

NetApp Usage of Non-GAAP Financial Information

To supplement NetApp's condensed consolidated financial statement information presented in accordance with generally accepted accounting principles in the United States (GAAP), NetApp provides investors with certain non-GAAP measures, including, but not limited to, historical non-GAAP operating results, non-GAAP net income, non-GAAP effective tax rate and free cash flow, and historical and projected non-GAAP earnings per diluted share.

NetApp believes that the presentation of non-GAAP net income, non-GAAP effective tax rates, and non-GAAP earnings per share data when shown in conjunction with the corresponding GAAP measures, provides useful information to investors and management regarding financial and business trends relating to its financial condition and results of operations. NetApp believes that the presentation of free cash flow, which it defines as the net cash provided by operating activities less cash used to acquire property and equipment, to be a liquidity measure that provides useful information to management and investors because it reflects cash that can be used to, among other things, invest in its business, make strategic acquisitions, repurchase common stock, and pay dividends on its common stock, after deducting capital expenditures. As free cash flow is not a measure of liquidity calculated in accordance with GAAP, free cash flow should be considered in addition to, but not as a substitute for, the analysis provided in the statement of cash flows.

NetApp's management uses these non-GAAP measures in making operating decisions because it believes the measurements provide meaningful supplemental information regarding NetApp's ongoing operational performance. These non-GAAP financial measures are used to: (1) measure company performance against historical results, (2) facilitate comparisons to our competitors' operating results and (3) allow greater transparency with respect to information used by management in financial and operational decision making. In addition, these non-GAAP financial measures are used to measure company performance for the purposes of determining employee incentive plan compensation.

NetApp excludes the following items from its non-GAAP measures when applicable:

A. *Amortization of intangible assets.* NetApp records amortization of intangible assets that were acquired in connection with its business combinations. The amortization of intangible assets varies depending on the level of acquisition activity. Management finds it useful to exclude these charges to assess the appropriate level of various operating expenses to assist in budgeting, planning and forecasting future periods and in measuring operational performance.

B. *Stock-based compensation expenses.* NetApp excludes stock-based compensation expenses from its non-GAAP measures primarily because they are non-cash expenses. While management views stock-based compensation as a key element of our employee retention and long-term incentives, we do not view it as an expense to be used in evaluating operational performance in any given period.

C. *Acquisition-related expenses.* NetApp excludes acquisition-related expenses, including (a) due diligence, legal and other one-time integration charges and (b) write down of assets acquired that NetApp does not intend to use in its ongoing business, from its non-GAAP measures, primarily because they are not related to our ongoing business or cost base and, therefore, cannot be relied upon for future planning and forecasting.

D. *Restructuring and other charges.* These charges include restructuring charges that are incurred based on the particular facts and circumstances of restructuring decisions, including employment and contractual settlement terms, and other related charges, and can vary in size and frequency. These items are not ordinarily included in our annual operating plan and related budget due to the unpredictability of the timing and size of these events. We therefore exclude them in our assessment of operational performance.

E. *Asset impairments.* These are non-cash charges to write down assets when there is an indication that the asset has become impaired. Management finds it useful to exclude these non-cash charges due to the unpredictability of these events in its assessment of operational performance.

F. *Gains/losses on the sale of properties.* These are gains/losses from the sale of our properties. Management believes that these transactions do not reflect the results of our underlying, on-going business and, therefore, cannot be relied upon for future planning or forecasting.

G. *Income tax adjustments.* NetApp's non-GAAP tax provision is based upon a projected annual non-GAAP effective tax rate for the first three quarters of the fiscal year and an actual non-GAAP tax provision for the fourth quarter of the fiscal year. The non-GAAP tax provision also excludes, when applicable, (a) tax charges or benefits in the current period that relate to one or more prior fiscal periods that are a result of events such as changes in tax legislation, authoritative guidance, income tax audit settlements and/or court decisions, (b) tax charges or benefits that are attributable to unusual or non-recurring book and/or tax accounting method changes, (c) tax charges that are a result of a non-routine foreign cash repatriation, (d) tax charges or benefits that are a result of infrequent restructuring of the Company's tax structure, (e) tax charges or benefits that are a result of a change in valuation allowance, and (f) tax charges resulting from the integration of intellectual properties from acquisitions. Management believes that the use of non-GAAP tax provisions provides a more meaningful measure of the Company's operational performance.

