

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

	<u>October 28, 2016</u>	<u>April 29, 2016</u>
ASSETS		
Current assets:		
Cash, cash equivalents and investments	\$ 4,357	\$ 5,303
Accounts receivable	547	813
Inventories	97	98
Other current assets	219	234
Total current assets	<u>5,220</u>	<u>6,448</u>
Property and equipment, net	949	937
Goodwill and purchased intangible assets, net	1,834	1,856
Other non-current assets	759	796
Total assets	<u>\$ 8,762</u>	<u>\$ 10,037</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 253	\$ 254
Accrued expenses	620	765
Short-term loan	—	849
Short-term deferred revenue and financed unearned services revenue	1,655	1,794
Total current liabilities	2,528	3,662
Long-term debt	1,492	1,490
Other long-term liabilities	407	413
Long-term deferred revenue and financed unearned services revenue	1,546	1,591
Total liabilities	<u>5,973</u>	<u>7,156</u>
Stockholders' equity	2,789	2,881
Total liabilities and stockholders' equity	<u>\$ 8,762</u>	<u>\$ 10,037</u>

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

	Three Months Ended		Six Months Ended	
	October 28, 2016	October 30, 2015	October 28, 2016	October 30, 2015
Revenues:				
Product	\$ 710	\$ 815	\$ 1,370	\$ 1,479
Software maintenance	242	233	483	481
Hardware maintenance and other services	388	397	781	820
Net revenues	<u>1,340</u>	<u>1,445</u>	<u>2,634</u>	<u>2,780</u>
Cost of revenues:				
Cost of product	376	408	735	753
Cost of software maintenance	7	9	15	19
Cost of hardware maintenance and other services	128	144	258	308
Total cost of revenues	<u>511</u>	<u>561</u>	<u>1,008</u>	<u>1,080</u>
Gross profit	<u>829</u>	<u>884</u>	<u>1,626</u>	<u>1,700</u>
Operating expenses:				
Sales and marketing	418	448	847	940
Research and development	200	216	407	460
General and administrative	69	74	137	153
Restructuring and other charges	—	1	—	28
Total operating expenses	<u>687</u>	<u>739</u>	<u>1,391</u>	<u>1,581</u>
Income from operations	142	145	235	119
Other income (expense), net	—	(1)	(1)	3
Income before income taxes	142	144	234	122
Provision for income taxes	33	30	61	38
Net income	<u>\$ 109</u>	<u>\$ 114</u>	<u>\$ 173</u>	<u>\$ 84</u>
Net income per share:				
Basic	<u>\$ 0.39</u>	<u>\$ 0.39</u>	<u>\$ 0.62</u>	<u>\$ 0.28</u>
Diluted	<u>\$ 0.38</u>	<u>\$ 0.39</u>	<u>\$ 0.61</u>	<u>\$ 0.28</u>
Shares used in net income per share calculations:				
Basic	<u>278</u>	<u>294</u>	<u>278</u>	<u>299</u>
Diluted	<u>284</u>	<u>296</u>	<u>283</u>	<u>302</u>
Cash dividends declared per share	<u>\$ 0.190</u>	<u>\$ 0.180</u>	<u>\$ 0.380</u>	<u>\$ 0.360</u>

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

	Three Months Ended		Six Months Ended	
	October 28, 2016	October 30, 2015	October 28, 2016	October 30, 2015
Cash flows from operating activities:				
Net income	\$ 109	\$ 114	\$ 173	\$ 84
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	57	67	117	136
Stock-based compensation	51	59	103	136
Other non-cash items, net	1	(16)	13	(52)
Changes in assets and liabilities:				
Accounts receivable	(47)	(172)	264	189
Inventories	(16)	68	1	21
Accounts payable	17	(27)	(13)	(60)
Accrued expenses	60	31	(138)	(88)
Deferred revenue and financed unearned services revenue	(96)	(16)	(179)	(137)
Changes in other operating assets and liabilities, net	22	37	45	45
Net cash provided by operating activities	158	145	386	274
Cash flows from investing activities:				
Redemptions (purchases) of investments, net	(123)	10	190	788
Purchases of property and equipment	(56)	(46)	(92)	(84)
Other investing activities, net	—	(2)	(1)	—
Net cash provided by (used in) investing activities	(179)	(38)	97	704
Cash flows from financing activities:				
Issuance of common stock under employee stock award plans	16	6	25	25
Repurchase of common stock	(117)	(183)	(292)	(613)
Repayment of short-term loan	—	—	(850)	—
Dividends paid	(52)	(53)	(105)	(107)
Other financing activities, net	(1)	—	(3)	1
Net cash used in financing activities	(154)	(230)	(1,225)	(694)
Effect of exchange rate changes on cash and cash equivalents	(6)	(3)	(13)	(8)
Net increase (decrease) in cash and cash equivalents	(181)	(126)	(755)	276
Cash and cash equivalents:				
Beginning of period	2,294	2,324	2,868	1,922
End of period	<u>\$ 2,113</u>	<u>\$ 2,198</u>	<u>\$ 2,113</u>	<u>\$ 2,198</u>

