

NETAPP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions)
(Unaudited)

	<u>July 29, 2016</u>	<u>April 29, 2016</u>
ASSETS		
Current assets:		
Cash, cash equivalents and investments	\$ 4,421	\$ 5,303
Accounts receivable	501	813
Inventories	81	98
Other current assets	220	234
Total current assets	5,223	6,448
Property and equipment, net	942	937
Goodwill and purchased intangible assets, net	1,845	1,856
Other non-current assets	777	796
Total assets	\$ 8,787	\$ 10,037
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 239	\$ 254
Accrued expenses	561	765
Short-term loan	—	849
Short-term deferred revenue and financed unearned services revenue	1,724	1,794
Total current liabilities	2,524	3,662
Long-term debt	1,491	1,490
Other long-term liabilities	404	413
Long-term deferred revenue and financed unearned services revenue	1,576	1,591
Total liabilities	5,995	7,156
Stockholders' equity	2,792	2,881
Total liabilities and stockholders' equity	\$ 8,787	\$ 10,037

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

	Three Months Ended	
	July 29, 2016	July 31, 2015
Revenues:		
Product	\$ 660	\$ 664
Software maintenance	241	248
Hardware maintenance and other services	393	423
Net revenues	<u>1,294</u>	<u>1,335</u>
Cost of revenues:		
Cost of product	359	345
Cost of software maintenance	8	10
Cost of hardware maintenance and other services	130	164
Total cost of revenues	<u>497</u>	<u>519</u>
Gross profit	<u>797</u>	<u>816</u>
Operating expenses:		
Sales and marketing	429	492
Research and development	207	244
General and administrative	68	79
Restructuring and other charges	—	27
Total operating expenses	<u>704</u>	<u>842</u>
Income (loss) from operations	93	(26)
Other income (expense), net	<u>(1)</u>	<u>4</u>
Income (loss) before income taxes	92	(22)
Provision for income taxes	28	8
Net income (loss)	<u>\$ 64</u>	<u>\$ (30)</u>
Net income (loss) per share:		
Basic	<u>\$ 0.23</u>	<u>\$ (0.10)</u>
Diluted	<u>\$ 0.23</u>	<u>\$ (0.10)</u>
Shares used in net income (loss) per share calculations:		
Basic	<u>279</u>	<u>304</u>
Diluted	<u>282</u>	<u>304</u>
Cash dividends declared per share	<u>\$ 0.190</u>	<u>\$ 0.180</u>

NETAPP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Three Months Ended	
	July 29, 2016	July 31, 2015
Cash flows from operating activities:		
Net income (loss)	\$ 64	\$ (30)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	60	69
Stock-based compensation	52	77
Other non-cash items, net	12	(36)
Changes in assets and liabilities:		
Accounts receivable	311	361
Inventories	17	(47)
Accounts payable	(30)	(33)
Accrued expenses	(198)	(119)
Deferred revenue and financed unearned services revenue	(83)	(121)
Changes in other operating assets and liabilities, net	23	8
Net cash provided by operating activities	228	129
Cash flows from investing activities:		
Redemptions of investments, net	313	778
Purchases of property and equipment	(36)	(38)
Other investing activities, net	(1)	2
Net cash provided by investing activities	276	742
Cash flows from financing activities:		
Issuance of common stock under employee stock award plans	9	19
Repurchase of common stock	(175)	(430)
Repayment of short-term loan	(850)	—
Dividends paid	(53)	(54)
Other financing activities, net	(2)	1
Net cash used in financing activities	(1,071)	(464)
Effect of exchange rate changes on cash and cash equivalents	(7)	(5)
Net increase (decrease) in cash and cash equivalents	(574)	402
Cash and cash equivalents:		
Beginning of period	2,868	1,922
End of period	<u>\$ 2,294</u>	<u>\$ 2,324</u>

NETAPP, INC.
SUPPLEMENTAL DATA
(In millions except net income per share, percentages, DSO and Inventory Turns)
(Unaudited)

	<u>Q1 FY'17</u>	<u>Q4 FY'16</u>	<u>Q1 FY'16</u>
Revenues			
Product	\$ 660	\$ 757	\$ 664
<i>Strategic</i>	\$ 400	\$ 468	\$ 323
<i>Mature</i>	\$ 260	\$ 289	\$ 341
Software Maintenance	\$ 241	\$ 234	\$ 248
Hardware Maintenance and Other Services:	\$ 393	\$ 389	\$ 423
<i>Hardware Maintenance Support Contracts</i>	\$ 323	\$ 318	\$ 346
<i>Professional and Other Services</i>	\$ 70	\$ 71	\$ 77
Net Revenues	\$ 1,294	\$ 1,380	\$ 1,335

