

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 of properties.* These are gains/losses from the sale of our properties. 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.

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
ASSETS			
Accounts receivable	\$ 1,009	\$ 38	\$ 1,047
Inventories	126	(4)	122
Other current assets	330	62	392
Other non-current assets	420	30	450
LIABILITIES AND STOCKHOLDERS' EQUITY			
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 July 28, 2017		
	As Previously Reported	Impact of ASC 606 Adoption	As Adjusted
Revenues:			
Product	\$ 723	\$ 4	\$ 727
Software maintenance	234	(11)	223
Hardware maintenance and other services	368	3	371
Net revenues	1,325	(4)	1,321
Cost of revenues:			
Cost of product	371	5	376
Cost of software maintenance	7	—	7
Cost of hardware maintenance and other services	113	1	114
Total cost of revenues	491	6	497
Gross profit	834	(10)	824
Operating expenses:			
Sales and marketing	425	(2)	423
Research and development	193	—	193
General and administrative	68	—	68
Total operating expenses	686	(2)	684
Income from operations	148	(8)	140
Other income, net	5	—	5
Income before income taxes	153	(8)	145
Provision for income taxes	17	(3)	14
Net income	\$ 136	\$ (5)	\$ 131
Net income per share:			
Basic	\$ 0.50	\$ (0.01)	\$ 0.49
Diluted	\$ 0.49	\$ (0.02)	\$ 0.47
Shares used in net income per share calculations:			
Basic	270	270	270
Diluted	278	278	278

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

	Three Months Ended October 27, 2017		
	As Previously Reported	Impact of ASC 606 Adoption	As Adjusted
Revenues:			
Product	\$ 807	\$ 12	\$ 819
Software maintenance	240	(16)	224
Hardware maintenance and other services	375	(3)	372

Net revenues	1,422	(7)	1,415
Cost of revenues:			
Cost of product	399	(2)	397
Cost of software maintenance	6	—	6
Cost of hardware maintenance and other services	115	(3)	112
Total cost of revenues	520	(5)	515
Gross profit	902	(2)	900
Operating expenses:			
Sales and marketing	420	1	421
Research and development	194	—	194
General and administrative	69	—	69
Total operating expenses	683	1	684
Income from operations	219	(3)	216
Other income, net	6	—	6
Income before income taxes	225	(3)	222
Provision for income taxes	50	(2)	48
Net income	\$ 175	\$ (1)	\$ 174
Net income per share:			
Basic	\$ 0.65	\$ —	\$ 0.65
Diluted	\$ 0.64	\$ (0.01)	\$ 0.63
Shares used in net income per share calculations:			
Basic	269	269	269
Diluted	275	275	275

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

Three Months Ended January 26, 2018

	As Previously Reported	Impact of ASC 606 Adoption	As Adjusted
Revenues:			
Product	\$ 920	\$ 32	\$ 952
Software maintenance	237	(16)	221
Hardware maintenance and other services	366	—	366
Net revenues	1,523	16	1,539
Cost of revenues:			
Cost of product	468	1	469
Cost of software maintenance	6	—	6
Cost of hardware maintenance and other services	108	—	108
Total cost of revenues	582	1	583
Gross profit	941	15	956
Operating expenses:			
Sales and marketing	423	(4)	419

Research and development	193	—	193
General and administrative	72	—	72
Gain on sale of properties	(218)	—	(218)
Total operating expenses	<u>470</u>	<u>(4)</u>	<u>466</u>
Income from operations	471	19	490
Other income, net	<u>14</u>	<u>—</u>	<u>14</u>
Income before income taxes	485	19	504
Provision for income taxes	<u>991</u>	<u>(8)</u>	<u>983</u>
Net loss	<u>\$ (506)</u>	<u>\$ 27</u>	<u>\$ (479)</u>
Net loss per share:			
Basic	<u>\$ (1.89)</u>	<u>\$ 0.10</u>	<u>\$ (1.79)</u>
Diluted	<u>\$ (1.89)</u>	<u>\$ 0.10</u>	<u>\$ (1.79)</u>
Shares used in net loss per share calculations:			
Basic	<u>268</u>	<u>268</u>	<u>268</u>
Diluted	<u>268</u>	<u>268</u>	<u>268</u>

