

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

	<u>July 27, 2018</u>	<u>April 27, 2018</u>
ASSETS		
Current assets:		
Cash, cash equivalents and investments	\$ 4,811	\$ 5,391
Accounts receivable	616	1,047
Inventories	97	122
Other current assets	329	392
Total current assets	5,853	6,952
Property and equipment, net	768	756
Goodwill and purchased intangible assets, net	1,820	1,833
Other non-current assets	464	450
Total assets	\$ 8,905	\$ 9,991
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 425	\$ 609
Accrued expenses	592	825
Commercial paper notes	200	385
Short-term deferred revenue and financed unearned services revenue	1,623	1,712
Total current liabilities	2,840	3,531
Long-term debt	1,542	1,541
Other long-term liabilities	964	992
Long-term deferred revenue and financed unearned services revenue	1,637	1,651
Total liabilities	6,983	7,715
Stockholders' equity	1,922	2,276
Total liabilities and stockholders' equity	\$ 8,905	\$ 9,991

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

	Three Months Ended	
	July 27, 2018	July 28, 2017
Revenues:		
Product	\$ 875	\$ 727
Software maintenance	229	223
Hardware maintenance and other services	370	371
Net revenues	<u>1,474</u>	<u>1,321</u>
Cost of revenues:		
Cost of product	398	376
Cost of software maintenance	7	7
Cost of hardware maintenance and other services	106	114
Total cost of revenues	<u>511</u>	<u>497</u>
Gross profit	<u>963</u>	<u>824</u>
Operating expenses:		
Sales and marketing	409	423
Research and development	208	193
General and administrative	73	68
Restructuring charges	19	—
Total operating expenses	<u>709</u>	<u>684</u>
Income from operations	254	140
Other income, net	<u>18</u>	<u>5</u>
Income before income taxes	272	145
Provision (benefit) for income taxes	(11)	14
Net income	<u>\$ 283</u>	<u>\$ 131</u>
Net income per share:		
Basic	<u>\$ 1.08</u>	<u>\$ 0.49</u>
Diluted	<u>\$ 1.05</u>	<u>\$ 0.47</u>
Shares used in net income per share calculations:		
Basic	<u>262</u>	<u>270</u>
Diluted	<u>269</u>	<u>278</u>
Cash dividends declared per share	<u>\$ 0.40</u>	<u>\$ 0.20</u>

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

	Three Months Ended	
	July 27, 2018	July 28, 2017
Cash flows from operating activities:		
Net income	\$ 283	\$ 131
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	49	51
Stock-based compensation	40	48
Deferred income taxes	(26)	—
Other items, net	8	5
Changes in assets and liabilities, net of acquisitions of businesses:		
Accounts receivable	423	226
Inventories	25	24
Accounts payable	(177)	(58)
Accrued expenses	(221)	(135)
Deferred revenue and financed unearned services revenue	(87)	(102)
Long-term taxes payable	5	—
Changes in other operating assets and liabilities, net	4	60
Net cash provided by operating activities	<u>326</u>	<u>250</u>
Cash flows from investing activities:		
Redemptions of investments, net	248	112
Purchases of property and equipment	(64)	(36)
Acquisitions of businesses, net of cash acquired	—	(24)
Other investing activities, net	2	1
Net cash provided by investing activities	<u>186</u>	<u>53</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee stock award plans	63	48
Payments for taxes related to net share settlement of stock awards	(84)	(57)
Repurchase of common stock	(500)	(150)
Proceeds from (repayments of) commercial paper notes, net	(185)	394
Dividends paid	(105)	(54)
Other financing activities, net	(1)	—
Net cash provided by (used in) financing activities	<u>(812)</u>	<u>181</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(14)	19
Net increase (decrease) in cash, cash equivalents and restricted cash	(314)	503
Cash, cash equivalents and restricted cash:		
Beginning of period	2,947	2,450
End of period	<u>\$ 2,633</u>	<u>\$ 2,953</u>

