth Markets and Global Services, in September 2002. Prior to this appointment, Mr. Garcia was Vice President, Growth Markets and Global Services, from August 2001 to September 2002. From January 2000 until July 2001, Mr. Garcia was Managing Director for IBM Chile, an information technology services company. From January 1999 until December 1999, Mr. Garcia was Vice President, Global Tele-Web operations at Xerox Corporation, a document products and services company. From 1997 to 1998, Mr. Garcia was Vice President, Marketing and Operations, U.S. Southern Operations at Xerox Corporation.

Mr. Gaston was appointed Corporate Vice President, Human Resources, in July 2001. Prior to this appointment, Mr. Gaston was Vice President, Human Resources, from March 2001 to July 2001. From 1996 to 2000, Mr. Gaston was Senior Vice President, Human Resources, for Toys "R" Us, an international retail toy store.

Ms. Kenney was appointed Corporate Vice President, Worldwide Marketing and Strategy, in July 2001. From February 2001 until this appointment, Ms. Kenney was Vice President, Worldwide Marketing and Corporate Strategy. Prior to joining StorageTek, Ms. Kenney held various senior positions with Xerox Corporation, a document products and services company, for more than 22 years. From 2000 to 2001, she was Senior Vice President, North American Solutions Group, Xerox Corporation. From 1998 to 2000, she served as Region Vice President and General Manager for Xerox Business Services. From 1995 to 1998, Ms. Kenney served as Vice President and General Manager, Xerox Houston Customer Business Unit.

Mr. Kocol was appointed Corporate Vice President and Chief Financial Officer in December 1998. Prior to this appointment, from 1996 to 1998, he served as Vice President of Financial Planning and Operations. In 1991, Mr. Kocol joined StorageTek's financial group as Director of Financial Operations and was subsequently promoted to Director of Worldwide Field Operations Finance and Administration.

Mr. Major was appointed Vice President and General Manager, Disk Business Unit, in January 2002. Prior to this appointment, from March 2001 through December 2002, Mr. Major was Vice President, Marketing, for ManagedStorage International, a managed storage services company. From January 2000 through March 2001, Mr. Major served as General Manager, Worldwide Marketing, Storage Solutions, at Hewlett-Packard Company, a manufacturer of computer hardware and peripherals. From February 1998 through January 2000, Mr. Major served as General Manager, OpenView Business Unit, at Hewlett-Packard Company.

Mr. Martin was appointed Chairman of the Board, President, and Chief Executive Officer in July 2000. Prior to joining StorageTek, Mr. Martin served in various management positions from 1977 to 2000 at Xerox Corporation, a document products and services company. From 1999 to 2000, Mr. Martin served as Corporate Senior Vice President/President North American Solutions Group. From 1998 to 1999, Mr. Martin was Corporate Senior Vice President/President Developing Markets Operations, and from 1996 to 1998 he was Corporate Vice President/President Canadian and Americas Operations.

Mr. McLay was appointed Vice President, U.S./Canada Sales and Service, Global Channels, and Strategic Alliances, in December 2000. From 1999 to December 2000, Mr. McLay served as Vice President and General Manager, Central U.S. and Canada. From 1997 to 1999, Mr. McLay was President of StorageTek Canada. From 1996 to 1998, Mr. McLay served as Vice President, Business Development.

Mr. Perry was appointed Corporate Vice President, Global Supply Chain, Manufacturing, Logistics, and Quality Processes, in September 2002. Prior to this appointment, Mr. Perry was Vice President, Global Supply Chain, Manufacturing, Logistics, and Quality Processes, from August 2001 to September 2002. He joined StorageTek from Dell Corporation, a computer systems company, where he served as Vice President, Worldwide Manufacturing and Customer Experience, from January 2001 until August 2001; Vice President for Home and Small Business Segment of the Americas from 1999 until 2001; and Vice President of Dimension, Latitude, and Inspiron Manufacturing Operations from 1997 until 1999.

Mr. Roellig was appointed Vice President, General Counsel and Secretary in July 2002. Prior to this appointment, Mr. Roellig was a director and the secretary of, and a consultant to, Bulletin News Network Inc., a news aggregation company, from June 2000 to July 2002. From June 1997 to June 2000, Mr. Roellig was Executive Vice President, Public Policy, Human Resources & Law, Secretary and General Counsel for U S WEST, Inc., a telecommunications company.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is traded on the New York Stock Exchange under the symbol STK. The table below reflects the high and low closing sales prices of our common stock on the New York Stock Exchange composite tape as reported by *The Wall Street Journal* during each fiscal quarter of 2002 and 2001. On February 28, 2003, there were 10,277 record holders of our common stock.

