

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

	October 30, 2015	April 24, 2015
ASSETS		
Current assets:		
Cash, cash equivalents and investments	\$ 4,814	\$ 5,326
Accounts receivable	587	779
Inventories	125	146
Other current assets	555	522
Total current assets	6,081	6,773
Property and equipment, net	1,004	1,030
Goodwill and purchased intangible assets, net	1,078	1,117
Other non-current assets	472	481
Total assets	\$ 8,635	\$ 9,401
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 226	\$ 284
Accrued expenses	618	701
Short-term deferred revenue and financed unearned services revenue	1,609	1,724
Total current liabilities	2,453	2,709
Long-term debt	1,489	1,487
Other long-term liabilities	269	318
Long-term deferred revenue and financed unearned services revenue	1,437	1,473
Total liabilities	5,648	5,987
Stockholders' equity	2,987	3,414
Total liabilities and stockholders' equity	\$ 8,635	\$ 9,401

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

	Three Months Ended		Six Months Ended	
	October 30, 2015	October 24, 2014	October 30, 2015	October 24, 2014
Revenues:				
Product	\$ 815	\$ 929	\$ 1,479	\$ 1,812
Software maintenance	233	225	481	446
Hardware maintenance and other services	397	389	820	774
Net revenues	<u>1,445</u>	<u>1,543</u>	<u>2,780</u>	<u>3,032</u>
Cost of revenues:				
Cost of product	408	402	753	796
Cost of software maintenance	9	9	19	17
Cost of hardware maintenance and other services	144	149	308	298
Total cost of revenues	<u>561</u>	<u>560</u>	<u>1,080</u>	<u>1,111</u>
Gross profit	<u>884</u>	<u>983</u>	<u>1,700</u>	<u>1,921</u>
Operating expenses:				
Sales and marketing	448	488	940	968
Research and development	216	229	460	457
General and administrative	74	73	153	143
Restructuring and other charges	1	-	28	-
Total operating expenses	<u>739</u>	<u>790</u>	<u>1,581</u>	<u>1,568</u>
Income from operations	145	193	119	353
Other income (expense), net	<u>(1)</u>	<u>(4)</u>	<u>3</u>	<u>(4)</u>
Income before income taxes	144	189	122	349
Provision for income taxes	<u>30</u>	<u>29</u>	<u>38</u>	<u>101</u>
Net income	<u>\$ 114</u>	<u>\$ 160</u>	<u>\$ 84</u>	<u>\$ 248</u>
Net income per share:				
Basic	<u>\$ 0.39</u>	<u>\$ 0.50</u>	<u>\$ 0.28</u>	<u>\$ 0.77</u>
Diluted	<u>\$ 0.39</u>	<u>\$ 0.49</u>	<u>\$ 0.28</u>	<u>\$ 0.76</u>
Shares used in net income per share calculations:				
Basic	<u>294</u>	<u>318</u>	<u>299</u>	<u>321</u>
Diluted	<u>296</u>	<u>323</u>	<u>302</u>	<u>326</u>
Cash dividends declared per share	<u>\$ 0.180</u>	<u>\$ 0.165</u>	<u>\$ 0.360</u>	<u>\$ 0.330</u>

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

	Three Months Ended		Six Months Ended	
	October 30, 2015	October 24, 2014	October 30, 2015	October 24, 2014
Cash flows from operating activities:				
Net income	\$ 114	\$ 160	\$ 84	\$ 248
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	67	77	136	155
Stock-based compensation	59	68	136	130
Excess tax benefit from stock-based compensation	(2)	(6)	(4)	(49)
Other, net	12	4	(22)	50
Changes in assets and liabilities:				
Accounts receivable	(172)	(49)	189	222
Inventories	68	(3)	21	15
Accounts payable	(27)	30	(60)	(32)
Accrued expenses	31	91	(88)	(136)
Deferred revenue and financed unearned services revenue	(16)	(19)	(137)	(45)
Changes in other operating assets and liabilities, net	11	28	19	39
Net cash provided by operating activities	<u>145</u>	<u>381</u>	<u>274</u>	<u>597</u>
Cash flows from investing activities:				
Redemptions of investments, net	10	170	788	361
Purchases of property and equipment	(46)	(51)	(84)	(109)
Other investing activities, net	(2)	(1)	-	(1)
Net cash provided by (used in) investing activities	<u>(38)</u>	<u>118</u>	<u>704</u>	<u>251</u>
Cash flows from financing activities:				
Issuance of common stock	6	43	25	71
Repurchase of common stock	(183)	(600)	(613)	(719)
Excess tax benefit from stock-based compensation	2	6	4	49
Issuance of long-term debt, net	-	-	-	495
Dividends paid	(53)	(52)	(107)	(105)
Other financing activities, net	(2)	(2)	(3)	(4)
Net cash used in financing activities	<u>(230)</u>	<u>(605)</u>	<u>(694)</u>	<u>(213)</u>
Effect of exchange rate changes on cash and cash equivalents	(3)	(21)	(8)	(21)
Net increase (decrease) in cash and cash equivalents	(126)	(127)	276	614
Cash and cash equivalents:				
Beginning of period	2,324	3,032	1,922	2,291
End of period	<u>\$ 2,198</u>	<u>\$ 2,905</u>	<u>\$ 2,198</u>	<u>\$ 2,905</u>