These non-GAAP measures are not in accordance with, or an alternative for, measures prepared in accordance with GAAP, and may be different from non-GAAP measures used by other companies. In addition, these non-GAAP measures are not based on any comprehensive set of accounting rules or principles. NetApp believes that non-GAAP measures have limitations in that they do not reflect all of the amounts associated with the Company's results of operations as determined in accordance with GAAP and that these measures should only be used to evaluate the Company's results of operations in conjunction with the corresponding GAAP measures. NetApp management compensates for these limitations by analyzing current and projected results on a GAAP basis as well as a non-GAAP basis. The presentation of non-GAAP financial information is not meant to be considered in isolation or as a substitute for the directly comparable financial measures prepared in accordance with generally accepted accounting principles in the United States. The non-GAAP financial measures are meant to supplement, and be viewed in conjunction with, GAAP financial measures.

NETAPP, INC.

SUPPLEMENTAL DATA

(In millions except net income per share, percentages, DSO, DIO, DPO, CCC and Inventory Turns)

	Q1 FY'15	Q2 FY'15	Q3 FY'15	Q4 FY'15	FY 2015	Q1 FY'16	Q2 FY'16	Q3 FY'16	Q4 FY'16	FY 2016	Q1 FY'17	Q2 FY'17
Revenues												
Product	\$883	\$929	\$929	\$914	\$3,655	\$664	\$815	\$750	\$757	\$2,986	\$660	\$710
<i>Strategic</i>	\$280	\$336	\$347	\$410	\$1,373	\$323	\$434	\$406	\$468	\$1,632	\$400	\$439
<i>Mature</i>	\$603	\$593	\$582	\$504	\$2,282	\$341	\$381	\$344	\$289	\$1,354	\$260	\$271
Software Maintenance	\$221	\$225	\$226	\$227	\$899	\$248	\$233	\$234	\$234	\$949	\$241	\$242
Hardware Maintenance and Other Services	\$385	\$389	\$396	\$399	\$1,569	\$423	\$397	\$402	\$389	\$1,611	\$393	\$388
<i>Hardware Maintenance Support Contracts</i>	\$303	\$311	\$316	\$323	\$1,253	\$346	\$326	\$326	\$318	\$1,316	\$323	\$316
<i>Professional and Other Services</i>	<u>\$83</u>	<u>\$78</u>	<u>\$80</u>	<u>\$77</u>	<u>\$317</u>	<u>\$77</u>	<u>\$71</u>	<u>\$76</u>	<u>\$71</u>	<u>\$295</u>	<u>\$70</u>	<u>\$72</u>
Net Revenues	\$1,489	\$1,543	\$1,551	\$1,540	\$6,123	\$1,335	\$1,445	\$1,386	\$1,380	\$5,546	\$1,294	\$1,340
Geographic Mix												
	% of Q1 FY'15 Revenue	% of Q2 FY'15 Revenue	% of Q3 FY'15 Revenue	% of Q4 FY'15 Revenue	% of FY 2015 Revenue	% of Q1 FY'16 Revenue	% of Q2 FY'16 Revenue	% of Q3 FY'16 Revenue	% of Q4 FY'16 Revenue	% of FY 2016 Revenue	% of Q1 FY'17 Revenue	% of Q2 FY'17 Revenue
Americas	56%	59%	54%	57%	56%	56%	57%	54%	54%	55%	57%	57%
<i>Americas Commercial</i>	44%	42%	44%	43%	43%	44%	42%	44%	43%	43%	44%	42%
<i>U.S. Public Sector</i>	12%	17%	10%	14%	13%	12%	14%	10%	12%	12%	13%	16%
EMEA	30%	28%	33%	30%	30%	31%	30%	33%	33%	32%	30%	30%
Asia Pacific	14%	13%	13%	13%	13%	13%	14%	13%	13%	13%	13%	13%
Pathways Mix												
	% of Q1 FY'15 Revenue	% of Q2 FY'15 Revenue	% of Q3 FY'15 Revenue	% of Q4 FY'15 Revenue	% of FY 2015 Revenue	% of Q1 FY'16 Revenue	% of Q2 FY'16 Revenue	% of Q3 FY'16 Revenue	% of Q4 FY'16 Revenue	% of FY 2016 Revenue	% of Q1 FY'17 Revenue	% of Q2 FY'17 Revenue
Direct	24%	21%	21%	22%	22%	22%	23%	22%	26%	23%	23%	22%
Indirect	76%	79%	79%	78%	78%	77%	77%	78%	74%	77%	77%	78%
Non-GAAP Gross Margins												
	Q1 FY'15	Q2 FY'15	Q3 FY'15	Q4 FY'15	FY 2015	Q1 FY'16	Q2 FY'16	Q3 FY'16	Q4 FY'16	FY 2016	Q1 FY'17	Q2 FY'17
Non-GAAP Gross Margin	64.3%	65.0%	64.6%	62.0%	64.0%	63.6%	62.5%	63.1%	61.1%	62.5%	62.4%	62.7%
Product	57.1%	58.4%	57.0%	53.4%	56.5%	51.2%	51.8%	51.1%	46.8%	50.2%	46.7%	48.2%
Software Maintenance	96.3%	96.2%	95.9%	95.8%	96.0%	96.2%	96.1%	96.2%	96.2%	96.1%	96.7%	97.1%
Hardware Maintenance and Other Services	62.7%	62.7%	64.5%	62.6%	63.1%	64.1%	64.7%	66.2%	67.9%	65.7%	67.9%	67.8%
Non-GAAP Income from Operations, Income before Income Taxes & Effective Tax Rate												
	Q1 FY'15	Q2 FY'15	Q3 FY'15	Q4 FY'15	FY 2015	Q1 FY'16	Q2 FY'16	Q3 FY'16	Q4 FY'16	FY 2016	Q1 FY'17	Q2 FY'17
Non-GAAP Income from Operations	\$237	\$275	\$288	\$240	\$1,040	\$103	\$219	\$244	\$185	\$751	\$156	\$204
% of Net Revenues	15.9%	17.8%	18.5%	15.6%	17.0%	7.7%	15.2%	17.6%	13.4%	13.5%	12.1%	15.2%
Non-GAAP Income Before Income Taxes	\$237	\$271	\$285	\$243	\$1,036	\$107	\$218	\$242	\$181	\$748	\$155	\$204
Non-GAAP Effective Tax Rate	16.5%	16.5%	16.5%	16.7%	16.5%	17.0%	17.0%	14.9%	13.1%	15.4%	16.6%	17.3%

