

## Adoption of ASC 606

In the first quarter of fiscal 2019, NetApp adopted Revenue from Contracts with Customers (ASC 606), a new accounting standard which establishes a comprehensive new revenue recognition model designed to depict the transfer of goods or services to a customer in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. The full retrospective method of adoption was employed. Accordingly, all prior period financial statement information and metrics included herein have been restated to conform to the new rules. However, the adoption of the standard had no impact to the cash flow statement items presented herein.

## NetApp Usage of Non-GAAP Financial Information

To supplement NetApp's condensed consolidated financial statement information presented in accordance with generally accepted accounting principles in the United States (GAAP), NetApp provides investors with certain non-GAAP measures, including, but not limited to, historical non-GAAP operating results, non-GAAP net income, non-GAAP effective tax rate and free cash flow, and historical and projected non-GAAP earnings per diluted share.

NetApp believes that the presentation of non-GAAP net income, non-GAAP effective tax rates, and non-GAAP earnings per share data, when shown in conjunction with the corresponding GAAP measures, provides useful information to investors and management regarding financial and business trends relating to its financial condition and results of operations. NetApp believes that the presentation of free cash flow, which it defines as the net cash provided by operating activities less cash used to acquire property and equipment, to be a liquidity measure that provides useful information to management and investors because it reflects cash that can be used to, among other things, invest in its business, make strategic acquisitions, repurchase common stock, and pay dividends on its common stock. As free cash flow is not a measure of liquidity calculated in accordance with GAAP, free cash flow should be considered in addition to, but not as a substitute for, the analysis provided in the statement of cash flows.

NetApp's management uses these non-GAAP measures in making operating decisions because it believes the measurements provide meaningful supplemental information regarding NetApp's ongoing operational performance. These non-GAAP financial measures are used to: (1) measure company performance against historical results, (2) facilitate comparisons to our competitors' operating results and (3) allow greater transparency with respect to information used by management in financial and operational decision making.

NetApp excludes the following items from its non-GAAP measures when applicable:

A. *Amortization of intangible assets.* NetApp records amortization of intangible assets that were acquired in connection with its business combinations. The amortization of intangible assets varies depending on the level of acquisition activity. Management finds it useful to exclude these charges to assess the appropriate level of various operating expenses to assist in budgeting, planning and forecasting future periods and in measuring operational performance.

B. *Stock-based compensation expenses.* NetApp excludes stock-based compensation expenses from its non-GAAP measures primarily because they are non-cash expenses. While management views stock-based compensation as a key element of our employee retention and long-term incentives, we do not view it as an expense to be used in evaluating operational performance in any given period.

C. *Litigation settlements.* NetApp may periodically incur charges or benefits related to litigation settlements. NetApp excludes these charges and benefits, when significant, because it does not believe they are reflective of ongoing business and operating results.

D. *Acquisition-related expenses.* NetApp excludes acquisition-related expenses, including (a) due diligence, legal and other one-time integration charges and (b) write down of assets acquired that NetApp does not intend to use in its ongoing business, from its non-GAAP measures, primarily because they are not related to our ongoing business or cost base and, therefore, cannot be relied upon for future planning and forecasting.

E. *Restructuring charges.* These charges consist of restructuring charges that are incurred based on the particular facts and circumstances of restructuring decisions, including employment and contractual settlement terms, and other related charges, and can vary in size and frequency. We therefore exclude them in our assessment of operational performance.

F. *Asset impairments.* These are non-cash charges to write down assets when there is an indication that the asset has become impaired. Management finds it useful to exclude these non-cash charges due to the unpredictability of these events in its assessment of operational performance.

G. *Gains/losses on the sale or derecognition of assets.* These are gains/losses from the sale of our properties and other transactions in which we transfer control of assets to a third party. Management believes that these transactions do not reflect the results of our underlying, on-going business and, therefore, cannot be relied upon for future planning or forecasting.

H. *Income tax adjustments.* NetApp's non-GAAP tax provision is based upon a projected annual non-GAAP effective tax rate for the first three quarters of the fiscal year and an actual non-GAAP tax provision for the fourth quarter of the fiscal year. The non-GAAP tax provision also excludes, when applicable, (a) tax charges or benefits in the current period that relate to one or more prior fiscal periods that are a result of events such as changes in tax legislation, authoritative guidance, income tax audit settlements and/or court decisions, (b) tax charges or benefits that are attributable to unusual or non-recurring book and/or tax accounting method changes, (c) tax charges that are a result of a non-routine foreign cash repatriation, (d) tax charges or benefits that are a result of infrequent restructuring of the Company's tax structure, (e) tax charges or benefits that are a result of a change in valuation allowance, and (f) tax charges resulting from the integration of intellectual properties from acquisitions. Management believes that the use of non-GAAP tax provisions provides a more meaningful measure of the Company's operational performance.

These non-GAAP measures are not in accordance with, or an alternative for, measures prepared in accordance with GAAP, and may be different from non-GAAP measures used by other companies. In addition, these non-GAAP measures are not based on any comprehensive set of accounting rules or principles. NetApp believes that non-GAAP measures have limitations in that they do not reflect all of the amounts associated with the Company's results of operations as determined in accordance with GAAP and that these measures should only be used to evaluate the Company's results of operations in conjunction with the corresponding GAAP measures. NetApp management compensates for these limitations by analyzing current and projected results on a GAAP basis as well as a non-GAAP basis. The presentation of non-GAAP financial information is not meant to be considered in isolation or as a substitute for the directly comparable financial measures prepared in accordance with generally accepted accounting principles in the United States. The non-GAAP financial measures are meant to supplement, and be viewed in conjunction with, GAAP financial measures.

