

Adoption of ASC 606

In the first quarter of fiscal 2019, NetApp adopted Revenue from Contracts with Customers (ASC 606), a new accounting standard which establishes a comprehensive new revenue recognition model designed to depict the transfer of goods or services to a customer in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. The full retrospective method of adoption was employed. Accordingly, all prior period financial statement information and metrics included herein have been restated to conform to the new rules. However, the adoption of the standard had no impact to the cash flow statement items presented herein.

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. 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.

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. *Litigation settlements.* NetApp may periodically incur charges or benefits related to litigation settlements. NetApp excludes these charges and benefits, when significant, because it does not believe they are reflective of ongoing business and operating results.

D. *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.

E. *Restructuring charges.* These charges consist of 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. We therefore exclude them in our assessment of operational performance.

F. *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.

G. *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.

H. *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.
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			Nine Months Ended		
	January 26, 2018			January 26, 2018		
	As Previously Reported	Impact of ASC 606 Adoption	As Adjusted	As Previously Reported	Impact of ASC 606 Adoption	As Adjusted
Revenues:						
Product	\$ 920	\$ 32	\$ 952	\$ 2,450	\$ 48	\$ 2,498
Software maintenance	237	(16)	221	711	(43)	668
Hardware maintenance and other services	366	—	366	1,109	—	1,109
Net revenues	1,523	16	1,539	4,270	5	4,275
Cost of revenues:						
Cost of product	468	1	469	1,238	4	1,242
Cost of software maintenance	6	—	6	19	—	19
Cost of hardware maintenance and other services	108	—	108	336	(2)	334
Total cost of revenues	582	1	583	1,593	2	1,595
Gross profit	941	15	956	2,677	3	2,680
Operating expenses:						
Sales and marketing	423	(4)	419	1,268	(5)	1,263
Research and development	193	—	193	580	—	580
General and administrative	72	—	72	209	—	209
Gain on sale of properties	(218)	—	(218)	(218)	—	(218)

Total operating expenses	<u>470</u>	<u>(4)</u>	<u>466</u>	<u>1,839</u>	<u>(5)</u>	<u>1,834</u>
Income from operations	471	19	490	838	8	846
Other income, net	<u>14</u>	<u>—</u>	<u>14</u>	<u>25</u>	<u>—</u>	<u>25</u>
Income before income taxes	485	19	504	863	8	871
Provision for income taxes	<u>991</u>	<u>(8)</u>	<u>983</u>	<u>1,058</u>	<u>(13)</u>	<u>1,045</u>
Net loss	<u>\$ (506)</u>	<u>\$ 27</u>	<u>\$ (479)</u>	<u>\$ (195)</u>	<u>\$ 21</u>	<u>\$ (174)</u>
Net loss per share:						
Basic	<u>\$ (1.89)</u>	<u>\$ 0.10</u>	<u>\$ (1.79)</u>	<u>\$ (0.72)</u>	<u>\$ 0.07</u>	<u>\$ (0.65)</u>
Diluted	<u>\$ (1.89)</u>	<u>\$ 0.10</u>	<u>\$ (1.79)</u>	<u>\$ (0.72)</u>	<u>\$ 0.07</u>	<u>\$ (0.65)</u>
Shares used in net loss per share calculations:						
Basic	<u>268</u>	<u>268</u>	<u>268</u>	<u>269</u>	<u>269</u>	<u>269</u>
Diluted	<u>268</u>	<u>268</u>	<u>268</u>	<u>269</u>	<u>269</u>	<u>269</u>