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

	<u>Q2 FY'17</u>	<u>Q1 FY'17</u>	<u>Q2 FY'16</u>
Revenues			
Product	\$ 710	\$ 660	\$ 815
<i>Strategic</i>	\$ 439	\$ 400	\$ 434
<i>Mature</i>	\$ 271	\$ 260	\$ 381
Software Maintenance	\$ 242	\$ 241	\$ 233
Hardware Maintenance and Other Services:	\$ 388	\$ 393	\$ 397
<i>Hardware Maintenance Support Contracts</i>	\$ 316	\$ 323	\$ 326
<i>Professional and Other Services</i>	\$ 72	\$ 70	\$ 71
Net Revenues	\$ 1,340	\$ 1,294	\$ 1,445

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

	% of Q2 FY'17 Revenue	% of Q1 FY'17 Revenue	% of Q2 FY'16 Revenue
Pathways Mix			
Direct	22%	23%	23%
Indirect	78%	77%	77%

	<u>Q2 FY'17</u>	<u>Q1 FY'17</u>	<u>Q2 FY'16</u>
Non-GAAP Gross Margins			
Non-GAAP Gross Margin	62.7%	62.4%	62.5%
Product	48.2%	46.7%	51.8%
Software Maintenance	97.1%	96.7%	96.1%
Hardware Maintenance and Other Services	67.8%	67.9%	64.7%

	<u>Q2 FY'17</u>	<u>Q1 FY'17</u>	<u>Q2 FY'16</u>
Non-GAAP Income from Operations, Income before Income Taxes & Effective Tax Rate			
Non-GAAP Income from Operations	\$ 204	\$ 156	\$ 219
% of Net Revenues	15.2%	12.1%	15.2%
Non-GAAP Income before Income Taxes	\$ 204	\$ 155	\$ 218
Non-GAAP Effective Tax Rate	17.3%	16.6%	17.0%

Non-GAAP Net Income

	<u>Q2 FY'17</u>	<u>Q1 FY'17</u>	<u>Q2 FY'16</u>
Non-GAAP Net Income	\$ 169	\$ 129	\$ 181
Non-GAAP Weighted Average Common Shares Outstanding, Diluted	284	282	296
Non-GAAP Income per Share, Diluted	\$ 0.60	\$ 0.46	\$ 0.61

Select Balance Sheet Items

	<u>Q2 FY'17</u>	<u>Q1 FY'17</u>	<u>Q2 FY'16</u>
Deferred Revenue and Financed Unearned Services Revenue	\$ 3,201	\$ 3,300	\$ 3,046
DSO (days)	37	35	37
DIO (days)	17	15	20
DPO (days)	45	44	37
CCC (days)	9	6	21
Inventory Turns	21	25	18

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

	<u>Q2 FY'17</u>	<u>Q1 FY'17</u>	<u>Q2 FY'16</u>
Net Cash Provided by Operating Activities	\$ 158	\$ 228	\$ 145
Purchases of Property and Equipment	\$ 56	\$ 36	\$ 46
Free Cash Flow	\$ 102	\$ 192	\$ 99
<i>Free Cash Flow as a % of Net Revenues</i>	7.6%	14.8%	6.9%

