

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended January 29, 2021

or

TRANSITION QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from

to

Commission File Number 000-27130

NetApp, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

77-0307520
(I.R.S. Employer
Identification No.)

1395 Crossman Avenue,
Sunnyvale, California 94089
(Address of principal executive offices, including zip code)

(408) 822-6000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock, \$0.001 Par Value

Trading Symbol(s)
NTAP

Name of exchange on which registered
The NASDAQ Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of February 24, 2021, there were 222,601,147 shares of the registrant's common stock, \$0.001 par value, outstanding.

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TRADEMARKS

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PART I — FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

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

	January 29, 2021	April 24, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,808	\$ 2,658
Short-term investments	86	224
Accounts receivable	799	973
Inventories	106	145
Other current assets	315	274
Total current assets	5,114	4,274
Property and equipment, net	731	727
Goodwill	2,039	1,778
Other intangible assets, net	110	44
Other non-current assets	692	699
Total assets	\$ 8,686	\$ 7,522
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 336	\$ 426
Accrued expenses	761	774
Commercial paper notes	—	522
Short-term deferred revenue and financed unearned services revenue	1,953	1,894
Total current liabilities	3,050	3,616
Long-term debt	2,632	1,146
Other long-term liabilities	651	714
Long-term deferred revenue and financed unearned services revenue	1,875	1,804
Total liabilities	8,208	7,280
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Common stock and additional paid-in capital, \$0.001 par value; 223 and 219 shares issued and outstanding as of January 29, 2021 and April 24, 2020, respectively	456	284
Retained earnings	56	—
Accumulated other comprehensive loss	(34)	(42)
Total stockholders' equity	478	242
Total liabilities and stockholders' equity	\$ 8,686	\$ 7,522

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	January 29, 2021	January 24, 2020	January 29, 2021	January 24, 2020
Revenues:				
Product	\$ 775	\$ 787	\$ 2,151	\$ 2,202
Software maintenance	334	263	938	767
Hardware maintenance and other services	361	354	1,100	1,042
Net revenues	<u>1,470</u>	<u>1,404</u>	<u>4,189</u>	<u>4,011</u>
Cost of revenues:				
Cost of product	369	360	1,045	1,013
Cost of software maintenance	28	12	67	33
Cost of hardware maintenance and other services	98	91	297	283
Total cost of revenues	<u>495</u>	<u>463</u>	<u>1,409</u>	<u>1,329</u>
Gross profit	<u>975</u>	<u>941</u>	<u>2,780</u>	<u>2,682</u>
Operating expenses:				
Sales and marketing	436	402	1,297	1,196
Research and development	215	211	660	635
General and administrative	63	60	191	200
Restructuring charges	—	—	42	21
Acquisition-related expense	3	—	14	—
Gain on sale or derecognition of assets	—	—	—	(38)
Total operating expenses	<u>717</u>	<u>673</u>	<u>2,204</u>	<u>2,014</u>
Income from operations	258	268	576	668
Other income (expense), net	<u>(11)</u>	<u>8</u>	<u>(50)</u>	<u>26</u>
Income before income taxes	247	276	526	694
Provision (benefit) for income taxes	65	(1)	130	71
Net income	<u>\$ 182</u>	<u>\$ 277</u>	<u>\$ 396</u>	<u>\$ 623</u>
Net income per share:				
Basic	<u>\$ 0.82</u>	<u>\$ 1.23</u>	<u>\$ 1.78</u>	<u>\$ 2.67</u>
Diluted	<u>\$ 0.80</u>	<u>\$ 1.21</u>	<u>\$ 1.76</u>	<u>\$ 2.64</u>
Shares used in net income per share calculations:				
Basic	<u>223</u>	<u>226</u>	<u>222</u>	<u>233</u>
Diluted	<u>227</u>	<u>229</u>	<u>225</u>	<u>236</u>

See accompanying notes to condensed consolidated financial statements.

NETAPP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	January 29, 2021	January 24, 2020	January 29, 2021	January 24, 2020
Net income	\$ 182	\$ 277	\$ 396	\$ 623
Other comprehensive income (loss):				
Foreign currency translation adjustments	1	—	10	(2)
Defined benefit obligations:				
Reclassification adjustments related to defined benefit obligations	—	(1)	—	(2)
Income tax effect	—	—	—	1
Unrealized gains on available-for-sale securities:				
Unrealized holding gains (losses) arising during the period	(1)	—	—	22
Reclassification adjustments for gains included in net income	—	—	—	(14)
Unrealized losses on cash flow hedges:				
Unrealized holding losses arising during the period	(5)	(2)	(13)	(1)
Reclassification adjustments for losses included in net income	3	—	11	—
Other comprehensive income (loss)	(2)	(3)	8	4
Comprehensive income	\$ 180	\$ 274	\$ 404	\$ 627

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	January 29, 2021	January 24, 2020
Cash flows from operating activities:		
Net income	\$ 396	\$ 623
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	159	146
Non-cash operating lease cost	38	39
Stock-based compensation	149	118
Deferred income taxes	(1)	(23)
Gain on sale or derecognition of assets	—	(38)
Other items, net	35	(16)
Changes in assets and liabilities, net of acquisitions of businesses:		
Accounts receivable	208	394
Inventories	39	18
Other operating assets	(35)	78
Accounts payable	(92)	(158)
Accrued expenses	(61)	(273)
Deferred revenue and financed unearned services revenue	10	(93)
Long-term taxes payable	(51)	(133)
Other operating liabilities	(20)	(5)
Net cash provided by operating activities	<u>774</u>	<u>677</u>
Cash flows from investing activities:		
Purchases of investments	(4)	(12)
Maturities, sales and collections of investments	144	1,300
Purchases of property and equipment	(124)	(100)
Proceeds from sale of properties	6	96
Acquisitions of businesses, net of cash acquired	(350)	(56)
Other investing activities, net	8	(1)
Net cash (used in) provided by investing activities	<u>(320)</u>	<u>1,227</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee stock award plans	92	102
Payments for taxes related to net share settlement of stock awards	(38)	(77)
Repurchase of common stock	(50)	(1,250)
(Repayments of) proceeds from commercial paper notes, original maturities of three months or less, net	(420)	443
Issuance of debt, net of issuance costs	2,057	—
Repayments and extinguishment of debt	(689)	(400)
Dividends paid	(321)	(334)
Other financing activities, net	(7)	(4)
Net cash provided by (used in) financing activities	<u>624</u>	<u>(1,520)</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	70	(4)
Net increase in cash, cash equivalents and restricted cash	1,148	380
Cash, cash equivalents and restricted cash:		
Beginning of period	2,666	2,331
End of period	<u>\$ 3,814</u>	<u>\$ 2,711</u>

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended January 29, 2021				
	Common Stock and Additional Paid-in Capital		Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount			
Balances, October 30, 2020	222	\$ 372	\$ 30	\$ (32)	\$ 370
Net income	—	—	182	—	182
Other comprehensive loss	—	—	—	(2)	(2)
Issuance of common stock under employee stock award plans, net of taxes	2	39	—	—	39
Repurchase of common stock	(1)	(1)	(49)	—	(50)
Stock-based compensation	—	46	—	—	46
Cash dividends declared (\$0.48 per common share)	—	—	(107)	—	(107)
Balances, January 29, 2021	<u>223</u>	<u>\$ 456</u>	<u>\$ 56</u>	<u>\$ (34)</u>	<u>\$ 478</u>

	Three Months Ended January 24, 2020				
	Common Stock and Additional Paid-in Capital		Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount			
Balances, October 25, 2019	229	\$ 572	\$ —	\$ (36)	\$ 536
Net income	—	—	277	—	277
Other comprehensive loss	—	—	—	(3)	(3)
Issuance of common stock under employee stock award plans, net of taxes	1	44	—	—	44
Repurchase of common stock	(8)	(223)	(277)	—	(500)
Stock-based compensation	—	36	—	—	36
Cash dividends declared (\$0.48 per common share)	—	(108)	—	—	(108)
Balances, January 24, 2020	<u>222</u>	<u>\$ 321</u>	<u>\$ —</u>	<u>\$ (39)</u>	<u>\$ 282</u>

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

Nine Months Ended January 29, 2021

	Common Stock and		Retained	Accumulated		Total	
	Additional Paid-in Capital			Earnings	Other		
	Shares	Amount			Loss		
Balances, April 24, 2020	219	\$ 284	\$ —	\$ (42)	\$ 242		
Net income	—	—	396	—	396		
Other comprehensive income	—	—	—	8	8		
Issuance of common stock under employee stock award plans, net of taxes	5	54	—	—	54		
Repurchase of common stock	(1)	(1)	(49)	—	(50)		
Stock-based compensation	—	149	—	—	149		
Cash dividends declared (\$1.44 per common share)	—	(30)	(291)	—	(321)		
Balances, January 29, 2021	<u>223</u>	<u>\$ 456</u>	<u>\$ 56</u>	<u>\$ (34)</u>	<u>\$ 478</u>		

Nine Months Ended January 24, 2020

	Common Stock and		Retained	Accumulated		Total	
	Additional Paid-in Capital			Earnings	Other		
	Shares	Amount			Loss		
Balances, April 26, 2019	240	\$ 1,133	\$ —	\$ (43)	\$ 1,090		
Cumulative-effect of adoption of ASC 842	—	—	6	—	6		
Net income	—	—	623	—	623		
Other comprehensive income	—	—	—	4	4		
Issuance of common stock under employee stock award plans, net of taxes	4	25	—	—	25		
Repurchase of common stock	(22)	(621)	(629)	—	(1,250)		
Stock-based compensation	—	118	—	—	118		
Cash dividends declared (\$1.44 per common share)	—	(334)	—	—	(334)		
Balances, January 24, 2020	<u>222</u>	<u>\$ 321</u>	<u>\$ —</u>	<u>\$ (39)</u>	<u>\$ 282</u>		

See accompanying notes to condensed consolidated financial statements.

NETAPP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Description of Business and Significant Accounting Policies

NetApp, Inc. (we, us, or the Company) provides global organizations the ability to manage and share their data across on-premises, private and public clouds. Together with our partners, we provide a full range of enterprise-class software, systems and services solutions that customers use to modernize their infrastructures, build next generation data centers and harness the power of hybrid clouds.

Basis of Presentation and Preparation

Our fiscal year is reported on a 52- or 53-week year ending on the last Friday in April. An additional week is included in the first fiscal quarter approximately every six years to realign fiscal months with calendar months. Fiscal year 2021, ending on April 30, 2021 is a 53-week year, with 14 weeks included in its first quarter and 13 weeks in each subsequent quarter. Fiscal year 2020, which ended on April 24, 2020, was a 52-week year, with 13 weeks in each of its quarters.

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company, and reflect all adjustments, consisting only of normal recurring adjustments, that are, in the opinion of management, necessary for the fair presentation of our financial position, results of operations, comprehensive income, cash flows and stockholders' equity for the interim periods presented. The statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information. Accordingly, these statements do not include all information and footnotes required by GAAP for annual consolidated financial statements, and should be read in conjunction with our audited consolidated financial statements as of and for the fiscal year ended April 24, 2020 contained in our Annual Report on Form 10-K. The results of operations for the three and nine months ended January 29, 2021 are not necessarily indicative of the operating results to be expected for the full fiscal year or future operating periods.

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Such estimates include, but are not limited to, revenue recognition, reserves and allowances; inventory valuation; valuation of goodwill and intangibles; restructuring reserves; product warranties; employee compensation and benefit accruals; stock-based compensation; loss contingencies; investment impairments; income taxes and fair value measurements. Actual results could differ materially from those estimates. Management's estimates include, as applicable, the anticipated impacts of the COVID-19 pandemic.

2. Recently Adopted Accounting Standards

In June 2016, the FASB issued an accounting standards update on the measurement of credit losses on financial instruments. The standard introduces a new model for measuring and recognizing credit losses on financial instruments, requiring financial assets measured at amortized cost basis to be presented at the net amount expected to be collected. It also requires that credit losses be recorded through an allowance for credit losses. On April 25, 2020, we adopted the standard with no material impact to our condensed consolidated financial statements.

There have been no other significant changes in our significant accounting policies as of and for the nine months ended January 29, 2021, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended April 24, 2020.

Recent accounting pronouncements pending adoption not discussed are either not applicable or will not have or are not expected to have a material impact on our consolidated financial position, results of operations, or cash flows.

3. Business Combination

Cloud Jumper Corporation Acquisition

On April 28, 2020, we acquired all the outstanding shares of privately-held Cloud Jumper Corporation (Cloud Jumper), a provider of virtual desktop infrastructure and remote desktop services solutions based in North Carolina, for approximately \$34 million in cash.

The preliminary acquisition date fair values of the assets acquired and liabilities assumed are as follows (in millions):

	Amount
Developed technology	\$ 16
Customer contracts/relationships	6
Goodwill	12
Other assets	1
Total assets acquired	35
Liabilities assumed	(1)
Total purchase price	\$ 34

Spot, Inc. Acquisition

On July 9, 2020, we acquired all the outstanding shares of privately-held Spot, Inc. (Spot), a provider of compute management cost optimization services on the public clouds based in Israel, for \$340 million in cash. The acquisition of Spot will allow us to establish an application driven infrastructure for the continuous optimization of both compute and storage, which we believe will facilitate customers deploying more applications to the cloud.

The preliminary acquisition date fair values of the assets acquired and liabilities assumed are as follows (in millions):

	Amount
Cash	\$ 24
Intangible assets	84
Goodwill	249
Other assets	6
Total assets acquired	363
Liabilities assumed	(23)
Total purchase price	\$ 340

The components of the Spot intangible assets acquired were as follows (in millions, except useful life):

	Amount	Estimated useful life (years)
Developed technology	\$ 53	5
Customer contracts/relationships	28	5
Trade name	3	3
Total intangible assets	\$ 84	

The acquired assets and assumed liabilities of Spot and Cloud Jumper were recorded at their estimated fair values. We determined the estimated fair values with the assistance of valuations and appraisals performed by third party specialists and estimates made by management. We expect to realize revenue synergies, leverage and expand the existing Spot and Cloud Jumper sales channels and product development resources, and utilize their existing workforces. We also anticipate opportunities for growth through the ability to leverage additional future products and capabilities. These factors, among others, contributed to a purchase price in excess of the estimated fair value of their identifiable net assets acquired, and as a result, we have recorded goodwill in connection with both of these acquisitions. The goodwill is not deductible for income tax purposes.

The results of operations related to the acquisition of both Spot and Cloud Jumper have been included in our condensed consolidated statements of operations from their respective acquisition dates. Pro forma results of operations have not been presented because the impact from these acquisitions would not have been material to our consolidated results of operations for each of the three and nine months ended January 29, 2021 and January 24, 2020.

