

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

	<u>January 27, 2017</u>	<u>April 29, 2016</u>
ASSETS		
Current assets:		
Cash, cash equivalents and investments	\$ 4,639	\$ 5,303
Accounts receivable	605	813
Inventories	125	98
Other current assets	277	234
Total current assets	<u>5,646</u>	<u>6,448</u>
Property and equipment, net	892	937
Goodwill and purchased intangible assets, net	1,821	1,856
Other non-current assets	696	796
Total assets	<u>\$ 9,055</u>	<u>\$ 10,037</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 258	\$ 254
Accrued expenses	747	765
Commercial paper notes	392	—
Short-term loan	—	849
Current portion of long-term debt	748	—
Short-term deferred revenue and financed unearned services revenue	1,699	1,794
Total current liabilities	3,844	3,662
Long-term debt	744	1,490
Other long-term liabilities	238	413
Long-term deferred revenue and financed unearned services revenue	1,535	1,591
Total liabilities	<u>6,361</u>	<u>7,156</u>
Stockholders' equity	2,694	2,881
Total liabilities and stockholders' equity	<u>\$ 9,055</u>	<u>\$ 10,037</u>

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

	Three Months Ended		Nine Months Ended	
	January 27, 2017	January 29, 2016	January 27, 2017	January 29, 2016
Revenues:				
Product	\$ 784	\$ 750	\$ 2,154	\$ 2,229
Software maintenance	240	234	723	715
Hardware maintenance and other services	380	402	1,161	1,222
Net revenues	<u>1,404</u>	<u>1,386</u>	<u>4,038</u>	<u>4,166</u>
Cost of revenues:				
Cost of product	435	381	1,170	1,134
Cost of software maintenance	7	9	22	28
Cost of hardware maintenance and other services	111	141	369	449
Total cost of revenues	<u>553</u>	<u>531</u>	<u>1,561</u>	<u>1,611</u>
Gross profit	851	855	2,477	2,555
Operating expenses:				
Sales and marketing	381	418	1,228	1,358
Research and development	181	200	588	660
General and administrative	64	70	201	223
Restructuring and other charges	52	—	52	28
Acquisition-related expense	—	2	—	2
Gain on sale of properties	(10)	—	(10)	—
Total operating expenses	<u>668</u>	<u>690</u>	<u>2,059</u>	<u>2,271</u>
Income from operations	183	165	418	284
Other income (expense), net	—	(2)	(1)	1
Income before income taxes	183	163	417	285
Provision for income taxes	37	10	98	48
Net income	<u>\$ 146</u>	<u>\$ 153</u>	<u>\$ 319</u>	<u>\$ 237</u>
Net income per share:				
Basic	<u>\$ 0.53</u>	<u>\$ 0.52</u>	<u>\$ 1.15</u>	<u>\$ 0.80</u>
Diluted	<u>\$ 0.52</u>	<u>\$ 0.52</u>	<u>\$ 1.13</u>	<u>\$ 0.79</u>
Shares used in net income per share calculations:				
Basic	<u>274</u>	<u>293</u>	<u>277</u>	<u>297</u>
Diluted	<u>281</u>	<u>296</u>	<u>282</u>	<u>300</u>
Cash dividends declared per share	<u>\$ 0.190</u>	<u>\$ 0.180</u>	<u>\$ 0.570</u>	<u>\$ 0.540</u>

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

	Three Months Ended		Nine Months Ended	
	January 27, 2017	January 29, 2016	January 27, 2017	January 29, 2016
Cash flows from operating activities:				
Net income	\$ 146	\$ 153	\$ 319	\$ 237
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	56	66	173	202
Stock-based compensation	46	63	149	199
Gain on sale of properties	(10)	—	(10)	—
Other items, net	52	(22)	65	(74)
Changes in assets and liabilities:				
Accounts receivable	(56)	1	208	190
Inventories	(28)	23	(27)	44
Accounts payable	26	(53)	13	(113)
Accrued expenses	17	10	(121)	(78)
Deferred revenue and financed unearned services revenue	31	85	(148)	(52)
Changes in other operating assets and liabilities, net	(45)	29	—	74
Net cash provided by operating activities	235	355	621	629
Cash flows from investing activities:				
Redemptions (purchases) of investments, net	(188)	91	2	879
Purchases of property and equipment	(45)	(41)	(137)	(125)
Other investing activities, net	3	(1)	2	(1)
Net cash provided by (used in) investing activities	(230)	49	(133)	753
Cash flows from financing activities:				
Issuance of common stock under employee stock award plans	45	45	70	70
Repurchase of common stock	(284)	(85)	(576)	(698)
Changes in commercial paper notes, net	392	—	392	—
Repayment of short-term loan	—	—	(850)	—
Dividends paid	(52)	(52)	(157)	(159)
Other financing activities, net	(4)	(4)	(7)	(3)
Net cash provided by (used in) financing activities	97	(96)	(1,128)	(790)
Effect of exchange rate changes on cash and cash equivalents	(2)	(11)	(15)	(19)
Net increase (decrease) in cash and cash equivalents	100	297	(655)	573
Cash and cash equivalents:				
Beginning of period	2,113	2,198	2,868	1,922
End of period	<u>\$ 2,213</u>	<u>\$ 2,495</u>	<u>\$ 2,213</u>	<u>\$ 2,495</u>