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'FY17</u>	<u>Q1'FY17</u>	<u>Q2'FY16</u>
NET INCOME	\$ 109	\$ 64	\$ 114
Adjustments:			
Amortization of intangible assets	11	11	14
Stock-based compensation	51	52	59
Restructuring and other charges	—	—	1
Income tax effect of non-GAAP adjustments	(2)	2	(17)
Settlement of income tax audit	—	—	10
NON-GAAP NET INCOME	<u>\$ 169</u>	<u>\$ 129</u>	<u>\$ 181</u>
COST OF REVENUES	\$ 511	\$ 497	\$ 561
Adjustments:			
Amortization of intangible assets	(7)	(6)	(14)
Stock-based compensation	(4)	(5)	(5)
NON-GAAP COST OF REVENUES	<u>\$ 500</u>	<u>\$ 486</u>	<u>\$ 542</u>
COST OF PRODUCT REVENUES	\$ 376	\$ 359	\$ 408
Adjustments:			
Amortization of intangible assets	(7)	(6)	(14)
Stock-based compensation	(1)	(1)	(1)
NON-GAAP COST OF PRODUCT REVENUES	<u>\$ 368</u>	<u>\$ 352</u>	<u>\$ 393</u>
COST OF HARDWARE MAINTENANCE AND OTHER SERVICES REVENUES	\$ 128	\$ 130	\$ 144
Adjustment:			
Stock-based compensation	(3)	(4)	(4)
NON-GAAP COST OF HARDWARE MAINTENANCE AND OTHER SERVICES REVENUES	<u>\$ 125</u>	<u>\$ 126</u>	<u>\$ 140</u>
GROSS PROFIT	\$ 829	\$ 797	\$ 884
Adjustments:			
Amortization of intangible assets	7	6	14
Stock-based compensation	4	5	5
NON-GAAP GROSS PROFIT	<u>\$ 840</u>	<u>\$ 808</u>	<u>\$ 903</u>

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

	Q2'FY17	Q1'FY17	Q2'FY16
SALES AND MARKETING EXPENSES	\$ 418	\$ 429	\$ 448
Adjustments:			
Amortization of intangible assets	(4)	(5)	—
Stock-based compensation	(21)	(23)	(26)
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$ 393</u>	<u>\$ 401</u>	<u>\$ 422</u>
RESEARCH AND DEVELOPMENT EXPENSES	\$ 200	\$ 207	\$ 216
Adjustment:			
Stock-based compensation	(17)	(15)	(18)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$ 183</u>	<u>\$ 192</u>	<u>\$ 198</u>
GENERAL AND ADMINISTRATIVE EXPENSES	\$ 69	\$ 68	\$ 74
Adjustment:			
Stock-based compensation	(9)	(9)	(10)
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 60</u>	<u>\$ 59</u>	<u>\$ 64</u>
RESTRUCTURING AND OTHER CHARGES	\$ —	\$ —	\$ 1
Adjustment:			
Restructuring and other charges	—	—	(1)
NON-GAAP RESTRUCTURING AND OTHER CHARGES	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
OPERATING EXPENSES	\$ 687	\$ 704	\$ 739
Adjustments:			
Amortization of intangible assets	(4)	(5)	—
Stock-based compensation	(47)	(47)	(54)
Restructuring and other charges	—	—	(1)
NON-GAAP OPERATING EXPENSES	<u>\$ 636</u>	<u>\$ 652</u>	<u>\$ 684</u>

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

	<u>Q2'FY17</u>	<u>Q1'FY17</u>	<u>Q2'FY16</u>
INCOME FROM OPERATIONS	\$ 142	\$ 93	\$ 145
Adjustments:			
Amortization of intangible assets	11	11	14
Stock-based compensation	51	52	59
Restructuring and other charges	—	—	1
NON-GAAP INCOME FROM OPERATIONS	<u>\$ 204</u>	<u>\$ 156</u>	<u>\$ 219</u>
INCOME BEFORE INCOME TAXES	\$ 142	\$ 92	\$ 144
Adjustments:			
Amortization of intangible assets	11	11	14
Stock-based compensation	51	52	59
Restructuring and other charges	—	—	1
NON-GAAP INCOME BEFORE INCOME TAXES	<u>\$ 204</u>	<u>\$ 155</u>	<u>\$ 218</u>
PROVISION FOR INCOME TAXES	\$ 33	\$ 28	\$ 30
Adjustments:			
Income tax effect of non-GAAP adjustments	2	(2)	17
Settlement of income tax audit	—	—	(10)
NON-GAAP PROVISION FOR INCOME TAXES	<u>\$ 35</u>	<u>\$ 26</u>	<u>\$ 37</u>
NET INCOME PER SHARE	\$ 0.38	\$ 0.23	\$ 0.39
Adjustments:			
Amortization of intangible assets	0.04	0.04	0.05
Stock-based compensation	0.18	0.18	0.20
Restructuring and other charges	—	—	—
Income tax effect of non-GAAP adjustments	(0.01)	0.01	(0.06)
Settlement of income tax audit	—	—	0.03
NON-GAAP NET INCOME PER SHARE	<u>\$ 0.60</u>	<u>\$ 0.46</u>	<u>\$ 0.61</u>