**NETAPP, INC.**  
**SELECTED CONDENSED CONSOLIDATED BALANCE SHEET LINE ITEMS**  
(In millions)  
(Unaudited)

	As of April 27, 2018		
	As Previously Reported	Impact of ASC 606 Adoption	As Adjusted
<b>ASSETS</b>			
Accounts receivable	\$ 1,009	\$ 38	\$ 1,047
Inventories	126	(4)	122
Other current assets	330	62	392
Other non-current assets	420	30	450
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Short-term deferred revenue and financed unearned services revenue	\$ 1,804	\$ (92)	\$ 1,712
Other long-term liabilities	961	31	992
Long-term deferred revenue and financed unearned services revenue	1,673	(22)	1,651
Total stockholders' equity	2,067	209	2,276

**NETAPP, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In millions, except per share amounts)  
(Unaudited)

	Three Months Ended			Year Ended		
	April 27, 2018			April 27, 2018		
	As Previously Reported	Impact of ASC 606 Adoption	As Adjusted	As Previously Reported	Impact of ASC 606 Adoption	As Adjusted
<b>Revenues:</b>						
Product	\$ 1,011	\$ 16	\$ 1,027	\$ 3,461	\$ 64	\$ 3,525
Software maintenance	247	(13)	234	958	(56)	902
Hardware maintenance and other services	383	—	383	1,492	—	1,492
Net revenues	<u>1,641</u>	<u>3</u>	<u>1,644</u>	<u>5,911</u>	<u>8</u>	<u>5,919</u>
<b>Cost of revenues:</b>						
Cost of product	500	(4)	496	1,738	—	1,738
Cost of software maintenance	6	—	6	25	—	25
Cost of hardware maintenance and other services	113	—	113	449	(2)	447
Total cost of revenues	<u>619</u>	<u>(4)</u>	<u>615</u>	<u>2,212</u>	<u>(2)</u>	<u>2,210</u>
Gross profit	<u>1,022</u>	<u>7</u>	<u>1,029</u>	<u>3,699</u>	<u>10</u>	<u>3,709</u>
<b>Operating expenses:</b>						
Sales and marketing	461	(18)	443	1,729	(23)	1,706
Research and development	203	—	203	783	—	783
General and administrative	71	—	71	280	—	280
Gain on sale or derecognition of assets	—	—	—	(218)	—	(218)
Total operating expenses	<u>735</u>	<u>(18)</u>	<u>717</u>	<u>2,574</u>	<u>(23)</u>	<u>2,551</u>
Income from operations	287	25	312	1,125	33	1,158
Other income, net	<u>16</u>	<u>—</u>	<u>16</u>	<u>41</u>	<u>—</u>	<u>41</u>
Income before income taxes	303	25	328	1,166	33	1,199
Provision for income taxes	<u>32</u>	<u>6</u>	<u>38</u>	<u>1,090</u>	<u>(7)</u>	<u>1,083</u>
Net income	<u>\$ 271</u>	<u>\$ 19</u>	<u>\$ 290</u>	<u>\$ 76</u>	<u>\$ 40</u>	<u>\$ 116</u>
<b>Net income per share:</b>						
Basic	<u>\$ 1.02</u>	<u>\$ 0.07</u>	<u>\$ 1.09</u>	<u>\$ 0.28</u>	<u>\$ 0.15</u>	<u>\$ 0.43</u>
Diluted	<u>\$ 0.99</u>	<u>\$ 0.07</u>	<u>\$ 1.06</u>	<u>\$ 0.28</u>	<u>\$ 0.14</u>	<u>\$ 0.42</u>
<b>Shares used in net income per share calculations:</b>						
Basic	<u>265</u>	<u>265</u>	<u>265</u>	<u>268</u>	<u>268</u>	<u>268</u>
Diluted	<u>273</u>	<u>273</u>	<u>273</u>	<u>276</u>	<u>276</u>	<u>276</u>

**NETAPP, INC.**  
**RECONCILIATION OF NON-GAAP TO GAAP**  
**INCOME STATEMENT INFORMATION**  
(In millions, except net income (loss) per share amounts)