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

	Three Months Ended April 27, 2018		
	As Previously Reported	Impact of ASC 606 Adoption	As Adjusted
Revenues:			
Product	\$ 1,011	\$ 16	\$ 1,027
Software maintenance	247	(13)	234
Hardware maintenance and other services	<u>383</u>	<u>—</u>	<u>383</u>
Net revenues	<u>1,641</u>	<u>3</u>	<u>1,644</u>
Cost of revenues:			
Cost of product	500	(4)	496
Cost of software maintenance	6	—	6
Cost of hardware maintenance and other services	<u>113</u>	<u>—</u>	<u>113</u>
Total cost of revenues	<u>619</u>	<u>(4)</u>	<u>615</u>
Gross profit	<u>1,022</u>	<u>7</u>	<u>1,029</u>
Operating expenses:			
Sales and marketing	461	(18)	443
Research and development	203	—	203
General and administrative	<u>71</u>	<u>—</u>	<u>71</u>
Total operating expenses	<u>735</u>	<u>(18)</u>	<u>717</u>
Income from operations	287	25	312
Other income, net	<u>16</u>	<u>—</u>	<u>16</u>
Income before income taxes	303	25	328

Provision for income taxes	32	6	38
Net income	<u>\$ 271</u>	<u>\$ 19</u>	<u>\$ 290</u>
Net income per share:			
Basic	<u>\$ 1.02</u>	<u>\$ 0.07</u>	<u>\$ 1.09</u>
Diluted	<u>\$ 0.99</u>	<u>\$ 0.07</u>	<u>\$ 1.06</u>
Shares used in net income per share calculations:			
Basic	<u>265</u>	<u>265</u>	<u>265</u>
Diluted	<u>273</u>	<u>273</u>	<u>273</u>

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

	Year Ended April 27, 2018		
	As Previously Reported	Impact of ASC 606 Adoption	As Adjusted
Revenues:			
Product	\$ 3,461	\$ 64	\$ 3,525
Software maintenance	958	(56)	902
Hardware maintenance and other services	1,492	—	1,492
Net revenues	<u>5,911</u>	<u>8</u>	<u>5,919</u>
Cost of revenues:			
Cost of product	1,738	—	1,738
Cost of software maintenance	25	—	25
Cost of hardware maintenance and other services	449	(2)	447
Total cost of revenues	<u>2,212</u>	<u>(2)</u>	<u>2,210</u>
Gross profit	<u>3,699</u>	<u>10</u>	<u>3,709</u>
Operating expenses:			
Sales and marketing	1,729	(23)	1,706
Research and development	783	—	783
General and administrative	280	—	280
Gain on sale of properties	(218)	—	(218)
Total operating expenses	<u>2,574</u>	<u>(23)</u>	<u>2,551</u>
Income from operations	1,125	33	1,158
Other income (expense), net	41	—	41
Income before income taxes	1,166	33	1,199
Provision for income taxes	1,090	(7)	1,083
Net income	<u>\$ 76</u>	<u>\$ 40</u>	<u>\$ 116</u>
Net income per share:			
Basic	<u>\$ 0.28</u>	<u>\$ 0.15</u>	<u>\$ 0.43</u>
Diluted	<u>\$ 0.28</u>	<u>\$ 0.14</u>	<u>\$ 0.42</u>
Shares used in net income per share calculations:			
Basic	<u>268</u>	<u>268</u>	<u>268</u>