Non-GAAP Net Income

	Q1 FY'15	Q2 FY'15	Q3 FY'15	Q4 FY'15	FY 2015	Q1 FY'16	Q2 FY'16	Q3 FY'16	Q4 FY'16	FY 2016	Q1 FY'17	Q2 FY'17
Non-GAAP Net Income	\$198	\$226	\$238	\$202	\$865	\$89	\$181	\$206	\$157	\$633	\$129	\$169
Non-GAAP Weighted Average Common Shares Outstanding, Diluted	329	323	317	313	321	308	296	296	287	297	282	284
Non-GAAP Net Income per Share, Diluted	\$0.60	\$0.70	\$0.75	\$0.65	\$2.70	\$0.29	\$0.61	\$0.70	\$0.55	\$2.13	\$0.46	\$0.60

Select Balance Sheet Items

	Q1 FY'15	Q2 FY'15	Q3 FY'15	Q4 FY'15	Q1 FY'16	Q2 FY'16	Q3 FY'16	Q4 FY'16	Q1 FY'17	Q2 FY'17
Deferred Revenue and Financed Unearned Services Revenue	\$3,076	\$3,047	\$3,110	\$3,197	\$3,066	\$3,046	\$3,126	\$3,385	\$3,300	\$3,201
DSO (days)	36	37	39	46	30	37	38	54	35	37
DIO (days)	17	18	19	22	36	20	17	16	15	17
DPO (days)	30	34	31	43	47	37	30	41	44	45
CCC (days)	23	21	27	25	20	21	26	28	6	9
Inventory Turns	21	21	19	17	11	18	21	23	25	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

	Q1 FY'15	Q2 FY'15	Q3 FY'15	Q4 FY'15	FY 2015	Q1 FY'16	Q2 FY'16	Q3 FY'16	Q4 FY'16	FY 2016	Q1 FY'17	Q2 FY'17
Net Cash Provided by Operating Activities	\$216	\$381	\$275	\$396	\$1,268	\$129	\$145	\$355	\$345	\$974	\$228	\$158
Purchases of Property and Equipment	\$58	\$51	\$29	\$37	\$175	\$38	\$46	\$41	\$35	\$160	\$36	\$56
Free Cash Flow	\$157	\$330	\$246	\$359	\$1,093	\$91	\$99	\$314	\$310	\$814	\$192	\$102
Free Cash Flow as % of Net Revenues	10.5%	21.4%	15.9%	23.3%	17.8%	6.8%	6.9%	22.7%	22.5%	14.7%	14.8%	7.6%