	FY2017		FY2018				FY2019				
	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
<b>NET INCOME (LOSS)</b>	\$ 481	\$ 131	\$ 174	\$ (479)	\$ 290	\$ 116	\$ 283	\$ 241	\$ 249	\$ 396	\$ 1,169
Adjustments:											
Amortization of intangible assets	48	13	14	14	12	53	13	12	13	8	46
Stock-based compensation	195	48	39	38	36	161	40	38	43	37	158
Litigation settlements	-	-	-	5	-	5	-	-	-	-	-
Restructuring charges	52	-	-	-	-	-	19	-	-	16	35
Gain on sale or derecognition of assets	(10)	-	-	(218)	-	(218)	-	-	-	(73)	(73)
Income tax effects	(27)	(26)	(6)	73	(31)	10	(40)	(11)	-	(31)	(82)
Resolution of income tax examinations	-	-	-	-	-	-	-	-	-	(48)	(48)
Income tax benefit of ASC 606 adoption	-	-	-	-	-	-	(34)	-	-	-	(34)
Tax reform	-	-	-	856	-	856	-	-	-	-	-
<b>NON-GAAP NET INCOME</b>	<b>\$ 739</b>	<b>\$ 166</b>	<b>\$ 221</b>	<b>\$ 289</b>	<b>\$ 307</b>	<b>\$ 983</b>	<b>\$ 281</b>	<b>\$ 280</b>	<b>\$ 305</b>	<b>\$ 305</b>	<b>\$ 1,171</b>
<b>COST OF REVENUES</b>	<b>\$ 2,127</b>	<b>\$ 497</b>	<b>\$ 515</b>	<b>\$ 583</b>	<b>\$ 615</b>	<b>2,210</b>	<b>511</b>	<b>\$ 543</b>	<b>\$ 581</b>	<b>\$ 566</b>	<b>2,201</b>
Adjustments:											
Amortization of intangible assets	(29)	(8)	(9)	(10)	(9)	(36)	(9)	(9)	(10)	(8)	(36)
Stock-based compensation	(17)	(4)	(3)	(3)	(3)	(13)	(4)	(2)	(4)	(4)	(14)
<b>NON-GAAP COST OF REVENUES</b>	<b>\$ 2,081</b>	<b>\$ 485</b>	<b>\$ 503</b>	<b>\$ 570</b>	<b>\$ 603</b>	<b>\$ 2,161</b>	<b>\$ 498</b>	<b>\$ 532</b>	<b>\$ 567</b>	<b>\$ 554</b>	<b>\$ 2,151</b>
<b>COST OF PRODUCT REVENUES</b>	<b>\$ 1,612</b>	<b>\$ 376</b>	<b>\$ 397</b>	<b>\$ 469</b>	<b>\$ 496</b>	<b>\$ 1,738</b>	<b>\$ 398</b>	<b>\$ 428</b>	<b>\$ 469</b>	<b>\$ 457</b>	<b>\$ 1,752</b>
Adjustments:											
Amortization of intangible assets	(29)	(8)	(9)	(10)	(9)	(36)	(9)	(9)	(10)	(8)	(36)
Stock-based compensation	(4)	(1)	(1)	-	(1)	(3)	(1)	-	(1)	(2)	(4)
<b>NON-GAAP COST OF PRODUCT REVENUES</b>	<b>\$ 1,579</b>	<b>\$ 367</b>	<b>\$ 387</b>	<b>\$ 459</b>	<b>\$ 486</b>	<b>\$ 1,699</b>	<b>\$ 388</b>	<b>\$ 419</b>	<b>\$ 458</b>	<b>\$ 447</b>	<b>\$ 1,712</b>
<b>COST OF HARDWARE MAINTENANCE AND OTHER SERVICES REVENUES</b>	<b>\$ 487</b>	<b>\$ 114</b>	<b>\$ 112</b>	<b>\$ 108</b>	<b>\$ 113</b>	<b>\$ 447</b>	<b>\$ 106</b>	<b>\$ 107</b>	<b>\$ 102</b>	<b>\$ 99</b>	<b>\$ 414</b>
Adjustment:											
Stock-based compensation	(13)	(3)	(2)	(3)	(2)	(10)	(3)	(2)	(3)	(2)	(10)
<b>NON-GAAP COST OF HARDWARE MAINTENANCE AND OTHER SERVICES REVENUES</b>	<b>\$ 474</b>	<b>\$ 111</b>	<b>\$ 110</b>	<b>\$ 105</b>	<b>\$ 111</b>	<b>\$ 437</b>	<b>\$ 103</b>	<b>\$ 105</b>	<b>\$ 99</b>	<b>\$ 97</b>	<b>\$ 404</b>
<b>GROSS PROFIT</b>	<b>\$ 3,364</b>	<b>\$ 824</b>	<b>\$ 900</b>	<b>\$ 956</b>	<b>\$ 1,029</b>	<b>\$ 3,709</b>	<b>\$ 963</b>	<b>\$ 974</b>	<b>\$ 982</b>	<b>\$ 1,026</b>	<b>\$ 3,945</b>
Adjustments:											
Amortization of intangible assets	29	8	9	10	9	36	9	9	10	8	36
Stock-based compensation	17	4	3	3	3	13	4	2	4	4	14
<b>NON-GAAP GROSS PROFIT</b>	<b>\$ 3,410</b>	<b>\$ 836</b>	<b>\$ 912</b>	<b>\$ 969</b>	<b>\$ 1,041</b>	<b>\$ 3,758</b>	<b>\$ 976</b>	<b>\$ 985</b>	<b>\$ 996</b>	<b>\$ 1,038</b>	<b>\$ 3,995</b>
<b>SALES AND MARKETING EXPENSES</b>	<b>\$ 1,651</b>	<b>\$ 423</b>	<b>\$ 421</b>	<b>\$ 419</b>	<b>\$ 443</b>	<b>\$ 1,706</b>	<b>\$ 409</b>	<b>\$ 408</b>	<b>\$ 401</b>	<b>\$ 439</b>	<b>\$ 1,657</b>
Adjustments:											
Amortization of intangible assets	(19)	(5)	(5)	(4)	(3)	(17)	(4)	(3)	(3)	-	(10)
Stock-based compensation	(84)	(21)	(16)	(16)	(15)	(68)	(17)	(16)	(19)	(15)	(67)
<b>NON-GAAP SALES AND MARKETING EXPENSES</b>	<b>\$ 1,548</b>	<b>\$ 397</b>	<b>\$ 400</b>	<b>\$ 399</b>	<b>\$ 425</b>	<b>\$ 1,621</b>	<b>\$ 388</b>	<b>\$ 389</b>	<b>\$ 379</b>	<b>\$ 424</b>	<b>\$ 1,580</b>
<b>RESEARCH AND DEVELOPMENT EXPENSES</b>	<b>\$ 779</b>	<b>\$ 193</b>	<b>\$ 194</b>	<b>\$ 193</b>	<b>\$ 203</b>	<b>\$ 783</b>	<b>\$ 208</b>	<b>\$ 211</b>	<b>\$ 203</b>	<b>\$ 205</b>	<b>\$ 827</b>
Adjustment:											
Stock-based compensation	(59)	(15)	(12)	(11)	(11)	(49)	(12)	(12)	(13)	(11)	(48)
<b>NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES</b>	<b>\$ 720</b>	<b>\$ 178</b>	<b>\$ 182</b>	<b>\$ 182</b>	<b>\$ 192</b>	<b>\$ 734</b>	<b>\$ 196</b>	<b>\$ 199</b>	<b>\$ 190</b>	<b>\$ 194</b>	<b>\$ 779</b>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>\$ 271</b>	<b>\$ 68</b>	<b>\$ 69</b>	<b>\$ 72</b>	<b>\$ 71</b>	<b>\$ 280</b>	<b>\$ 73</b>	<b>\$ 69</b>	<b>\$ 67</b>	<b>\$ 69</b>	<b>\$ 278</b>
Adjustments:											
Stock-based compensation	(35)	(8)	(8)	(8)	(7)	(31)	(7)	(8)	(7)	(7)	(29)
Litigation settlements	-	-	-	(5)	-	(5)	-	-	-	-	-
<b>NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>\$ 236</b>	<b>\$ 60</b>	<b>\$ 61</b>	<b>\$ 59</b>	<b>\$ 64</b>	<b>\$ 244</b>	<b>\$ 66</b>	<b>\$ 61</b>	<b>\$ 60</b>	<b>\$ 62</b>	<b>\$ 249</b>