4. Goodwill and Purchased Intangible Assets, Net

Goodwill activity is summarized as follows (in millions):

	<u>Amount</u>
Balance as of April 24, 2020	\$ 1,778
Additions	261
Balance as of January 29, 2021	<u>\$ 2,039</u>

Purchased intangible assets, net are summarized below (in millions):

	<u>January 29, 2021</u>			<u>April 24, 2020</u>		
	<u>Gross Assets</u>	<u>Accumulated Amortization</u>	<u>Net Assets</u>	<u>Gross Assets</u>	<u>Accumulated Amortization</u>	<u>Net Assets</u>
Developed technology	\$ 215	\$ (140)	\$ 75	\$ 192	\$ (152)	\$ 40
Customer contracts/relationships	38	(6)	32	4	—	4
Other purchased intangibles	3	—	3	—	—	—
Total purchased intangible assets	<u>\$ 256</u>	<u>\$ (146)</u>	<u>\$ 110</u>	<u>\$ 196</u>	<u>\$ (152)</u>	<u>\$ 44</u>

Amortization expense for purchased intangible assets is summarized below (in millions):

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>		<u>Statements of Operations Classification</u>
	<u>January 29, 2021</u>	<u>January 24, 2020</u>	<u>January 29, 2021</u>	<u>January 24, 2020</u>	
Developed technology	\$ 12	\$ 8	\$ 34	\$ 30	Cost of revenues
Customer contracts/relationships	3	—	6	—	Operating expenses
Total	<u>\$ 15</u>	<u>\$ 8</u>	<u>\$ 40</u>	<u>\$ 30</u>	

As of January 29, 2021, future amortization expense related to purchased intangible assets is as follows (in millions):

<u>Fiscal Year</u>	<u>Amount</u>
Remainder of 2021	\$ 8
2022	37
2023	29
2024	17
2025	16
2026	3
Total	<u>\$ 110</u>

5. Supplemental Financial Information

Cash, cash equivalents and restricted cash (in millions):

The following table presents cash and cash equivalents as reported in our condensed consolidated balance sheets, as well as the sum of cash, cash equivalents and restricted cash as reported on our condensed consolidated statements of cash flows:

	<u>January 29, 2021</u>	<u>April 24, 2020</u>
Cash and cash equivalents	\$ 3,808	\$ 2,658
Restricted cash	6	8
Cash, cash equivalents and restricted cash	<u>\$ 3,814</u>	<u>\$ 2,666</u>

Inventories (in millions):

	January 29, 2021	April 24, 2020
Purchased components	\$ 19	\$ 28
Finished goods	87	117
Inventories	<u>\$ 106</u>	<u>\$ 145</u>

Property and equipment, net (in millions):

	January 29, 2021	April 24, 2020
Land	\$ 103	\$ 103
Buildings and improvements	601	597
Leasehold improvements	87	89
Computer, production, engineering and other equipment	867	802
Computer software	359	359
Furniture and fixtures	100	106
Construction-in-progress	43	32
	2,160	2,088
Accumulated depreciation and amortization	(1,429)	(1,361)
Property and equipment, net	<u>\$ 731</u>	<u>\$ 727</u>

Other non-current assets (in millions):

	January 29, 2021	April 24, 2020
Deferred tax assets	\$ 224	\$ 220
Operating lease ROU assets	120	137
Other assets	348	342
Other non-current assets	<u>\$ 692</u>	<u>\$ 699</u>

Other non-current assets as of January 29, 2021 and April 24, 2020 included \$71 million and \$67 million, respectively, for our 49% non-controlling equity interest in Lenovo NetApp Technology Limited, a China-based entity that we formed with Lenovo (Beijing) Information Technology Ltd. in fiscal 2019.

Accrued expenses (in millions):

	January 29, 2021	April 24, 2020
Accrued compensation and benefits	\$ 365	\$ 322
Product warranty liabilities	22	26
Operating lease liabilities	50	51
Other current liabilities	324	375
Accrued expenses	<u>\$ 761</u>	<u>\$ 774</u>

Product warranty liabilities:

Equipment and software systems sales include a standard product warranty. The following tables summarize the activity related to product warranty liabilities and their balances as reported in our condensed consolidated balance sheets (in millions):

	Three Months Ended		Nine Months Ended	
	January 29, 2021	January 24, 2020	January 29, 2021	January 24, 2020
Balance at beginning of period	\$ 35	\$ 40	\$ 41	\$ 40
Expense accrued during the period	5	7	10	19
Warranty costs incurred	(6)	(6)	(17)	(18)
Balance at end of period	<u>\$ 34</u>	<u>\$ 41</u>	<u>\$ 34</u>	<u>\$ 41</u>

	January 29, 2021	April 24, 2020
Accrued expenses	\$ 22	\$ 26
Other long-term liabilities	12	15
Total warranty liabilities	<u>\$ 34</u>	<u>\$ 41</u>

Warranty expense recognized during the period includes amounts accrued for systems at the time of shipment, adjustments for changes in estimated costs for warranties on systems shipped in the period and changes in estimated costs for warranties on systems shipped in prior periods.

Other long-term liabilities (in millions):

	January 29, 2021	April 24, 2020
Liability for uncertain tax positions	\$ 133	\$ 136
Income taxes payable	351	399
Product warranty liabilities	12	15
Operating lease liabilities	76	93
Other liabilities	79	71
Other long-term liabilities	<u>\$ 651</u>	<u>\$ 714</u>

Other income (expense), net (in millions):

	Three Months Ended		Nine Months Ended	
	January 29, 2021	January 24, 2020	January 29, 2021	January 24, 2020
Interest income	\$ 2	\$ 10	\$ 7	\$ 41
Interest expense	(19)	(14)	(55)	(41)
Other income (expense), net	6	12	(2)	26
Total other income (expense), net	<u>\$ (11)</u>	<u>\$ 8</u>	<u>\$ (50)</u>	<u>\$ 26</u>

Statements of cash flows additional information (in millions):

Supplemental cash flow information related to our operating leases is included in Note 9 — Leases. Non-cash investing activities and other supplemental cash flow information are presented below:

	Nine Months Ended	
	January 29, 2021	January 24, 2020
Non-cash Investing Activities:		
Capital expenditures incurred but not paid	\$ 11	\$ 7
Supplemental Cash Flow Information:		
Income taxes paid, net of refunds	\$ 309	\$ 266
Interest paid	\$ 51	\$ 40

6. Revenue

Disaggregation of revenue

The following table depicts the disaggregation of revenue by our products and services (in millions):

	Three Months Ended		Nine Months Ended	
	January 29, 2021	January 24, 2020	January 29, 2021	January 24, 2020
Product revenues	\$ 775	\$ 787	\$ 2,151	\$ 2,202
Software maintenance revenues	334	263	938	767
Hardware maintenance and other services revenues	361	354	1,100	1,042
Hardware maintenance support contracts	293	293	896	863
Professional and other services	68	61	204	179
Net revenues	<u>\$ 1,470</u>	<u>\$ 1,404</u>	<u>\$ 4,189</u>	<u>\$ 4,011</u>

Revenues by geographic region are presented in Note 15 – Segment, Geographic, and Significant Customer Information.

Deferred revenue and financed unearned services revenue

The following table summarizes the components of our deferred revenue and financed unearned services balance as reported in our condensed consolidated balance sheets (in millions):

	January 29, 2021	April 24, 2020
Deferred product revenue	\$ 68	\$ 75
Deferred services revenue	3,690	3,567
Financed unearned services revenue	70	56
Total	<u>\$ 3,828</u>	<u>\$ 3,698</u>

Reported as:

	January 29, 2021	January 24, 2020
Short-term	\$ 1,953	\$ 1,894
Long-term	1,875	1,804
Total	<u>\$ 3,828</u>	<u>\$ 3,698</u>

Deferred product revenue represents unrecognized revenue related to undelivered product commitments and other product deliveries that have not met all revenue recognition criteria. Deferred services revenue represents customer payments made in advance for services, which include software and hardware maintenance contracts and other services. Financed unearned services revenue represents undelivered services for which cash has been received under certain third-party financing arrangements. See Note 16 – Commitments and Contingencies for additional information related to these arrangements.

The following tables summarize the activity related to deferred revenue and financed unearned services revenue (in millions):

	Nine Months Ended	
	January 29, 2021	January 24, 2020
Balance at beginning of period	\$ 3,698	\$ 3,668
Additions	2,269	1,759
Revenue recognized during the period	(2,139)	(1,854)
Balance at end of period	<u>\$ 3,828</u>	<u>\$ 3,573</u>

During the nine months ended January 29, 2021 and January 24, 2020, we recognized \$1,687 million and \$1,504 million, respectively, that was included in the deferred revenue and financed unearned services revenue balance at the beginning of the respective periods.

As of January 29, 2021, the aggregate amount of the transaction price allocated to the remaining performance obligations related to customer contracts that are unsatisfied or partially unsatisfied was \$3,828 million, which is equivalent to our deferred revenue and unearned services revenue balance. Because customer orders are typically placed on an as-needed basis, and cancellable without penalty prior to shipment, orders in backlog may not be a meaningful indicator of future revenue and have not been included in this

amount. We expect to recognize as revenue approximately 51% of our deferred revenue and financed unearned services revenue balance in the next 12 months, approximately 25% in the next 13 to 24 months, and the remainder thereafter.

Deferred commissions

The following tables summarize the activity related to deferred commissions and their balances as reported in our condensed consolidated balance sheets (in millions):

	Nine Months Ended	
	January 29, 2021	January 24, 2020
Balance at beginning of period	\$ 156	\$ 172
Additions	89	52
Expense recognized during the period	(73)	(72)
Balance at end of period	\$ 172	\$ 152
	January 29, 2021	April 24, 2020
Other current assets	\$ 71	\$ 67
Other non-current assets	101	89
Total deferred commissions	\$ 172	\$ 156

7. Financial Instruments and Fair Value Measurements

The accounting guidance for fair value measurements provides a framework for measuring fair value on either a recurring or nonrecurring basis, whereby the inputs used in valuation techniques are assigned a hierarchical level. The following are the three levels of inputs to measure fair value:

Level 1: Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Inputs that reflect quoted prices for identical assets or liabilities in less active markets; quoted prices for similar assets or liabilities in active markets; benchmark yields, reported trades, broker/dealer quotes, inputs other than quoted prices that are observable for the assets or liabilities; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Unobservable inputs that reflect our own assumptions incorporated in valuation techniques used to measure fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

We consider an active market to be one in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis, and consider an inactive market to be one in which there are infrequent or few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers. Where appropriate, our own or the counterparty's non-performance risk is considered in measuring the fair values of liabilities and assets, respectively.

Investments

The following is a summary of our investments (in millions):

	January 29, 2021				April 24, 2020			
	Cost or Amortized Cost	Gross Unrealized		Estimated Fair Value	Cost or Amortized Cost	Gross Unrealized		Estimated Fair Value
		Gains	Losses			Gains	Losses	
Corporate bonds	\$ 68	\$ 1	\$ —	\$ 69	\$ 155	\$ 1	\$ —	\$ 156
U.S. Treasury and government debt securities	17	—	—	17	68	—	—	68
Certificates of deposit	59	—	—	59	158	—	—	158
Mutual funds	39	—	—	39	33	—	—	33
Total debt and equity securities	\$ 183	\$ 1	\$ —	\$ 184	\$ 414	\$ 1	\$ —	\$ 415

The following table presents the contractual maturities of our debt investments as of January 29, 2021 (in millions):

	Amortized Cost	Fair Value
Due in one year or less	\$ 95	\$ 95
Due after one year through five years	44	45
Due after five years through ten years	5	5
	<u>\$ 144</u>	<u>\$ 145</u>

Actual maturities may differ from the contractual maturities because borrowers may have the right to call or prepay certain obligations.

Fair Value of Financial Instruments

The following table summarizes our financial assets and liabilities measured at fair value on a recurring basis (in millions):

	Total	January 29, 2021	
		Fair Value Measurements at Reporting Date Using	
		Level 1	Level 2
Cash	\$ 3,749	\$ 3,749	\$ —
Corporate bonds	69	—	69
U.S. Treasury and government debt securities	17	4	13
Certificates of deposit	59	—	59
Total cash, cash equivalents and short-term investments	<u>\$ 3,894</u>	<u>\$ 3,753</u>	<u>\$ 141</u>
Other items:			
Mutual funds (1)	\$ 8	\$ 8	\$ —
Mutual funds (2)	\$ 31	\$ 31	\$ —
Foreign currency exchange contracts liabilities (3)	\$ (3)	\$ —	\$ (3)

(1) Reported as other current assets in the condensed consolidated balance sheets

(2) Reported as other non-current assets in the condensed consolidated balance sheets

(3) Reported as accrued expenses in the condensed consolidated balance sheets

Our Level 2 debt instruments are held by a custodian who prices some of the investments using standard inputs in various asset price models or obtains investment prices from third-party pricing providers that incorporate standard inputs in various asset price models. These pricing providers utilize the most recent observable market information in pricing these securities or, if specific prices are not available for these securities, use other observable inputs like market transactions involving identical or comparable securities. We review Level 2 inputs and fair value for reasonableness and the values may be further validated by comparison to multiple independent pricing sources. In addition, we review third-party pricing provider models, key inputs and assumptions and understand the pricing processes at our third-party providers in determining the overall reasonableness of the fair value of our Level 2 debt instruments. As of January 29, 2021 and April 24, 2020, we have not made any adjustments to the prices obtained from our third-party pricing providers.

Fair Value of Debt

As of January 29, 2021 and April 24, 2020, the fair value of our long-term debt was approximately \$2,814 million and \$1,176 million, respectively. The fair value of our long-term debt was based on observable market prices in a less active market. The fair value of our commercial paper notes approximated their carrying value. All of our debt obligations are categorized as Level 2 instruments.

8. Financing Arrangements

Long-Term Debt

The following table summarizes information relating to our long-term debt, which we collectively refer to as our Senior Notes (in millions, except interest rates):

	Effective Interest Rate	January 29, 2021	April 24, 2020
3.375% Senior Notes Due June 2021	3.54%	\$ —	\$ 500
3.25% Senior Notes Due December 2022	3.43%	250	250
3.30% Senior Notes Due September 2024	3.42%	400	400
1.875% Senior Notes Due June 2025	2.03%	750	—
2.375% Senior Notes Due June 2027	2.51%	550	—
2.70% Senior Notes Due June 2030	2.81%	700	—
Total principal amount		2,650	1,150
Unamortized discount and issuance costs		(18)	(4)
Total long-term debt		\$ 2,632	\$ 1,146

Senior Notes

In June 2020, we issued \$750 million aggregate principal amount of 1.875% Senior Notes due 2025, \$550 million aggregate principal amount of 2.375% Senior Notes due 2027 and \$700 million aggregate principal amount of 2.70% Senior Notes due 2030, for which we received total proceeds of approximately \$2.0 billion, net of discount and issuance costs. Interest on these Senior Notes is payable semi-annually in June and December. On July 27, 2020, we extinguished our 3.375% Senior Notes due June 2021 for an aggregate cash redemption price of \$513 million, plus accrued and unpaid interest. As part of the debt extinguishment, we recognized a loss of \$14 million during the first quarter of fiscal 2021, which includes a cash redemption premium of \$13 million and the write-off of unamortized discount and issuance costs totaling \$1 million. The loss on extinguishment of debt is included in other income (expense), net in our condensed consolidated statement of operations for the nine months ended January 29, 2021.