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)

	FY2015					FY2016					FY2017	
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2
NET INCOME (LOSS)	\$ 88	\$ 160	\$ 177	\$ 135	\$ 560	\$ (30)	\$ 114	\$ 153	\$ (8)	\$ 229	\$ 64	\$ 109
Adjustments:												
Amortization of intangible assets	15	14	19	16	64	14	14	14	25	67	11	11
Stock-based compensation	62	68	66	63	259	77	59	63	61	260	52	51
Asset impairment	-	-	-	-	-	11	-	-	-	11	-	-
Restructuring and other charges	-	-	-	-	-	27	1	-	80	108	-	-
Acquisition-related expense	-	-	-	-	-	-	-	2	6	8	-	-
Gain on sale of properties	-	-	-	-	-	-	-	-	(51)	(51)	-	-
Income tax effect of non-GAAP adjustments	(15)	(16)	(24)	(11)	(66)	(23)	(17)	(26)	(20)	(86)	2	(2)
Income tax expenses from integration of intellectual properties from acquisition	-	-	-	-	-	-	-	-	64	64	-	-
Settlement of income tax audit	47	-	-	-	47	13	10	-	-	23	-	-
NON-GAAP NET INCOME	\$ 198	\$ 226	\$ 238	\$ 202	\$ 865	\$ 89	\$ 181	\$ 206	\$ 157	\$ 633	\$ 129	\$ 169
COST OF REVENUES	\$ 551	\$ 560	\$ 574	\$ 605	\$ 2,290	\$ 519	\$ 561	\$ 531	\$ 562	\$ 2,173	\$ 497	\$ 511
Adjustments:												
Amortization of intangible assets	(15)	(14)	(18)	(16)	(63)	(14)	(14)	(13)	(20)	(61)	(6)	(7)
Stock-based compensation	(6)	(5)	(6)	(5)	(22)	(8)	(5)	(6)	(5)	(24)	(5)	(4)
Asset impairment	-	-	-	-	-	(11)	-	-	-	(11)	-	-
NON-GAAP COST OF REVENUES	\$ 531	\$ 540	\$ 550	\$ 584	\$ 2,205	\$ 486	\$ 542	\$ 512	\$ 537	\$ 2,077	\$ 486	\$ 500
COST OF PRODUCT REVENUES	\$ 394	\$ 402	\$ 420	\$ 441	\$ 1,657	\$ 345	\$ 408	\$ 381	\$ 424	\$ 1,558	\$ 359	\$ 376
Adjustments:												
Amortization of intangible assets	(14)	(14)	(18)	(15)	(61)	(14)	(14)	(13)	(20)	(61)	(6)	(7)
Stock-based compensation	(1)	(2)	(2)	(1)	(6)	(2)	(1)	(1)	(1)	(5)	(1)	(1)
Asset impairment	-	-	-	-	-	(5)	-	-	-	(5)	-	-
NON-GAAP COST OF PRODUCT REVENUES	\$ 379	\$ 387	\$ 400	\$ 425	\$ 1,591	\$ 324	\$ 393	\$ 367	\$ 403	\$ 1,487	\$ 352	\$ 368