**NETAPP, INC.**  
**RECONCILIATION OF NON-GAAP TO GAAP**  
**INCOME STATEMENT INFORMATION**  
(In millions, except net income (loss) per share amounts)

	FY2017		FY2018				FY2019				
	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
<b>RESTRUCTURING CHARGES</b>	\$ 52	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19	\$ -	\$ -	\$ 16	\$ 35
Adjustment:											
Restructuring charges	(52)	-	-	-	-	-	(19)	-	-	(16)	(35)
<b>NON-GAAP RESTRUCTURING CHARGES</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>GAIN ON SALE OR DERECOGNITION OF ASSETS</b>	\$ (10)	\$ -	\$ -	\$ (218)	\$ -	\$ (218)	\$ -	\$ -	\$ -	\$ (73)	\$ (73)
Adjustment:											
Gain on sale or derecognition of assets	10	-	-	218	-	218	-	-	-	73	73
<b>NON-GAAP GAIN ON SALE OR DERECOGNITION OF ASSETS</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>OPERATING EXPENSES</b>	\$ 2,743	\$ 684	\$ 684	\$ 466	\$ 717	\$ 2,551	\$ 709	\$ 688	\$ 671	\$ 656	\$ 2,724
Adjustments:											
Amortization of intangible assets	(19)	(5)	(5)	(4)	(3)	(17)	(4)	(3)	(3)	-	(10)
Stock-based compensation	(178)	(44)	(36)	(35)	(33)	(148)	(36)	(36)	(39)	(33)	(144)
Litigation settlements	-	-	-	(5)	-	(5)	-	-	-	-	-
Restructuring charges	(52)	-	-	-	-	-	(19)	-	-	(16)	(35)
Gain on sale or derecognition of assets	10	-	-	218	-	218	-	-	-	73	73
<b>NON-GAAP OPERATING EXPENSES</b>	\$ 2,504	\$ 635	\$ 643	\$ 640	\$ 681	\$ 2,599	\$ 650	\$ 649	\$ 629	\$ 680	\$ 2,608
<b>INCOME FROM OPERATIONS</b>	\$ 621	\$ 140	\$ 216	\$ 490	\$ 312	\$ 1,158	\$ 254	\$ 286	\$ 311	\$ 370	\$ 1,221
Adjustments:											
Amortization of intangible assets	48	13	14	14	12	53	13	12	13	8	46
Stock-based compensation	195	48	39	38	36	161	40	38	43	37	158
Litigation settlements	-	-	-	5	-	5	-	-	-	-	-
Restructuring charges	52	-	-	-	-	-	19	-	-	16	35
Gain on sale or derecognition of assets	(10)	-	-	(218)	-	(218)	-	-	-	(73)	(73)
<b>NON-GAAP INCOME FROM OPERATIONS</b>	\$ 906	\$ 201	\$ 269	\$ 329	\$ 360	\$ 1,159	\$ 326	\$ 336	\$ 367	\$ 358	\$ 1,387
<b>INCOME BEFORE INCOME TAXES</b>	\$ 621	\$ 145	\$ 222	\$ 504	\$ 328	\$ 1,199	\$ 272	\$ 293	\$ 319	\$ 384	\$ 1,268
Adjustments:											
Amortization of intangible assets	48	13	14	14	12	53	13	12	13	8	46
Stock-based compensation	195	48	39	38	36	161	40	38	43	37	158
Litigation settlements	-	-	-	5	-	5	-	-	-	-	-
Restructuring charges	52	-	-	-	-	-	19	-	-	16	35
Gain on sale or derecognition of assets	(10)	-	-	(218)	-	(218)	-	-	-	(73)	(73)
<b>NON-GAAP INCOME BEFORE INCOME TAXES</b>	\$ 906	\$ 206	\$ 275	\$ 343	\$ 376	\$ 1,200	\$ 344	\$ 343	\$ 375	\$ 372	\$ 1,434
<b>PROVISION (BENEFIT) FOR INCOME TAXES</b>	\$ 140	\$ 14	\$ 48	\$ 983	\$ 38	\$ 1,083	\$ (11)	\$ 52	\$ 70	\$ (12)	\$ 99
Adjustments:											
Income tax effects	27	26	6	(73)	31	(10)	40	11	-	31	82
Resolution of income tax examinations	-	-	-	-	-	-	-	-	-	48	48