	% of Q1 FY'17 Revenue	% of Q4 FY'16 Revenue	% of Q1 FY'16 Revenue
Geographic Mix			
Americas	57%	54%	56%
<i>Americas Commercial</i>	44%	43%	44%
<i>U.S. Public Sector</i>	13%	12%	12%
EMEA	30%	33%	31%
Asia Pacific	13%	13%	13%

	% of Q1 FY'17 Revenue	% of Q4 FY'16 Revenue	% of Q1 FY'16 Revenue
Pathways Mix			
Direct	23%	26%	22%
Indirect	77%	74%	77%

	<u>Q1 FY'17</u>	<u>Q4 FY'16</u>	<u>Q1 FY'16</u>
Non-GAAP Gross Margins			
Non-GAAP Gross Margin	62.4%	61.1%	63.6%
Product	46.7%	46.8%	51.2%
Software Maintenance	96.7%	96.2%	96.2%
Hardware Maintenance and Other Services	67.9%	67.9%	64.1%

	<u>Q1 FY'17</u>	<u>Q4 FY'16</u>	<u>Q1 FY'16</u>
Non-GAAP Income from Operations, Income before Income Taxes & Effective Tax Rate			
Non-GAAP Income from Operations	\$ 156	\$ 185	\$ 103
% of Net Revenues	12.1%	13.4%	7.7%
Non-GAAP Income before Income Taxes	\$ 155	\$ 181	\$ 107
Non-GAAP Effective Tax Rate	16.6%	13.1%	17.0%

Non-GAAP Net Income

	<u>Q1 FY'17</u>	<u>Q4 FY'16</u>	<u>Q1 FY'16</u>
Non-GAAP Net Income	\$ 129	\$ 157	\$ 89
Non-GAAP Weighted Average Common Shares Outstanding, Diluted	282	287	308
Non-GAAP Income per Share, Diluted	\$ 0.46	\$ 0.55	\$ 0.29

Select Balance Sheet Items

	<u>Q1 FY'17</u>	<u>Q4 FY'16</u>	<u>Q1 FY'16</u>
Deferred Revenue and Financed Unearned Services Revenue	\$ 3,300	\$ 3,385	\$ 3,066
DSO (days)	35	54	30
Inventory Turns	24	22	10

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

Inventory turns is defined as annualized non-GAAP cost of revenues divided by net inventories.

Select Cash Flow Statement Items

	<u>Q1 FY'17</u>	<u>Q4 FY'16</u>	<u>Q1 FY'16</u>
Net Cash Provided by Operating Activities	\$ 228	\$ 345	\$ 129
Purchases of Property and Equipment	\$ 36	\$ 35	\$ 38
Free Cash Flow	\$ 192	\$ 310	\$ 91
<i>Free Cash Flow as a % of Net Revenues</i>	14.8%	22.5%	6.8%

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)

	<u>Q1'FY17</u>	<u>Q4'FY16</u>	<u>Q1'FY16</u>
NET INCOME (LOSS)	\$ 64	\$ (8)	\$ (30)
Adjustments:			
Amortization of intangible assets	11	25	14
Stock-based compensation	52	61	77
Asset impairment	—	—	11
Restructuring and other charges	—	80	27
Acquisition-related expense	—	6	—
Gain on sale of properties	—	(51)	—
Income tax effect of non-GAAP adjustments	2	(20)	(23)
Income tax expenses from integration of intellectual properties from acquisition	—	64	—
Settlement of income tax audit	—	—	13
NON-GAAP NET INCOME	<u>\$ 129</u>	<u>\$ 157</u>	<u>\$ 89</u>
COST OF REVENUES	\$ 497	\$ 562	\$ 519
Adjustments:			
Amortization of intangible assets	(6)	(20)	(14)
Stock-based compensation	(5)	(5)	(8)
Asset impairment	—	—	(11)
NON-GAAP COST OF REVENUES	<u>\$ 486</u>	<u>\$ 537</u>	<u>\$ 486</u>
COST OF PRODUCT REVENUES	\$ 359	\$ 424	\$ 345
Adjustments:			
Amortization of intangible assets	(6)	(20)	(14)
Stock-based compensation	(1)	(1)	(2)
Asset impairment	—	—	(5)
NON-GAAP COST OF PRODUCT REVENUES	<u>\$ 352</u>	<u>\$ 403</u>	<u>\$ 324</u>
COST OF HARDWARE MAINTENANCE AND OTHER SERVICES REVENUES	\$ 130	\$ 129	\$ 164
Adjustments:			
Stock-based compensation	(4)	(4)	(6)
Asset impairment	—	—	(6)
NON-GAAP COST OF HARDWARE MAINTENANCE AND OTHER SERVICES REVENUES	<u>\$ 126</u>	<u>\$ 125</u>	<u>\$ 152</u>
GROSS PROFIT	\$ 797	\$ 818	\$ 816
Adjustments:			
Amortization of intangible assets	6	20	14
Stock-based compensation	5	5	8
Asset impairment	—	—	11
NON-GAAP GROSS PROFIT	<u>\$ 808</u>	<u>\$ 843</u>	<u>\$ 849</u>