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

	<u>Q2 FY'16</u>	<u>Q1 FY'16</u>	<u>Q2 FY'15</u>
Revenues			
Product	\$815	\$664	\$929
Software Maintenance	\$233	\$248	\$225
Hardware Maintenance & Other Services:	\$397	\$423	\$389
<i>Hardware Maintenance Support Contracts</i>	\$326	\$346	\$311
<i>Professional and Other Services</i>	\$71	\$77	\$78
Net Revenues	\$1,445	\$1,335	\$1,543

	<u>% of Q2 FY'16 Revenue</u>	<u>% of Q1 FY'16 Revenue</u>	<u>% of Q2 FY'15 Revenue</u>
Geographic Mix			
Americas	57%	56%	59%
<i>Americas Commercial</i>	42%	44%	42%
<i>U.S. Public Sector</i>	14%	12%	17%
EMEA	30%	31%	28%
Asia Pacific	14%	13%	13%

	<u>% of Q2 FY'16 Revenue</u>	<u>% of Q1 FY'16 Revenue</u>	<u>% of Q2 FY'15 Revenue</u>
Pathways Mix			
Direct	23%	22%	21%
Indirect	77%	77%	79%

Direct revenues are those sold through our direct sales force and, effective Q1 FY'16, include those sold to service providers. Indirect revenues include those sold through value-added resellers, system integrators, OEMs and distributors. Indirect revenue reflects order fulfillment and is not reflective of who is responsible for the customer relationship.

	<u>Q2 FY'16</u>	<u>Q1 FY'16</u>	<u>Q2 FY'15</u>
Non-GAAP Gross Margins			
Non-GAAP Gross Margin	62.5%	63.6%	65.0%
Product	51.8%	51.2%	58.4%
Software Maintenance	96.1%	96.2%	96.2%
Hardware Maintenance & Other Services	64.7%	64.1%	62.7%

	<u>Q2 FY'16</u>	<u>Q1 FY'16</u>	<u>Q2 FY'15</u>
Non-GAAP Income from Operations, Income before Income Taxes & Effective Tax Rate			
Non-GAAP Income from Operations	\$219	\$103	\$275
% of Net Revenues	15.2%	7.7%	17.8%
Non-GAAP Income before Income Taxes	\$218	\$107	\$271
Non-GAAP Effective Tax Rate	17.0%	17.0%	16.5%

	<u>Q2 FY'16</u>	<u>Q1 FY'16</u>	<u>Q2 FY'15</u>
Non-GAAP Net Income			
Non-GAAP Net Income	\$181	\$89	\$226
Non-GAAP Weighted Average Common Shares Outstanding, Diluted	296	308	323
Non-GAAP Net Income per Share, Diluted	\$0.61	\$0.29	\$0.70

Select Balance Sheet Items

	Q2 FY'16	Q1 FY'16	Q2 FY'15
Deferred Revenue and Financed Unearned Services Revenue	\$3,046	\$3,066	\$3,047
DSO (days)	37	30	37
Inventory Turns	17	10	20

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

	Q2 FY'16	Q1 FY'16	Q2 FY'15
Net Cash Provided by Operating Activities	\$145	\$129	\$381
Purchases of Property and Equipment	\$46	\$38	\$51
Free Cash Flow	\$99	\$91	\$330
<i>Free Cash Flow as % of Net Revenues</i>	6.9%	6.8%	21.4%