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

	FY2017		FY2018				FY2019			
	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	
NET INCOME (LOSS)	\$ 481	\$ 131	\$ 174	\$ (479)	\$ 290	\$ 116	\$ 283	\$ 241	\$ 249	
Adjustments:										
Amortization of intangible assets	48	13	14	14	12	53	13	12	13	
Stock-based compensation	195	48	39	38	36	161	40	38	43	
Litigation settlements	-	-	-	5	-	5	-	-	-	
Restructuring charges	52	-	-	-	-	-	19	-	-	
Gain on sale of properties	(10)	-	-	(218)	-	(218)	-	-	-	
Income tax effects	(27)	(26)	(6)	73	(31)	10	(40)	(11)	-	
Income tax benefit of ASC 606 adoption	-	-	-	-	-	-	(34)	-	-	
Tax reform	-	-	-	856	-	856	-	-	-	
NON-GAAP NET INCOME	\$ 739	\$ 166	\$ 221	\$ 289	\$ 307	\$ 983	\$ 281	\$ 280	\$ 305	
COST OF REVENUES	\$ 2,127	\$ 497	\$ 515	\$ 583	\$ 615	2,210	511	\$ 543	\$ 581	
Adjustments:										
Amortization of intangible assets	(29)	(8)	(9)	(10)	(9)	(36)	(9)	(9)	(10)	
Stock-based compensation	(17)	(4)	(3)	(3)	(3)	(13)	(4)	(2)	(4)	
NON-GAAP COST OF REVENUES	\$ 2,081	\$ 485	\$ 503	\$ 570	\$ 603	\$ 2,161	\$ 498	\$ 532	\$ 567	
COST OF PRODUCT REVENUES	\$ 1,612	\$ 376	\$ 397	\$ 469	\$ 496	\$ 1,738	\$ 398	\$ 428	\$ 469	
Adjustments:										
Amortization of intangible assets	(29)	(8)	(9)	(10)	(9)	(36)	(9)	(9)	(10)	
Stock-based compensation	(4)	(1)	(1)	-	(1)	(3)	(1)	-	(1)	
NON-GAAP COST OF PRODUCT REVENUES	\$ 1,579	\$ 367	\$ 387	\$ 459	\$ 486	\$ 1,699	\$ 388	\$ 419	\$ 458	
COST OF HARDWARE MAINTENANCE AND OTHER SERVICES REVENUES	\$ 487	\$ 114	\$ 112	\$ 108	\$ 113	\$ 447	\$ 106	\$ 107	\$ 102	
Adjustment:										
Stock-based compensation	(13)	(3)	(2)	(3)	(2)	(10)	(3)	(2)	(3)	
NON-GAAP COST OF HARDWARE MAINTENANCE AND OTHER SERVICES REVENUES	\$ 474	\$ 111	\$ 110	\$ 105	\$ 111	\$ 437	\$ 103	\$ 105	\$ 99	
GROSS PROFIT	\$ 3,364	\$ 824	\$ 900	\$ 956	\$ 1,029	\$ 3,709	\$ 963	\$ 974	\$ 982	
Adjustments:										
Amortization of intangible assets	29	8	9	10	9	36	9	9	10	
Stock-based compensation	17	4	3	3	3	13	4	2	4	
NON-GAAP GROSS PROFIT	\$ 3,410	\$ 836	\$ 912	\$ 969	\$ 1,041	\$ 3,758	\$ 976	\$ 985	\$ 996	
SALES AND MARKETING EXPENSES	\$ 1,651	\$ 423	\$ 421	\$ 419	\$ 443	\$ 1,706	\$ 409	\$ 408	\$ 401	
Adjustments:										
Amortization of intangible assets	(19)	(5)	(5)	(4)	(3)	(17)	(4)	(3)	(3)	
Stock-based compensation	(84)	(21)	(16)	(16)	(15)	(68)	(17)	(16)	(19)	
NON-GAAP SALES AND MARKETING EXPENSES	\$ 1,548	\$ 397	\$ 400	\$ 399	\$ 425	\$ 1,621	\$ 388	\$ 389	\$ 379	
RESEARCH AND DEVELOPMENT EXPENSES	\$ 779	\$ 193	\$ 194	\$ 193	\$ 203	\$ 783	\$ 208	\$ 211	\$ 203	
Adjustment:										
Stock-based compensation	(59)	(15)	(12)	(11)	(11)	(49)	(12)	(12)	(13)	
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	\$ 720	\$ 178	\$ 182	\$ 182	\$ 192	\$ 734	\$ 196	\$ 199	\$ 190	
GENERAL AND ADMINISTRATIVE EXPENSES	\$ 271	\$ 68	\$ 69	\$ 72	\$ 71	\$ 280	\$ 73	\$ 69	\$ 67	
Adjustments:										
Stock-based compensation	(35)	(8)	(8)	(8)	(7)	(31)	(7)	(8)	(7)	