COST OF HARDWARE MAINTENANCE AND OTHER SERVICES REVENUES	\$ 149	\$ 149	\$ 145	\$ 154	\$ 597	\$ 164	\$ 144	\$ 141	\$ 129	\$ 578	\$ 130	\$ 128
Adjustments:												
Amortization of intangible assets	(1)	-	-	(1)	(2)	-	-	-	-	-	-	-
Stock-based compensation	(5)	(3)	(4)	(4)	(16)	(6)	(4)	(5)	(4)	(19)	(4)	(3)
Asset impairment	-	-	-	-	-	(6)	-	-	-	(6)	-	-
NON-GAAP COST OF HARDWARE MAINTENANCE AND OTHER SERVICES REVENUES	\$ 144	\$ 145	\$ 140	\$ 150	\$ 579	\$ 152	\$ 140	\$ 136	\$ 125	\$ 553	\$ 126	\$ 125
GROSS PROFIT	\$ 938	\$ 983	\$ 977	\$ 935	\$ 3,833	\$ 816	\$ 884	\$ 855	\$ 818	\$ 3,373	\$ 797	\$ 829
Adjustments:												
Amortization of intangible assets	15	14	18	16	63	14	14	13	20	61	6	7
Stock-based compensation	6	5	6	5	22	8	5	6	5	24	5	4
Asset impairment	-	-	-	-	-	11	-	-	-	11	-	-
NON-GAAP GROSS PROFIT	\$ 958	\$ 1,002	\$ 1,002	\$ 955	\$ 3,918	\$ 849	\$ 903	\$ 874	\$ 843	\$ 3,469	\$ 808	\$ 840
SALES AND MARKETING EXPENSES	\$ 480	\$ 488	\$ 475	\$ 470	\$ 1,913	\$ 492	\$ 448	\$ 418	\$ 434	\$ 1,792	\$ 429	\$ 418
Adjustments:												
Amortization of intangible assets	-	-	(1)	-	(1)	-	-	(1)	(5)	(6)	(5)	(4)
Stock-based compensation	(27)	(30)	(30)	(29)	(116)	(31)	(26)	(27)	(26)	(110)	(23)	(21)
NON-GAAP SALES AND MARKETING EXPENSES	\$ 453	\$ 457	\$ 445	\$ 440	\$ 1,796	\$ 461	\$ 422	\$ 390	\$ 403	\$ 1,676	\$ 401	\$ 393
RESEARCH AND DEVELOPMENT EXPENSES	\$ 228	\$ 229	\$ 230	\$ 233	\$ 920	\$ 244	\$ 216	\$ 200	\$ 201	\$ 861	\$ 207	\$ 200
Adjustment:												
Stock-based compensation	(21)	(22)	(21)	(20)	(84)	(26)	(18)	(20)	(20)	(84)	(15)	(17)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	\$ 207	\$ 208	\$ 208	\$ 213	\$ 835	\$ 218	\$ 198	\$ 180	\$ 181	\$ 777	\$ 192	\$ 183
GENERAL AND ADMINISTRATIVE EXPENSES	\$ 70	\$ 73	\$ 70	\$ 71	\$ 284	\$ 79	\$ 74	\$ 70	\$ 84	\$ 307	\$ 68	\$ 69
Adjustment:												
Stock-based compensation	(8)	(11)	(9)	(9)	(37)	(12)	(10)	(10)	(10)	(42)	(9)	(9)
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	\$ 62	\$ 62	\$ 61	\$ 62	\$ 247	\$ 67	\$ 64	\$ 60	\$ 74	\$ 265	\$ 59	\$ 60