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>Q2'FY16</u>	<u>Q1'FY16</u>	<u>Q2'FY15</u>
NET INCOME (LOSS)	\$ 114	\$ (30)	\$ 160
Adjustments:			
Amortization of intangible assets	14	14	14
Stock-based compensation	59	77	68
Asset impairment	-	11	-
Restructuring and other charges	1	27	-
Income tax effect of non-GAAP adjustments	(17)	(23)	(16)
Settlement of income tax audit	10	13	-
NON-GAAP NET INCOME	<u>\$ 181</u>	<u>\$ 89</u>	<u>\$ 226</u>
COST OF REVENUES	\$ 561	\$ 519	\$ 560
Adjustments:			
Amortization of intangible assets	(14)	(14)	(14)
Stock-based compensation	(5)	(8)	(5)
Asset impairment	-	(11)	-
NON-GAAP COST OF REVENUES	<u>\$ 542</u>	<u>\$ 486</u>	<u>\$ 540</u>
COST OF PRODUCT REVENUES	\$ 408	\$ 345	\$ 402
Adjustments:			
Amortization of intangible assets	(14)	(14)	(14)
Stock-based compensation	(1)	(2)	(2)
Asset impairment	-	(5)	-
NON-GAAP COST OF PRODUCT REVENUES	<u>\$ 393</u>	<u>\$ 324</u>	<u>\$ 387</u>
COST OF HARDWARE MAINTENANCE AND OTHER SERVICES REVENUES	\$ 144	\$ 164	\$ 149
Adjustments:			
Stock-based compensation	(4)	(6)	(3)
Asset impairment	-	(6)	-
NON-GAAP COST OF HARDWARE MAINTENANCE AND OTHER SERVICES REVENUES	<u>\$ 140</u>	<u>\$ 152</u>	<u>\$ 145</u>
GROSS PROFIT	\$ 884	\$ 816	\$ 983
Adjustments:			
Amortization of intangible assets	14	14	14
Stock-based compensation	5	8	5
Asset impairment	-	11	-
NON-GAAP GROSS PROFIT	<u>\$ 903</u>	<u>\$ 849</u>	<u>\$ 1,002</u>
SALES AND MARKETING EXPENSES	\$ 448	\$ 492	\$ 488
Adjustment:			
Stock-based compensation	(26)	(31)	(30)
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$ 422</u>	<u>\$ 461</u>	<u>\$ 457</u>
RESEARCH AND DEVELOPMENT EXPENSES	\$ 216	\$ 244	\$ 229
Adjustment:			
Stock-based compensation	(18)	(26)	(22)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$ 198</u>	<u>\$ 218</u>	<u>\$ 208</u>
GENERAL AND ADMINISTRATIVE EXPENSES	\$ 74	\$ 79	\$ 73
Adjustment:			
Stock-based compensation	(10)	(12)	(11)
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 64</u>	<u>\$ 67</u>	<u>\$ 62</u>

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

	<u>Q2'FY16</u>	<u>Q1'FY16</u>	<u>Q2'FY15</u>
RESTRUCTURING AND OTHER CHARGES	\$ 1	\$ 27	\$ -
Adjustment:			
Restructuring and other charges	(1)	(27)	-
NON-GAAP RESTRUCTURING AND OTHER CHARGES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
OPERATING EXPENSES	\$ 739	\$ 842	\$ 790
Adjustments:			
Stock-based compensation	(54)	(69)	(63)
Restructuring and other charges	(1)	(27)	-
NON-GAAP OPERATING EXPENSES	<u>\$ 684</u>	<u>\$ 746</u>	<u>\$ 728</u>
INCOME (LOSS) FROM OPERATIONS	\$ 145	\$ (26)	\$ 193
Adjustments:			
Amortization of intangible assets	14	14	14
Stock-based compensation	59	77	68
Asset impairment	-	11	-
Restructuring and other charges	1	27	-
NON-GAAP INCOME FROM OPERATIONS	<u>\$ 219</u>	<u>\$ 103</u>	<u>\$ 275</u>
INCOME (LOSS) BEFORE INCOME TAXES	\$ 144	\$ (22)	\$ 189
Adjustments:			
Amortization of intangible assets	14	14	14
Stock-based compensation	59	77	68
Asset impairment	-	11	-
Restructuring and other charges	1	27	-
NON-GAAP INCOME BEFORE INCOME TAXES	<u>\$ 218</u>	<u>\$ 107</u>	<u>\$ 271</u>
PROVISION FOR INCOME TAXES	\$ 30	\$ 8	\$ 29
Adjustments:			
Income tax effect of non-GAAP adjustments	17	23	16
Settlement of income tax audit	(10)	(13)	-
NON-GAAP PROVISION FOR INCOME TAXES	<u>\$ 37</u>	<u>\$ 18</u>	<u>\$ 45</u>
NET INCOME (LOSS) PER SHARE	\$ 0.39	\$ (0.10)	\$ 0.49
Adjustments:			
Amortization of intangible assets	0.05	0.05	0.04
Stock-based compensation	0.20	0.25	0.21
Asset impairment	-	0.04	-
Restructuring and other charges	-	0.09	-
Income tax effect of non-GAAP adjustments	(0.06)	(0.08)	(0.05)
Settlement of income tax audit	0.03	0.04	-
NON-GAAP NET INCOME PER SHARE	<u>\$ 0.61</u>	<u>\$ 0.29</u>	<u>\$ 0.70</u>