Litigation settlements

NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES

-	-	-	(5)	-	(5)	-	-	-
<u>\$ 236</u>	<u>\$ 60</u>	<u>\$ 61</u>	<u>\$ 59</u>	<u>\$ 64</u>	<u>\$ 244</u>	<u>\$ 66</u>	<u>\$ 61</u>	<u>\$ 60</u>

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

	FY2017		FY2018				FY2019			
	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	
RESTRUCTURING CHARGES	\$ 52	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19	\$ -	\$ -	
Adjustment:										
Restructuring charges	(52)	-	-	-	-	-	(19)	-	-	
NON-GAAP RESTRUCTURING CHARGES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
GAIN ON SALE OF PROPERTIES	\$ (10)	\$ -	\$ -	\$ (218)	\$ -	\$ (218)	\$ -	\$ -	\$ -	
Adjustment:										
Gain on sale of properties	10	-	-	218	-	218	-	-	-	
NON-GAAP GAIN ON SALE OF PROPERTIES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
OPERATING EXPENSES	\$ 2,743	\$ 684	\$ 684	\$ 466	\$ 717	\$ 2,551	\$ 709	\$ 688	\$ 671	
Adjustments:										
Amortization of intangible assets	(19)	(5)	(5)	(4)	(3)	(17)	(4)	(3)	(3)	
Stock-based compensation	(178)	(44)	(36)	(35)	(33)	(148)	(36)	(36)	(39)	
Litigation settlements	-	-	-	(5)	-	(5)	-	-	-	
Restructuring charges	(52)	-	-	-	-	-	(19)	-	-	
Gain on sale of properties	10	-	-	218	-	218	-	-	-	
NON-GAAP OPERATING EXPENSES	\$ 2,504	\$ 635	\$ 643	\$ 640	\$ 681	\$ 2,599	\$ 650	\$ 649	\$ 629	
INCOME FROM OPERATIONS	\$ 621	\$ 140	\$ 216	\$ 490	\$ 312	\$ 1,158	\$ 254	\$ 286	\$ 311	
Adjustments:										
Amortization of intangible assets	48	13	14	14	12	53	13	12	13	
Stock-based compensation	195	48	39	38	36	161	40	38	43	
Litigation settlements	-	-	-	5	-	5	-	-	-	
Restructuring charges	52	-	-	-	-	-	19	-	-	
Gain on sale of properties	(10)	-	-	(218)	-	(218)	-	-	-	
NON-GAAP INCOME FROM OPERATIONS	\$ 906	\$ 201	\$ 269	\$ 329	\$ 360	\$ 1,159	\$ 326	\$ 336	\$ 367	
INCOME BEFORE INCOME TAXES	\$ 621	\$ 145	\$ 222	\$ 504	\$ 328	\$ 1,199	\$ 272	\$ 293	\$ 319	
Adjustments:										
Amortization of intangible assets	48	13	14	14	12	53	13	12	13	
Stock-based compensation	195	48	39	38	36	161	40	38	43	
Litigation settlements	-	-	-	5	-	5	-	-	-	
Restructuring charges	52	-	-	-	-	-	19	-	-	
Gain on sale of properties	(10)	-	-	(218)	-	(218)	-	-	-	
NON-GAAP INCOME BEFORE INCOME TAXES	\$ 906	\$ 206	\$ 275	\$ 343	\$ 376	\$ 1,200	\$ 344	\$ 343	\$ 375	
PROVISION (BENEFIT) FOR INCOME TAXES	\$ 140	\$ 14	\$ 48	\$ 983	\$ 38	\$ 1,083	\$ (11)	\$ 52	\$ 70	
Adjustments:										
Income tax effects	27	26	6	(73)	31	(10)	40	11	-	
Income tax benefit of ASC 606 adoption	-	-	-	-	-	-	34	-	-	
Tax reform	-	-	-	(856)	-	(856)	-	-	-	
NON-GAAP PROVISION FOR INCOME TAXES	\$ 167	\$ 40	\$ 54	\$ 54	\$ 69	\$ 217	\$ 63	\$ 63	\$ 70	
NET INCOME (LOSS) PER SHARE	\$ 1.71	\$ 0.47	\$ 0.63	\$ (1.79)	\$ 1.06	\$ 0.42	\$ 1.05	\$ 0.91	\$ 0.98	
Adjustments:										
Amortization of intangible assets	0.17	0.05	0.05	0.05	0.04	0.19	0.05	0.05	0.05	
Stock-based compensation	0.69	0.17	0.14	0.14	0.13	0.58	0.15	0.14	0.17	
Litigation settlements	-	-	-	0.02	-	0.02	-	-	-	
Restructuring charges	0.19	-	-	-	-	-	0.07	-	-	
Gain on sale of properties	(0.04)	-	-	(0.81)	-	(0.79)	-	-	-	