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	<u>1,325</u>	<u>(4)</u>	<u>1,321</u>
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	<u>491</u>	<u>6</u>	<u>497</u>
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	<u>686</u>	<u>(2)</u>	<u>684</u>
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	<u>\$ 136</u>	<u>\$ (5)</u>	<u>\$ 131</u>
Net income per share:			
Basic	<u>\$ 0.50</u>	<u>\$ (0.01)</u>	<u>\$ 0.49</u>
Diluted	<u>\$ 0.49</u>	<u>\$ (0.02)</u>	<u>\$ 0.47</u>
Shares used in net income per share calculations:			
Basic	<u>270</u>	<u>270</u>	<u>270</u>
Diluted	<u>278</u>	<u>278</u>	<u>278</u>

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	<u>1,422</u>	<u>(7)</u>	<u>1,415</u>
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	<u>520</u>	<u>(5)</u>	<u>515</u>
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	<u>683</u>	<u>1</u>	<u>684</u>
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	<u>\$ 175</u>	<u>\$ (1)</u>	<u>\$ 174</u>
Net income per share:			
Basic	<u>\$ 0.65</u>	<u>\$ —</u>	<u>\$ 0.65</u>
Diluted	<u>\$ 0.64</u>	<u>\$ (0.01)</u>	<u>\$ 0.63</u>
Shares used in net income per share calculations:			
Basic	<u>269</u>	<u>269</u>	<u>269</u>
Diluted	<u>275</u>	<u>275</u>	<u>275</u>

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	<u>1,523</u>	<u>16</u>	<u>1,539</u>
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	<u>582</u>	<u>1</u>	<u>583</u>
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	14	—	14
Income before income taxes	485	19	504
Provision for income taxes	991	(8)	983
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	383	—	383
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	113	—	113
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	71	—	71
Total operating expenses	<u>735</u>	<u>(18)</u>	<u>717</u>
Income from operations	287	25	312
Other income, net	16	—	16
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	3,699	10	3,709
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	<u>276</u>	<u>276</u>	<u>276</u>

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	3,390	(26)	3,364
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)
(Unaudited)

	<u>Q1</u> <u>FY'19</u>	<u>Q4</u> <u>FY'18</u>	<u>Q3</u> <u>FY'18</u>	<u>Q2</u> <u>FY'18</u>	<u>Q1</u> <u>FY'18</u>	<u>FY 2018</u>	<u>FY 2017</u>
Revenues							
Product	\$ 875	\$ 1,027	\$ 952	\$ 819	\$ 727	\$ 3,525	\$ 3,060
<i>Strategic</i>	\$ 612	\$ 747	\$ 657	\$ 566	\$ 498	\$ 2,468	\$ 2,000
<i>Mature</i>	\$ 263	\$ 280	\$ 295	\$ 253	\$ 229	\$ 1,057	\$ 1,060
Software Maintenance	\$ 229	\$ 234	\$ 221	\$ 224	\$ 223	\$ 902	\$ 905
Hardware Maintenance and Other Services	\$ 370	\$ 383	\$ 366	\$ 372	\$ 371	\$ 1,492	\$ 1,526
<i>Hardware Maintenance Support Contracts</i>	\$ 303	\$ 310	\$ 300	\$ 306	\$ 298	\$ 1,214	\$ 1,258
<i>Professional and Other Services</i>	\$ 67	\$ 73	\$ 66	\$ 66	\$ 73	\$ 278	\$ 268
Net Revenues	\$ 1,474	\$ 1,644	\$ 1,539	\$ 1,415	\$ 1,321	\$ 5,919	\$ 5,491

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

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

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

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

	<u>Q1</u> <u>FY'19</u>	<u>Q4</u> <u>FY'18</u>	<u>Q3</u> <u>FY'18</u>	<u>Q2</u> <u>FY'18</u>	<u>Q1</u> <u>FY'18</u>	<u>FY 2018</u>	<u>FY 2017</u>
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Non-GAAP Income from Operations	\$ 326	\$ 360	\$ 329	\$ 269	\$ 201	\$ 1,159	\$ 906
% of Net Revenues	22.1%	21.9%	21.4%	19.0%	15.2%	19.6%	16.5%
Non-GAAP Income before Income Taxes	\$ 344	\$ 376	\$ 343	\$ 275	\$ 206	\$ 1,200	\$ 906
Non-GAAP Effective Tax Rate	18.3%	18.4%	15.7%	19.6%	19.4%	18.1%	18.4%