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

	FY2015				Total	FY2016				Total	FY2017	
	Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4		Q1	Q2
RESTRUCTURING AND OTHER CHARGES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27	\$ 1	\$ -	\$ 80	\$ 108	\$ -	\$ -
Adjustment:												
Restructuring and other charges	-	-	-	-	-	(27)	(1)	-	(80)	(108)	-	-
NON-GAAP RESTRUCTURING AND OTHER CHARGES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
ACQUISITION-RELATED EXPENSE	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2	\$ 6	\$ 8	\$ -	\$ -
Adjustment:												
Acquisition-related expense	-	-	-	-	-	-	-	(2)	(6)	(8)	-	-
NON-GAAP ACQUISITION-RELATED EXPENSE	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
GAIN ON SALE OF PROPERTIES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (51)	\$ (51)	\$ -	\$ -
Adjustment:												
Gain on sale of properties	-	-	-	-	-	-	-	-	51	51	-	-
NON-GAAP GAIN ON SALE OF PROPERTIES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
OPERATING EXPENSES	\$ 778	\$ 790	\$ 775	\$ 774	\$ 3,117	\$ 842	\$ 739	\$ 690	\$ 754	\$ 3,025	\$ 704	\$ 687
Adjustments:												
Amortization of intangible assets	-	-	(1)	-	(1)	-	-	(1)	(5)	(6)	(5)	(4)
Stock-based compensation	(56)	(63)	(60)	(58)	(237)	(69)	(54)	(57)	(56)	(236)	(47)	(47)
Restructuring and other charges	-	-	-	-	-	(27)	(1)	-	(80)	(108)	-	-
Acquisition-related expense	-	-	-	-	-	-	-	(2)	(6)	(8)	-	-
Gain on sale of properties	-	-	-	-	-	-	-	-	51	51	-	-
NON-GAAP OPERATING EXPENSES	\$ 722	\$ 728	\$ 714	\$ 715	\$ 2,878	\$ 746	\$ 684	\$ 630	\$ 658	\$ 2,718	\$ 652	\$ 636
INCOME (LOSS) FROM OPERATIONS	\$ 160	\$ 193	\$ 202	\$ 161	\$ 716	\$ (26)	\$ 145	\$ 165	\$ 64	\$ 348	\$ 93	\$ 142
Adjustments:												
Amortization of intangible assets	15	14	19	16	64	14	14	14	25	67	11	11
Stock-based compensation	62	68	66	63	259	77	59	63	61	260	52	51
Asset impairment	-	-	-	-	-	11	-	-	-	11	-	-
Restructuring and other charges	-	-	-	-	-	27	1	-	80	108	-	-
Acquisition-related expense	-	-	-	-	-	-	-	2	6	8	-	-
Gain on sale of properties	-	-	-	-	-	-	-	-	(51)	(51)	-	-
NON-GAAP INCOME FROM OPERATIONS	\$ 237	\$ 275	\$ 288	\$ 240	\$ 1,040	\$ 103	\$ 219	\$ 244	\$ 185	\$ 751	\$ 156	\$ 204
INCOME (LOSS) BEFORE INCOME TAXES	\$ 160	\$ 189	\$ 200	\$ 164	\$ 713	\$ (22)	\$ 144	\$ 163	\$ 60	\$ 345	\$ 92	\$ 142
Adjustments:												
Amortization of intangible assets	15	14	19	16	64	14	14	14	25	67	11	11
Stock-based compensation	62	68	66	63	259	77	59	63	61	260	52	51
Asset impairment	-	-	-	-	-	11	-	-	-	11	-	-
Restructuring and other charges	-	-	-	-	-	27	1	-	80	108	-	-
Acquisition-related expense	-	-	-	-	-	-	-	2	6	8	-	-
Gain on sale of properties	-	-	-	-	-	-	-	-	(51)	(51)	-	-
NON-GAAP INCOME BEFORE INCOME TAXES	\$ 237	\$ 271	\$ 285	\$ 243	\$ 1,036	\$ 107	\$ 218	\$ 242	\$ 181	\$ 748	\$ 155	\$ 204
PROVISION FOR INCOME TAXES	\$ 72	\$ 29	\$ 23	\$ 29	\$ 153	\$ 8	\$ 30	\$ 10	\$ 68	\$ 116	\$ 28	\$ 33
Adjustments:												
Income tax effect of non-GAAP adjustments	15	16	24	11	66	23	17	26	20	86	(2)	2
Income tax expenses from integration of intellectual properties from acquisition	-	-	-	-	-	-	-	-	(64)	(64)	-	-
Settlement of income tax audit	(47)	-	-	-	(47)	(13)	(10)	-	-	(23)	-	-
NON-GAAP PROVISION FOR INCOME TAXES	\$ 39	\$ 45	\$ 47	\$ 41	\$ 171	\$ 18	\$ 37	\$ 36	\$ 24	\$ 115	\$ 26	\$ 35
NET INCOME (LOSS) PER SHARE	\$ 0.27	\$ 0.49	\$ 0.56	\$ 0.43	\$ 1.75	\$ (0.10)	\$ 0.39	\$ 0.52	\$ (0.03)	\$ 0.77	\$ 0.23	\$ 0.38
Adjustments:												
Amortization of intangible assets	0.04	0.04	0.06	0.05	0.20	0.05	0.05	0.05	0.09	0.23	0.04	0.04
Stock-based compensation	0.19	0.21	0.21	0.20	0.81	0.25	0.20	0.21	0.21	0.88	0.18	0.18
Asset impairment	-	-	-	-	-	0.04	-	-	-	0.04	0.00	-
Restructuring and other charges	-	-	-	-	-	0.09	-	-	0.28	0.36	-	-
Acquisition-related expense	-	-	-	-	-	-	-	0.01	0.02	0.03	-	-
Gain on sale of properties	-	-	-	-	-	-	-	-	(0.18)	(0.17)	-	-
Income tax effect of non-GAAP adjustments	(0.04)	(0.05)	(0.07)	(0.04)	(0.21)	(0.08)	(0.06)	(0.09)	(0.07)	(0.29)	0.01	(0.01)
Income tax expenses from integration of intellectual properties from acquisition	-	-	-	-	-	-	-	-	0.23	0.22	-	-
Settlement of income tax audit	0.14	-	-	-	0.15	0.04	0.03	-	-	0.08	-	-
NON-GAAP NET INCOME PER SHARE	\$ 0.60	\$ 0.70	\$ 0.75	\$ 0.65	\$ 2.70	\$ 0.29	\$ 0.61	\$ 0.70	\$ 0.55	\$ 2.13	\$ 0.46	\$ 0.60