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

	Q1'FY17	Q4'FY16	Q1'FY16
SALES AND MARKETING EXPENSES	\$ 429	\$ 434	\$ 492
Adjustments:			
Amortization of intangible assets	(5)	(5)	—
Stock-based compensation	(23)	(26)	(31)
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$ 401</u>	<u>\$ 403</u>	<u>\$ 461</u>
RESEARCH AND DEVELOPMENT EXPENSES	\$ 207	\$ 201	\$ 244
Adjustment:			
Stock-based compensation	(15)	(20)	(26)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$ 192</u>	<u>\$ 181</u>	<u>\$ 218</u>
GENERAL AND ADMINISTRATIVE EXPENSES	\$ 68	\$ 84	\$ 79
Adjustment:			
Stock-based compensation	(9)	(10)	(12)
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 59</u>	<u>\$ 74</u>	<u>\$ 67</u>
RESTRUCTURING AND OTHER CHARGES	\$ —	\$ 80	\$ 27
Adjustment:			
Restructuring and other charges	—	(80)	(27)
NON-GAAP RESTRUCTURING AND OTHER CHARGES	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
ACQUISITION-RELATED EXPENSE	\$ —	\$ 6	\$ —
Adjustment:			
Acquisition-related expense	—	(6)	—
NON-GAAP ACQUISITION-RELATED EXPENSE	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
GAIN ON SALE OF PROPERTIES	\$ —	\$ (51)	\$ —
Adjustment:			
Gain on sale of properties	—	51	—
NON-GAAP GAIN ON SALE OF PROPERTIES	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
OPERATING EXPENSES	\$ 704	\$ 754	\$ 842
Adjustments:			
Amortization of intangible assets	(5)	(5)	—
Stock-based compensation	(47)	(56)	(69)
Restructuring and other charges	—	(80)	(27)
Acquisition-related expense	—	(6)	—
Gain on sale of properties	—	51	—
NON-GAAP OPERATING EXPENSES	<u>\$ 652</u>	<u>\$ 658</u>	<u>\$ 746</u>

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

	<u>Q1'FY17</u>	<u>Q4'FY16</u>	<u>Q1'FY16</u>
INCOME (LOSS) FROM OPERATIONS	\$ 93	\$ 64	\$ (26)
Adjustments:			
Amortization of intangible assets	11	25	14
Stock-based compensation	52	61	77
Asset impairment	—	—	11
Restructuring and other charges	—	80	27
Acquisition-related expense	—	6	—
Gain on sale of properties	—	(51)	—
NON-GAAP INCOME FROM OPERATIONS	<u>\$ 156</u>	<u>\$ 185</u>	<u>\$ 103</u>
INCOME (LOSS) BEFORE INCOME TAXES	\$ 92	\$ 60	\$ (22)
Adjustments:			
Amortization of intangible assets	11	25	14
Stock-based compensation	52	61	77
Asset impairment	—	—	11
Restructuring and other charges	—	80	27
Acquisition-related expense	—	6	—
Gain on sale of properties	—	(51)	—
NON-GAAP INCOME BEFORE INCOME TAXES	<u>\$ 155</u>	<u>\$ 181</u>	<u>\$ 107</u>
PROVISION FOR INCOME TAXES	\$ 28	\$ 68	\$ 8
Adjustments:			
Income tax effect of non-GAAP adjustments	(2)	20	23
Income tax expenses from integration of intellectual properties from acquisition	—	(64)	—
Settlement of income tax audit	—	—	(13)
NON-GAAP PROVISION FOR INCOME TAXES	<u>\$ 26</u>	<u>\$ 24</u>	<u>\$ 18</u>
NET INCOME (LOSS) PER SHARE	\$ 0.23	\$ (0.03)	\$ (0.10)
Adjustments:			
Amortization of intangible assets	0.04	0.09	0.05
Stock-based compensation	0.18	0.21	0.25
Asset impairment	—	—	0.04
Restructuring and other charges	—	0.28	0.09
Acquisition-related expense	—	0.02	—
Gain on sale of properties	—	(0.18)	—
Income tax effect of non-GAAP adjustments	0.01	(0.07)	(0.08)
Income tax expenses from integration of intellectual properties from acquisition	—	0.23	—
Settlement of income tax audit	—	—	0.04
NON-GAAP NET INCOME PER SHARE	<u>\$ 0.46</u>	<u>\$ 0.55</u>	<u>\$ 0.29</u>