Our 3.30% Senior Notes, with a principal amount of \$400 million, were issued in September 2017 with interest paid semi-annually in March and September. Our 3.25% Senior Notes, with a principal amount of \$250 million, were issued in December 2012 with interest paid semi-annually in June and December. Our Senior Notes, which are unsecured, unsubordinated obligations, rank equally in right of payment with any existing and future senior unsecured indebtedness.

We may redeem the Senior Notes in whole or in part, at any time at our option at specified redemption prices. In addition, upon the occurrence of certain change of control triggering events, we may be required to repurchase the Senior Notes under specified terms. The Senior Notes also include covenants that limit our ability to incur debt secured by liens on assets or on shares of stock or indebtedness of our subsidiaries; to engage in certain sale and lease-back transactions; and to consolidate, merge or sell all or substantially all of our assets. As of January 29, 2021, we were in compliance with all covenants associated with the Senior Notes.

As of January 29, 2021, our aggregate future principal debt maturities are as follows (in millions):

Fiscal Year	Amount
2023	\$ 250
2025	400
2026	750
Thereafter	1,250
Total	\$ 2,650

Commercial Paper Program and Credit Facility

We have a commercial paper program (the Program), under which we may issue unsecured commercial paper notes. Amounts available under the Program, as amended in July 2017, may be borrowed, repaid and re-borrowed, with the aggregate face or principal amount of the notes outstanding under the Program at any time not to exceed \$1.0 billion. The maturities of the notes can vary, but may not exceed 397 days from the date of issue. The notes are sold under customary terms in the commercial paper market and may be issued at a discount from par or, alternatively, may be sold at par and bear interest at rates dictated by market conditions at the time of their issuance. The proceeds from the issuance of the notes are used for general corporate purposes. While no commercial paper notes were outstanding as of January 29, 2021, we had commercial paper notes outstanding with an aggregate principal amount of \$523 million, a weighted-average interest rate of 2.01%, and maturities primarily less than three months as of April 24, 2020. During the first nine months of fiscal 2021, we received proceeds of \$75 million from the issuance, and made repayments of \$176 million for the settlement, of commercial paper notes with original maturities greater than three months.

In connection with the Program, we have a senior unsecured credit agreement with a syndicated group of lenders. The credit agreement, which was amended on January 22, 2021, provides for a \$1.0 billion revolving unsecured credit facility, with a sublimit of \$50 million available for the issuance of letters of credit on our behalf. The credit facility matures on January 22, 2026, with an option for us to extend the maturity date for two additional 1-year periods, subject to certain conditions. The proceeds of the loans may be used by us for general corporate purposes and as liquidity support for our existing commercial paper program. As of January 29, 2021, we were compliant with all associated covenants in the agreement. No amounts were drawn against this credit facility during any of the periods presented.

9. Leases

We lease real estate, equipment and automobiles in the U.S. and internationally. Our real estate leases, which are responsible for the majority of our aggregate ROU asset and liability balances, include leases for office space, data centers and other facilities, and as of January 29, 2021, have remaining lease terms of up to 15 years. Some of these leases contain options that allow us to extend or terminate the lease agreement. Our equipment leases are primarily for servers and networking equipment and as of January 29, 2021, have remaining lease terms of up to 4 years. As of January 29, 2021, our automobile leases have remaining lease terms of up to 5 years. All our leases are classified as operating leases except for certain immaterial equipment finance leases.

In June 2020, we entered into a build-to-suit lease agreement for an office building with future undiscounted payments of approximately \$67 million. Because the Company does not control the underlying asset during the construction period, the Company is not considered the owner of the asset under construction for accounting purposes. The lease will commence upon completion of the construction of the office building which is expected to be in the third quarter of fiscal 2022. The initial term of the lease is twenty years with options to renew the lease during the lease term. An ROU asset and related lease liability will be measured and recognized in our financial statements in the period the lease commences.

The components of lease cost related to our operating leases were as follows (in millions):

	Three Months Ended		Nine Months Ended	
	January 29, 2021	January 24, 2020	January 29, 2021	January 24, 2020
Operating lease cost	\$ 13	\$ 13	\$ 41	\$ 42
Variable lease cost	3	4	8	12
Total lease cost	<u>\$ 16</u>	<u>\$ 17</u>	<u>\$ 49</u>	<u>\$ 54</u>

Variable lease cost is primarily attributable to amounts paid to lessors for common area maintenance and utility charges under our real estate leases.

The supplemental cash flow information related to our operating leases is as follows (in millions):

	Nine Months Ended	
	January 29, 2021	January 24, 2020
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 43	\$ 43
Right-of-use assets obtained in exchange for new operating lease obligations	\$ 19	\$ 32

The supplemental balance sheet information related to our operating leases is as follows (in millions, except lease term and discount rate):

	January 29, 2021	April 24, 2020
Other non-current assets	\$ 120	\$ 137
Total operating lease ROU assets	<u>\$ 120</u>	<u>\$ 137</u>
Accrued expenses	\$ 50	\$ 51
Other long-term liabilities	76	93
Total operating lease liabilities	<u>\$ 126</u>	<u>\$ 144</u>
Weighted Average Remaining Lease Term	3.4 years	3.9 years
Weighted Average Discount Rate	2.8%	2.7%

Future minimum operating lease payments as of January 29, 2021, which exclude the undiscounted payments for the build-to-suit lease expected to commence in fiscal 2022, are as follows (in millions):

<u>Fiscal Year</u>	<u>Operating Leases</u>
2021 (remainder)	\$ 16
2022	49
2023	29
2024	18
2025	10
2026	7
Thereafter	3
Total lease payments	<u>\$ 132</u>
Less: Interest	<u>(6)</u>
Total	<u>\$ 126</u>

10. Stockholders' Equity

Equity Incentive Awards

As of January 29, 2021, we have certain equity incentive awards (awards) outstanding, which include stock options and restricted stock units (RSUs), including time-based RSUs and performance-based RSUs (PBRsUs). Also outstanding are purchase rights under our Employee Stock Purchase Plan (ESPP).

Stock Options

Less than 1 million options were outstanding as of January 29, 2021 and April 24, 2020.

Information related to our stock options is summarized below (in millions):

	<u>Nine Months Ended</u>	
	<u>January 29, 2021</u>	<u>January 24, 2020</u>
Intrinsic value of exercises	\$ 4	\$ 4
Proceeds received from exercises	\$ 2	\$ 4
Fair value of options vested	\$ 4	\$ 1

Restricted Stock Units

In the nine months ended January 29, 2021, we granted PBRsUs to certain of our executives. The PBRsUs have performance-based vesting criteria, in addition to the service based vesting criteria, such that the PBRsUs cliff-vest at the end of an approximate one, two or three year performance period, which began on the date specified in the grant agreements and typically ends on the last day of the first, second or third fiscal year, respectively following the grant date. The number of shares of common stock that will be issued to settle most of these PBRsUs at the end of the performance and service period, will range from 0% to 200% of a target number of shares originally granted. For PBRsUs with potential payouts above a 100% of target amount, the number of shares issued will depend upon our Total Stockholder Return (TSR) as compared to the TSR of a specified group of benchmark peer companies

(each expressed as a growth rate percentage) calculated as of the end of the performance period. The fair values of these TSR performance-based awards were fixed at grant date using a Monte Carlo simulation model. The aggregate grant date fair value of all PBRsUs granted in the current year was \$27 million, which is being recognized to compensation expense over the remaining performance / service periods.

The following table summarizes information related to our RSUs, including PBRsUs, (in millions, except fair value):

	Number of Shares	Weighted- Average Grant Date Fair Value
Outstanding as of April 24, 2020	7	\$ 51.40
Granted	5	\$ 40.94
Vested	(2)	\$ 44.68
Forfeited	(1)	\$ 51.53
Outstanding as of January 29, 2021	<u>9</u>	<u>\$ 47.05</u>

We primarily use the net share settlement approach upon vesting, where a portion of the shares are withheld as settlement of employee withholding taxes, which decreases the shares issued to the employee by a corresponding value. The number and value of the shares netted for employee taxes are summarized in the table below (in millions):

	Nine Months Ended	
	January 29, 2021	January 24, 2020
Shares withheld for taxes	1	1
Fair value of shares withheld	\$ 38	\$ 77

Employee Stock Purchase Plan

The following table summarizes activity related to the purchase rights issued under the ESPP (in millions):

	Nine Months Ended	
	January 29, 2021	January 24, 2020
Shares issued under the ESPP	2	2
Proceeds from issuance of shares	\$ 90	\$ 98

Stock-Based Compensation Expense

Stock-based compensation expense is included in the condensed consolidated statements of operations as follows (in millions):

	Three Months Ended		Nine Months Ended	
	January 29, 2021	January 24, 2020	January 29, 2021	January 24, 2020
Cost of product revenues	\$ 1	\$ 1	\$ 3	\$ 3
Cost of hardware maintenance and other services revenues	2	2	7	7
Sales and marketing	21	15	70	50
Research and development	15	13	49	41
General and administrative	7	5	20	17
Total stock-based compensation expense	<u>\$ 46</u>	<u>\$ 36</u>	<u>\$ 149</u>	<u>\$ 118</u>
Income tax benefit for stock-based compensation expense	<u>\$ 4</u>	<u>\$ 3</u>	<u>\$ 12</u>	<u>\$ 11</u>

As of January 29, 2021, total unrecognized compensation expense related to our equity awards was \$363 million, which is expected to be recognized on a straight-line basis over a weighted-average remaining service period of 2.3 years.

Stock Repurchase Program

As of January 29, 2021, our Board of Directors has authorized the repurchase of up to \$13.6 billion of our common stock. Under this program, we may purchase shares of our outstanding common stock through solicited or unsolicited transactions in the open market, in privately negotiated transactions, through accelerated share repurchase programs, pursuant to a Rule 10b5-1 plan or in such other manner as deemed appropriate by our management. The stock repurchase program may be suspended or discontinued at any time, and it was suspended in March 2020 due to the economic impact of the COVID-19 pandemic. We reinitiated our stock repurchase program during the third quarter of fiscal 2021.

The following table summarized activity related to the stock repurchase program for the nine months ended January 29, 2021 (in millions, except for per share amounts):

Number of shares repurchased		1
Average price per share	\$	64.78
Stock repurchases allocated to additional paid-in capital	\$	1
Stock repurchases allocated to retained earnings	\$	49
Remaining authorization at end of period	\$	427

Since the May 13, 2003 inception of our stock repurchase program through January 29, 2021, we repurchased a total of 339 million shares of our common stock at an average price of \$38.92 per share, for an aggregate purchase price of \$13.2 billion.

Dividends

The following is a summary of our activities related to dividends on our common stock (in millions, except per share amounts):

	Nine Months Ended	
	January 29, 2021	January 24, 2020
Dividends per share declared	\$ 1.44	\$ 1.44
Dividend payments allocated to additional paid-in capital	\$ 30	\$ 334
Dividend payments allocated to retained earnings	\$ 291	\$ —

On February 19, 2021, we declared a cash dividend of \$0.48 per share of common stock, payable on April 28, 2021 to holders of record as of the close of business on April 9, 2021. The timing and amount of future dividends will depend on market conditions, corporate business and financial considerations and regulatory requirements. All dividends declared have been determined by us to be legally authorized under the laws of the state in which we are incorporated.

Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) (AOCI) by component, net of tax, are summarized below (in millions):

	Foreign Currency Translation Adjustments	Defined Benefit Obligation Adjustments	Unrealized Gains (Losses) on Available- for-Sale Securities	Unrealized Gains (Losses) on Derivative Instruments	Total
Balance as of April 24, 2020	\$ (42)	\$ (1)	\$ 1	\$ —	\$ (42)
Other comprehensive income (loss), net of tax	10	—	—	(13)	(3)
Amounts reclassified from AOCI, net of tax	—	—	—	11	11
Total other comprehensive income (loss)	10	—	—	(2)	8
Balance as of January 29, 2021	\$ (32)	\$ (1)	\$ 1	\$ (2)	\$ (34)

The amounts reclassified out of AOCI are as follows (in millions):

	Three Months Ended		Nine Months Ended		Statements of Operations Classification
	January 29, 2021	January 24, 2020	January 29, 2021	January 24, 2020	
Recognized gains on defined benefit obligations	\$ —	\$ (1)	\$ —	\$ (2)	Operating expenses
Realized gains on available-for-sale securities	—	—	—	(14)	Other income (expense), net
Realized losses on cash flow hedges	3	—	11	—	Net revenues
Total reclassifications	\$ 3	\$ (1)	\$ 11	\$ (16)	

11. Derivatives and Hedging Activities

We use derivative instruments to manage exposures to foreign currency risk. Our primary objective in holding derivatives is to reduce the volatility of earnings and cash flows associated with changes in foreign currency exchange rates. The maximum length of time over which forecasted foreign currency denominated revenues are hedged is 12 months. The program is not designated for trading or speculative purposes. Our derivatives expose us to credit risk to the extent that the counterparties may be unable to meet their obligations under the terms of our agreements. We seek to mitigate such risk by limiting our counterparties to major financial institutions. In addition, the potential risk of loss with any one counterparty resulting from this type of credit risk is monitored on an ongoing basis. We also have in place master netting arrangements to mitigate the credit risk of our counterparties and to potentially reduce our losses due to counterparty nonperformance. We present our derivative instruments as net amounts in our condensed consolidated balance sheets. The gross and net fair value amounts of such instruments were not material as of January 29, 2021 or April 24, 2020. All contracts have a maturity of less than 12 months.

The notional amount of our outstanding U.S. dollar equivalent foreign currency exchange forward contracts consisted of the following (in millions):

	January 29, 2021	April 24, 2020
Cash Flow Hedges		
Forward contracts purchased	\$ 153	\$ 124
Balance Sheet Contracts		
Forward contracts sold	\$ 182	\$ 254
Forward contracts purchased	\$ 82	\$ 108

The gain (loss) of cash flow hedges recognized in net revenues is presented in the condensed consolidated statements of comprehensive income and Note 10 – Stockholders' Equity.

The effect of derivative instruments not designated as hedging instruments recognized in other income (expense), net on our condensed consolidated statements of operations was as follows (in millions):

	Three Months Ended		Nine Months Ended	
	January 29, 2021	January 24, 2020	January 29, 2021	January 24, 2020
Foreign currency exchange contracts	\$ 8	\$ 5	\$ 26	\$ 2

12. Restructuring Charges

In the second quarter of fiscal 2021, we committed to a restructuring plan (the August 2020 Plan) to optimize our business and fund our biggest opportunities. In connection with the plan, we reduced our global workforce by approximately 5%. Charges related to the plan consisted primarily of employee severance-related costs. We completed substantially all activities related to this plan by the end of the third quarter of fiscal 2021.

In the first quarter of fiscal 2021, we executed a restructuring plan (the May 2020 Plan) to reduce costs and redirect resources to our highest return activities, which included a reduction in our global workforce by less than 1%. Charges related to the plan consisted primarily of employee severance-related costs. Substantially all activities under the plan have been completed.