Income tax benefit of ASC 606 adoption	-	-	-	-	-	-	34	-	-	-	34
Tax reform	-	-	-	(856)	-	(856)	-	-	-	-	-
<b>NON-GAAP PROVISION FOR INCOME TAXES</b>	\$ 167	\$ 40	\$ 54	\$ 54	\$ 69	\$ 217	\$ 63	\$ 63	\$ 70	\$ 67	\$ 263
<b>NET INCOME (LOSS) PER SHARE</b>	\$ 1.71	\$ 0.47	\$ 0.63	\$ (1.79)	\$ 1.06	\$ 0.42	\$ 1.05	\$ 0.91	\$ 0.98	\$ 1.59	\$ 4.51
Adjustments:											
Amortization of intangible assets	0.17	0.05	0.05	0.05	0.04	0.19	0.05	0.05	0.05	0.03	0.18
Stock-based compensation	0.69	0.17	0.14	0.14	0.13	0.58	0.15	0.14	0.17	0.15	0.61
Litigation settlements	-	-	-	0.02	-	0.02	-	-	-	-	-
Restructuring charges	0.19	-	-	-	-	-	0.07	-	-	0.06	0.14
Gain on sale or derecognition of assets	(0.04)	-	-	(0.81)	-	(0.79)	-	-	-	(0.29)	(0.28)
Income tax effects	(0.10)	(0.09)	(0.02)	0.27	(0.11)	0.04	(0.15)	(0.04)	-	(0.12)	(0.32)
Resolution of income tax examinations	-	-	-	-	-	-	-	-	-	(0.19)	(0.19)
Income tax benefit of ASC 606 adoption	-	-	-	-	-	-	(0.13)	-	-	-	(0.13)
Tax reform	-	-	-	3.19	-	3.10	-	-	-	-	-
<b>NON-GAAP NET INCOME PER SHARE</b>	\$ 2.63	\$ 0.60	\$ 0.80	\$ 1.05	\$ 1.12	\$ 3.56	\$ 1.04	\$ 1.06	\$ 1.20	\$ 1.22	\$ 4.52

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In Q3'FY18, our GAAP net loss per share was calculated using basic shares of 268 million, as the impact of common stock equivalents would have been anti-dilutive. Additionally, each adjustment presented in the reconciliation was computed using basic shares. However, because we reported net income on a non-GAAP basis, non-GAAP net income per share was computed using diluted shares of 276 million. As a result of the difference in the number of shares, the summation of GAAP net loss per share and the adjustments does not equal non-GAAP net income per share.

**RECONCILIATION OF NON-GAAP TO GAAP**

**GROSS MARGIN**

(\$ in millions)

	FY2017		FY2018				FY2019				
	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
<b>Gross margin-GAAP</b>	61.3%	62.4%	63.6%	62.1%	62.6%	62.7%	65.3%	64.2%	62.8%	64.4%	64.2%
Cost of revenues adjustments	0.8%	0.9%	0.8%	0.8%	0.7%	0.8%	0.9%	0.7%	0.9%	0.8%	0.8%
<b>Gross margin-Non-GAAP</b>	62.1%	63.3%	64.5%	63.0%	63.3%	63.5%	66.2%	64.9%	63.7%	65.2%	65.0%
GAAP cost of revenues	\$ 2,127	\$ 497	\$ 515	\$ 583	\$ 615	\$ 2,210	\$ 511	\$ 543	\$ 581	\$ 566	\$ 2,201
Cost of revenues adjustments:											
Amortization of intangible assets	(29)	(8)	(9)	(10)	(9)	(36)	(9)	(9)	(10)	(8)	(36)
Stock-based compensation	(17)	(4)	(3)	(3)	(3)	(13)	(4)	(2)	(4)	(4)	(14)
Non-GAAP cost of revenues	\$ 2,081	\$ 485	\$ 503	\$ 570	\$ 603	\$ 2,161	\$ 498	\$ 532	\$ 567	\$ 554	\$ 2,151
Net revenues	\$ 5,491	\$ 1,321	\$ 1,415	\$ 1,539	\$ 1,644	\$ 5,919	\$ 1,474	\$ 1,517	\$ 1,563	\$ 1,592	\$ 6,146

**RECONCILIATION OF NON-GAAP TO GAAP**

**PRODUCT GROSS MARGIN**

(\$ in millions)