2002	**High**	**Low**
First Quarter	$ 24.84	$ 18.10
Second Quarter	24.12	14.51
Third Quarter	15.69	10.60
Fourth Quarter	22.90	10.13
2001	**High**	**Low**
First Quarter	$ 13.81	$ 9.13
Second Quarter	16.55	10.23

2002	High	Low
Third Quarter	14.66	11.75
Fourth Quarter	22.75	12.12

We have never paid cash dividends on our common stock. We currently plan to continue to retain future earnings for use in our business. Our credit facilities contain provisions restricting the payment of cash dividends.

Information regarding securities authorized for issuance under equity compensation plans is incorporated by reference to the information under the caption "Securities Authorized for Issuance Under Equity Compensation Plans" in our definitive proxy statement relating to our annual meeting of stockholders to be held May 21, 2003.

ITEM 6. SELECTED FINANCIAL DATA

FIVE-YEAR COMPARISON OF SELECTED FINANCIAL DATA

The fiscal year 2002, 2001, and 2000 statements of operations data has been derived from the consolidated financial statements and notes appearing elsewhere in this Form 10-K. The fiscal year 1999 and 1998 statements of operations data has been derived from our historical financial statements for such periods. The fiscal year 2002 and 2001 balance sheet data has been derived from the consolidated financial statements and notes appearing elsewhere in this Form 10-K. The fiscal year 2000, 1999, and 1998 balance sheet data has been derived from our historical financial statements for such periods. The following table (in thousands, except per share amounts) should be read in conjunction with the consolidated financial statements and notes thereto.

	Fiscal Year Ended December				
	2002	2001	2000	1999	1998
STATEMENT OF OPERATIONS DATA					
Revenue	$ 2,039,615	$ 2,045,322	$ 2,060,204	$ 2,368,231	$ 2,258,222
Operating profit (loss)	138,156	98,452	4,017	(97,236)	312,805
Net income (loss)	110,031	67,207	(1,782)	(74,550)	198,248
Earnings (loss) per common share:					
Basic	$ 1.05	$ 0.65	$ (0.02)	$ (0.75)	$ 1.91
Diluted	1.02	0.64	(0.02)	(0.75)	1.86
BALANCE SHEET DATA					
Working capital	$ 656,223	$ 539,986	$ 470,602	$ 440,763	$ 538,331
Total assets	1,976,140	1,758,883	1,653,558	1,735,475	1,842,944
Total debt	11,134	83,736	96,574	329,048	295,655
Total stockholders' equity	1,157,763	1,034,820	938,635	919,199	999,576

In 2000, we had restructuring and other related charges of approximately $27.3 million, net of tax. In 1999, we had litigation charges and restructuring and other related charges of approximately $102.0 million, net of tax.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

All assumptions, anticipations, expectations, and forecasts contained in the following discussion regarding our business, future products, business plans, financial results, performance, and future events are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Our actual results may differ materially because of a number of risks and uncertainties. Some of these risks are detailed below in "FACTORS THAT MAY AFFECT FUTURE RESULTS" and elsewhere in this Form 10-K. Forward-looking statements can be identified by the use of words such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "intends," "potential," "continue," or the negative of such terms, or other comparable words. Forward-looking statements also include the assumptions underlying or relating to any such statements. The forward-looking statements contained in this Form 10-K represent a good-faith assessment of our future performance for which management believes there is a reasonable basis. We disclaim any obligation to update the forward-looking statements contained herein, except as may be otherwise required by law.

BUSINESS SEGMENTS SUMMARY **(in thousands, except percentages)**

	Fiscal Year Ended December					
	2002	**As a % of Revenue**	**2001**	**As a % of Revenue**	**2000**	**As a % of Revenue**
Revenue						
Storage products	$ 1,275,941	62.6%	$ 1,359,356	66.5%	$ 1,411,932	68.5%
Storage services	763,674	37.4	685,966	33.5	648,272	31.5
Total revenue	$ 2,039,615	100.0%	$ 2,045,322	100.0%	$ 2,060,204	100.0%
Cost of revenue						
Storage products	$ 700,806		$ 741,142		$ 816,849	
Storage services	424,314		403,719		411,837	
Total cost of revenue	$ 1,125,120		$ 1,144,861		$ 1,228,686	
Gross profit						
Storage products	$ 575,135		$ 618,214		$ 595,083	
Storage services	339,360		282,247		236,435	
Total gross profit	$ 914,495		$ 900,461		$ 831,518	
Gross profit margin						
Storage products	45.1%		45.5%		42.2%	
Storage services	44.4%		41.1%		36.5%	
Total gross profit margin	44.8%		44.0%		40.4%	
Supplemental financial data storage products revenue						
Tape products	$ 989,819	77.6%	$ 1,099,666	80.9%	$ 1,109,303	78.6%
Disk products	145,792	11.4	114,985	8.4	145,215	10.3
Network products	88,533	6.9	67,713	5.0	49,714	3.5
Other	51,797	4.1	76,992	5.7	107,700	7.6
Total storage products revenue	$ 1,275,941	100.0%	$ 1,359,356	100.0%	$ 1,411,932	100.0%