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

	<u>Q2'FY17</u>	<u>Q1'FY17</u>	<u>Q2'FY16</u>
Gross margin-GAAP	61.9%	61.6%	61.2%
Cost of revenues adjustments	0.8%	0.9%	1.3%
Gross margin-Non-GAAP	62.7%	62.4%	62.5%
GAAP cost of revenues	\$ 511	\$ 497	\$ 561
Cost of revenues adjustments:			
Amortization of intangible assets	(7)	(6)	(14)
Stock-based compensation	(4)	(5)	(5)
Non-GAAP cost of revenues	\$ 500	\$ 486	\$ 542
Net revenues	\$ 1,340	\$ 1,294	\$ 1,445

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

	<u>Q2'FY17</u>	<u>Q1'FY17</u>	<u>Q2'FY16</u>
Product gross margin-GAAP	47.0%	45.6%	49.9%
Cost of product revenues adjustments	1.1%	1.1%	1.8%
Product gross margin-Non-GAAP	48.2%	46.7%	51.8%
GAAP cost of product revenues	\$ 376	\$ 359	\$ 408
Cost of product revenues adjustments:			
Amortization of intangible assets	(7)	(6)	(14)
Stock-based compensation	(1)	(1)	(1)
Non-GAAP cost of product revenues	\$ 368	\$ 352	\$ 393
Product revenues	\$ 710	\$ 660	\$ 815

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

	<u>Q2'FY17</u>	<u>Q1'FY17</u>	<u>Q2'FY16</u>
Hardware maintenance and other services gross margin-GAAP	67.0%	66.9%	63.7%
Cost of hardware maintenance and other services revenues adjustments	0.8%	1.0%	1.0%
Hardware maintenance and other services gross margin-Non-GAAP	67.8%	67.9%	64.7%
GAAP cost of hardware maintenance and other services revenues	\$ 128	\$ 130	\$ 144
Cost of hardware maintenance and other services revenues adjustment:			
Stock-based compensation	(3)	(4)	(4)
Non-GAAP cost of hardware maintenance and other services revenues	\$ 125	\$ 126	\$ 140
Hardware maintenance and other services revenues	\$ 388	\$ 393	\$ 397

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

	<u>Q2'FY17</u>	<u>Q1'FY17</u>	<u>Q2'FY16</u>
GAAP effective tax rate	23.2%	30.4%	20.8%
Adjustments:			
Tax effect of non-GAAP adjustments	(5.9)%	(13.8)%	0.8%
Settlement of income tax audit	—%	—%	(4.6)%
Non-GAAP effective tax rate	17.3%	16.6%	17.0%

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

(In millions)

	<u>Q2'FY17</u>	<u>Q1'FY17</u>	<u>Q2'FY16</u>
Net cash provided by operating activities	\$ 158	\$ 228	\$ 145
Purchases of property and equipment	(56)	(36)	(46)
Free cash flow	\$ 102	\$ 192	\$ 99

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 2017

	Third Quarter Fiscal 2017
Non-GAAP Guidance - Net Income Per Share	\$0.72 - \$0.77
Adjustments of Specific Items to Net Income	
Per Share for the Third Quarter Fiscal 2017:	
Amortization of intangible assets	(0.05)
Stock-based compensation expense	(0.17)
Restructuring and other charges	(0.18)
Gain on sale of properties	0.03
Income tax effect of non-GAAP adjustments	0.06
Total Adjustments	(0.31)
GAAP Guidance - Net Income Per Share	\$0.41 - \$0.46