Non-GAAP Net Income

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

Select Balance Sheet Items

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

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

	Q1 FY'19	Q4 FY'18	Q3 FY'18	Q2 FY'18	Q1 FY'18	FY 2018	FY 2017
Net Cash Provided by Operating Activities	\$ 326	\$ 494	\$ 420	\$ 314	\$ 250	\$ 1,478	\$ 986
Purchases of Property and Equipment	\$ 64	\$ 48	\$ 32	\$ 29	\$ 36	\$ 145	\$ 175
Free Cash Flow	\$ 262	\$ 446	\$ 388	\$ 285	\$ 214	\$ 1,333	\$ 811
Free Cash Flow as a % of Net Revenues	17.8%	27.1%	25.2%	20.1%	16.2%	22.5%	14.8%

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 (loss) per share amounts)

	<u>Q1'FY19</u>	<u>Q4'FY18</u>	<u>Q3'FY18</u>	<u>Q2'FY18</u>	<u>Q1'FY18</u>	<u>FY2018</u>	<u>FY2017</u>
NET INCOME (LOSS)	\$ 283	\$ 290	\$ (479)	\$ 174	131	\$ 116	\$ 481
Adjustments:							
Amortization of intangible assets	13	12	14	14	13	53	48
Stock-based compensation	40	36	38	39	48	161	195
Litigation settlements	—	—	5	—	—	5	—
Restructuring charges	19	—	—	—	—	—	52
Gain on sale of properties	—	—	(218)	—	—	(218)	(10)
Income tax effects	(40)	(31)	73	(6)	(26)	10	(27)
Income tax benefit of ASC 606 adoption	(34)	—	—	—	—	—	—
Tax reform	—	—	856	—	—	856	—
NON-GAAP NET INCOME	<u>\$ 281</u>	<u>\$ 307</u>	<u>\$ 289</u>	<u>\$ 221</u>	<u>\$ 166</u>	<u>\$ 983</u>	<u>\$ 739</u>
COST OF REVENUES	\$ 511	\$ 615	\$ 583	\$ 515	\$ 497	\$ 2,210	\$ 2,127
Adjustments:							
Amortization of intangible assets	(9)	(9)	(10)	(9)	(8)	(36)	(29)
Stock-based compensation	(4)	(3)	(3)	(3)	(4)	(13)	(17)
NON-GAAP COST OF REVENUES	<u>\$ 498</u>	<u>\$ 603</u>	<u>\$ 570</u>	<u>\$ 503</u>	<u>\$ 485</u>	<u>\$ 2,161</u>	<u>\$ 2,081</u>
COST OF PRODUCT REVENUES	\$ 398	\$ 496	\$ 469	\$ 397	\$ 376	\$ 1,738	\$ 1,612
Adjustments:							
Amortization of intangible assets	(9)	(9)	(10)	(9)	(8)	(36)	(29)
Stock-based compensation	(1)	(1)	—	(1)	(1)	(3)	(4)
NON-GAAP COST OF PRODUCT REVENUES	<u>\$ 388</u>	<u>\$ 486</u>	<u>\$ 459</u>	<u>\$ 387</u>	<u>\$ 367</u>	<u>\$ 1,699</u>	<u>\$ 1,579</u>
COST OF HARDWARE MAINTENANCE AND OTHER SERVICES REVENUES	\$ 106	\$ 113	\$ 108	\$ 112	\$ 114	\$ 447	\$ 487
Adjustment:							
Stock-based compensation	(3)	(2)	(3)	(2)	(3)	(10)	(13)
NON-GAAP COST OF HARDWARE MAINTENANCE AND OTHER SERVICES REVENUES	<u>\$ 103</u>	<u>\$ 111</u>	<u>\$ 105</u>	<u>\$ 110</u>	<u>\$ 111</u>	<u>\$ 437</u>	<u>\$ 474</u>
GROSS PROFIT	\$ 963	\$ 1,029	\$ 956	\$ 900	\$ 824	\$ 3,709	\$ 3,364
Adjustments:							
Amortization of intangible assets	9	9	10	9	8	36	29
Stock-based compensation	4	3	3	3	4	13	17
NON-GAAP GROSS PROFIT	<u>\$ 976</u>	<u>\$ 1,041</u>	<u>\$ 969</u>	<u>\$ 912</u>	<u>\$ 836</u>	<u>\$ 3,758</u>	<u>\$ 3,410</u>