2002 FINANCIAL OVERVIEW

We grew our earnings in 2002, despite the global economic downturn and depressed information technology spending. While many of our competitors experienced revenue declines, we were able to maintain our revenue levels. Our revenue performance was driven by success in selling integrated storage solutions, as well as a growing revenue contribution from new service offerings. We were able to maintain our storage products gross profit margin and improve our storage services gross profit margin by focusing on reducing costs and expenses. Our focus on costs and expenses also drove improvements in net income.

To reduce costs and expenses, we focused on improving the productivity of our global supply chain, applying more efficient inventory management processes, and prioritizing our research and development activities. We reviewed all areas of the business to determine the best use of our resources in meeting customer service objectives and improving time-to-market, cost, and manufacturing efficiency. These reviews resulted in changes such as outsourcing our printed circuit board manufacturing operations and reducing inventory.

We continued to strengthen our balance sheet and cash flows during 2002. Our cash and cash equivalents increased to $657.6 million as of December 2002, a $204.4 million improvement compared to the December 2001 level. Inventory levels decreased by $50.7 million from 2001 to 2002, and debt-to-total capitalization decreased from 7% in 2001 to 1% in 2002. Our cash flow from operations increased to $360.3 million in 2002, a $94.2 million increase compared to 2001. Through our strong balance sheet and cash flows, we are positioning ourselves to seize future opportunities that will strengthen our business and improve our competitive advantage.

REVENUE AND GROSS PROFIT MARGIN

Total revenue for 2002 was $2.0 billion, largely unchanged compared to 2001. Storage products revenue decreased, but was largely offset by increased storage services revenue. Total gross profit margin of 44.8% increased 0.8 points from 2001. The increase in 2002 gross profit margin was due to improvements in storage services margin, slightly offset by decreases in storage products gross profit margin.

Total revenue for 2001 was $2.0 billion, largely unchanged compared to 2000. Storage products revenue decreased, but was largely offset by increased storage services revenue. Total gross profit margin of 44.0% increased 3.6 points from 2000. The increase in 2001 gross profit margin was due to improvements in both storage products gross profit margin and storage services gross profit margin.

Storage Products

Our storage products revenue consists of sales of tape products, disk products, and network products, including related software, for the mainframe and open-systems markets. The open-systems market consists of products designed to operate in the Unix, NT, and other non-MVS operating environments.

Storage products revenue decreased 6% in 2002, compared to 2001, primarily due to a 10% decrease in tape product sales. We believe the decline in tape product sales is primarily attributable to the current global economic conditions and the associated weakness in information technology spending, which translated into lower unit sales in 2002. The decline in tape products was partially offset by increased sales of disk and network products. We believe this revenue growth was driven by early successes in our efforts to provide integrated solutions of tape, disk, and network products, together with associated services. Storage products gross profit margin decreased slightly in 2002. This decline reflects an increasing revenue contribution from our indirect channels, which typically carry lower gross profit margins. The margin pressure was largely offset by our efforts to reduce product costs. We anticipate both of these trends will continue to largely offset each other in 2003; however, we expect margins to be lower early in the year due to lower anticipated production volumes and the related impact on fixed cost absorption.

Storage products revenue decreased 4% in 2001, compared to 2000, primarily due to significant price erosion and competition in the disk market. Storage products gross profit margin increased 3.3 points in 2001 versus 2000, primarily due to more favorable channel and product mixes. A higher percentage of our product revenue was generated by the direct sales channel in 2001, which typically results in higher margins, and product mix shifted toward our higher margin products. The gross profit margin increases were partially offset by decreases in the selling prices for disk products.

Storage Services

Our storage services revenue consists primarily of revenue associated with the maintenance and support of our storage products and third-party storage products, as well as professional services revenue associated with diverse storage consulting activities.

Storage services revenue increased 11% in 2002, compared to 2001. The growth in service revenue was driven largely by an expanded effort to sell services that help customers successfully manage their storage requirements, with balanced growth across our storage services portfolio. New service offerings include various storage consulting services, implementation services, and storage management services. Storage services gross profit margin increased 3.3 points in 2002 versus 2001, reflecting improvements in spare parts utilization and the service delivery process. We expect that further improvements in service margin will be tempered by the increased revenue contribution from the new service offerings, which typically carry lower margins than our maintenance and support services.

Storage services revenue increased 6% in 2001, compared to 2000. Storage services gross profit margin increased 4.6 points in 2001 versus 2000. We attribute these increases primarily to improvements in the service delivery process and certain incremental billings.