Diluted

276

276

276

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

	Year Ended April 28, 2017		
	As Previously Reported	Impact of ASC 606 Adoption	As Adjusted
Revenues:			
Product	\$ 3,006	\$ 54	\$ 3,060
Software maintenance	965	(60)	905
Hardware maintenance and other services	1,548	(22)	1,526
Net revenues	<u>5,519</u>	<u>(28)</u>	<u>5,491</u>
Cost of revenues:			
Cost of product	1,614	(2)	1,612
Cost of software maintenance	28	—	28
Cost of hardware maintenance and other services	487	—	487
Total cost of revenues	<u>2,129</u>	<u>(2)</u>	<u>2,127</u>
Gross profit	<u>3,390</u>	<u>(26)</u>	<u>3,364</u>
Operating expenses:			
Sales and marketing	1,633	18	1,651
Research and development	779	—	779
General and administrative	271	—	271
Restructuring charges	52	—	52
Gain on sale of properties	(10)	—	(10)
Total operating expenses	<u>2,725</u>	<u>18</u>	<u>2,743</u>
Income from operations	665	(44)	621
Other income (expense), net	—	—	—
Income before income taxes	665	(44)	621
Provision for income taxes	156	(16)	140
Net income	<u>\$ 509</u>	<u>\$ (28)</u>	<u>\$ 481</u>
Net income per share:			
Basic	<u>\$ 1.85</u>	<u>\$ (0.10)</u>	<u>\$ 1.75</u>
Diluted	<u>\$ 1.81</u>	<u>\$ (0.10)</u>	<u>\$ 1.71</u>
Shares used in net income per share calculations:			
Basic	<u>275</u>	<u>275</u>	<u>275</u>
Diluted	<u>281</u>	<u>281</u>	<u>281</u>

NETAPP, INC.

SUPPLEMENTAL DATA

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

	<u>FY 2017</u>	<u>Q1 FY'18</u>	<u>Q2 FY'18</u>	<u>Q3 FY'18</u>	<u>Q4 FY'18</u>	<u>FY 2018</u>	<u>Q1 FY'19</u>
Revenues							
Product	\$3,060	\$727	\$819	\$952	\$1,027	\$3,525	\$875
<i>Strategic</i>	\$2,000	\$498	\$566	\$657	\$747	\$2,468	\$612
<i>Mature</i>	\$1,060	\$229	\$253	\$295	\$280	\$1,057	\$263
Software Maintenance	\$905	\$223	\$224	\$221	\$234	\$902	\$229
Hardware Maintenance and Other Services	\$1,526	\$371	\$372	\$366	\$383	\$1,492	\$370
<i>Hardware Maintenance Support Contracts</i>	\$1,258	\$298	\$306	\$300	\$310	\$1,214	\$303
<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>
Net Revenues	\$5,491	\$1,321	\$1,415	\$1,539	\$1,644	\$5,919	\$1,474

Geographic Mix

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

Pathways Mix

	<u>% of FY 2017 Revenue</u>	<u>% of Q1 FY'18 Revenue</u>	<u>% of Q2 FY'18 Revenue</u>	<u>% of Q3 FY'18 Revenue</u>	<u>% of Q4 FY'18 Revenue</u>	<u>% of FY 2018 Revenue</u>	<u>% of Q1 FY'19 Revenue</u>
Direct	22%	20%	22%	22%	21%	21%	29%
Indirect	78%	80%	78%	78%	79%	79%	71%

Non-GAAP Gross Margins

	FY 2017	Q1 FY'18	Q2 FY'18	Q3 FY'18	Q4 FY'18	FY 2018	Q1 FY'19
Non-GAAP Gross Margin	62.1%	63.3%	64.5%	63.0%	63.3%	63.5%	66.2%
Product	48.4%	49.5%	52.7%	51.8%	52.7%	51.8%	55.7%
Software Maintenance	96.9%	96.9%	97.3%	97.3%	97.4%	97.2%	96.9%
Hardware Maintenance and Other Services	68.9%	70.1%	70.4%	71.3%	71.0%	70.7%	72.2%

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
Non-GAAP Income from Operations	\$906	\$201	\$269	\$329	\$360	\$1,159	\$326
% of Net Revenues	16.5%	15.2%	19.0%	21.4%	21.9%	19.6%	22.1%
Non-GAAP Income Before Income Taxes	\$906	\$206	\$275	\$343	\$376	\$1,200	\$344
Non-GAAP Effective Tax Rate	18.4%	19.4%	19.6%	15.7%	18.4%	18.1%	18.3%

Non-GAAP Net Income

	FY 2017	Q1 FY'18	Q2 FY'18	Q3 FY'18	Q4 FY'18	FY 2018	Q1 FY'19
Non-GAAP Net Income	\$739	\$166	\$221	\$289	\$307	\$983	\$281
Non-GAAP Weighted Average Common Shares Outstanding, Diluted	281	278	275	276	273	276	269
Non-GAAP Net Income per Share, Diluted	\$2.63	\$0.60	\$0.80	\$1.05	\$1.12	\$3.56	\$1.04