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

	<u>Q1'FY19</u>	<u>Q4'FY18</u>	<u>Q3'FY18</u>	<u>Q2'FY18</u>	<u>Q1'FY18</u>	<u>FY2018</u>	<u>FY2017</u>
SALES AND MARKETING EXPENSES	\$ 409	\$ 443	\$ 419	\$ 421	\$ 423	\$ 1,706	\$ 1,651
Adjustments:							
Amortization of intangible assets	(4)	(3)	(4)	(5)	(5)	(17)	(19)
Stock-based compensation	(17)	(15)	(16)	(16)	(21)	(68)	(84)
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$ 388</u>	<u>\$ 425</u>	<u>\$ 399</u>	<u>\$ 400</u>	<u>\$ 397</u>	<u>\$ 1,621</u>	<u>\$ 1,548</u>
RESEARCH AND DEVELOPMENT EXPENSES	\$ 208	\$ 203	\$ 193	\$ 194	\$ 193	\$ 783	\$ 779
Adjustment:							
Stock-based compensation	(12)	(11)	(11)	(12)	(15)	(49)	(59)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$ 196</u>	<u>\$ 192</u>	<u>\$ 182</u>	<u>\$ 182</u>	<u>\$ 178</u>	<u>\$ 734</u>	<u>\$ 720</u>
GENERAL AND ADMINISTRATIVE EXPENSES	\$ 73	\$ 71	\$ 72	\$ 69	\$ 68	\$ 280	\$ 271
Adjustment:							
Stock-based compensation	(7)	(7)	(8)	(8)	(8)	(31)	(35)
Litigation settlements	—	—	(5)	—	—	(5)	—
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 66</u>	<u>\$ 64</u>	<u>\$ 59</u>	<u>\$ 61</u>	<u>\$ 60</u>	<u>\$ 244</u>	<u>\$ 236</u>
RESTRUCTURING CHARGES	\$ 19	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 52
Adjustment:							
Restructuring charges	(19)	—	—	—	—	—	(52)
NON-GAAP RESTRUCTURING CHARGES	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
GAIN ON SALE OF PROPERTIES	\$ —	\$ —	\$ (218)	\$ —	\$ —	\$ (218)	\$ (10)
Adjustment:							
Gain on sale of properties	—	—	218	—	—	218	10
NON-GAAP GAIN ON SALE OF PROPERTIES	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
OPERATING EXPENSES	\$ 709	\$ 717	\$ 466	\$ 684	\$ 684	\$ 2,551	\$ 2,743
Adjustments:							
Amortization of intangible assets	(4)	(3)	(4)	(5)	(5)	(17)	(19)
Stock-based compensation	(36)	(33)	(35)	(36)	(44)	(148)	(178)
Litigation settlements	—	—	(5)	—	—	(5)	—
Restructuring charges	(19)	—	—	—	—	—	(52)
Gain on sale of properties	—	—	218	—	—	218	10
NON-GAAP OPERATING EXPENSES	<u>\$ 650</u>	<u>\$ 681</u>	<u>\$ 640</u>	<u>\$ 643</u>	<u>\$ 635</u>	<u>\$ 2,599</u>	<u>\$ 2,504</u>