Management has previously approved several restructuring actions, including the May 2019 Plan and April 2019 Plan, under which we reduced our global workforce by approximately 2%, and approximately 1%, respectively. Charges related to these restructuring plans consisted primarily of employee severance-related costs. Substantially all activities under the May 2019 Plan were complete as of the end of the second quarter of fiscal 2020, and substantially all activities under the April 2019 Plan were complete as of the end of fiscal 2020.

Activities related to our restructuring plans are summarized as follows (in millions):

	Nine Months Ended January 29, 2021				Nine Months Ended January 24, 2020			
	August 2020 Plan	May 2020 Plan	May 2019 Plan	Total	May 2019 Plan	April 2019 Plan	November 2016 Plan	Total
Balance at beginning of period	\$ —	\$ —	\$ 1	\$ 1	\$ —	\$ 15	\$ 4	\$ 19
Net charges	37	5	—	42	21	—	—	21
Cash payments	(35)	(5)	(1)	(41)	(20)	(14)	—	(34)
Other	—	—	—	—	—	—	(4)	(4)
Balance at end of period	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ 2</u>

Upon adoption of the new lease accounting standard in the first quarter of fiscal 2020, the remaining lease-related liabilities associated with the November 2016 Plan were recognized as a reduction to the lease right-of-use asset recorded at transition.

13. Income Taxes

Our effective tax rates for the periods presented were as follows:

	Nine Months Ended	
	January 29, 2021	January 24, 2020
Effective tax rates	24.7%	10.2%

Our effective tax rate reflects the impact of a significant amount of earnings being taxed in foreign jurisdictions at rates below the United States (U.S.) statutory rate. The effective tax rate for the nine months ended January 29, 2021 includes the impact of taxes resulting from the integration of acquired companies. The effective tax rate for the nine months ended January 24, 2020 included the impact of discrete tax benefits for lapses of statute of limitations. The remaining differences in effective tax rates for the first nine months of fiscal 2021 compared to the corresponding period of the prior year are primarily due to certain discrete expenses, including foreign audit results and differences in discrete tax benefits for stock-based compensation.

As of January 29, 2021, we had \$224 million of gross unrecognized tax benefits, of which \$133 million has been recorded in other long-term liabilities. Inclusive of penalties, interest and certain income tax benefits, \$133 million would affect our provision for income taxes if recognized.

We are currently undergoing various income tax audits in the U.S. and audits in several foreign tax jurisdictions. Transfer pricing calculations are key topics under these audits and are often subject to dispute and appeals.

We continue to monitor the progress of ongoing discussions with tax authorities and the impact, if any, of the expected expiration of the statute of limitations in various taxing jurisdictions. We engage in continuous discussion and negotiation with taxing authorities regarding tax matters in multiple jurisdictions. We believe that within the next 12 months, it is reasonably possible that either certain audits will conclude, certain statutes of limitations will lapse, or both. As a result of uncertainties regarding tax audits and their possible outcomes, an estimate of the range of possible impacts to unrecognized tax benefits in the next twelve months cannot be made at this time.

14. Net Income per Share

The following is a calculation of basic and diluted net income per share (in millions, except per share amounts):

	Three Months Ended		Nine Months Ended	
	January 29, 2021	January 24, 2020	January 29, 2021	January 24, 2020
Numerator:				
Net income	\$ 182	\$ 277	\$ 396	\$ 623
Denominator:				
Shares used in basic computation	223	226	222	233
Dilutive impact of employee equity award plans	4	3	3	3
Shares used in diluted computation	227	229	225	236
Net Income per Share:				
Basic	\$ 0.82	\$ 1.23	\$ 1.78	\$ 2.67
Diluted	\$ 0.80	\$ 1.21	\$ 1.76	\$ 2.64

No potential shares from outstanding employee awards were excluded from the diluted net income per share calculation for the three months ended January 29, 2021. Five million potential shares from outstanding employee equity awards were excluded from the diluted net income per share calculations for the nine months ended January 29, 2021 and three million potential shares were excluded from the calculation for the three and nine months ended January 24, 2020, as their inclusion would have been anti-dilutive.

15. Segment, Geographic, and Significant Customer Information

We operate in one industry segment: the design, manufacturing, marketing, and technical support of high-performance storage and data management solutions. We conduct business globally, and our sales and support activities are managed on a geographic basis. Our management reviews financial information presented on a consolidated basis, accompanied by disaggregated information it receives from our internal management system about revenues by geographic region, based on the location from which the customer relationship is managed, for purposes of allocating resources and evaluating financial performance. We do not allocate costs of revenues, research and development, sales and marketing, or general and administrative expenses to our geographic regions in this internal management reporting because management does not review operations or operating results, or make planning decisions, below the consolidated entity level.

Summarized revenues by geographic region based on information from our internal management system and utilized by our Chief Executive Officer, who is considered our Chief Operating Decision Maker, is as follows (in millions):

	Three Months Ended		Nine Months Ended	
	January 29, 2021	January 24, 2020	January 29, 2021	January 24, 2020
United States, Canada and Latin America (Americas)	\$ 778	\$ 695	\$ 2,268	\$ 2,101
Europe, Middle East and Africa (EMEA)	474	494	1,279	1,298
Asia Pacific (APAC)	218	215	642	612
Net revenues	\$ 1,470	\$ 1,404	\$ 4,189	\$ 4,011

Americas revenues consist of sales to Americas commercial and U.S. public sector markets. Sales to customers inside the U.S. were \$693 million and \$620 million during the three months ended January 29, 2021 and January 24, 2020, respectively, and were \$2,035 million and \$1,897 million during the nine months ended January 29, 2021 and January 24, 2020, respectively.

The majority of our assets, excluding cash, cash equivalents, short-term investments and accounts receivable, were attributable to our domestic operations. The following table presents cash, cash equivalents and short-term investments held in the U.S. and internationally in various foreign subsidiaries (in millions):

	January 29, 2021	April 24, 2020
U.S.	\$ 1,598	\$ 385
International	2,296	2,497
Total	\$ 3,894	\$ 2,882

With the exception of property and equipment, we do not identify or allocate our long-lived assets by geographic area. The following table presents property and equipment information for geographic areas based on the physical location of the assets (in millions):

	January 29, 2021	April 24, 2020
U.S.	\$ 548	\$ 540
International	183	187
Total	\$ 731	\$ 727

The following customers, each of which is a distributor, accounted for 10% or more of our net revenues:

	Three Months Ended		Nine Months Ended	
	January 29, 2021	January 24, 2020	January 29, 2021	January 24, 2020
Arrow Electronics, Inc.	24%	25%	24%	25%
Tech Data Corporation	19%	20%	20%	20%

The following customers accounted for 10% or more of accounts receivable in at least one of the periods presented:

	January 29, 2021	April 24, 2020
Arrow Electronics, Inc.	7%	13%
Tech Data Corporation	13%	19%

16. Commitments and Contingencies

Purchase Orders and Other Commitments

In the ordinary course of business, we make commitments to third-party contract manufacturers to manage lead times and meet product forecasts, and to other parties to purchase various key components used in the manufacturing of our products. A significant portion of our reported purchase commitments arising from these agreements consists of firm, non-cancelable, and unconditional commitments. As of January 29, 2021, we had \$602 million in non-cancelable purchase commitments for inventory. We record a liability for firm, non-cancelable and unconditional purchase commitments for quantities in excess of our future demand forecasts consistent with the valuation of our excess and obsolete inventory. As of January 29, 2021 and April 24, 2020, such liability amounted to \$8 million and \$6 million, respectively, and is included in accrued expenses in our condensed consolidated balance sheets. To the extent that such forecasts are not achieved, our commitments and associated accruals may change.

In addition to inventory commitments with contract manufacturers and component suppliers, we have open purchase orders and contractual obligations associated with our ordinary course of business for which we have not yet received goods or services. As of January 29, 2021, we had \$181 million in other purchase obligations.

Financing Guarantees

While most of our arrangements for sales include short-term payment terms, from time to time we provide long-term financing to creditworthy customers. We have generally sold receivables financed through these arrangements on a non-recourse basis to third party financing institutions within 10 days of the contracts' dates of execution, and we classify the proceeds from these sales as cash flows from operating activities in our condensed consolidated statements of cash flows. We account for the sales of these receivables as "true sales" as defined in the accounting standards on transfers of financial assets, as we are considered to have surrendered control of these financing receivables. Provided all other revenue recognition criteria have been met, we recognize product revenues for these arrangements, net of any payment discounts from financing transactions, upon product acceptance. We sold \$61 million and \$49 million of receivables during the nine months ended January 29, 2021 and January 24, 2020, respectively.

In addition, we enter into arrangements with leasing companies for the sale of our hardware systems products. These leasing companies, in turn, lease our products to end-users. The leasing companies generally have no recourse to us in the event of default by the end-user and we recognize revenue upon delivery to the end-user customer, if all other revenue recognition criteria have been met.

Some of the leasing arrangements described above have been financed on a recourse basis through third-party financing institutions. Under the terms of recourse leases, which are generally three years or less, we remain liable for the aggregate unpaid remaining lease payments to the third-party leasing companies in the event of end-user customer default. These arrangements are generally collateralized by a security interest in the underlying assets. Where we provide a guarantee for recourse leases and collectability is probable, we account for these transactions as sales type leases. If collectability is not probable, the cash received is recorded as a deposit liability and revenue is deferred until the arrangement is deemed collectible. For leases that we are not a party to, other than providing recourse, we recognize revenue when control is transferred. As of January 29, 2021 and April 24, 2020, the aggregate amount by which such contingencies exceeded the associated liabilities was not significant. To date, we have not experienced significant losses under our lease financing programs or other financing arrangements.

We have entered into service contracts with certain of our end-user customers that are supported by third-party financing arrangements. If a service contract is terminated as a result of our non-performance under the contract or our failure to comply with the terms of the financing arrangement, we could, under certain circumstances, be required to acquire certain assets related to the service contract or to pay the aggregate unpaid financing payments under such arrangements. As of January 29, 2021, we have not been required to make any payments under these arrangements, and we believe the likelihood of having to acquire a material amount of assets or make payments under these arrangements is remote. The portion of the financial arrangement that represents unearned services revenue is included in deferred revenue and financed unearned services revenue in our condensed consolidated balance sheets.

Legal Contingencies

When a loss is considered probable and reasonably estimable, we record a liability in the amount of our best estimate for the ultimate loss. However, the likelihood of a loss with respect to a particular contingency is often difficult to predict and determining a meaningful estimate of the loss or a range of loss may not be practicable based on the information available and the potential effect of future events and decisions by third parties that will determine the ultimate resolution of the contingency.

On August 14, 2019, a purported securities class action lawsuit was filed in the United States District Court for the Northern District of California, naming as defendants NetApp and certain of our executive officers. The complaint alleges that the defendants violated Section 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and SEC Rule 10b-5, by making materially false or misleading statements with respect to our financial guidance for fiscal 2020, as provided on May 22, 2019. Members of the alleged class are purchasers of the Company's stock between May 22, 2019 and August 1, 2019, the date we provided revised

financial guidance for fiscal 2020. The complaint alleges unspecified damages based on the decline in the market price of our shares following the issuance of the revised guidance on August 1, 2019. On February 1, 2021, the District Court issued an order granting our motion to dismiss plaintiff's amended class action complaint, and provided plaintiff leave to amend the complaint within 21 days. On February 22, 2021, plaintiff filed a notice of intent not to file a second amended complaint, but reserved his right to appeal the order granting our motion to dismiss. We believe the complaint is without merit and intend to defend the case vigorously.

We are subject to various other legal proceedings and claims that arise in the normal course of business. We may, from time to time, receive claims that we are infringing third parties' intellectual property rights, including claims for alleged patent infringement brought by non-practicing entities. We are currently involved in patent litigations brought by non-practicing entities and other third parties. We believe we have strong arguments that our products do not infringe and/or the asserted patents are invalid, and we intend to vigorously defend against the plaintiffs' claims. However, there is no guarantee that we will prevail at trial and if a jury were to find that our products infringe, we could be required to pay significant monetary damages, and may cause product shipment delays, require us to redesign our products, or require us to enter into royalty or licensing agreements.

Although management at present believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not materially harm our financial position, results of operations, cash flows, or overall trends, legal proceedings are subject to inherent uncertainties, and unfavorable rulings or other events could occur. Unfavorable resolutions could include significant monetary damages. In addition, in matters for which injunctive relief or other conduct remedies are sought, unfavorable resolutions could include an injunction or other order prohibiting us from selling one or more products at all or in particular ways or requiring other remedies. An unfavorable outcome may result in a material adverse impact on our business, results of operations, financial position, and overall trends. No material accrual has been recorded as of January 29, 2021 related to such matters.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

This section and other parts of this Form 10-Q contain forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Forward-looking statements also can be identified by words such as “future,” “anticipates,” “believes,” “estimates,” “expects,” “intends,” “will,” “would,” “could,” “can,” “may,” and similar terms. Forward-looking statements are not guarantees of future performance and the actual results of NetApp, Inc. (“we,” “us,” or the “Company”) may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Part II, Item 1A of this Form 10-Q under the heading “Risk Factors,” which are incorporated herein by reference. The following discussion should be read in conjunction with our consolidated financial statements as of and for the fiscal year ended April 24, 2020, and the notes thereto, contained in our Annual Report on Form 10-K, and the condensed consolidated financial statements and notes thereto included elsewhere in this Form 10-Q. We assume no obligation to revise or update any forward-looking statements for any reason, except as required by law.

Overview

Our Company

NetApp is a leader in hybrid cloud data services. In a world of increasing complexity, we simplify. We help our customers ensure their data and applications are in the right place at the right time with the right characteristics and capabilities in order to achieve new insights and accelerate innovation. Only NetApp delivers everything IT organizations need to build their own unique data fabrics.

NetApp helps customers move from building data centers to building data fabrics. A data fabric simplifies the integration and orchestration of data services across clouds and on-premises to accelerate digital transformation. Only NetApp can deliver the full range of capabilities organizations need for their data fabrics: the power to discover resources, integrate disparate data services, automate operations, optimize over time, and protect and secure data everywhere.

Together with our partners, we empower organizations to unleash the full potential of their data to expand customer touchpoints, foster greater innovation and optimize their operations.

We focus on delivering an exceptional customer experience to become our customers' preferred data partner. NetApp's unique approach to data services enables organizations to drive data-driven innovation with the cloud, build clouds to gain speed and agility, and modernize and simplify IT to accelerate critical business applications.

With NetApp products and solutions, customers can:

- Adopt new cloud-based capabilities by leveraging the best cloud resources for their business and simplify the complexities of managing data across multiple, public clouds and on-premises
- Add new capabilities to their current environment by delivering new applications and services faster, and run existing workloads more efficiently with a foundation that brings the power of cloud-native data services on premises
- Run their current IT application environment more efficiently by optimizing and future proofing infrastructure with high-performing, cloud-integrated technologies and converged infrastructure.

We employ a multichannel distribution strategy, selling products and services to end users and service providers through a direct sales force and through channel partners, including value-added resellers, system integrators, original equipment manufacturers (OEMs) and distributors.