Select Balance Sheet Items

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

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
Net Cash Provided by Operating Activities	\$986	\$250	\$314	\$420	\$494	\$1,478	\$326
Purchases of Property and Equipment	\$175	\$36	\$29	\$32	\$48	\$145	\$64
Free Cash Flow	\$811	\$214	\$285	\$388	\$446	\$1,333	\$262
Free Cash Flow as % of Net Revenues	14.8%	16.2%	20.1%	25.2%	27.1%	22.5%	17.8%

*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 TO GAAP
INCOME STATEMENT INFORMATION
(In millions, except net income per share amounts)

	FY2017		FY2018			FY2019	
	Total	Q1	Q2	Q3	Q4	Total	Q1
NET INCOME (LOSS)	\$ 481	\$ 131	\$ 174	\$ (479)	\$ 290	\$ 116	\$ 283
Adjustments:							
Amortization of intangible assets	48	13	14	14	12	53	13
Stock-based compensation	195	48	39	38	36	161	40
Litigation settlements	-	-	-	5	-	5	-
Restructuring and other charges	52	-	-	-	-	-	19
Gain on sale of properties	(10)	-	-	(218)	-	(218)	-
Income tax effects	(27)	(26)	(6)	73	(31)	10	(40)
Income tax benefit of ASC 606 adoption	-	-	-	-	-	-	(34)
Tax reform	-	-	-	856	-	856	-
NON-GAAP NET INCOME	\$ 739	\$ 166	\$ 221	\$ 289	\$ 307	\$ 983	\$ 281
COST OF REVENUES	\$ 2,127	\$ 497	\$ 515	\$ 583	\$ 615	2,210	\$ 511
Adjustments:							
Amortization of intangible assets	(29)	(8)	(9)	(10)	(9)	(36)	(9)
Stock-based compensation	(17)	(4)	(3)	(3)	(3)	(13)	(4)
NON-GAAP COST OF REVENUES	\$ 2,081	\$ 485	\$ 503	\$ 570	\$ 603	\$ 2,161	\$ 498
COST OF PRODUCT REVENUES	\$ 1,612	\$ 376	\$ 397	\$ 469	\$ 496	\$ 1,738	\$ 398
Adjustments:							
Amortization of intangible assets	(29)	(8)	(9)	(10)	(9)	(36)	(9)
Stock-based compensation	(4)	(1)	(1)	-	(1)	(3)	(1)
NON-GAAP COST OF PRODUCT REVENUES	\$ 1,579	\$ 367	\$ 387	\$ 459	\$ 486	\$ 1,699	\$ 388
COST OF HARDWARE MAINTENANCE AND OTHER SERVICES REVENUES	\$ 487	\$ 114	\$ 112	\$ 108	\$ 113	\$ 447	\$ 106
Adjustment:							
Stock-based compensation	(13)	(3)	(2)	(3)	(2)	(10)	(3)
NON-GAAP COST OF HARDWARE MAINTENANCE AND OTHER SERVICES REVENUES	\$ 474	\$ 111	\$ 110	\$ 105	\$ 111	\$ 437	\$ 103
GROSS PROFIT	\$ 3,364	\$ 824	\$ 900	\$ 956	\$ 1,029	\$ 3,709	\$ 963
Adjustments:							
Amortization of intangible assets	29	8	9	10	9	36	9
Stock-based compensation	17	4	3	3	3	13	4
NON-GAAP GROSS PROFIT	\$ 3,410	\$ 836	\$ 912	\$ 969	\$ 1,041	\$ 3,758	\$ 976