Income tax effects
Income tax benefit of ASC 606 adoption
Tax reform
NON-GAAP NET INCOME PER SHARE

(0.10)	(0.09)	(0.02)	0.27	(0.11)	0.04	(0.15)	(0.04)	-
-	-	-	-	-	-	(0.13)	-	-
-	-	-	3.19	-	3.10	-	-	-
<u>\$ 2.63</u>	<u>\$ 0.60</u>	<u>\$ 0.80</u>	<u>\$ 1.05</u>	<u>\$ 1.12</u>	<u>\$ 3.56</u>	<u>\$ 1.04</u>	<u>\$ 1.06</u>	<u>\$ 1.20</u>

In Q3FY18, 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)**

	FY2017		FY2018			FY2019			
	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3
Gross margin-GAAP	61.3%	62.4%	63.6%	62.1%	62.6%	62.7%	65.3%	64.2%	62.8%
Cost of revenues adjustments	0.8%	0.9%	0.8%	0.8%	0.7%	0.8%	0.9%	0.7%	0.9%
Gross margin-Non-GAAP	62.1%	63.3%	64.5%	63.0%	63.3%	63.5%	66.2%	64.9%	63.7%
GAAP cost of revenues	\$ 2,127	\$ 497	\$ 515	\$ 583	\$ 615	\$ 2,210	\$ 511	\$ 543	\$ 581
Cost of revenues adjustments:									
Amortization of intangible assets	(29)	(8)	(9)	(10)	(9)	(36)	(9)	(9)	(10)
Stock-based compensation	(17)	(4)	(3)	(3)	(3)	(13)	(4)	(2)	(4)
Non-GAAP cost of revenues	\$ 2,081	\$ 485	\$ 503	\$ 570	\$ 603	\$ 2,161	\$ 498	\$ 532	\$ 567
Net revenues	\$ 5,491	\$ 1,321	\$ 1,415	\$ 1,539	\$ 1,644	\$ 5,919	\$ 1,474	\$ 1,517	\$ 1,563