	FY2017		FY2018				FY2019				
	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
<b>Product gross margin-GAAP</b>	47.3%	48.3%	51.5%	50.7%	51.7%	50.7%	54.5%	53.1%	51.5%	54.3%	53.3%
Cost of product revenues adjustments	1.1%	1.2%	1.2%	1.1%	1.0%	1.1%	1.1%	1.0%	1.1%	1.0%	1.1%
<b>Product gross margin-Non-GAAP</b>	48.4%	49.5%	52.7%	51.8%	52.7%	51.8%	55.7%	54.1%	52.6%	55.3%	54.4%
GAAP cost of product revenues	\$ 1,612	\$ 376	\$ 397	\$ 469	\$ 496	\$ 1,738	\$ 398	\$ 428	\$ 469	\$ 457	\$ 1,752
Cost of product revenues adjustments:											
Amortization of intangible assets	(29)	(8)	(9)	(10)	(9)	(36)	(9)	(9)	(10)	(8)	(36)
Stock-based compensation	(4)	(1)	(1)	-	(1)	(3)	(1)	-	(1)	(2)	(4)
Non-GAAP cost of product revenues	\$ 1,579	\$ 367	\$ 387	\$ 459	\$ 486	\$ 1,699	\$ 388	\$ 419	\$ 458	\$ 447	\$ 1,712
Product revenues	\$ 3,060	\$ 727	\$ 819	\$ 952	\$ 1,027	\$ 3,525	\$ 875	\$ 913	\$ 967	\$ 1,000	\$ 3,755

**RECONCILIATION OF NON-GAAP TO GAAP**

**HARDWARE MAINTENANCE AND OTHER SERVICES GROSS MARGIN**

(\$ in millions)

	FY2017		FY2018				FY2019				
	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
<b>Hardware maintenance and other services gross margin-GAAP</b>	68.1%	69.3%	69.9%	70.5%	70.5%	70.0%	71.4%	70.9%	71.4%	71.7%	71.3%
Cost of hardware maintenance and other services revenues adjustments	0.9%	0.8%	0.5%	0.8%	0.5%	0.7%	0.8%	0.5%	0.8%	0.6%	0.7%
<b>Hardware maintenance and other services gross margin-Non-GAAP</b>	68.9%	70.1%	70.4%	71.3%	71.0%	70.7%	72.2%	71.5%	72.3%	72.3%	72.0%
GAAP cost of hardware maintenance and other services revenues	\$ 487	\$ 114	\$ 112	\$ 108	\$ 113	\$ 447	\$ 106	\$ 107	\$ 102	\$ 99	\$ 414
Cost of hardware maintenance and other services revenues adjustment:											
Stock-based compensation	(13)	(3)	(2)	(3)	(2)	(10)	(3)	(2)	(3)	(2)	(10)
Non-GAAP cost of hardware maintenance and other services revenues	\$ 474	\$ 111	\$ 110	\$ 105	\$ 111	\$ 437	\$ 103	\$ 105	\$ 99	\$ 97	\$ 404
Hardware maintenance and other services revenues	\$ 1,526	\$ 371	\$ 372	\$ 366	\$ 383	\$ 1,492	\$ 370	\$ 368	\$ 357	\$ 350	\$ 1,445

**RECONCILIATION OF NON-GAAP TO GAAP  
EFFECTIVE TAX RATE**

	FY2017		FY2018				FY2019				
	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
<b>GAAP effective tax rate</b>	22.5%	9.7%	21.6%	195.0%	11.6%	90.3%	(4.0%)	17.7%	21.9%	(3.1%)	7.8%
Adjustments:											
Income tax effects	(4.1%)	9.8%	(2.0%)	-9.5%	6.8%	(0.8%)	9.8%	0.8%	(3.2%)	8.3%	4.9%
Resolution of income tax examinations	- %	- %	- %	- %	- %	- %	- %	- %	- %	12.9%	3.3%
Income tax benefit of ASC 606 adoption	- %	- %	- %	- %	- %	- %	12.5%	- %	- %	- %	2.4%
Tax reform	- %	- %	- %	(169.8%)	- %	(71.4%)	- %	- %	- %	- %	- %
<b>Non-GAAP effective tax rate</b>	18.4%	19.4%	19.6%	15.7%	18.4%	18.1%	18.3%	18.5%	18.7%	18.1%	18.4%

**RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES  
TO FREE CASH FLOW (NON-GAAP)  
(In millions)**

	FY2017		FY2018				FY2019				
	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Net cash provided by operating activities	\$ 986	\$ 250	\$ 314	\$ 420	\$ 494	\$ 1,478	\$ 326	\$ 165	\$ 451	\$ 399	\$ 1,341
Purchases of property and equipment	\$ (175)	\$ (36)	\$ (29)	\$ (32)	\$ (48)	\$ (145)	\$ (64)	\$ (43)	\$ (31)	\$ (35)	\$ (173)
<b>Free cash flow</b>	\$ 811	\$ 214	\$ 285	\$ 388	\$ 446	\$ 1,333	\$ 262	\$ 122	\$ 420	\$ 364	\$ 1,168

*Some items may not add or recalculate due to rounding*

**NETAPP, INC.**  
**SUPPLEMENTAL DATA**

(In millions except net income per share, percentages, DSO, DIO, DPO, CCC and Inventory Turns)