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

	FY2015					FY2016					FY2017	
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2
Gross margin-GAAP	63.0%	63.7%	63.0%	60.7%	62.6%	61.1%	61.2%	61.7%	59.3%	60.8%	61.6%	61.9%
Cost of revenues adjustments	1.4%	1.3%	1.6%	1.3%	1.4%	2.5%	1.3%	1.4%	1.8%	1.7%	0.9%	0.8%
Gross margin-Non-GAAP	64.3%	65.0%	64.6%	62.0%	64.0%	63.6%	62.5%	63.1%	61.1%	62.5%	62.4%	62.7%
GAAP cost of revenues	\$ 551	\$ 560	\$ 574	\$ 605	\$ 2,290	\$ 519	\$ 561	\$ 531	\$ 562	\$ 2,173	\$ 497	\$ 511
Cost of revenues adjustments:												
Amortization of intangible assets	(15)	(14)	(18)	(16)	(63)	(14)	(14)	(13)	(20)	(61)	(6)	(7)
Stock-based compensation	(6)	(5)	(6)	(5)	(22)	(8)	(5)	(6)	(5)	(24)	(5)	(4)
Asset impairment	-	-	-	-	-	(11)	-	-	-	(11)	-	-
Non-GAAP cost of revenues	\$ 531	\$ 540	\$ 550	\$ 584	\$ 2,205	\$ 486	\$ 542	\$ 512	\$ 537	\$ 2,077	\$ 486	\$ 500
Net revenues	\$ 1,489	\$ 1,543	\$ 1,551	\$ 1,540	\$ 6,123	\$ 1,335	\$ 1,445	\$ 1,386	\$ 1,380	\$ 5,546	\$ 1,294	\$ 1,340

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

	FY2015					FY2016					FY2017	
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2
Product gross margin-GAAP	55.3%	56.8%	54.9%	51.7%	54.7%	48.0%	49.9%	49.2%	44.0%	47.8%	45.6%	47.0%
Cost of product revenues adjustments	1.7%	1.6%	2.1%	1.8%	1.8%	3.2%	1.8%	1.9%	2.8%	2.4%	1.1%	1.1%
Product gross margin-Non-GAAP	57.1%	58.4%	57.0%	53.4%	56.5%	51.2%	51.8%	51.1%	46.8%	50.2%	46.7%	48.2%
GAAP cost of product revenues	\$ 394	\$ 402	\$ 420	\$ 441	\$ 1,657	\$ 345	\$ 408	\$ 381	\$ 424	\$ 1,558	\$ 359	\$ 376
Cost of product revenues adjustments:												
Amortization of intangible assets	(14)	(14)	(18)	(15)	(61)	(14)	(14)	(13)	(20)	(61)	(6)	(7)
Stock-based compensation	(1)	(2)	(2)	(1)	(6)	(2)	(1)	(1)	(1)	(5)	(1)	(1)
Asset impairment	-	-	-	-	-	(5)	-	-	-	(5)	-	-
Non-GAAP cost of product revenues	\$ 379	\$ 387	\$ 400	\$ 425	\$ 1,591	\$ 324	\$ 393	\$ 367	\$ 403	\$ 1,487	\$ 352	\$ 368
Product revenues	\$ 883	\$ 929	\$ 929	\$ 914	\$ 3,655	\$ 664	\$ 815	\$ 750	\$ 757	\$ 2,986	\$ 660	\$ 710