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

	FY2017		FY2018			FY2019			
	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3
Product gross margin-GAAP	47.3%	48.3%	51.5%	50.7%	51.7%	50.7%	54.5%	53.1%	51.5%
Cost of product revenues adjustments	1.1%	1.2%	1.2%	1.1%	1.0%	1.1%	1.1%	1.0%	1.1%
Product gross margin-Non-GAAP	48.4%	49.5%	52.7%	51.8%	52.7%	51.8%	55.7%	54.1%	52.6%
GAAP cost of product revenues	\$ 1,612	\$ 376	\$ 397	\$ 469	\$ 496	\$ 1,738	\$ 398	\$ 428	\$ 469
Cost of product revenues adjustments:									
Amortization of intangible assets	(29)	(8)	(9)	(10)	(9)	(36)	(9)	(9)	(10)
Stock-based compensation	(4)	(1)	(1)	-	(1)	(3)	(1)	-	(1)
Non-GAAP cost of product revenues	\$ 1,579	\$ 367	\$ 387	\$ 459	\$ 486	\$ 1,699	\$ 388	\$ 419	\$ 458
Product revenues	\$ 3,060	\$ 727	\$ 819	\$ 952	\$ 1,027	\$ 3,525	\$ 875	\$ 913	\$ 967

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

	FY2017		FY2018			FY2019			
	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3
Hardware maintenance and other services gross margin-GAAP	68.1%	69.3%	69.9%	70.5%	70.5%	70.0%	71.4%	70.9%	71.4%
Cost of hardware maintenance and other services revenues adjustments	0.9%	0.8%	0.5%	0.8%	0.5%	0.7%	0.8%	0.5%	0.8%
Hardware maintenance and other services gross margin-Non-GAAP	68.9%	70.1%	70.4%	71.3%	71.0%	70.7%	72.2%	71.5%	72.3%
GAAP cost of hardware maintenance and other services revenues	\$ 487	\$ 114	\$ 112	\$ 108	\$ 113	\$ 447	\$ 106	\$ 107	\$ 102
Cost of hardware maintenance and other services revenues adjustment:									
Stock-based compensation	(13)	(3)	(2)	(3)	(2)	(10)	(3)	(2)	(3)
Non-GAAP cost of hardware maintenance and other services revenues	\$ 474	\$ 111	\$ 110	\$ 105	\$ 111	\$ 437	\$ 103	\$ 105	\$ 99
Hardware maintenance and other services revenues	\$ 1,526	\$ 371	\$ 372	\$ 366	\$ 383	\$ 1,492	\$ 370	\$ 368	\$ 357

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

	FY2017		FY2018				FY2019		
	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3
GAAP effective tax rate	22.5%	9.7%	21.6%	195.0%	11.6%	90.3%	(4.0%)	17.7%	21.9%
Adjustments:									
Income tax effects	(4.1%)	9.8%	(2.0%)	(9.5%)	6.8%	(0.8%)	9.8%	0.8%	(3.2%)
Income tax benefit of ASC 606 adoption	- %	- %	- %	- %	- %	- %	12.5%	- %	- %
Tax reform	- %	- %	- %	(169.8%)	- %	(71.4%)	- %	- %	- %
Non-GAAP effective tax rate	18.4%	19.4%	19.6%	15.7%	18.4%	18.1%	18.3%	18.5%	18.7%

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

	FY2017		FY2018				FY2019		
	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3
Net cash provided by operating activities	\$ 986	\$ 250	\$ 314	\$ 420	\$ 494	\$ 1,478	\$ 326	\$ 165	\$ 451
Purchases of property and equipment	\$ (175)	\$ (36)	\$ (29)	\$ (32)	\$ (48)	\$ (145)	\$ (64)	\$ (43)	\$ (31)
Free cash flow	\$ 811	\$ 214	\$ 285	\$ 388	\$ 446	\$ 1,333	\$ 262	\$ 122	\$ 420