As our product portfolio evolves, market dynamics change, and management continues to assess our largest opportunities, we periodically change how we group product revenue. To provide improved visibility into the value created by our software innovation and R&D investment, beginning in fiscal 2021, we no longer group our products by "Strategic" and "Mature" solutions, but instead disclose the "Software" and "Hardware" components of our product revenues. The engineering DNA of NetApp and the value we provide to customers is grounded in software (particularly our ONTAP OS) and we will continue to look for opportunities to highlight and reinvest in this innovation engine. Software product revenue includes the OS software and optional add-on software solutions attached to our systems across our entire product set: A-series arrays (AFF), SolidFire, EF-series, Hybrid FAS, E-series, NetApp HCI, and StorageGrid. Hardware product revenues include the non-software component of our systems across our entire product set.

In addition to our products and solutions, we provide a variety of services to our customers, including software maintenance, hardware maintenance and other services including professional services, global support solutions, and customer education and training to help customers most effectively build their unique data fabrics and efficiently manage their data. Revenues generated by our Public Cloud Services (formerly referred to as Cloud Data Services) offerings are included in software maintenance revenues.

COVID-19

The novel coronavirus, or COVID-19, pandemic and efforts to control its spread have significantly curtailed the movement of people, goods and services worldwide, including in most or all of the regions in which we sell our products and services and conduct our business operations. We have taken precautionary measures intended to minimize the risk of the virus to our employees, our customers, and the communities in which we operate. Since March 2020, the vast majority of our employees have been working remotely and we have suspended business travel.

During the first nine months of fiscal 2021, due to the macroeconomic uncertainty caused by COVID-19, we continue to observe certain customers delay purchases of our products and services, while other customers accelerate or place new orders to address the demands of remote working and digital business, though on a net basis the impact to product revenues was unfavorable. We also continue to experience certain logistical challenges in delivering our products and services to customers in certain regions, and minor supply chain constraints.

We believe our existing balances of cash, cash equivalents and investments, cash generated from operations, and ability to access capital markets and committed lines of credit will be sufficient to satisfy our working capital needs, capital expenditures, dividends, stock repurchases, required debt repayments and other liquidity requirements associated with our operations.

The magnitude and duration of the disruption to our business, and impact to our operational and financial performance, caused by COVID-19 pandemic is uncertain. Refer to Item 1A. – Risk Factors for the significant risks we have identified as a result of the COVID-19 pandemic.

Financial Results and Key Performance Metrics Overview

The following table provides an overview of some of our key financial metrics (in millions, except per share amounts and percentages):

	Three Months Ended		Nine Months Ended	
	January 29, 2021	January 24, 2020	January 29, 2021	January 24, 2020
Net revenues	\$ 1,470	\$ 1,404	\$ 4,189	\$ 4,011
Gross profit	\$ 975	\$ 941	\$ 2,780	\$ 2,682
Gross profit margin percentage	66%	67%	66%	67%
Income from operations	\$ 258	\$ 268	\$ 576	\$ 668
Income from operations as a percentage of net revenues	18%	19%	14%	17%
Net income	\$ 182	\$ 277	\$ 396	\$ 623
Diluted net income per share	\$ 0.80	\$ 1.21	\$ 1.76	\$ 2.64
Net cash provided by operating activities	\$ 373	\$ 420	\$ 774	\$ 677
			January 29, 2021	April 24, 2020
Deferred revenue and financed unearned services revenue		\$	3,828	\$ 3,698

Stock Repurchase and Dividend Activity

During the third quarter of fiscal 2021, we repurchased 0.8 million shares of our common stock at an average price of \$64.78 per share, for an aggregate of \$50 million. We also declared aggregate cash dividends of \$0.48 per share in that period, for which we paid \$107 million. During the first nine months of fiscal 2021, aggregate cash dividends declared totaled \$1.44 per share, for which we paid an aggregate of \$321 million.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net revenues and expenses, and the disclosure of contingent assets and liabilities. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. We believe that the accounting estimates employed and the resulting balances are reasonable; however, actual results may differ from these estimates and such differences may be material. Management's estimates include, as applicable, the anticipated impacts of the COVID-19 pandemic.

The summary of our significant accounting policies is included under Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations of our fiscal 2020 Form 10-K. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the estimate that are reasonably possible could materially impact the financial statements. There have been no material changes to the critical accounting policies and estimates as filed in such report.

New Accounting Standards

See Note 2 – Recently Adopted Accounting Standards of the Notes to Condensed Consolidated Financial Statements for a full description of new accounting pronouncements, including the respective expected dates of adoption and effects on our financial statements.

Results of Operations

Our fiscal year is reported as a 52- or 53-week year that ends on the last Friday in April. Fiscal year 2021, ending on April 30, 2021 is a 53-week year, with 14 weeks included in its first quarter and 13 weeks in each subsequent quarter. Fiscal year 2020, which ended on April 24, 2020, was a 52-week year, with 13 weeks in each of its quarters. Unless otherwise stated, references to particular years, quarters, months and periods refer to the Company's fiscal years ended in April and the associated quarters, months and periods of those fiscal years.

The following table sets forth certain condensed consolidated statements of operations data as a percentage of net revenues for the periods indicated:

	Three Months Ended		Nine Months Ended	
	January 29, 2021	January 24, 2020	January 29, 2021	January 24, 2020
Revenues:				
Product	53%	56%	51%	55%
Software maintenance	23	19	22	19
Hardware maintenance and other services	25	25	26	26
Net revenues	100	100	100	100
Cost of revenues:				
Cost of product	25	26	25	25
Cost of software maintenance	2	1	2	1
Cost of hardware maintenance and other services	7	6	7	7
Gross profit	66	67	66	67
Operating expenses:				
Sales and marketing	30	29	31	30
Research and development	15	15	16	16
General and administrative	4	4	5	5
Restructuring charges	—	—	1	1
Acquisition-related expense	—	—	—	—
Gain on sale or derecognition of assets	—	—	—	(1)
Total operating expenses	49	48	53	50
Income from operations	18	19	14	17
Other income (expense), net	(1)	1	(1)	1
Income before income taxes	17	20	13	17
Provision (benefit) for income taxes	4	—	3	2
Net income	12%	20%	9%	16%

Percentages may not add due to rounding

Discussion and Analysis of Results of Operations

Overview

Net revenues for the third quarter and first nine months of fiscal 2021 were \$1,470 million and \$4,189 million, respectively, reflecting an increase of \$66 million, or 5%, and \$178 million, or 4%, respectively, compared to the corresponding periods of the prior year. The growth in net revenues reflects an increase in software maintenance revenues and hardware maintenance and other services revenues, offset by a decrease in product revenues. For the third quarter of fiscal 2021, net revenues benefited by approximately two percentage points from fluctuations in foreign currency exchange rates. For the first nine months of fiscal 2021, software and hardware maintenance revenues benefited from the extra week in our first quarter of fiscal 2021.

Gross profit as a percentage of net revenues for the third quarter and first nine months of fiscal 2021 decreased by approximately one percentage point each compared to the corresponding periods in fiscal 2020, primarily due to a reduction in gross profit margins on product revenues. Gross profit margins on product revenues decreased by two percentage points and three percentage points in the third quarter and first nine months of fiscal 2021, respectively, compared to the corresponding periods of fiscal 2020 primarily due to a decline in the average selling prices of our products. For the first nine months of fiscal 2021 our gross profit margins on product revenues were also impacted by an increase in average unit materials costs. The decline in gross profit margins on product revenues was partially offset by an increase in software maintenance revenues.

Sales and marketing, research and development, and general and administrative expenses for the third quarter and first nine months of fiscal 2021 totaled \$714 million, or 49%, and \$2,148 million, or 51% of net revenues, respectively, reflecting an increase of approximately one percentage point in both the third quarter and first nine months of fiscal 2021 compared to the corresponding periods of fiscal 2020.

Net Revenues (in millions, except percentages):

	Three Months Ended			Nine Months Ended		
	January 29, 2021	January 24, 2020	% Change	January 29, 2021	January 24, 2020	% Change
Net revenues	\$ 1,470	\$ 1,404	5%	\$ 4,189	\$ 4,011	4%

The increase in net revenues for the third quarter and first nine months of fiscal 2021 compared to the corresponding periods of fiscal 2020 was primarily due to an increase in hardware and software maintenance revenues, which in the first nine months of 2021 benefited from an additional week in that period. Product revenues as a percentage of net revenues decreased by approximately three percentage points and four percentage points in the third quarter and first nine months of fiscal 2021, respectively, compared to the corresponding periods of fiscal 2020. Fluctuations in foreign currency exchange rates benefited third quarter net revenues by approximately two percentage points for fiscal 2021 compared to the corresponding period of fiscal 2020.

The following customers, each of which is a distributor, accounted for 10% or more of net revenues:

	Three Months Ended		Nine Months Ended	
	January 29, 2021	January 24, 2020	January 29, 2021	January 24, 2020
Arrow Electronics, Inc.	24%	25%	24%	25%
Tech Data Corporation	19%	20%	20%	20%

Product Revenues (in millions, except percentages):

	Three Months Ended			Nine Months Ended		
	January 29, 2021	January 24, 2020	% Change	January 29, 2021	January 24, 2020	% Change
Product revenues	\$ 775	\$ 787	(2)%	\$ 2,151	\$ 2,202	(2)%

Product revenues are derived through the sale of our data solutions and consist of sales of configured all-flash array and Hybrid systems, which are bundled hardware and software products, as well as add-on flash, disk and/or hybrid storage and related OS, NetApp HCI, StorageGrid, OEM products and add-on optional software.

Total product revenues decreased in the third quarter and first nine months of fiscal 2021 compared to the corresponding periods of the prior year primarily due to less favorable macroeconomic conditions in the current year, in part due to the economic uncertainty caused by the COVID-19 pandemic. While sales of all-flash array systems increased in the current year, this increase was more than offset by a decline in sales of our other products. Fluctuations in foreign currency exchange rates benefited third quarter product revenues by approximately two percentage points for fiscal 2021 compared to the corresponding period of fiscal 2020.

As discussed in the Overview section, beginning in fiscal 2021, we disclose the software and hardware components of our product revenues. Because our revenue recognition policy under generally accepted accounting principles in the United States of America (GAAP) defines a configured storage system, inclusive of the operating system software essential to its functionality, as a single performance obligation, the hardware and software components of our product revenues are considered non-GAAP measures. The hardware and software components of our product revenues are derived from an estimated fair value allocation of the transaction price of our contracts with customers, down to the level of the product hardware and software components. This allocation is primarily based on the contractual prices at which NetApp has historically billed customers for such respective components. We believe that the presentation of the software and hardware components of our product revenues is meaningful to investors and management as it illustrates the significance of the Company's software and provides improved visibility into the value created by our software innovation and R&D investment.

Revenues from the hardware component of product revenues totaled \$347 million, representing 45% of product revenues, in the third quarter of fiscal 2021, compared to \$412 million, representing 52% of product revenues, in the corresponding period of the prior year. Revenues from the hardware component of product revenues totaled \$995 million, representing 46% of product revenues, in the first nine months of fiscal 2021, compared to \$1,155 million, representing 52% of product revenues, in the first nine months of fiscal 2020. The software component of product revenues totaled \$428 million, representing 55% of product revenues, in the third quarter of fiscal 2021, compared to \$375 million, representing 48% of product revenues, in the corresponding period of the prior year. The software component of product revenues totaled \$1,156 million, representing 54% of product revenues, in the first nine months of fiscal 2021, compared to \$1,047 million, representing 48% of product revenues, in the corresponding period of the prior year. The increase in the software component percentage of product revenues in the third quarter and first nine months of fiscal 2021 is primarily due to a higher mix of all-flash array systems revenues, which contain a higher proportion of software components than other products.

Software Maintenance Revenues (in millions, except percentages):

	Three Months Ended			Nine Months Ended		
	January 29, 2021	January 24, 2020	% Change	January 29, 2021	January 24, 2020	% Change
Software maintenance revenues	\$ 334	\$ 263	27%	\$ 938	\$ 767	22%

Software maintenance revenues are associated with contracts which entitle customers to receive unspecified product upgrades and enhancements on a when-and-if-available basis, bug fixes and patch releases, as well as internet and telephone access to technical support personnel located in our global support centers.

The growth in software maintenance revenues reflects higher Public Cloud Services revenue and the higher aggregate contract value of the installed base under software maintenance contracts, which is recognized as revenue ratably over the terms of the underlying contracts. Software maintenance revenues in the third quarter and first nine months of fiscal 2021 benefited from the continued growth in all-flash array product sales, as all flash systems carry a higher support dollar content than our other products. Software maintenance revenues in the first nine months of fiscal 2021 were favorably impacted by the additional week of deferred revenue amortization in that period, which contributed approximately \$20 million of additional revenues.

Hardware Maintenance and Other Services Revenues (in millions, except percentages):

	Three Months Ended			Nine Months Ended		
	January 29, 2021	January 24, 2020	% Change	January 29, 2021	January 24, 2020	% Change
Hardware maintenance and other services revenues	\$ 361	\$ 354	2%	\$ 1,100	\$ 1,042	6%

Hardware maintenance and other services revenues include hardware maintenance, professional services, and educational and training services revenues.

Hardware maintenance contract revenues were flat at \$293 million in the third quarter of each fiscal 2021 and fiscal 2020, while they were \$896 million for the first nine months of fiscal 2021, compared to \$863 million for the corresponding period of fiscal 2020, reflecting an increase of 4%. The increase in the first nine months of fiscal 2021 is partially due to the additional week in that period which contributed approximately \$20 million of additional revenues.

Professional services and educational and training services revenues were \$68 million and \$204 million, respectively, for the third quarter and first nine months of fiscal 2021, compared to \$61 million and \$179 million, respectively, for the corresponding periods of the prior year. The increase in the first nine months of fiscal 2021 is partially due to the additional week in that period.

Revenues by Geographic Area:

	Three Months Ended		Nine Months Ended	
	January 29, 2021	January 24, 2020	January 29, 2021	January 24, 2020
United States, Canada and Latin America (Americas)	53%	50%	54%	52%
Europe, Middle East and Africa (EMEA)	32%	35%	31%	32%
Asia Pacific (APAC)	15%	15%	15%	15%

Percentages may not add due to rounding

Americas revenues consist of sales to Americas commercial and U.S. public sector markets. Demand across geographies was relatively consistent in the third quarter and first nine months of fiscal 2021 as compared to the corresponding periods of the prior year.

Cost of Revenues

Our cost of revenues consists of three elements: (1) cost of product revenues, which includes the costs of manufacturing and shipping our storage products, amortization of purchased intangible assets, inventory write-downs, and warranty costs, (2) cost of software maintenance, which includes the costs of providing software maintenance, third-party royalty costs and amortization of purchased intangible assets and (3) cost of hardware maintenance and other services revenues, which includes costs associated with providing support activities for hardware maintenance, global support partnership programs, professional services and educational and training services.