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

	FY2015					FY2016					FY2017	
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2
Hardware maintenance and other services gross margin-GAAP	61.4%	61.6%	63.3%	61.6%	62.0%	61.2%	63.7%	64.9%	66.8%	64.1%	66.9%	67.0%
Cost of hardware maintenance and other services revenues adjustments	1.3%	1.2%	1.2%	1.0%	1.2%	2.8%	1.0%	1.2%	1.0%	1.6%	1.0%	0.8%
Hardware maintenance and other services gross margin-Non-GAAP	62.7%	62.7%	64.5%	62.6%	63.1%	64.1%	64.7%	66.2%	67.9%	65.7%	67.9%	67.8%
GAAP cost of hardware maintenance and other services revenues	\$ 149	\$ 149	\$ 145	\$ 154	\$ 597	\$ 164	\$ 144	\$ 141	\$ 129	\$ 578	\$ 130	\$ 128
Cost of hardware maintenance and other services revenues adjustments:												
Amortization of intangible assets	(1)	-	-	(1)	(2)	-	-	-	-	-	-	-
Stock-based compensation	(5)	(3)	(4)	(4)	(16)	(6)	(4)	(5)	(4)	(19)	(4)	(3)
Asset impairment	-	-	-	-	-	(6)	-	-	-	(6)	-	-
Non-GAAP cost of hardware maintenance and other services revenues	\$ 144	\$ 145	\$ 140	\$ 150	\$ 579	\$ 152	\$ 140	\$ 136	\$ 125	\$ 553	\$ 126	\$ 125
Hardware maintenance and other services revenues	\$ 385	\$ 389	\$ 396	\$ 399	\$ 1,569	\$ 423	\$ 397	\$ 402	\$ 389	\$ 1,611	\$ 393	\$ 388

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

	FY2015					FY2016					FY2017	
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2
GAAP effective tax rate	44.6%	15.4%	11.6%	17.8%	21.5%	(36.4%)	20.8%	6.1%	113.3%	33.6%	30.4%	23.2%
Adjustments:												
Tax effect of non-GAAP adjustments	(8.1%)	1.1%	4.9%	(1.1%)	(0.3%)	65.5%	0.8%	8.8%	(64.9%)	(6.6%)	(13.8%)	(5.9%)
Income tax expenses from integration of intellectual properties from acquisition	- %	- %	- %	- %	- %	- %	- %	- %	(35.4%)	(8.6%)	- %	- %
Settlement of income tax audit	(20.0%)	- %	- %	- %	(4.6%)	(12.1%)	(4.6%)	- %	- %	(3.1%)	- %	- %
Non-GAAP effective tax rate	16.5%	16.5%	16.5%	16.7%	16.5%	17.0%	17.0%	14.9%	13.1%	15.4%	16.6%	17.3%

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

	FY2015					FY2016					FY2017	
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2
Net cash provided by operating activities	\$ 216	\$ 381	\$ 275	\$ 396	\$ 1,268	\$ 129	\$ 145	\$ 355	\$ 345	\$ 974	\$ 228	\$ 158
Purchases of property and equipment	(58)	(51)	(29)	(37)	(175)	(38)	(46)	(41)	(35)	(160)	(36)	(56)
Free cash flow	\$ 157	\$ 330	\$ 246	\$ 359	\$ 1,093	\$ 91	\$ 99	\$ 314	\$ 310	\$ 814	\$ 192	\$ 102

Some items may not add or recalculate due to rounding

NETAPP, INC.
RECONCILIATION OF NON-GAAP GUIDANCE TO GAAP
THIRD QUARTER FISCAL 2017
(Unaudited)

	GROSS MARGIN
Gross Margin - Non-GAAP Guidance	61.5% - 62.5%
Adjustment:	
Cost of revenues adjustments	(1.0)%
Gross Margin - GAAP Guidance	60.5% - 61.5%
	OPERATING MARGIN
Operating Margin - Non-GAAP Guidance	18.0% - 18.5%
Adjustments:	
Amortization of intangible assets	(1.0)%
Stock-based compensation expense	(3.5)%
Restructuring and other charges	(3.5)% - (4.0)%
Gain on sale of properties	1.0%
Operating Margin - GAAP Guidance	11.0%
	NET INCOME PER SHARE
Net Income Per Share - Non-GAAP Guidance	\$0.72 - \$0.77
Adjustments:	
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
Net Income Per Share - GAAP Guidance	\$0.41 - \$0.46

Some items may not add or recalculate due to rounding