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

	<u>Q3 FY'17</u>	<u>Q2 FY'17</u>	<u>Q3 FY'16</u>
Revenues			
Product (1)	\$ 784	\$ 710	\$ 750
<i>Strategic</i>	\$ 512	\$ 452	\$ 419
<i>Mature</i>	\$ 272	\$ 258	\$ 331
Software Maintenance	\$ 240	\$ 242	\$ 234
Hardware Maintenance and Other Services:	\$ 380	\$ 388	\$ 402
<i>Hardware Maintenance Support Contracts</i>	\$ 313	\$ 316	\$ 326
<i>Professional and Other Services</i>	\$ 67	\$ 72	\$ 76
Net Revenues	\$ 1,404	\$ 1,340	\$ 1,386

	% of Q3 FY'17 Revenue	% of Q2 FY'17 Revenue	% of Q3 FY'16 Revenue
Geographic Mix			
Americas	55%	57%	54%
<i>Americas Commercial</i>	44%	42%	44%
<i>U.S. Public Sector</i>	10%	16%	10%
EMEA	33%	30%	33%
Asia Pacific	13%	13%	13%

	% of Q3 FY'17 Revenue	% of Q2 FY'17 Revenue	% of Q3 FY'16 Revenue
Pathways Mix			
Direct	21%	22%	22%
Indirect	79%	78%	78%

	Q3 FY'17	Q2 FY'17	Q3 FY'16
Non-GAAP Gross Margins			
Non-GAAP Gross Margin	61.5%	62.7%	63.1%
Product	45.7%	48.2%	51.1%
Software Maintenance	97.1%	97.1%	96.2%
Hardware Maintenance and Other Services	71.6%	67.8%	66.2%

	Q3 FY'17	Q2 FY'17	Q3 FY'16
Non-GAAP Income from Operations, Income before Income Taxes & Effective Tax Rate			
Non-GAAP Income from Operations	\$ 284	\$ 204	\$ 244
% of Net Revenues	20.2%	15.2%	17.6%
Non-GAAP Income before Income Taxes	\$ 284	\$ 204	\$ 242
Non-GAAP Effective Tax Rate	18.6%	17.3%	14.9%

Non-GAAP Net Income

	<u>Q3 FY'17</u>	<u>Q2 FY'17</u>	<u>Q3 FY'16</u>
Non-GAAP Net Income	\$ 231	\$ 169	\$ 206
Non-GAAP Weighted Average Common Shares Outstanding, Diluted	281	284	296
Non-GAAP Income per Share, Diluted	\$ 0.82	\$ 0.60	\$ 0.70

Select Balance Sheet Items

	<u>Q3 FY'17</u>	<u>Q2 FY'17</u>	<u>Q3 FY'16</u>
Deferred Revenue and Financed Unearned Services Revenue	\$ 3,234	\$ 3,201	\$ 3,126
DSO (days)	39	37	38
DIO (days)	21	17	17
DPO (days)	42	45	30
CCC (days)	17	9	26
Inventory Turns	18	21	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

	<u>Q3 FY'17</u>	<u>Q2 FY'17</u>	<u>Q3 FY'16</u>
Net Cash Provided by Operating Activities	\$ 235	\$ 158	\$ 355
Purchases of Property and Equipment	\$ 45	\$ 56	\$ 41
Free Cash Flow	\$ 190	\$ 102	\$ 314
<i>Free Cash Flow as a % of Net Revenues</i>	13.5%	7.6%	22.7%

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.

(1) Sales of certain products which should have been reported as strategic products were improperly reported as mature product revenues. All periods presented have been recast to reflect the appropriate classification.