Some items may not add or recalculate due to rounding

NETAPP, INC.
SUPPLEMENTAL DATA

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

	FY 2017	Q1 FY'18	Q2 FY'18	Q3 FY'18	Q4 FY'18	FY 2018	Q1 FY'19	Q2 FY'19	Q3 FY'19
Revenues									
Product	\$3,060	\$727	\$819	\$952	\$1,027	\$3,525	\$875	\$913	\$967
<i>Strategic</i>	\$2,000	\$498	\$566	\$657	\$747	\$2,468	\$612	\$649	\$674
<i>Mature</i>	\$1,060	\$229	\$253	\$295	\$280	\$1,057	\$263	\$264	\$293
Software Maintenance	\$905	\$223	\$224	\$221	\$234	\$902	\$229	\$236	\$239
Hardware Maintenance and Other Services	\$1,526	\$371	\$372	\$366	\$383	\$1,492	\$370	\$368	\$357
<i>Hardware Maintenance Support Contracts</i>	\$1,258	\$298	\$306	\$300	\$310	\$1,214	\$303	\$303	\$292
<i>Professional and Other Services</i>	<u>\$268</u>	<u>\$73</u>	<u>\$66</u>	<u>\$66</u>	<u>\$73</u>	<u>\$278</u>	<u>\$67</u>	<u>\$65</u>	<u>\$65</u>
Net Revenues	\$5,491	\$1,321	\$1,415	\$1,539	\$1,644	\$5,919	\$1,474	\$1,517	\$1,563

Geographic Mix

	% of FY 2017 Revenue	% of Q1 FY'18 Revenue	% of Q2 FY'18 Revenue	% of Q3 FY'18 Revenue	% of Q4 FY'18 Revenue	% of FY 2018 Revenue	% of Q1 FY'19 Revenue	% of Q2 FY'19 Revenue	% of Q3 FY'19 Revenue
Americas	55%	55%	56%	53%	54%	54%	57%	57%	52%
<i>Americas Commercial</i>	42%	42%	40%	43%	42%	41%	46%	44%	41%
<i>U.S. Public Sector</i>	13%	13%	16%	10%	12%	13%	11%	14%	11%
EMEA	32%	30%	30%	33%	33%	32%	29%	28%	33%
Asia Pacific	13%	15%	14%	14%	13%	14%	14%	15%	14%

Pathways Mix

	% of FY 2017 Revenue	% of Q1 FY'18 Revenue	% of Q2 FY'18 Revenue	% of Q3 FY'18 Revenue	% of Q4 FY'18 Revenue	% of FY 2018 Revenue	% of Q1 FY'19 Revenue	% of Q2 FY'19 Revenue	% of Q3 FY'19 Revenue
Direct	22%	20%	22%	22%	21%	21%	29%	23%	19%
Indirect	78%	80%	78%	78%	79%	79%	71%	77%	81%

Non-GAAP Gross Margins

	FY 2017	Q1 FY'18	Q2 FY'18	Q3 FY'18	Q4 FY'18	FY 2018	Q1 FY'19	Q2 FY'19	Q3 FY'19
Non-GAAP Gross Margin	62.1%	63.3%	64.5%	63.0%	63.3%	63.5%	66.2%	64.9%	63.7%
Product	48.4%	49.5%	52.7%	51.8%	52.7%	51.8%	55.7%	54.1%	52.6%
Software Maintenance	96.9%	96.9%	97.3%	97.3%	97.4%	97.2%	96.9%	96.6%	95.8%
Hardware Maintenance and Other Services	68.9%	70.1%	70.4%	71.3%	71.0%	70.7%	72.2%	71.5%	72.3%

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

	FY 2017	Q1 FY'18	Q2 FY'18	Q3 FY'18	Q4 FY'18	FY 2018	Q1 FY'19	Q2 FY'19	Q3 FY'19
Non-GAAP Income from Operations	\$906	\$201	\$269	\$329	\$360	\$1,159	\$326	\$336	\$367
% of Net Revenues	16.5%	15.2%	19.0%	21.4%	21.9%	19.6%	22.1%	22.1%	23.5%
Non-GAAP Income Before Income Taxes	\$906	\$206	\$275	\$343	\$376	\$1,200	\$344	\$343	\$375
Non-GAAP Effective Tax Rate	18.4%	19.4%	19.6%	15.7%	18.4%	18.1%	18.3%	18.5%	18.7%