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

	<u>Q1'FY17</u>	<u>Q4'FY16</u>	<u>Q1'FY16</u>
Gross margin-GAAP	61.6%	59.3%	61.1%
Cost of revenues adjustments	0.9%	1.8%	2.5%
Gross margin-Non-GAAP	62.4%	61.1%	63.6%
GAAP cost of revenues	\$ 497	\$ 562	\$ 519
Cost of revenues adjustments:			
Amortization of intangible assets	(6)	(20)	(14)
Stock-based compensation	(5)	(5)	(8)
Asset impairment	—	—	(11)
Non-GAAP cost of revenues	\$ 486	\$ 537	\$ 486
Net revenues	\$ 1,294	\$ 1,380	\$ 1,335

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

	<u>Q1'FY17</u>	<u>Q4'FY16</u>	<u>Q1'FY16</u>
Product gross margin-GAAP	45.6%	44.0%	48.0%
Cost of product revenues adjustments	1.1%	2.8%	3.2%
Product gross margin-Non-GAAP	46.7%	46.8%	51.2%
GAAP cost of product revenues	\$ 359	\$ 424	\$ 345
Cost of product revenues adjustments:			
Amortization of intangible assets	(6)	(20)	(14)
Stock-based compensation	(1)	(1)	(2)
Asset impairment	—	—	(5)
Non-GAAP cost of product revenues	\$ 352	\$ 403	\$ 324
Product revenues	\$ 660	\$ 757	\$ 664

**RECONCILIATION OF NON-GAAP TO GAAP
HARDWARE MAINTENANCE AND OTHER SERVICES GROSS MARGIN
(\$ in millions)**

	<u>Q1'FY17</u>	<u>Q4'FY16</u>	<u>Q1'FY16</u>
Hardware maintenance and other services gross margin-GAAP	66.9%	66.8%	61.2%
Cost of hardware maintenance and other services revenues adjustments	1.0%	1.0%	2.8%
Hardware maintenance and other services gross margin-Non-GAAP	67.9%	67.9%	64.1%
GAAP cost of hardware maintenance and other services revenues	\$ 130	\$ 129	\$ 164
Cost of hardware maintenance and other services revenues adjustments:			
Stock-based compensation	(4)	(4)	(6)
Asset impairment	—	—	(6)
Non-GAAP cost of hardware maintenance and other services revenues	\$ 126	\$ 125	\$ 152
Hardware maintenance and other services revenues	\$ 393	\$ 389	\$ 423

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

	<u>Q1'FY17</u>	<u>Q4'FY16</u>	<u>Q1'FY16</u>
GAAP effective tax rate	30.4%	113.3%	(36.4%)
Adjustments:			
Tax effect of non-GAAP adjustments	(13.8%)	(64.9%)	65.5%
Income tax expenses from integration of intellectual properties from acquisition	—%	(35.4%)	—%
Settlement of income tax audit	—%	—%	(12.1%)
Non-GAAP effective tax rate	16.6%	13.1%	17.0%

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

	<u>Q1'FY17</u>	<u>Q4'FY16</u>	<u>Q1'FY16</u>
Net cash provided by operating activities	\$ 228	\$ 345	\$ 129
Purchases of property and equipment	(36)	(35)	(38)
Free cash flow	\$ 192	\$ 310	\$ 91

**INVENTORY TURNS AND RECONCILIATION OF NON-GAAP TO GAAP
COST OF REVENUES USED IN INVENTORY TURNS
(In millions, except annualized inventory turns)**

	<u>Q1'FY17</u>	<u>Q4'FY16</u>	<u>Q1'FY16</u>
Annualized inventory turns-GAAP	25	23	11
Cost of revenues adjustments	(1)	(1)	(1)
Annualized inventory turns-Non-GAAP	24	22	10
GAAP cost of revenues	\$ 497	\$ 562	\$ 519
Cost of revenues adjustments:			
Amortization of intangible assets	(6)	(20)	(14)
Stock-based compensation	(5)	(5)	(8)
Asset impairment	—	—	(11)
Non-GAAP cost of revenues	\$ 486	\$ 537	\$ 486
Inventory	\$ 81	\$ 98	\$ 193

Some items may not add or recalculate due to rounding.

NETAPP, INC.
RECONCILIATION OF NON-GAAP GUIDANCE TO GAAP
EXPRESSED AS EARNINGS PER SHARE
SECOND QUARTER FISCAL 2017

	<u>Second Quarter</u> <u>Fiscal 2017</u>
Non-GAAP Guidance - Net Income Per Share	\$0.51 - \$0.56
Adjustments of Specific Items to Net Income	
Per Share for the Second Quarter Fiscal 2017:	
Amortization of intangible assets	(0.04)
Stock-based compensation expense	(0.19)
Income tax effect of non-GAAP adjustments	<u>0.03</u>
Total Adjustments	(0.20)
GAAP Guidance - Net Income Per Share	\$0.31 - \$0.36