Cost of Product Revenues (in millions, except percentages):

	Three Months Ended			Nine Months Ended		
	January 29, 2021	January 24, 2020	% Change	January 29, 2021	January 24, 2020	% Change
Cost of product revenues	\$ 369	\$ 360	3%	\$ 1,045	\$ 1,013	3%

The changes in cost of product revenues consisted of the following (in percentage points of the total change):

	Three Months Ended Fiscal 2021 to Fiscal 2020	Nine Months Ended Fiscal 2021 to Fiscal 2020
Materials costs	4	6
Excess and obsolete inventory	(2)	(2)
Warranty	(1)	(1)
Other	2	—
Total change	3	3

Cost of product revenues represented 48% and 49% of product revenues for the third quarter and first nine months of fiscal 2021, respectively, compared to 46% for each of the corresponding periods of fiscal 2020. Materials costs represented 89% of product costs for each of the third quarter and first nine months of fiscal 2021, compared to 87% and 85% in the corresponding periods of fiscal 2020.

Materials costs increased by approximately \$15 million and \$62 million in the third quarter and first nine months of fiscal 2021, respectively, compared to the corresponding periods of the prior year. The trend in product mix toward all flash-array systems, which carry higher materials costs than hybrid systems, was the primary driver of these increases. The average unit materials cost of all flash-array systems also increased in the first nine months of fiscal 2021 compared to the corresponding period of fiscal 2020, due to an increase in the price of certain product components, which adversely impacted product margins. Excess and obsolete inventory reserves and warranty expenses were lower in the third quarter and first nine months of fiscal 2021 compared to the corresponding periods of fiscal 2020.

In addition to the increase in average unit materials costs of all flash-array systems described above, product margins were also adversely impacted in the third quarter and first nine months of fiscal 2021 by a decrease in the average selling prices of most of our products.

Cost of Software Maintenance Revenues (in millions, except percentages):

	Three Months Ended			Nine Months Ended		
	January 29, 2021	January 24, 2020	% Change	January 29, 2021	January 24, 2020	% Change
Cost of software maintenance revenues	\$ 28	\$ 12	133%	\$ 67	\$ 33	103%

Cost of software maintenance revenues increased in the third quarter and first nine months of fiscal 2021 compared to the corresponding periods of fiscal 2020, reflecting the increase in Public Cloud Services revenue and an increase in amortization expense for acquired developed technology. Cost of software maintenance revenues represented 8% and 7% of software maintenance revenues, respectively, for the third quarter and first nine months of fiscal 2021, and 5% and 4%, respectively, for the corresponding periods of fiscal 2020.

Cost of Hardware Maintenance and Other Services Revenues (in millions, except percentages):

	Three Months Ended			Nine Months Ended		
	January 29, 2021	January 24, 2020	% Change	January 29, 2021	January 24, 2020	% Change
Cost of hardware maintenance and other services revenues	\$ 98	\$ 91	8%	\$ 297	\$ 283	5%

Cost of hardware maintenance and other services revenues increased in the third quarter and first nine months of fiscal 2021 compared to the corresponding periods of fiscal 2020, in line with the increase in hardware maintenance and other services revenues. Costs represented 27% of hardware maintenance and other services revenues in both the third quarter and first nine months of fiscal 2021, compared to 26% and 27%, respectively, in the corresponding periods of fiscal 2020.

Operating Expenses

Sales and Marketing, Research and Development and General and Administrative Expenses

Compensation costs represent the largest component of operating expenses. Included in compensation costs are salaries, benefits, other compensation-related costs, stock-based compensation expense and employee incentive compensation plan costs.

Total compensation costs included in operating expenses increased by \$64 million, or 17%, in the third quarter of fiscal 2021 compared to the corresponding period of the prior year, primarily reflecting higher incentive compensation expense and a 2% increase in average headcount.

Total compensation costs included in operating expenses increased \$165 million, or 15% in the first nine months of fiscal 2021, compared to the corresponding period of the prior year, reflecting an increase in average headcount of 4%, higher incentive compensation expense, and the impact of one additional week in the first quarter of fiscal 2021.

Sales and Marketing (in millions, except percentages):

	Three Months Ended			Nine Months Ended		
	January 29, 2021	January 24, 2020	% Change	January 29, 2021	January 24, 2020	% Change
Sales and marketing expenses	\$ 436	\$ 402	8%	\$ 1,297	\$ 1,196	8%

Sales and marketing expenses consist primarily of compensation costs, commissions, outside services, allocated facilities and information technology (IT) costs, advertising and marketing promotional expense and travel and entertainment expense. Changes in sales and marketing expense consisted of the following (in percentage points of the total change):

	Three Months Ended Fiscal 2021 to Fiscal 2020	Nine Months Ended Fiscal 2021 to Fiscal 2020
Compensation costs	10	9
Commissions	1	3
Advertising and marketing promotional expense	1	1
Travel and entertainment	(4)	(4)
Other	—	(1)
Total change	8	8

The increase in compensation costs for the third quarter and first nine months of fiscal 2021 reflected an increase in average headcount of 7% each, compared to the corresponding periods of the prior year, with this expansion of our sales and marketing teams supporting our ability to execute on key market opportunities. Compensation costs for the nine months of fiscal 2021 also reflected the impact of one additional week in the first quarter.

The increase in commissions expense for the third quarter and first nine months of fiscal 2021 is primarily due to higher performance against sales goals than in the corresponding periods of fiscal year 2020. Advertising and marketing promotional expense increased in the third quarter of fiscal 2021 compared to the corresponding period of the prior year, primarily due to higher spending levels on certain projects. Travel and entertainment spend decreased significantly due to the ongoing COVID-19 pandemic.

Research and Development (in millions, except percentages):

	Three Months Ended			Nine Months Ended		
	January 29, 2021	January 24, 2020	% Change	January 29, 2021	January 24, 2020	% Change
Research and development expenses	\$ 215	\$ 211	2%	\$ 660	\$ 635	4%

Research and development expenses consist primarily of compensation costs, allocated facilities and IT costs, depreciation, equipment and software-related costs, prototypes, non-recurring engineering charges and other outside services costs. Changes in research and development expense consisted of the following (in percentage points of the total change):

	Three Months Ended Fiscal 2021 to Fiscal 2020	Nine Months Ended Fiscal 2021 to Fiscal 2020
Compensation costs	7	7
Development projects and outside services	(2)	(1)
Facilities and IT support costs	(2)	(1)
Travel and entertainment	(1)	(1)
Total change	2	4

The increase in compensation costs for the third quarter and first nine months of fiscal 2021 compared to the corresponding periods in the prior year was primarily due to higher incentive compensation expense as a result of stronger company achievement against financial targets. Compensation costs for the first nine months of fiscal 2021 also reflected the impact of one additional week in the first quarter. The decrease in development projects and outside services were primarily due to the lower spending on certain engineering projects. The decrease in facilities and IT support costs were primarily due to cost containment efforts, and lower travel and entertainment expense was due to the impact of the ongoing COVID-19 pandemic.

General and Administrative (in millions, except percentages):

	Three Months Ended			Nine Months Ended		
	January 29, 2021	January 24, 2020	% Change	January 29, 2021	January 24, 2020	% Change
General and administrative expenses	\$ 63	\$ 60	5%	\$ 191	\$ 200	(5)%

General and administrative expenses consist primarily of compensation costs, professional and corporate legal fees, outside services and allocated facilities and IT support costs. Changes in general and administrative expense consisted of the following (in percentage points of the total change):

	Three Months Ended Fiscal 2021 to Fiscal 2020	Nine Months Ended Fiscal 2021 to Fiscal 2020
Compensation costs	13	7
Professional and legal fees and outside services	(12)	(15)
Litigation settlement	—	3
Facilities and IT support costs	2	1
Other	2	(1)
Total change	5	(5)

The increase in compensation costs in the third quarter and first nine months of fiscal 2021 compared to the corresponding periods of the prior year was primarily due to higher incentive compensation expense as a result of stronger company achievement against financial targets. The decrease in professional and legal fees and outside services expense in the third quarter and first nine months of fiscal 2021 was primarily due to lower spending on business transformation projects in the current year. The increase in facilities and IT support costs was primarily due to higher spending levels on IT projects. During the second quarter of fiscal 2021, we incurred a litigation settlement charge of approximately \$5 million that was included in general and administrative expenses in our condensed consolidated statements of operations.

Restructuring Charges (in millions, except percentages):

	Three Months Ended			Nine Months Ended		
	January 29, 2021	January 24, 2020	% Change	January 29, 2021	January 24, 2020	% Change
Restructuring charges	\$ —	\$ —	NM	\$ 42	\$ 21	100%

NM – Not Meaningful

In the second quarter of fiscal 2021, we announced a restructuring plan (the August 2020 Plan) to optimize our business and fund our biggest opportunities, which included a reduction in our global workforce of approximately 5%. Charges related to the plan consisted primarily of employee severance-related costs. We completed substantially all activities under the plan by the end of the third quarter fiscal 2021. See Note 12 – Restructuring Charges of the Notes to Condensed Consolidated Financial Statements for more details.

Acquisition-related Expense (in millions, except percentages):

	Three Months Ended			Nine Months Ended		
	January 29, 2021	January 24, 2020	% Change	January 29, 2021	January 24, 2020	% Change
Acquisition-related expense	\$ 3	—	NM	\$ 14	—	NM

NM – Not Meaningful

In the first nine months of fiscal 2021, we incurred \$14 million of acquisition-related costs, primarily legal and consulting fees associated with our acquisition and subsequent integration of Spot Inc.

Gain on sale or derecognition of assets (in millions, except percentages)

	Three Months Ended			Nine Months Ended		
	January 29, 2021	January 24, 2020	% Change	January 29, 2021	January 24, 2020	% Change
Gain on sale or derecognition of assets	\$ —	\$ —	NM	\$ —	\$ (38)	NM

NM – Not Meaningful

In September 2017, we entered into an agreement to sell certain land and buildings located in Sunnyvale, California, through two separate and independent closings, the first of which was completed in fiscal 2018. On August 29, 2019, the second closing occurred and we consummated the sale of the land, with a net book value of \$53 million, and received cash proceeds of \$96 million, resulting in a gain, net of direct selling costs, of \$38 million.

Other Income (Expense), Net (in millions, except percentages)

The components of other income (expense), net were as follows:

	Three Months Ended			Nine Months Ended		
	January 29, 2021	January 24, 2020	% Change	January 29, 2021	January 24, 2020	% Change
Interest income	\$ 2	\$ 10	(80)%	\$ 7	\$ 41	(83)%
Interest expense	(19)	(14)	36%	(55)	(41)	34%
Other income (expense), net	6	12	(50)%	(2)	26	(108)%
Total	\$ (11)	\$ 8	(238)%	\$ (50)	\$ 26	(292)%

Interest income decreased in the third quarter and first nine months of fiscal 2021 compared to the corresponding periods of the prior year due to both a reduction in the size of our investment portfolio and lower yields earned on the investments.

Interest expense increased in the third quarter and first nine months of fiscal 2021 compared to the corresponding periods of the prior year, as we issued Senior Notes in aggregate principal amount of \$2.0 billion in the first quarter of fiscal 2021. The impact from the issuance of these Senior Notes was partially offset by the extinguishment of our Senior Notes due June 2021 in the first quarter of fiscal 2021, and a lower average outstanding commercial paper balance during fiscal 2021.

In the first nine months of fiscal 2021, Other income (expense), net includes a \$6 million gain recognized on our sale of a minority equity interest in a privately held company for proceeds of approximately \$8 million. This benefit was more than offset in the first nine months period by a \$14 million loss recognized from the extinguishment of our Senior Notes due June 2021 in the first quarter of fiscal 2021. Other income (expense), net for the first nine months of fiscal 2020 includes a \$14 million gain we realized on the sale of available-for-sale debt securities during that period. The remaining fluctuations in other income (expense), net are primarily due to foreign exchange gains and losses.

Provision for Income Taxes (in millions, except percentages):

	Three Months Ended			Nine Months Ended		
	January 29, 2021	January 24, 2020	% Change	January 29, 2021	January 24, 2020	% Change
Provision (benefit) for income taxes	\$ 65	\$ (1)	NM	\$ 130	\$ 71	83%

NM – Not Meaningful

Our effective tax rate for the third quarter of fiscal 2021 was 26.3% compared to (0.4)% for the third quarter of fiscal 2020. Our effective tax rate for the first nine months of fiscal 2021 was 24.7% compared to 10.2% for the corresponding period of fiscal 2020. Our effective tax rates reflect the impact of a significant amount of our earnings being taxed in foreign jurisdictions at rates below the U.S. statutory tax rate. Our effective tax rates for the third quarter and first nine months of fiscal 2021 increased compared to the corresponding periods of the prior year primarily due to the impact of taxes resulting from the integration of acquired companies. Additionally, the corresponding prior periods included discrete benefits for lapses in statutes of limitations. The remaining differences in effective tax rates for the third quarter of fiscal 2021 compared to the corresponding period of the prior year are primarily due to differences in discrete tax benefits/expenses for stock-based compensation. The remaining differences in effective tax rates for the first nine months of fiscal 2021 compared to the corresponding period of the prior year are primarily due to certain discrete expenses, including foreign audit results and differences in discrete tax benefits for stock-based compensation.

As of January 29, 2021, we had \$224 million of gross unrecognized tax benefits, of which \$133 million has been recorded in other long-term liabilities. Inclusive of penalties, interest and certain income tax benefits, \$133 million would affect our provision for income taxes if recognized.

We continue to monitor the progress of ongoing discussions with tax authorities and the impact, if any, of the expected expiration of the statute of limitations in various taxing jurisdictions. We engage in continuous discussion and negotiation with taxing authorities regarding tax matters in multiple jurisdictions. We believe that within the next 12 months, it is reasonably possible that either certain audits will conclude, certain statutes of limitations will lapse, or both. As a result of uncertainties regarding tax audits and their possible outcomes, an estimate of the range of possible impacts to unrecognized tax benefits in the next twelve months cannot be made at this time.

Liquidity, Capital Resources and Cash Requirements

(In millions, except percentages)	January 29, 2021	April 24, 2020
Cash, cash equivalents and short-term investments	\$ 3,894	\$ 2,882
Principal amount of debt	\$ 2,650	\$ 1,673

The following is a summary of our cash flow activities:

(In millions)	Nine Months Ended	
	January 29, 2021	January 24, 2020
Net cash provided by operating activities	\$ 774	\$ 677
Net cash (used in) provided by investing activities	(320)	1,227
Net cash provided by (used in) financing activities	624	(1,520)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	70	(4)
Net increase in cash, cash equivalents and restricted cash	\$ 1,148	\$ 380

Cash Flows

As of January 29, 2021, our cash, cash equivalents and short-term investments were \$3.9 billion, an increase of \$1.0 billion from April 24, 2020. The increase was primarily due to \$2.0 billion of net proceeds from the issuance of Senior Notes and \$774 million of cash provided by operating activities, partially offset by \$513 million used for the extinguishment of our Senior Notes due June 2021, \$420 million used for the net repayment of commercial paper notes with original maturities of three months or less, \$350 million used for the acquisitions of two privately-held companies, \$321 million used for the payment of dividends, and \$124 million in purchases of property and equipment. Working capital increased by \$1.4 billion to \$2.1 billion as of January 29, 2021 compared to April 24, 2020 primarily due to the increases in cash, cash equivalents and short-term investments discussed above, and the net repayment of commercial paper notes.