RESEARCH AND PRODUCT DEVELOPMENT

Research and product development expenses decreased 12% in 2002, compared to 2001, and decreased 5% in 2001, compared to 2000. We evaluate and prioritize research and product development programs to maximize our return on investment. Our research and

product development activities focus on the core businesses of tape products, virtual storage, and SAN products and related services. Research and product development costs as a percentage of total revenue were 11% in 2002, compared to 12% in 2001 and 13% in 2000. We conduct research and product development activities primarily internally, but we also enter into strategic partnerships and outsourcing arrangements for certain research and product development activities. No single research or product development project is expected to be individually material to our financial condition or results of operations, either in terms of the estimated future cost to complete or in terms of expected future revenue or cash flows resulting from the completion of the project.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSE

Selling, general, and administrative expense (SG&A) remained largely unchanged in 2002, compared to 2001. SG&A decreased 2% in 2001, compared to 2000, primarily as a result of restructuring activities in 2000. SG&A as a percentage of total revenue was approximately 28% in 2002, 27% in 2001, and 28% in 2000.

SG&A includes some items in each year that we believe are not indicative of future trends because of the circumstances that gave rise to the recognition of these items. The following table and accompanying description explains the nature of each of these items (in thousands):

	Fiscal Year Ended December		
	2002	**2001**	**2000**
Litigation settlement recovery	$	$ (22,250)	$
Investment writedowns	4,515	12,047	
Restructuring activities			27,176
Other		6,944	
Total impact on SG&A	$ 4,515	$ (3,259)	$ 27,176

In September 2002, we recognized a charge of $4.5 million in connection with the writedown of a cost-method investment. This impairment charge resulted from the announcement of a purchase of the investee for less than our cost basis. As a result of this development, we concluded that the decrease in the value of our investment was other than temporary in nature.

In December 2001, we recognized a gain of $22.3 million in connection with the settlement of a claim against a third party that arose from a 1999 lawsuit settlement.

In December 2001, we recognized a charge of $12.0 million in connection with the writedown of a cost-method investment. This impairment charge resulted from adverse developments in the financial condition of the investee during the fourth quarter of 2001 that resulted in a recapitalization of the company. As a result of these adverse developments, we concluded that the decrease in the value of our investment was other than temporary in nature. We have no remaining net book value for this investment as a result of the impairment charge.

In December 2001, we recognized a charge of $6.9 million related to the abandonment of a building, investment losses associated with a retirement plan for employees of an international subsidiary, and non-recurring severance charges incurred in connection with a headcount reduction. Substantially all of the severance charges were incurred and paid during the fourth quarter of 2001.

During 2000, we incurred approximately $27.2 million of restructuring expense in connection with a broad restructuring program announced in October 1999. Approximately $21.5 million of this charge related to employee severance expense, $5.3 million related to the impairment writedown of assets at our manufacturing facility in Toulouse, France, as well as asset writedowns associated with the spin-off of our managed storage services business, and $462,000 related to excess lease space in Canada and legal and accounting expenses associated with the spin-off of our managed storage services business. The restructuring program was completed in the third quarter of 2000.

INTEREST INCOME AND EXPENSE

Interest income was largely unchanged in 2002 compared to 2001. Interest expense decreased $4.8 million in 2002, compared to 2001, primarily due to a decrease in outstanding debt.

Interest income increased $224,000 in 2001, compared to 2000, as a result of an increase in cash available for investment. Interest expense decreased $9.9 million in 2001, compared to 2000, due to decreased borrowings under our debt and financing arrangements.

See "LIQUIDITY AND CAPITAL RESOURCES External Sources of Liquidity" for further discussion of our debt and financing arrangements.

INCOME TAXES

Our effective tax rate was 25% in 2002, 34% in 2001, and 35% in 2000. The reduction in effective tax rate for 2002 was due to two factors. A $10.5 million tax benefit from the favorable resolution of prior year tax audits in the fourth quarter of 2002 accounted for approximately 7 percentage points of the total decrease. The realization of benefits associated primarily with our manufacturing operations in Puerto Rico accounted for the other 2 percentage points of the total decrease. We expect that our effective tax rate in 2003 will be higher than the 25% effective tax rate for 2002.

Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes," requires that deferred income tax assets be recognized to the extent that realization of such assets is more likely than not. Based on the currently available information, we have determined that we will more likely than not realize approximately $213.2 million of deferred income tax assets as of December 27, 2002. Our valuation allowance of approximately $22.7 million as of December 27, 2002, relates principally to foreign net operating loss carryforwards.

CRITICAL ACCOUNTING POLICIES

Management's Discussion and Analysis of Financial Condition and Results of Operations is based on our consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Th