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

	<u>Q1'FY19</u>	<u>Q4'FY18</u>	<u>Q3'FY18</u>	<u>Q2'FY18</u>	<u>Q1'FY18</u>	<u>FY2018</u>	<u>FY2017</u>
INCOME FROM OPERATIONS	\$ 254	\$ 312	\$ 490	\$ 216	\$ 140	\$ 1,158	\$ 621
Adjustments:							
Amortization of intangible assets	13	12	14	14	13	53	48
Stock-based compensation	40	36	38	39	48	161	195
Litigation settlements	—	—	5	—	—	5	—
Restructuring charges	19	—	—	—	—	—	52
Gain on sale of properties	—	—	(218)	—	—	(218)	(10)
NON-GAAP INCOME FROM OPERATIONS	<u>\$ 326</u>	<u>\$ 360</u>	<u>\$ 329</u>	<u>\$ 269</u>	<u>\$ 201</u>	<u>\$ 1,159</u>	<u>\$ 906</u>
INCOME BEFORE INCOME TAXES	\$ 272	\$ 328	\$ 504	\$ 222	\$ 145	\$ 1,199	\$ 621
Adjustments:							
Amortization of intangible assets	13	12	14	14	13	53	48
Stock-based compensation	40	36	38	39	48	161	195
Litigation settlements	—	—	5	—	—	5	—
Restructuring charges	19	—	—	—	—	—	52
Gain on sale of properties	—	—	(218)	—	—	(218)	(10)
NON-GAAP INCOME BEFORE INCOME TAXES	<u>\$ 344</u>	<u>\$ 376</u>	<u>\$ 343</u>	<u>\$ 275</u>	<u>\$ 206</u>	<u>\$ 1,200</u>	<u>\$ 906</u>
PROVISION FOR INCOME TAXES	\$ (11)	\$ 38	\$ 983	\$ 48	\$ 14	\$ 1,083	\$ 140
Adjustments:							
Income tax effects	40	31	(73)	6	26	(10)	27
Income tax benefit of ASC 606 adoption	34	—	—	—	—	—	—
Tax reform	—	—	(856)	—	—	(856)	—
NON-GAAP PROVISION FOR INCOME TAXES	<u>\$ 63</u>	<u>\$ 69</u>	<u>\$ 54</u>	<u>\$ 54</u>	<u>\$ 40</u>	<u>\$ 217</u>	<u>\$ 167</u>
NET INCOME (LOSS) PER SHARE	\$ 1.05	\$ 1.06	\$ (1.79)	\$ 0.63	\$ 0.47	\$ 0.42	\$ 1.71
Adjustments:							
Amortization of intangible assets	0.05	0.04	0.05	0.05	0.05	0.19	0.17
Stock-based compensation	0.15	0.13	0.14	0.14	0.17	0.58	0.69
Litigation settlements	—	—	0.02	—	—	0.02	—
Restructuring charges	0.07	—	—	—	—	—	0.19
Gain on sale of properties	—	—	(0.81)	—	—	(0.79)	(0.04)
Income tax effects	(0.15)	(0.11)	0.27	(0.02)	(0.09)	0.04	(0.10)
Income tax benefit of ASC 606 adoption	(0.13)	—	—	—	—	—	—
Tax reform	—	—	3.19	—	—	3.10	—
NON-GAAP NET INCOME PER SHARE	<u>\$ 1.04</u>	<u>\$ 1.12</u>	<u>\$ 1.05</u>	<u>\$ 0.80</u>	<u>\$ 0.60</u>	<u>\$ 3.56</u>	<u>\$ 2.63</u>

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)

	Q1'FY19	Q4'FY18	Q3'FY18	Q2'FY18	Q1'FY18	FY2018	FY2017
Gross margin-GAAP	65.3%	62.6%	62.1%	63.6%	62.4%	62.7%	61.3%
Cost of revenues adjustments	0.9%	0.7%	0.8%	0.8%	0.9%	0.8%	0.8%
Gross margin-Non-GAAP	66.2%	63.3%	63.0%	64.5%	63.3%	63.5%	62.1%
GAAP cost of revenues	\$ 511	\$ 615	\$ 583	\$ 515	\$ 497	\$ 2,210	\$ 2,127
Cost of revenues adjustments:							
Amortization of intangible assets	(9)	(9)	(10)	(9)	(8)	(36)	(29)
Stock-based compensation	(4)	(3)	(3)	(3)	(4)	(13)	(17)
Non-GAAP cost of revenues	\$ 498	\$ 603	\$ 570	\$ 503	\$ 485	\$ 2,161	\$ 2,081
Net revenues	\$ 1,474	\$ 1,644	\$ 1,539	\$ 1,415	\$ 1,321	\$ 5,919	\$ 5,491

RECONCILIATION OF NON-GAAP TO GAAP

PRODUCT GROSS MARGIN

(\$ in millions)