Cash Flows from Operating Activities

During the first nine months of fiscal 2021, we generated cash from operating activities of \$774 million, reflecting net income of \$396 million, adjusted by non-cash depreciation and amortization of \$159 million and stock-based compensation of \$149 million, compared to \$677 million of cash generated from operating activities during the first nine months of fiscal 2020.

Changes in assets and liabilities in the first nine months of fiscal 2021 included the following:

- *Accounts receivable* decreased \$208 million, reflecting more favorable shipping linearity for the third quarter of fiscal 2021 compared to the fourth quarter of fiscal 2020.
- *Accounts payable* decreased by \$92 million, reflecting the timing of purchases from, and payments to, our contract manufacturers.

We expect that cash provided by operating activities may materially fluctuate in future periods due to a number of factors, including fluctuations in our operating results, shipment linearity, accounts receivable collections performance, inventory and supply chain management, vendor payment initiatives, tax benefits and the timing and amount of compensation and other payments.

Cash Flows from Investing Activities

During the first nine months of fiscal 2021, we generated \$140 million from maturities and sales of investments, net of purchases, and paid \$124 million for capital expenditures, while during the first nine months of fiscal 2020, we generated \$1.3 billion from maturities and sales of investments, net of purchases, and paid \$100 million for capital expenditures. Additionally, during the first nine months of fiscal 2021, we paid \$350 million, net of cash acquired for two privately-held companies, as compared to \$56 million, net of cash acquired that we paid in the first nine months of fiscal 2020 for a privately-held company. Additionally, during the first nine months of fiscal 2020, we received \$96 million for the sale of land in Sunnyvale, California.

Cash Flows from Financing Activities

During the first nine months of fiscal 2021, cash flows provided by financing activities totaled \$624 million, primarily due to net cash proceeds of \$2.0 billion from the issuance of Senior Notes, partially offset by the use of \$513 million for the extinguishment of our Senior Notes due June 2021, \$420 million for the net repayment of commercial paper notes with original maturities of three months or less, \$321 million for the payment of dividends, \$176 million for the repayment of commercial paper notes with original maturities of greater than three months, and \$50 million for the repurchase of 1 million shares of common stock. During the first nine months of fiscal 2020, we used \$1.3 billion for the repurchase of 22 million shares of common stock, \$334 million for the payment of dividends, and \$400 million for the repayment of our Senior Notes due September 2019, partially offset by \$443 million in net proceeds from the issuance of commercial paper notes with original maturities of three months or less.

Key factors that could affect our cash flows include changes in our revenue mix and profitability, our ability to effectively manage our working capital, in particular, accounts receivable, accounts payable and inventories, the timing and amount of stock repurchases and payment of cash dividends, the impact of foreign exchange rate changes, our ability to effectively integrate acquired products, businesses and technologies and the timing of repayments of our debt. Based on past performance and our current business outlook, we believe that our sources of liquidity, including potential future issuances of debt, equity or other securities, will satisfy our working capital needs, capital expenditures, investment requirements, stock repurchases, cash dividends, contractual obligations, commitments, principal and interest payments on our debt and other liquidity requirements associated with operations and meet our cash requirements for at least the next 12 months. However, in the event our liquidity is insufficient, we may be required to curtail spending and implement additional cost saving measures and restructuring actions or enter into new financing arrangements. We cannot be certain that we will continue to generate cash flows at or above current levels or that we will be able to obtain additional financing, if necessary, on satisfactory terms, if at all. For further discussion of factors that could affect our cash flows and liquidity requirements, including the impact of the COVID-19 pandemic, see Item 1A. Risk Factors.

Liquidity

Our principal sources of liquidity as of January 29, 2021 consisted of cash and cash equivalents, short-term investments, cash we expect to generate from operations, and our commercial paper program and related credit facility.

Cash, cash equivalents and short-term investments consisted of the following (in millions):

	January 29, 2021	April 24, 2020
Cash and cash equivalents	\$ 3,808	\$ 2,658
Short-term investments	86	224
Total	<u>\$ 3,894</u>	<u>\$ 2,882</u>

As of January 29, 2021 and April 24, 2020, \$2.3 billion and \$2.5 billion, respectively, of cash, cash equivalents and short-term investments were held by various foreign subsidiaries and were generally based in U.S. dollar-denominated holdings, while \$1.6 billion and \$0.4 billion, respectively, were available in the U.S. The Tax Cuts and Jobs Act ("TCJA") imposed a one-time transition tax on substantially all accumulated foreign earnings through December 31, 2017, and generally allows companies to make distributions of foreign earnings without incurring additional federal taxes. As a part of the recognition of the impacts of the TCJA, we have reviewed our projected global cash requirements and have determined that certain historical and future foreign earnings will no longer be indefinitely reinvested.

Our principal liquidity requirements are primarily to meet our working capital needs, support ongoing business activities, fund research and development, meet capital expenditure needs, invest in critical or complementary technologies, service interest and principal payments on our debt, fund our stock repurchase program, and pay dividends, as and if declared.

The principal objectives of our investment policy are the preservation of principal and maintenance of liquidity. We attempt to mitigate default risk by investing in high-quality investment grade securities, limiting the time to maturity and monitoring the counter-parties and underlying obligors closely. We believe our cash equivalents and short-term investments are liquid and accessible. We are not aware of any significant deterioration in the fair value of our cash equivalents or investments from the values reported as of January 29, 2021.

Our investment portfolio has been and will continue to be exposed to market risk due to trends in the credit and capital markets. We continue to closely monitor current economic and market events to minimize the market risk of our investment portfolio. We routinely monitor our financial exposure to both sovereign and non-sovereign borrowers and counterparties. We utilize a variety of planning and financing strategies in an effort to ensure our worldwide cash is available when and where it is needed. Based on past performance and current expectations, we believe our cash and cash equivalents, investments, cash generated from operations, and ability to access capital markets and committed credit lines will satisfy, through at least the next 12 months, our liquidity requirements, both in total and domestically, including the following: working capital needs, capital expenditures, stock repurchases, cash dividends, contractual obligations, commitments, principal and interest payments on debt, and other liquidity requirements associated with our operations. We also have an automatic shelf registration statement on file with the Securities and Exchange Commission (SEC). We may in the future offer an additional unspecified amount of debt, equity and other securities.

Senior Notes

The following table summarizes the principal amount of our Senior Notes as of January 29, 2021 (in millions):

3.25% Senior Notes Due December 2022	\$	250
3.30% Senior Notes Due September 2024		400
1.875% Senior Notes Due June 2025		750
2.375% Senior Notes Due June 2027		550
2.70% Senior Notes Due June 2030		700
Total	\$	<u>2,650</u>

Interest on the Senior Notes is payable semi-annually. For further information on the underlying terms, see Note 8 – Financing Arrangements of the Notes to Condensed Consolidated Financial Statements.

Commercial Paper Program and Credit Facility

We have a commercial paper program (the Program), under which we may issue unsecured commercial paper notes. Amounts available under the Program may be borrowed, repaid and re-borrowed, with the aggregate face or principal amount of the notes outstanding under the Program at any time not to exceed \$1.0 billion. The maturities of the notes can vary, but may not exceed 397 days from the date of issue. The notes are sold under customary terms in the commercial paper market and may be issued at a discount from par or, alternatively, may be sold at par and bear interest at rates dictated by market conditions at the time of their issuance. The proceeds from the issuance of the notes are used for general corporate purposes. No commercial paper notes were outstanding as of January 29, 2021.

In connection with the Program, we have a senior unsecured credit agreement with a syndicated group of lenders. The credit agreement, which was amended on January 22, 2021, provides for a \$1.0 billion revolving unsecured credit facility, with a sublimit of \$50 million available for the issuance of letters of credit on our behalf. The credit facility matures on January 22, 2026, with an option for us to extend the maturity date for two additional 1-year periods, subject to certain conditions. The proceeds of the loans may be used by us for general corporate purposes and as liquidity support for our existing commercial paper program. As of January 29, 2021, we were compliant with all associated covenants in the agreement. No amounts were drawn against this credit facility during any of the periods presented.

Capital Expenditure Requirements

We expect to fund our capital expenditures, including our commitments related to facilities, equipment, operating leases and internal-use software development projects over the next few years through existing cash, cash equivalents, investments and cash generated from operations. The timing and amount of our capital requirements cannot be precisely determined and will depend on a number of factors, including future demand for products, changes in the network storage industry, hiring plans and our decisions related to the financing of our facilities and equipment requirements. We anticipate capital expenditures for the remainder of fiscal 2021 to be between \$25 million and \$50 million.

Dividends and Stock Repurchase Program

On February 19, 2021, we declared a cash dividend of \$0.48 per share of common stock, payable on April 28, 2021 to holders of record as of the close of business on April 9, 2021.

As of January 29, 2021, our Board of Directors has authorized the repurchase of up to \$13.6 billion of our common stock under our stock repurchase program. Under this program, we may purchase shares of our outstanding common stock through solicited or unsolicited transactions in the open market, in privately negotiated transactions, through accelerated share repurchase programs, pursuant to a Rule 10b5-1 plan or in such other manner as deemed appropriate by our management. The stock repurchase program may be suspended or discontinued at any time. Since the May 13, 2003 inception of this program through January 29, 2021, we repurchased a total of 339 million shares of our common stock at an average price of \$38.92 per share, for an aggregate purchase price of \$13.2 billion. As of January 29, 2021, the remaining authorized amount for stock repurchases under this program was \$0.4 billion.

During the first quarter of fiscal 2021, we announced the suspension of our stock repurchases to strengthen our liquidity position given the uncertainty surrounding the overall impact of the ongoing COVID-19 pandemic. We reinitiated our stock repurchase program during the third quarter of fiscal 2021.

Contractual Obligations

Purchase Orders and Other Commitments

In the ordinary course of business, we make commitments to our third-party contract manufacturers to manage lead times and meet product forecasts, and to other parties to purchase various key components used in the manufacture of our products. A significant portion of our reported purchase commitments arising from these agreements consists of firm, non-cancelable, and unconditional commitments. As of January 29, 2021, we had \$602 million in non-cancelable purchase commitments for inventory. We record a liability for firm, non-cancelable and unconditional purchase commitments for quantities in excess of our future demand forecasts consistent with the valuation of our excess and obsolete inventory. To the extent that such forecasts are not achieved, our commitments and associated accruals may change.

In addition to inventory commitments with contract manufacturers and component suppliers, we have open purchase orders and construction related obligations associated with our ordinary course of business for which we have not received goods or services. As of January 29, 2021, we had \$181 million in other purchase obligations.

Unrecognized Tax Benefits

As of January 29, 2021, our liability for uncertain tax positions was \$133 million, including interest, penalties and certain income tax benefits. Due to uncertainties regarding tax audits and their possible outcomes, we are unable to make reasonably reliable estimates of the period of cash settlement with the taxing authorities.

Financing Guarantees

While most of our arrangements for sales include short-term payment terms, from time to time we provide long-term financing to creditworthy customers. We have generally sold receivables financed through these arrangements on a non-recourse basis to third party financing institutions within 10 days of the contracts' dates of execution, and we classify the proceeds from these sales as cash flows from operating activities in our condensed consolidated statements of cash flows. We account for the sales of these receivables as "true sales" as defined in the accounting standards on transfers of financial assets, as we are considered to have surrendered control of these financing receivables. We sold \$61 million and \$49 million of receivables during the first nine months of fiscal 2021 and fiscal 2020, respectively.

In addition, we enter into arrangements with leasing companies for the sale of our hardware systems products. These leasing companies, in turn, lease our products to end-users. The leasing companies generally have no recourse to us in the event of default by the end-user.

Some of the leasing arrangements described above have been financed on a recourse basis through third-party financing institutions. Under the terms of recourse leases, which are generally three years or less, we remain liable for the aggregate unpaid remaining lease payments to the third-party leasing companies in the event of end-user customer default. These arrangements are generally collateralized by a security interest in the underlying assets. As of January 29, 2021 and April 24, 2020, the aggregate amount by which such contingencies exceeded the associated liabilities was not significant. To date, we have not experienced significant losses under our lease financing programs or other financing arrangements.

We have entered into service contracts with certain of our end-user customers that are supported by third-party financing arrangements. If a service contract is terminated as a result of our non-performance under the contract or our failure to comply with the terms of the financing arrangement, we could, under certain circumstances, be required to acquire certain assets related to the service contract or to pay the aggregate unpaid payments under such arrangements. As of January 29, 2021, we have not been required to make any payments under these arrangements, and we believe the likelihood of having to acquire a material amount of assets or make payments under these arrangements is remote. The portion of the financial arrangement that represents unearned services revenue is included in deferred revenue and financed unearned services revenue in our condensed consolidated balance sheets.

Off-Balance Sheet Arrangements

We enter into indemnification agreements with third parties in the ordinary course of business. Generally, these indemnification agreements require us to reimburse losses suffered by the third-parties due to various events, such as lawsuits arising from patent or copyright infringement. These indemnification obligations are considered off-balance sheet arrangements under accounting guidance.

Legal Contingencies

We are subject to various legal proceedings and claims which arise in the normal course of business. See further details on such matters in Note 16 – Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to market risk related to fluctuations in market prices, interest rates, and foreign currency exchange rates. We use certain derivative financial instruments to manage foreign currency exchange risks. We do not use derivative financial instruments for speculative or trading purposes. All financial instruments are used in accordance with management-approved policies.

Interest Rate Risk

Fixed Income Investments — As of January 29, 2021, we had fixed income debt investments of \$86 million. Our investment portfolio primarily consists of investments with original maturities greater than three months at the date of purchase, which are classified as available-for-sale investments. These investments, which consist primarily of corporate bonds, U.S. Treasury and government debt securities and certificates of deposit, are subject to interest rate and interest income risk and will decrease in value if market interest rates increase. Conversely, declines in interest rates, including the impact from lower credit spreads, could have a material adverse impact on interest income for our investment portfolio. A hypothetical 100 basis point increase in market interest rates from levels as of January 29, 2021 would have resulted in a decrease in the fair value of our fixed-income securities of approximately \$0.4 million. Volatility in market interest rates over time will cause variability in our interest income. We do not use derivative financial instruments in our investment portfolio.

Our investment policy is to limit credit exposure through diversification and investment in highly rated securities. We further mitigate concentrations of credit risk in our investments by limiting our investments in the debt securities of a single issuer and by diversifying risk across geographies and type of issuer. We actively review, along with our investment advisors, current investment ratings, company-specific events and general economic conditions in managing our investments and in determining whether there is a significant decline in fair value that requires an impairment. We monitor and evaluate our investment portfolio on a quarterly basis for any impairments and evaluate if the decline in fair value is due to a credit loss or other factors.

Debt — As of January 29, 2021, we have outstanding \$2.7 billion aggregate principal amount of Senior Notes. We carry these instruments at face value less unamortized discount on our condensed consolidated balance sheets. Since these instruments bear interest at fixed rates, we have no financial statement risk associated with changes in interest rates. However, the fair value of these instruments fluctuates when interest rates change. See Note 8 – Financing Arrangements of the Notes to Condensed Consolidated Financial Statements for more information.