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

	Q3'FY17	Q2'FY17	Q3'FY16
NET INCOME	\$ 146	\$ 109	\$ 153
Adjustments:			
Amortization of intangible assets	13	11	14
Stock-based compensation	46	51	63
Restructuring and other charges	52	—	—
Acquisition-related expense	—	—	2
Gain on sale of properties	(10)	—	—
Income tax effect of non-GAAP adjustments	(16)	(2)	(26)
NON-GAAP NET INCOME	<u>\$ 231</u>	<u>\$ 169</u>	<u>\$ 206</u>
COST OF REVENUES	\$ 553	\$ 511	\$ 531
Adjustments:			
Amortization of intangible assets	(8)	(7)	(13)
Stock-based compensation	(4)	(4)	(6)
NON-GAAP COST OF REVENUES	<u>\$ 541</u>	<u>\$ 500</u>	<u>\$ 512</u>
COST OF PRODUCT REVENUES	\$ 435	\$ 376	\$ 381
Adjustments:			
Amortization of intangible assets	(8)	(7)	(13)
Stock-based compensation	(1)	(1)	(1)
NON-GAAP COST OF PRODUCT REVENUES	<u>\$ 426</u>	<u>\$ 368</u>	<u>\$ 367</u>
COST OF HARDWARE MAINTENANCE AND OTHER SERVICES REVENUES	\$ 111	\$ 128	\$ 141
Adjustment:			
Stock-based compensation	(3)	(3)	(5)
NON-GAAP COST OF HARDWARE MAINTENANCE AND OTHER SERVICES REVENUES	<u>\$ 108</u>	<u>\$ 125</u>	<u>\$ 136</u>
GROSS PROFIT	\$ 851	\$ 829	\$ 855
Adjustments:			
Amortization of intangible assets	8	7	13
Stock-based compensation	4	4	6
NON-GAAP GROSS PROFIT	<u>\$ 863</u>	<u>\$ 840</u>	<u>\$ 874</u>

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

	<u>Q3'FY17</u>	<u>Q2'FY17</u>	<u>Q3'FY16</u>
SALES AND MARKETING EXPENSES	\$ 381	\$ 418	\$ 418
Adjustments:			
Amortization of intangible assets	(5)	(4)	(1)
Stock-based compensation	(20)	(21)	(27)
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$ 356</u>	<u>\$ 393</u>	<u>\$ 390</u>
RESEARCH AND DEVELOPMENT EXPENSES	\$ 181	\$ 200	\$ 200
Adjustment:			
Stock-based compensation	(14)	(17)	(20)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$ 167</u>	<u>\$ 183</u>	<u>\$ 180</u>
GENERAL AND ADMINISTRATIVE EXPENSES	\$ 64	\$ 69	\$ 70
Adjustment:			
Stock-based compensation	(8)	(9)	(10)
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 56</u>	<u>\$ 60</u>	<u>\$ 60</u>
RESTRUCTURING AND OTHER CHARGES	\$ 52	\$ —	\$ —
Adjustment:			
Restructuring and other charges	(52)	—	—
NON-GAAP RESTRUCTURING AND OTHER CHARGES	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
ACQUISITION-RELATED EXPENSE	\$ —	\$ —	\$ 2
Adjustment:			
Acquisition-related expense	—	—	(2)
NON-GAAP ACQUISITION-RELATED EXPENSE	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
GAIN ON SALE OF PROPERTIES	\$ (10)	\$ —	\$ —
Adjustment:			
Gain on sale of properties	10	—	—
NON-GAAP GAIN ON SALE OF PROPERTIES	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
OPERATING EXPENSES	\$ 668	\$ 687	\$ 690
Adjustments:			
Amortization of intangible assets	(5)	(4)	(1)
Stock-based compensation	(42)	(47)	(57)
Restructuring and other charges	(52)	—	—
Acquisition-related expense	—	—	(2)
Gain on sale of properties	10	—	—
NON-GAAP OPERATING EXPENSES	<u>\$ 579</u>	<u>\$ 636</u>	<u>\$ 630</u>