	Q1'FY19	Q4'FY18	Q3'FY18	Q2'FY18	Q1'FY18	FY2018	FY2017
Product gross margin-GAAP	54.5%	51.7%	50.7%	51.5%	48.3%	50.7%	47.3%
Cost of product revenues adjustments	1.1%	1.0%	1.1%	1.2%	1.2%	1.1%	1.1%
Product gross margin-Non-GAAP	55.7%	52.7%	51.8%	52.7%	49.5%	51.8%	48.4%
GAAP cost of product revenues	\$ 398	\$ 496	\$ 469	\$ 397	\$ 376	\$ 1,738	\$ 1,612
Cost of product revenues adjustments:							
Amortization of intangible assets	(9)	(9)	(10)	(9)	(8)	(36)	(29)
Stock-based compensation	(1)	(1)	—	(1)	(1)	(3)	(4)
Non-GAAP cost of product revenues	\$ 388	\$ 486	\$ 459	\$ 387	\$ 367	\$ 1,699	\$ 1,579
Product revenues	\$ 875	\$ 1,027	\$ 952	\$ 819	\$ 727	\$ 3,525	\$ 3,060

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

	<u>Q1'FY19</u>	<u>Q4'FY18</u>	<u>Q3'FY18</u>	<u>Q2'FY18</u>	<u>Q1'FY18</u>	<u>FY2018</u>	<u>FY2017</u>
Hardware maintenance and other services gross margin-GAAP	71.4%	70.5%	70.5%	69.9%	69.3%	70.0%	68.1%
Cost of hardware maintenance and other services revenues adjustment	0.8%	0.5%	0.8%	0.5%	0.8%	0.7%	0.9%
Hardware maintenance and other services gross margin-Non-GAAP	72.2%	71.0%	71.3%	70.4%	70.1%	70.7%	68.9%
GAAP cost of hardware maintenance and other services revenues	\$ 106	\$ 113	\$ 108	\$ 112	\$ 114	\$ 447	\$ 487
Cost of hardware maintenance and other services revenues adjustment:							
Stock-based compensation	(3)	(2)	(3)	(2)	(3)	(10)	(13)
Non-GAAP cost of hardware maintenance and other services revenues	\$ 103	\$ 111	\$ 105	\$ 110	\$ 111	\$ 437	\$ 474
Hardware maintenance and other services revenues	\$ 370	\$ 383	\$ 366	\$ 372	\$ 371	\$ 1,492	\$ 1,526

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

	<u>Q1'FY19</u>	<u>Q4'FY18</u>	<u>Q3'FY18</u>	<u>Q2'FY18</u>	<u>Q1'FY18</u>	<u>FY2018</u>	<u>FY2017</u>
GAAP effective tax rate	(4.0)%	11.6%	195.0%	21.6%	9.7%	90.3%	22.5%
Adjustment:							
Income tax effects	9.8%	6.8%	(9.5)%	(2.0)%	9.8%	(0.8)%	(4.1)%
Income tax benefit of ASC 606 adoption	12.5%	—%	—%	—%	—%	—%	—%
Tax reform	—%	—%	(169.8)%	—%	—%	(71.4)%	—%
Non-GAAP effective tax rate	18.3%	18.4%	15.7%	19.6%	19.4%	18.1%	18.4%

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

	<u>Q1'FY19</u>	<u>Q4'FY18</u>	<u>Q3'FY18</u>	<u>Q2'FY18</u>	<u>Q1'FY18</u>	<u>FY2018</u>	<u>FY2017</u>
Net cash provided by operating activities	\$ 326	\$ 494	\$ 420	\$ 314	\$ 250	\$ 1,478	\$ 986
Purchases of property and equipment	(64)	(48)	(32)	(29)	(36)	(145)	(175)
Free cash flow	\$ 262	\$ 446	\$ 388	\$ 285	\$ 214	\$ 1,333	\$ 811

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 2019

	Second Quarter Fiscal 2019
Non-GAAP Guidance - Net Income Per Share	\$0.94 - \$1.00
Adjustments of Specific Items to Net Income Per Share for the Second Quarter Fiscal 2019:	
Amortization of intangible assets	(0.05)
Stock-based compensation expense	(0.14)
Income tax effects	0.04
Total Adjustments	(0.15)
GAAP Guidance - Net Income Per Share	\$0.79 - \$0.85

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