SALES AND MARKETING EXPENSES	\$	1,651	\$	423	\$	421	\$	419	\$	443	\$	1,706	\$	409
Adjustments:														
Amortization of intangible assets		(19)		(5)		(5)		(4)		(3)		(17)		(4)
Stock-based compensation		(84)		(21)		(16)		(16)		(15)		(68)		(17)
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$</u>	<u>1,548</u>	<u>\$</u>	<u>397</u>	<u>\$</u>	<u>400</u>	<u>\$</u>	<u>399</u>	<u>\$</u>	<u>425</u>	<u>\$</u>	<u>1,621</u>	<u>\$</u>	<u>388</u>
RESEARCH AND DEVELOPMENT EXPENSES	\$	779	\$	193	\$	194	\$	193	\$	203	\$	783	\$	208
Adjustment:														
Stock-based compensation		(59)		(15)		(12)		(11)		(11)		(49)		(12)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$</u>	<u>720</u>	<u>\$</u>	<u>178</u>	<u>\$</u>	<u>182</u>	<u>\$</u>	<u>182</u>	<u>\$</u>	<u>192</u>	<u>\$</u>	<u>734</u>	<u>\$</u>	<u>196</u>
GENERAL AND ADMINISTRATIVE EXPENSES	\$	271	\$	68	\$	69	\$	72	\$	71	\$	280	\$	73
Adjustments:														
Stock-based compensation		(35)		(8)		(8)		(8)		(7)		(31)		(7)
Litigation settlements		-		-		-		(5)		-		(5)		-
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$</u>	<u>236</u>	<u>\$</u>	<u>60</u>	<u>\$</u>	<u>61</u>	<u>\$</u>	<u>59</u>	<u>\$</u>	<u>64</u>	<u>\$</u>	<u>244</u>	<u>\$</u>	<u>66</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	
RESTRUCTURING CHARGES	\$ 52	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19	
Adjustment:								
Restructuring charges	(52)	-	-	-	-	-	(19)	
NON-GAAP RESTRUCTURING CHARGES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
GAIN ON SALE OF PROPERTIES	\$ (10)	\$ -	\$ -	\$ (218)	\$ -	\$ (218)	\$ -	
Adjustment:								
Gain on sale of properties	10	-	-	218	-	218	-	
NON-GAAP GAIN ON SALE OF PROPERTIES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
OPERATING EXPENSES	\$ 2,743	\$ 684	\$ 684	\$ 466	\$ 717	\$ 2,551	\$ 709	
Adjustments:								
Amortization of intangible assets	(19)	(5)	(5)	(4)	(3)	(17)	(4)	
Stock-based compensation	(178)	(44)	(36)	(35)	(33)	(148)	(36)	
Litigation settlements	-	-	-	(5)	-	(5)	-	
Restructuring and other charges	(52)	-	-	-	-	-	(19)	
Gain on sale of properties	10	-	-	218	-	218	-	
NON-GAAP OPERATING EXPENSES	\$ 2,504	\$ 635	\$ 643	\$ 640	\$ 681	\$ 2,599	\$ 650	
INCOME (LOSS) FROM OPERATIONS	\$ 621	\$ 140	\$ 216	\$ 490	\$ 312	\$ 1,158	\$ 254	
Adjustments:								
Amortization of intangible assets	48	13	14	14	12	53	13	
Stock-based compensation	195	48	39	38	36	161	40	
Litigation settlements	-	-	-	5	-	5	-	
Restructuring and other charges	52	-	-	-	-	-	19	
Gain on sale of properties	(10)	-	-	(218)	-	(218)	-	
NON-GAAP INCOME FROM OPERATIONS	\$ 906	\$ 201	\$ 269	\$ 329	\$ 360	\$ 1,159	\$ 326	
INCOME (LOSS) BEFORE INCOME TAXES	\$ 621	\$ 145	\$ 222	\$ 504	\$ 328	\$ 1,199	\$ 272	
Adjustments:								
Amortization of intangible assets	48	13	14	14	12	53	13	
Stock-based compensation	195	48	39	38	36	161	40	
Litigation settlements	-	-	-	5	-	5	-	
Restructuring and other charges	52	-	-	-	-	-	19	
Gain on sale of properties	(10)	-	-	(218)	-	(218)	-	
NON-GAAP INCOME BEFORE INCOME TAXES	\$ 906	\$ 206	\$ 275	\$ 343	\$ 376	\$ 1,200	\$ 344	