	FY 2017	Q1 FY'18	Q2 FY'18	Q3 FY'18	Q4 FY'18	FY 2018	Q1 FY'19	Q2 FY'19	Q3 FY'19	Q4 FY'19	FY 2019
<b>Revenues</b>											
Product	\$3,060	\$727	\$819	\$952	\$1,027	\$3,525	\$875	\$913	\$967	\$1,000	\$3,755
<i>Strategic</i>	\$2,000	\$498	\$566	\$657	\$747	\$2,468	\$612	\$649	\$674	\$774	\$2,709
<i>Mature</i>	\$1,060	\$229	\$253	\$295	\$280	\$1,057	\$263	\$264	\$293	\$226	\$1,046
Software Maintenance	\$905	\$223	\$224	\$221	\$234	\$902	\$229	\$236	\$239	\$242	\$946
Hardware Maintenance and Other Services	\$1,526	\$371	\$372	\$366	\$383	\$1,492	\$370	\$368	\$357	\$350	\$1,445
<i>Hardware Maintenance Support Contracts</i>	\$1,258	\$298	\$306	\$300	\$310	\$1,214	\$303	\$303	\$292	\$284	\$1,182
<i>Professional and Other Services</i>	<u>\$268</u>	<u>\$73</u>	<u>\$66</u>	<u>\$66</u>	<u>\$73</u>	<u>\$278</u>	<u>\$67</u>	<u>\$65</u>	<u>\$65</u>	<u>\$66</u>	<u>\$263</u>
<b>Net Revenues</b>	\$5,491	\$1,321	\$1,415	\$1,539	\$1,644	\$5,919	\$1,474	\$1,517	\$1,563	\$1,592	\$6,146

**Geographic Mix**

	% of FY 2017 Revenue	% of Q1 FY'18 Revenue	% of Q2 FY'18 Revenue	% of Q3 FY'18 Revenue	% of Q4 FY'18 Revenue	% of FY 2018 Revenue	% of Q1 FY'19 Revenue	% of Q2 FY'19 Revenue	% of Q3 FY'19 Revenue	% of Q4 FY'19 Revenue	% of FY 2019 Revenue
Americas	55%	55%	56%	53%	54%	54%	57%	57%	52%	57%	56%
<i>Americas Commercial</i>	42%	42%	40%	43%	42%	41%	46%	44%	41%	45%	44%
<i>U.S. Public Sector</i>	13%	13%	16%	10%	12%	13%	11%	14%	11%	11%	12%
EMEA	32%	30%	30%	33%	33%	32%	29%	28%	33%	29%	30%
Asia Pacific	13%	15%	14%	14%	14%	14%	14%	15%	14%	14%	14%

**Pathways Mix**

	% of FY 2017 Revenue	% of Q1 FY'18 Revenue	% of Q2 FY'18 Revenue	% of Q3 FY'18 Revenue	% of Q4 FY'18 Revenue	% of FY 2018 Revenue	% of Q1 FY'19 Revenue	% of Q2 FY'19 Revenue	% of Q3 FY'19 Revenue	% of Q4 FY'19 Revenue	% of FY 2019 Revenue
Direct	22%	20%	22%	22%	21%	21%	29%	23%	19%	24%	24%
Indirect	78%	80%	78%	78%	79%	79%	71%	77%	81%	76%	76%

**Non-GAAP Gross Margins**

	FY 2017	Q1 FY'18	Q2 FY'18	Q3 FY'18	Q4 FY'18	FY 2018	Q1 FY'19	Q2 FY'19	Q3 FY'19	Q4 FY'19	FY 2019
Non-GAAP Gross Margin	62.1%	63.3%	64.5%	63.0%	63.3%	63.5%	66.2%	64.9%	63.7%	65.2%	65.0%
Product	48.4%	49.5%	52.7%	51.8%	52.7%	51.8%	55.7%	54.1%	52.6%	55.3%	54.4%
Software Maintenance	96.9%	96.9%	97.3%	97.3%	97.4%	97.2%	96.9%	96.6%	95.8%	95.9%	96.3%
Hardware Maintenance and Other Services	68.9%	70.1%	70.4%	71.3%	71.0%	70.7%	72.2%	71.5%	72.3%	72.3%	72.0%



**Non-GAAP Income from Operations, Income before Income Taxes & Effective Tax Rate**

	FY 2017	Q1 FY'18	Q2 FY'18	Q3 FY'18	Q4 FY'18	FY 2018	Q1 FY'19	Q2 FY'19	Q3 FY'19	Q4 FY'19	FY 2019
Non-GAAP Income from Operations	\$906	\$201	\$269	\$329	\$360	\$1,159	\$326	\$336	\$367	\$358	\$1,387
% of Net Revenues	16.5%	15.2%	19.0%	21.4%	21.9%	19.6%	22.1%	22.1%	23.5%	22.5%	22.6%
Non-GAAP Income Before Income Taxes	\$906	\$206	\$275	\$343	\$376	\$1,200	\$344	\$343	\$375	\$372	\$1,434
Non-GAAP Effective Tax Rate	18.4%	19.4%	19.6%	15.7%	18.4%	18.1%	18.3%	18.5%	18.7%	18.1%	18.4%