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

	Q3'FY17	Q2'FY17	Q3'FY16
INCOME FROM OPERATIONS	\$ 183	\$ 142	\$ 165
Adjustments:			
Amortization of intangible assets	13	11	14
Stock-based compensation	46	51	63
Restructuring and other charges	52	—	—
Acquisition-related expense	—	—	2
Gain on sale of properties	(10)	—	—
NON-GAAP INCOME FROM OPERATIONS	<u>\$ 284</u>	<u>\$ 204</u>	<u>\$ 244</u>
INCOME BEFORE INCOME TAXES	\$ 183	\$ 142	\$ 163
Adjustments:			
Amortization of intangible assets	13	11	14
Stock-based compensation	46	51	63
Restructuring and other charges	52	—	—
Acquisition-related expense	—	—	2
Gain on sale of properties	(10)	—	—
NON-GAAP INCOME BEFORE INCOME TAXES	<u>\$ 284</u>	<u>\$ 204</u>	<u>\$ 242</u>
PROVISION FOR INCOME TAXES	\$ 37	\$ 33	\$ 10
Adjustment:			
Income tax effect of non-GAAP adjustments	16	2	26
NON-GAAP PROVISION FOR INCOME TAXES	<u>\$ 53</u>	<u>\$ 35</u>	<u>\$ 36</u>
NET INCOME PER SHARE	\$ 0.52	\$ 0.38	\$ 0.52
Adjustments:			
Amortization of intangible assets	0.05	0.04	0.05
Stock-based compensation	0.16	0.18	0.21
Restructuring and other charges	0.19	—	—
Acquisition-related expense	—	—	0.01
Gain on sale of properties	(0.04)	—	—
Income tax effect of non-GAAP adjustments	(0.06)	(0.01)	(0.09)
NON-GAAP NET INCOME PER SHARE	<u>\$ 0.82</u>	<u>\$ 0.60</u>	<u>\$ 0.70</u>

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

	<u>Q3'FY17</u>	<u>Q2'FY17</u>	<u>Q3'FY16</u>
Gross margin-GAAP	60.6%	61.9%	61.7%
Cost of revenues adjustments	0.9%	0.8%	1.4%
Gross margin-Non-GAAP	61.5%	62.7%	63.1%
GAAP cost of revenues	\$ 553	\$ 511	\$ 531
Cost of revenues adjustments:			
Amortization of intangible assets	(8)	(7)	(13)
Stock-based compensation	(4)	(4)	(6)
Non-GAAP cost of revenues	\$ 541	\$ 500	\$ 512
Net revenues	\$ 1,404	\$ 1,340	\$ 1,386

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

	<u>Q3'FY17</u>	<u>Q2'FY17</u>	<u>Q3'FY16</u>
Product gross margin-GAAP	44.5%	47.0%	49.2%
Cost of product revenues adjustments	1.1%	1.1%	1.9%
Product gross margin-Non-GAAP	45.7%	48.2%	51.1%
GAAP cost of product revenues	\$ 435	\$ 376	\$ 381
Cost of product revenues adjustments:			
Amortization of intangible assets	(8)	(7)	(13)
Stock-based compensation	(1)	(1)	(1)
Non-GAAP cost of product revenues	\$ 426	\$ 368	\$ 367
Product revenues	\$ 784	\$ 710	\$ 750

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

	<u>Q3'FY17</u>	<u>Q2'FY17</u>	<u>Q3'FY16</u>
Hardware maintenance and other services gross margin-GAAP	70.8%	67.0%	64.9%
Cost of hardware maintenance and other services revenues adjustments	0.8%	0.8%	1.2%
Hardware maintenance and other services gross margin-Non-GAAP	71.6%	67.8%	66.2%
GAAP cost of hardware maintenance and other services revenues	\$ 111	\$ 128	\$ 141
Cost of hardware maintenance and other services revenues adjustment:			
Stock-based compensation	(3)	(3)	(5)
Non-GAAP cost of hardware maintenance and other services revenues	\$ 108	\$ 125	\$ 136
Hardware maintenance and other services revenues	\$ 380	\$ 388	\$ 402

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

	<u>Q3'FY17</u>	<u>Q2'FY17</u>	<u>Q3'FY16</u>
GAAP effective tax rate	20.2%	23.2%	6.1%
Adjustment:			
Tax effect of non-GAAP adjustments	(1.6)%	(5.9)%	8.8%
Non-GAAP effective tax rate	18.6%	17.3%	14.9%

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

	<u>Q3'FY17</u>	<u>Q2'FY17</u>	<u>Q3'FY16</u>
Net cash provided by operating activities	\$ 235	\$ 158	\$ 355
Purchases of property and equipment	(45)	(56)	(41)
Free cash flow	\$ 190	\$ 102	\$ 314

Some items may not add or recalculate due to rounding.

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

	Fourth Quarter Fiscal 2017
Non-GAAP Guidance - Net Income Per Share	\$0.79 - \$0.84
Adjustments of Specific Items to Net Income	
Per Share for the Fourth Quarter Fiscal 2017:	
Amortization of intangible assets	(0.05)
Stock-based compensation expense	(0.16)
Income tax effect of non-GAAP adjustments	0.02
Total Adjustments	(0.19)
GAAP Guidance - Net Income Per Share	\$0.60 - \$0.65

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