PROVISION FOR INCOME TAXES	\$	140	\$	14	\$	48	\$	983	\$	38	\$	1,083	\$	(11)
Adjustments:														
Income tax effects		27		26		6		(73)		31		(10)		40
Income tax benefit of ASC 606 adoption		-		-		-		-		-		-		34
Tax reform		-		-		-		(856)		-		(856)		-
NON-GAAP PROVISION FOR INCOME TAXES	\$	167	\$	40	\$	54	\$	54	\$	69	\$	217	\$	63
NET INCOME (LOSS) PER SHARE	\$	1.71	\$	0.47	\$	0.63	\$	(1.79)	\$	1.06	\$	0.42	\$	1.05
Adjustments:														
Amortization of intangible assets		0.17		0.05		0.05		0.05		0.04		0.19		0.05
Stock-based compensation		0.69		0.17		0.14		0.14		0.13		0.58		0.15
Litigation settlements		-		-		-		0.02		-		0.02		-
Restructuring and other charges		0.19		-		-		-		-		-		0.07
Gain on sale of properties		(0.04)		-		-		(0.81)		-		(0.79)		-
Income tax effects		(0.10)		(0.09)		(0.02)		0.27		(0.11)		0.04		(0.15)
Income tax benefit of ASC 606 adoption		-		-		-		-		-		-		(0.13)
Tax reform		-		-		-		3.19		-		3.10		-
NON-GAAP NET INCOME PER SHARE	\$	2.63	\$	0.60	\$	0.80	\$	1.05	\$	1.12	\$	3.56	\$	1.04

In Q3FY18, 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	
Gross margin-GAAP	61.3%	62.4%	63.6%	62.1%	62.6%	62.7%	65.3%	
Cost of revenues adjustments	0.8%	0.9%	0.8%	0.8%	0.7%	0.8%	0.9%	
Gross margin-Non-GAAP	62.1%	63.3%	64.5%	63.0%	63.3%	63.5%	66.2%	
GAAP cost of revenues	\$ 2,127	\$ 497	\$ 515	\$ 583	\$ 615	\$ 2,210	\$ 511	
Cost of revenues adjustments:								
Amortization of intangible assets	(29)	(8)	(9)	(10)	(9)	(36)	(9)	
Stock-based compensation	(17)	(4)	(3)	(3)	(3)	(13)	(4)	
Non-GAAP cost of revenues	\$ 2,081	\$ 485	\$ 503	\$ 570	\$ 603	\$ 2,161	\$ 498	
Net revenues	\$ 5,491	\$ 1,321	\$ 1,415	\$ 1,539	\$ 1,644	\$ 5,919	\$ 1,474	

**RECONCILIATION OF NON-GAAP TO GAAP
PRODUCT GROSS MARGIN
(\$ in millions)**

	FY2017		FY2018				FY2019	
	Total	Q1	Q2	Q3	Q4	Total	Q1	
Product gross margin-GAAP	47.3%	48.3%	51.5%	50.7%	51.7%	50.7%	54.5%	
Cost of product revenues adjustments	1.1%	1.2%	1.2%	1.1%	1.0%	1.1%	1.1%	
Product gross margin-Non-GAAP	48.4%	49.5%	52.7%	51.8%	52.7%	51.8%	55.7%	
GAAP cost of product revenues	\$ 1,612	\$ 376	\$ 397	\$ 469	\$ 496	\$ 1,738	\$ 398	
Cost of product revenues adjustments:								
Amortization of intangible assets	(29)	(8)	(9)	(10)	(9)	(36)	(9)	
Stock-based compensation	(4)	(1)	(1)	-	(1)	(3)	(1)	
Non-GAAP cost of product revenues	\$ 1,579	\$ 367	\$ 387	\$ 459	\$ 486	\$ 1,699	\$ 388	
Product revenues	\$ 3,060	\$ 727	\$ 819	\$ 952	\$ 1,027	\$ 3,525	\$ 875	