Non-GAAP Net Income

	FY 2017	Q1 FY'18	Q2 FY'18	Q3 FY'18	Q4 FY'18	FY 2018	Q1 FY'19	Q2 FY'19	Q3 FY'19
Non-GAAP Net Income	\$739	\$166	\$221	\$289	\$307	\$983	\$281	\$280	\$305
Non-GAAP Weighted Average Common Shares Outstanding, Diluted	281	278	275	276	273	276	269	264	255
Non-GAAP Net Income per Share, Diluted	\$2.63	\$0.60	\$0.80	\$1.05	\$1.12	\$3.56	\$1.04	\$1.06	\$1.20

Select Balance Sheet Items

	Q1 FY'18	Q2 FY'18	Q3 FY'18	Q4 FY'18	Q1 FY'19	Q2 FY'19	Q3 FY'19
Deferred Revenue and Financed Unearned Services Revenue	\$3,127	\$3,059	\$3,143	\$3,363	\$3,260	\$3,206	\$3,357
DSO (days)	37	39	46	58	38	46	51
DIO (days)	25	18	14	18	17	14	16
DPO (days)	53	67	71	90	76	79	78
CCC (days)	8	(10)	(12)	(14)	(20)	(19)	(11)
Inventory Turns	15	21	26	20	21	25	23

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

	FY 2017	Q1 FY'18	Q2 FY'18	Q3 FY'18	Q4 FY'18	FY 2018	Q1 FY'19	Q2 FY'19	Q3 FY'19
Net Cash Provided by Operating Activities	\$986	\$250	\$314	\$420	\$494	\$1,478	\$326	\$165	\$451
Purchases of Property and Equipment	\$175	\$36	\$29	\$32	\$48	\$145	\$64	\$43	\$31
Free Cash Flow	\$811	\$214	\$285	\$388	\$446	\$1,333	\$262	\$122	\$420
Free Cash Flow as % of Net Revenues	14.8%	16.2%	20.1%	25.2%	27.1%	22.5%	17.8%	8.0%	26.9%

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 GUIDANCE TO GAAP
FOURTH QUARTER FISCAL 2019
(Unaudited)

	GROSS MARGIN
Gross Margin - Non-GAAP Guidance	62.0% - 63.0%
Adjustment:	
Cost of revenues adjustments	-1%
Gross Margin - GAAP Guidance	61.0% - 62.0%
	OPERATING MARGIN
Operating Margin - Non-GAAP Guidance	23.0% - 23.5%
Adjustments:	
Amortization of intangible assets	(1.0)%
Stock-based compensation expense	-2.0%
Operating Margin - GAAP Guidance	20.0% - 20.5%
	NET INCOME PER SHARE
Net Income Per Share - Non-GAAP Guidance	\$1.22 - \$1.28
Adjustments:	
Amortization of intangible assets	(\$0.04)
Stock-based compensation expense	(\$0.14)
Income tax effects	\$0.02
Net Income Per Share - GAAP Guidance	\$1.06 - \$1.12

Some items may not add or recalculate due to rounding

NETAPP, INC.
RECONCILIATION OF NON-GAAP GUIDANCE TO GAAP
FISCAL 2019
(Unaudited)

	<u>GROSS MARGIN</u>
Gross Margin - Non-GAAP Guidance	64.3%
Adjustment:	
Cost of revenues adjustments	(0.8)%
Gross Margin - GAAP Guidance	<u>63.5 %</u>
	<u>OPERATING MARGIN</u>
Operating Margin - Non-GAAP Guidance	22.7%
Adjustments:	
Amortization of intangible assets	(0.8)%
Stock-based compensation expense	(2.5)%
Restructuring charges	(0.3)%
Operating Margin - GAAP Guidance	<u>19.1%</u>
	<u>NET INCOME PER SHARE</u>
Net income per share - Non-GAAP Guidance	\$ 4.54
Adjustments:	
Amortization of intangible assets	\$ (0.18)
Stock-based compensation expense	\$ (0.61)
Restructuring charges	\$ (0.07)
Income tax effects	\$ 0.22
Income tax benefit of ASC 606 adoption	\$ 0.13
Net loss per share - GAAP Guidance	<u>\$ 4.03</u>

Some items may not add or recalculate due to rounding