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

	<u>Q2'FY16</u>	<u>Q1'FY16</u>	<u>Q2'FY15</u>
Gross margin-GAAP	61.2%	61.1%	63.7%
Cost of revenues adjustments	1.3%	2.5%	1.3%
Gross margin-Non-GAAP	62.5%	63.6%	65.0%
GAAP cost of revenues	\$ 561	\$ 519	\$ 560
Cost of revenues adjustments:			
Amortization of intangible assets	(14)	(14)	(14)
Stock-based compensation	(5)	(8)	(5)
Asset impairment	-	(11)	-
Non-GAAP cost of revenues	\$ 542	\$ 486	\$ 540
Net revenues	\$ 1,445	\$ 1,335	\$ 1,543

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

	<u>Q2'FY16</u>	<u>Q1'FY16</u>	<u>Q2'FY15</u>
Product gross margin-GAAP	49.9%	48.0%	56.8%
Cost of product revenues adjustments	1.8%	3.2%	1.6%
Product gross margin-Non-GAAP	51.8%	51.2%	58.4%
GAAP cost of product revenues	\$ 408	\$ 345	\$ 402
Cost of product revenues adjustments:			
Amortization of intangible assets	(14)	(14)	(14)
Stock-based compensation	(1)	(2)	(2)
Asset impairment	-	(5)	-
Non-GAAP cost of product revenues	\$ 393	\$ 324	\$ 387
Product revenues	\$ 815	\$ 664	\$ 929

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

	<u>Q2'FY16</u>	<u>Q1'FY16</u>	<u>Q2'FY15</u>
Hardware maintenance and other services gross margin-GAAP	63.7%	61.2%	61.6%
Cost of hardware maintenance and other services revenues adjustments	1.0%	2.8%	1.2%
Hardware maintenance and other services gross margin-Non-GAAP	64.7%	64.1%	62.7%
GAAP cost of hardware maintenance and other services revenues	\$ 144	\$ 164	\$ 149
Cost of hardware maintenance and other services revenues adjustments:			
Stock-based compensation	(4)	(6)	(3)
Asset impairment	-	(6)	-
Non-GAAP cost of hardware maintenance and other services revenues	\$ 140	\$ 152	\$ 145
Hardware maintenance and other services revenues	\$ 397	\$ 423	\$ 389

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

	<u>Q2'FY16</u>	<u>Q1'FY16</u>	<u>Q2'FY15</u>
GAAP effective tax rate	20.8%	(36.4%)	15.4%
Adjustments:			
Tax effect of non-GAAP adjustments	0.8%	65.5%	1.1%
Settlement of income tax audit	(4.6%)	(12.1%)	- %
Non-GAAP effective tax rate	<u>17.0%</u>	<u>17.0%</u>	<u>16.5%</u>

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

(In millions)

	<u>Q2'FY16</u>	<u>Q1'FY16</u>	<u>Q2'FY15</u>
Net cash provided by operating activities	\$ 145	\$ 129	\$ 381
Purchases of property and equipment	(46)	(38)	(51)
Free cash flow	<u>\$ 99</u>	<u>\$ 91</u>	<u>\$ 330</u>

**INVENTORY TURNS AND RECONCILIATION OF NON-GAAP TO GAAP
COST OF REVENUES USED IN INVENTORY TURNS**

(In millions, except annualized inventory turns)

	<u>Q2'FY16</u>	<u>Q1'FY16</u>	<u>Q2'FY15</u>
Annualized inventory turns-GAAP	18	11	21
Cost of revenues adjustments	(1)	(1)	(1)
Annualized inventory turns-Non-GAAP	<u>17</u>	<u>10</u>	<u>20</u>
GAAP cost of revenues	\$ 561	\$ 519	\$ 560
Cost of revenues adjustments:			
Amortization of intangible assets	(14)	(14)	(14)
Stock-based compensation	(5)	(8)	(5)
Asset impairment	-	(11)	-
Non-GAAP cost of revenues	<u>\$ 542</u>	<u>\$ 486</u>	<u>\$ 540</u>
Inventory	\$ 125	\$ 193	\$ 108

Some items may not add or recalculate due to rounding.

NETAPP, INC.
RECONCILIATION OF NON-GAAP GUIDANCE TO GAAP
EXPRESSED AS EARNINGS PER SHARE
THIRD QUARTER FISCAL 2016

	Third Quarter <u>Fiscal 2016</u>
Non-GAAP Guidance - Net Income Per Share	\$0.66 - \$0.71
Adjustments of Specific Items to Net Income Per Share for the Third Quarter Fiscal 2016:	
Amortization of intangible assets	(0.05)
Stock-based compensation expense	(0.19)
Income tax effect of non-GAAP adjustments	<u>0.05</u>
Total Adjustments	(0.19)
GAAP Guidance - Net Income Per Share	\$0.47 - \$0.52