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	
Hardware maintenance and other services gross margin-GAAP	68.1%	69.3%	69.9%	70.5%	70.5%	70.0%	71.4%	
Cost of hardware maintenance and other services revenues adjustments	0.9%	0.8%	0.5%	0.8%	0.5%	0.7%	0.8%	
Hardware maintenance and other services gross margin-Non-GAAP	68.9%	70.1%	70.4%	71.3%	71.0%	70.7%	72.2%	
GAAP cost of hardware maintenance and other services revenues	\$ 487	\$ 114	\$ 112	\$ 108	\$ 113	\$ 447	\$ 106	
Cost of hardware maintenance and other services revenues adjustments:								
Stock-based compensation	(13)	(3)	(2)	(3)	(2)	(10)	(3)	
Non-GAAP cost of hardware maintenance and other services revenues	\$ 474	\$ 111	\$ 110	\$ 105	\$ 111	\$ 437	\$ 103	
Hardware maintenance and other services revenues	\$ 1,526	\$ 371	\$ 372	\$ 366	\$ 383	\$ 1,492	\$ 370	

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

	FY2017		FY2018				FY2019	
	Total	Q1	Q2	Q3	Q4	Total	Q1	
GAAP effective tax rate	22.5%	9.7%	21.6%	195.0%	11.6%	90.3%	(4.0%)	
Adjustments:								
Income tax effects	(4.1%)	9.8%	(2.0%)	(9.5%)	6.8%	(0.8%)	9.8%	
Income tax benefit of ASC 606 adoption	- %	- %	- %	- %	- %	- %	12.5%	
Tax reform	- %	- %	- %	(169.8%)	- %	(71.4%)	- %	
Non-GAAP effective tax rate	18.4%	19.4%	19.6%	15.7%	18.4%	18.1%	18.3%	

**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	
Net cash provided by operating activities	\$ 986	\$ 250	\$ 314	\$ 420	\$ 494	\$ 1,478	\$ 326	
Purchases of property and equipment	\$ (175)	\$ (36)	\$ (29)	\$ (32)	(48)	\$ (145)	(64)	
Free cash flow	\$ 811	\$ 214	\$ 285	\$ 388	\$ 446	\$ 1,333	\$ 262	

Some items may not add or recalculate due to rounding

NETAPP, INC.
RECONCILIATION OF NON-GAAP GUIDANCE TO GAAP
SECOND QUARTER FISCAL 2019
(Unaudited)

	GROSS MARGIN
Gross Margin - Non-GAAP Guidance	63% - 64%
Adjustment:	
Cost of revenues adjustments	(1)%
Gross Margin - GAAP Guidance	62% - 63%
	OPERATING MARGIN
Operating Margin - Non-GAAP Guidance	20 - 21%
Adjustments:	
Amortization of intangible assets	(1)%
Stock-based compensation expense	(2)%
Operating Margin - GAAP Guidance	17 - 18%
	NET INCOME PER SHARE
Net Income Per Share - Non-GAAP Guidance	\$0.94 - \$1.00
Adjustments:	
Amortization of intangible assets	(\$0.05)
Stock-based compensation expense	(\$0.14)
Income tax effects	\$0.04
Net Income Per Share - GAAP Guidance	\$0.79 - \$0.85

Some items may not add or recalculate due to rounding

NETAPP, INC.
RECONCILIATION OF NON-GAAP GUIDANCE TO GAAP
Fiscal 2019
(Unaudited)

GROSS MARGIN

Gross Margin - Non-GAAP Guidance	63% - 64%
Adjustment:	
Cost of revenues adjustments	(1)%
Gross Margin - GAAP Guidance	62% - 63%

OPERATING MARGIN

Operating Margin - Non-GAAP Guidance	~22%
Adjustments:	
Amortization of intangible assets	(1)%
Stock-based compensation expense	(3)%
Gain on sale of properties	1%
Operating Margin - GAAP Guidance	~19%

EFFECTIVE TAX RATE

Effective Tax Rate - Non-GAAP Guidance	~18%
Adjustment:	
Income tax effects	4%
Effective Tax Rate - GAAP Guidance	~22%

**FREE CASH FLOW AS A
PERCENTAGE OF REVENUE**

Free Cash Flow as a % of Revenue - Non-GAAP Guidance	19% - 21%
Adjustment:	
Purchases of Property and Equipment as a % of Revenue - GAAP Guidance	4%
Net Cash Provided by Operating Activities as a % of Revenue - GAAP Guidance	23% - 25%

Some items may not add or recalculate due to rounding