**Non-GAAP Net Income**

	FY 2017	Q1 FY'18	Q2 FY'18	Q3 FY'18	Q4 FY'18	FY 2018	Q1 FY'19	Q2 FY'19	Q3 FY'19	Q4 FY'19	FY 2019
Non-GAAP Net Income	\$739	\$166	\$221	\$289	\$307	\$983	\$281	\$280	\$305	\$305	\$1,171
Non-GAAP Weighted Average Common Shares Outstanding, Diluted	281	278	275	276	273	276	269	264	255	249	259
Non-GAAP Net Income per Share, Diluted	\$2.63	\$0.60	\$0.80	\$1.05	\$1.12	\$3.56	\$1.04	\$1.06	\$1.20	\$1.22	\$4.52

**Select Balance Sheet Items**

	Q1 FY'18	Q2 FY'18	Q3 FY'18	Q4 FY'18	Q1 FY'19	Q2 FY'19	Q3 FY'19	Q4 FY'19
Deferred Revenue and Financed Unearned Services Revenue	\$3,127	\$3,059	\$3,143	\$3,363	\$3,260	\$3,206	\$3,357	\$3,668
DSO (days)	37	39	46	58	38	46	51	70
DIO (days)	25	18	14	18	17	14	16	21
DPO (days)	53	67	71	90	76	79	78	87
CCC (days)	8	(10)	(12)	(14)	(20)	(19)	(11)	3
Inventory Turns	15	21	26	20	21	25	23	17

*Days sales outstanding (DSO) is defined as accounts receivable divided by net revenues, multiplied by the number of days in the quarter*

*Days inventory outstanding (DIO) is defined as net inventories divided by cost of revenues, multiplied by the number of days in the quarter*

*Days payables outstanding (DPO) is defined as accounts payable divided by cost of revenues, multiplied by the number of days in the quarter*

*Cash conversion cycle (CCC) is defined as DSO plus DIO minus DPO*

*Inventory turns is defined as annualized cost of revenues divided by net inventories*

**Select Cash Flow Statement Items**

	FY 2017	Q1 FY'18	Q2 FY'18	Q3 FY'18	Q4 FY'18	FY 2018	Q1 FY'19	Q2 FY'19	Q3 FY'19	Q4 FY'19	FY 2019
Net Cash Provided by Operating Activities	\$986	\$250	\$314	\$420	\$494	\$1,478	\$326	\$165	\$451	\$399	\$1,341
Purchases of Property and Equipment	\$175	\$36	\$29	\$32	\$48	\$145	\$64	\$43	\$31	\$35	\$173
Free Cash Flow	\$811	\$214	\$285	\$388	\$446	\$1,333	\$262	\$122	\$420	\$364	\$1,168
Free Cash Flow as % of Net Revenues	14.8%	16.2%	20.1%	25.2%	27.1%	22.5%	17.8%	8.0%	26.9%	22.9%	19.0%

*Free cash flow is a non-GAAP measure and is defined as net cash provided by operating activities less purchases of property and equipment.*

*Some items may not add or recalculate due to rounding.*

**NETAPP, INC.**  
**RECONCILIATION OF NON-GAAP GUIDANCE TO GAAP**  
**FIRST QUARTER FISCAL 2020**  
**(Unaudited)**

	<b>GROSS MARGIN</b>
Gross Margin - Non-GAAP Guidance	~65%
Adjustment:	
Cost of revenues adjustments	(1)%
Gross Margin - GAAP Guidance	~64%
	<b>OPERATING MARGIN</b>
Operating Margin - Non-GAAP Guidance	17% - 18%
Adjustments:	
Amortization of intangible assets	(1)%
Stock-based compensation expense	(3)%
Restructuring charges	(1)%
Operating Margin - GAAP Guidance	12 - 13%
	<b>NET INCOME PER SHARE</b>
Net Income Per Share - Non-GAAP Guidance	\$0.78 - \$0.86
Adjustments:	
Amortization of intangible assets	(\$0.04)
Stock-based compensation expense	(\$0.16)
Restructuring charges	(\$0.07)
Income tax effects	\$0.05
Net Income Per Share - GAAP Guidance	\$0.56 - \$0.64

*Some items may not add or recalculate due to rounding*

**NETAPP, INC.**  
**RECONCILIATION OF NON-GAAP GUIDANCE TO GAAP**  
**FISCAL 2020**  
**(Unaudited)**

**GROSS MARGIN**

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Gross Margin - Non-GAAP Guidance	64% - 65%
Adjustment:	
Cost of revenues adjustments	(1)%
Gross Margin - GAAP Guidance	63% - 64%

**OPERATING EXPENSES**

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For Fiscal 2020, to compute our expected Non-GAAP Operating Expenses we start with our GAAP Operating Expenses and then adjust out the following types of expenses and gains which we anticipate in Fiscal 2020:

Stock-based compensation expense  
Restructuring charges  
Gain on sale of properties

**OPERATING MARGIN**

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Operating Margin - Non-GAAP Guidance	23% - 24%
Adjustments:	
Amortization of intangible assets	(1)%
Stock-based compensation expense	(3)%
Gain on sale of properties	1%
Operating Margin - GAAP Guidance	20% - 21%

**EFFECTIVE TAX RATE**

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Effective Tax Rate - GAAP and Non-GAAP Guidance	~19.5%
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**FREE CASH FLOW AS A  
PERCENTAGE OF REVENUE**

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Free Cash Flow as a % of Revenue	19% - 21%
Purchases of Property and Equipment as a % of Revenue	3%
Net Cash Provided by Operating Activities as a % of Revenue	22% - 24%

*Some items may not add or recalculate due to rounding*