Credit Facility — We are exposed to the impact of changes in interest rates in connection with our \$1.0 billion five-year revolving credit facility. Borrowings under the facility accrue interest at rates that vary based on certain market rates and our credit rating on our Senior Notes. Consequently, our interest expense would fluctuate with any changes in these market interest rates or in our credit rating if we were to borrow any amounts under the credit facility. As of January 29, 2021, no amounts were outstanding under the credit facility.

Foreign Currency Exchange Rate Risk

We hedge risks associated with certain foreign currency transactions to minimize the impact of changes in foreign currency exchange rates on earnings. We utilize foreign currency exchange forward and option contracts to hedge against the short-term impact of foreign currency fluctuations on certain foreign currency denominated monetary assets and liabilities. We also use foreign currency exchange forward contracts to hedge foreign currency exposures related to forecasted sales transactions denominated in certain foreign currencies. These derivatives are designated and qualify as cash flow hedges under accounting guidance for derivatives and hedging.

We do not enter into foreign currency exchange contracts for speculative or trading purposes. In entering into foreign currency exchange forward and option contracts, we have assumed the risk that might arise from the possible inability of counterparties to meet the terms of the contracts. We attempt to limit our exposure to credit risk by executing foreign currency exchange contracts with creditworthy multinational commercial banks. All contracts have a maturity of less than 12 months. See Note 11 – Derivatives and Hedging Activities of the Notes to Condensed Consolidated Financial Statements for more information regarding our derivatives and hedging activities.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

The phrase “disclosure controls and procedures” refers to controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended (the Exchange Act), such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the U.S. Securities and Exchange Commission (SEC). Disclosure controls and procedures are also designed to ensure that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of January 29, 2021, the end of the fiscal period covered by this Quarterly Report on Form 10-Q (the Evaluation Date). Based on this evaluation, our CEO and CFO concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that the information required to be disclosed in our SEC reports (i) is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) identified in connection with our evaluation that occurred during the third quarter of fiscal 2021 that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

Item 1. Legal Proceedings.

For a discussion of legal proceedings, see Note 16 – Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements.

Item 1A. Risk Factors.

The following descriptions of risk factors includes any material changes to, and supersedes the description of risk factors associated with, the Company's business previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended April 24, 2020 (the "2020 Form 10-K") filed with the U.S. Securities and Exchange Commission (the "SEC") under the heading "Risk Factors." Our business, financial condition and operating results can be affected by a number of factors, whether currently known or unknown, including but not limited to those described below, any one or more of which could, directly or indirectly cause our actual results of operations and financial condition to vary materially from the past, or from anticipated future, results of operations and financial condition. Any of these factors, in whole or in part, could materially and adversely affect our business, financial condition, results of operations and common stock price.

The following discussion of risk factors contains forward-looking statements. These risk factors may be important to understanding any statement in this Form 10-Q or elsewhere. The following information should be read in conjunction with the condensed consolidated financial statements and the related notes in Part I, Item 1 – Financial Statements and Part I, Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-Q.

The following discussion reflects our current judgment regarding the most significant risks we face. These risks can and will change in the future.

We are unable to predict the extent to which the global COVID-19 pandemic may adversely impact our business operations, financial condition, results of operations or cash flows.

The COVID-19 pandemic and efforts to control its spread have significantly curtailed the movement of people, goods and services worldwide, including in most or all of the regions in which we sell our products and services and conduct our business operations. While we are currently considered an essential business in many of the key regions in which we operate, including in the United States (U.S.), there is no guarantee that we will continue to be classified as such. We have taken precautionary measures intended to minimize the risk of the virus to our employees, our customers, and the communities in which we operate, including office closures and working remotely for the vast majority of employees, all of which could negatively impact our business. The magnitude and duration of the disruption and resulting decline in business activity is uncertain and has limited our ability to forecast future demand for our products and services. The COVID-19 pandemic has, and we expect it to continue to, adversely affect our business in a variety of ways, including by negatively impacting the demand for our products and services, and our ability to build and convert our sales pipeline (including delayed and deferred purchases); restricting our sales, marketing and distribution efforts; disrupting our supply chain and our ability to deliver product to customers; and constraining business operations, research and development capabilities, engineering, design and manufacturing processes and other important business activities. In addition, the COVID-19 pandemic has disrupted the operations of our suppliers, customers and partners for an indefinite period of time, including as a result of travel restrictions and/or business shutdowns and limited access to capital markets, all of which have and may continue to negatively impact our business and results of operations, including cash flows. Accordingly, we expect the COVID-19 pandemic to have a negative impact on our future sales and results of operations, the magnitude and duration of which we are unable to predict. Additionally, concerns over the economic impact of COVID-19 pandemic have caused extreme volatility in financial and other capital markets, which volatility has and may continue to adversely impact our stock price and could impact our ability to access capital markets. More generally, the COVID-19 pandemic has adversely affected economies and financial markets globally, potentially leading to a prolonged economic downturn, which could decrease technology spending and adversely affect demand for our offerings and harm our business and results of operations for an extended period of time. To the extent that the COVID-19 pandemic adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described in this "Risk Factors" section and those incorporated by reference herein, such as those relating to our products and services, financial performance, credit rating and debt obligations.

Our business may be harmed by technological trends in our market or if we are unable to keep pace with rapid industry, technological and market changes.

Our industry and the markets in which we compete have historically experienced significant growth due to the increase in the demand for storage and data management solutions by consumers, enterprises and government bodies around the world, and the resultant purchases of storage and data management solutions to address this demand. However, despite continued data growth, our traditional market, the networked storage hardware market, experienced a decline in each of the last three calendar years due to a combination of customers delaying purchases in the face of technology transitions, increasing adoption of cloud environments built on commodity hardware, increased storage efficiency, and changing economic and business environments. While customers are

navigating through their information technology (IT) transformations, which leverage modern architectures and hybrid cloud environments, they are also reducing IT budgets, looking for simpler solutions, and rethinking how they consume IT. This evolution is diverting spending towards transformational projects and architectures like flash, hybrid cloud, IT as a service, converged infrastructure, and software defined storage. We are unable to predict whether the impact of the COVID-19 pandemic will accelerate the decline of our traditional market and increase demand for our cloud offerings. Our business may be adversely impacted if we are unable to keep pace with rapid industry, technological or market changes or if our Data Fabric strategy is not accepted in the marketplace. As a result of these and other factors discussed in this report, our revenue may decline on a year-over-year basis, as it did in fiscal years 2016, 2017 and 2020. The future impact of these trends on both short- and long-term growth patterns is uncertain. If the general historical rate of industry growth declines, if the growth rates of the specific markets in which we compete decline, and/or if the consumption model of storage changes and our new and existing products, services and solutions do not receive customer acceptance, our business, operating results and financial condition could suffer.

If we are unable to develop, introduce and gain market acceptance for new products and services while managing the transition from older ones, or if we cannot provide the expected level of quality and support for our new products and services, our business, operating results and financial condition could be harmed.

Our future growth depends upon the successful development and introduction of new hardware and software products and services. Due to the complexity of storage software, subsystems and appliances and the difficulty in gauging the engineering effort required to produce new products and services, such products and services are subject to significant technical and quality control risks.

If we are unable, for technological, customer reluctance or other reasons, to develop, introduce and gain market acceptance for new products and services, as and when required by the market and our customers, our business, operating results and financial condition could be materially and adversely affected.

New or additional product introductions, including new hardware and software offerings, such as NetApp HCI, Cloud Volumes ONTAP, and new all flash storage products, subject us to additional financial and operational risks, including our ability to forecast customer preferences and/or demand, our ability to successfully manage the transition from older products and solutions, our ability to forecast the impact of customers' demand for new products, services and solutions or the products being replaced, and our ability to manage production capacity to meet the demand for new products and services. In addition, as new or enhanced products and services are introduced, we must also avoid excessive levels of older product inventories and related components and ensure that new products and services can be delivered to meet customers' demands. Further risks inherent in the introduction of new products, services and solutions include the uncertainty of price-performance relative to products of competitors, competitors' responses to the introductions, delays in sales caused by the desire of customers to evaluate new products for extended periods of time and our partners' investment in selling our new products and solutions. If these risks are not managed effectively, we could experience material risks to our operations, financial condition and business model.

As we enter new or emerging markets, we will likely increase demands on our service and support operations and may be exposed to additional competition. We may not be able to provide products, service and support to effectively compete for these market opportunities.

Our sales and distribution structure makes forecasting revenues difficult and, if disrupted, could harm our operating results.

Our business and sales models make revenues difficult to forecast. We sell to a variety of customers directly and through various channels, with a corresponding variety of sales cycles, and we recently reorganized our sales resources to improve the alignment of those resources with customer and market opportunities. The reorganization of our sales resources could result in short or long-term disruption of our sales cycles and harm our operating results. The majority of our sales are made and/or fulfilled indirectly through channel partners, including value-added resellers, systems integrators, distributors, original equipment manufacturers (OEMs) and strategic business partners, which now include hyperscalers. This structure significantly complicates our ability to forecast future revenue, especially within any particular fiscal quarter or year. Moreover, our relationships with our indirect channel partners and strategic business partners are critical to our success. The loss of one or more of our key indirect channel partners in a given geographic area or the failure of our channel or strategic partners to promote our products could harm our operating results. Qualifying and developing new indirect channel partners typically requires a significant investment of time and resources before acceptable levels of productivity are met. If we fail to maintain our relationships with our indirect channel partners and strategic partners, if their financial condition, business or customer relationships were to weaken, if they fail to comply with legal or regulatory requirements, or if we were to cease to do business with them for these or other reasons, our business, operating results and financial condition could be harmed.

Increasing competition and industry consolidation could harm our business and operating results.

The storage and data management markets are intensely competitive and are characterized by rapidly changing technology and fragmentation. We compete with many companies in the markets we serve, including established public companies, newer public companies with a strong flash focus, and new market entrants addressing the growing opportunity for hyper-converged systems. Some offer a broad spectrum of IT products and services (full-stack vendors) and others offer a more limited set of storage and data

management products or services. Technology trends, such as the emergence of hosted or public cloud storage, SaaS and flash storage are driving significant changes in storage architectures and solution requirements. Cloud service providers provide customers storage for their data centers on demand, without requiring a capital expenditure, which meets rapidly evolving business needs and has changed the competitive landscape. The impacts of the COVID-19 pandemic, including the increase in the number of employees working remotely, could accelerate customer adoption of competitors' cloud solutions and contribute to increased competition in the market.

Competitors may develop new technologies or products in advance of us or establish new business models, more flexible contracting models or new technologies disruptive to us. By extending our flash, cloud storage and converged infrastructure offerings, we are competing in new segments with both traditional competitors and new competitors, particularly smaller emerging storage vendors. The longer-term potential and competitiveness of these emerging vendors remains to be determined. In cloud and converged infrastructure, we also compete with large well-established competitors.

It is possible that new competitors or alliances among competitors might emerge and rapidly acquire significant market share or buying power. An increase in industry consolidation might result in stronger competitors that are better able to compete as full-stack vendors for customers and achieve increased economies of scale in the supply chain. For example, in April 2017, HP Enterprise completed their acquisition of Nimble Storage. In addition, current and potential competitors have established or might establish cooperative relationships among themselves or with third parties, including some of our partners or suppliers. For additional information regarding our competitors, see the section entitled "Competition" contained in Item 1 – Business of Part I of our 2020 Form 10-K.

Continuing uncertain economic and political conditions restrict our visibility and may harm our operating results, including our revenue growth and profitability.

Continuing global economic uncertainty, political conditions and fiscal challenges in the U.S. and abroad have, among other things, limited our ability to forecast future demand for our products, contributed to increased periodic volatility in the computer, storage and networking industries at large, as well as the IT market, and could constrain future access to capital for our suppliers, customers and partners. The impacts of these circumstances are global and pervasive, and the timing and nature of any ultimate resolution of these matters remain highly uncertain. We are also unable to predict whether increased customer spending on our cloud offerings and virtual desktop infrastructure will continue during and after the COVID-19 pandemic. Consequently, we expect these concerns to challenge our business for the foreseeable future, which could cause harm to our operating results. Such conditions have resulted, and may in the future again result, in failure to meet our forecasted financial expectations and to achieve historical levels of revenue growth.

Transition to consumption-based business models may adversely affect our revenues and profitability in other areas of our business.

We offer customers a full range of consumption models, including the deployment of our software through our subscription and cloud-based Software as a Service (SaaS), and utility pricing and managed services offerings for our hardware and software systems. These business models continue to evolve, and we may not be able to compete effectively, generate significant revenues or maintain the profitability of our consumption-based offerings. Additionally, the increasing prevalence of cloud and SaaS delivery models offered by us and our competitors may unfavorably impact the pricing of our on-premise hardware and software offerings and could have a dampening impact on overall demand for our on-premise hardware and software product and service offerings, which could reduce our revenues and profitability, at least in the near term. If we do not successfully execute our consumption model strategy or anticipate the needs of our customers, our revenues and profitability could decline.

As customer demand for our consumption model offerings increases, we will experience differences in the timing of revenue recognition between our traditional hardware and software license arrangements, including for the software license components of enterprise software license agreements (for which revenue is generally recognized in full at the time of delivery), relative to our consumption model offerings (for which revenue is generally recognized ratably over the term of the arrangement). We incur certain expenses associated with the infrastructure and marketing of our consumption model offerings in advance of our ability to recognize the revenues associated with these offerings.

Our quarterly operating results may fluctuate materially, which could harm our common stock price.

Our operating results have fluctuated in the past and will continue to do so, sometimes materially. All of the matters discussed in this Risk Factors section could impact our operating results in any fiscal quarter or year. In addition to those matters, we face the following issues, which could impact our quarterly results:

- Seasonality, such as our historical seasonal decline in revenues in the first quarter of our fiscal year and seasonal increase in revenues in the second quarter of our fiscal year, with the latter due in part to the impact of the U.S. federal government's September 30 fiscal year end on the timing of its orders;

- Linearity, such as our historical intra-quarter bookings and revenue pattern in which a disproportionate percentage of each quarter's total bookings and related revenue occur in the last month of the quarter; and
- Unpredictability associated with larger scale enterprise software license agreements which generally take longer to negotiate and occur less consistently than other types of contracts, and for which revenue attributable to the software license component is typically recognized in full upon delivery.

If our operating results fall below our forecasts and the expectations of public market analysts and investors, the trading price of our common stock may decline.

If we are unable to maintain and develop relationships with strategic partners, our revenues may be harmed.

Our growth strategy includes developing and maintaining strategic partnerships with major third-party software and hardware vendors to integrate our products into their products and also co-market our products with them. A number of our strategic partners are industry leaders that offer us expanded access to segments of the storage and data management markets. In particular, strategic partnerships with hyperscalers and cloud service vendors are critical to the success of our cloud-based business. However, there is intense competition for attractive strategic partners, and these relationships may not be exclusive, may not generate significant revenues and may be terminated on short notice. For instance, some of our partners are also partnering with our competitors, which may increase the availability of competing solutions and harm our ability to grow our relationships with those partners. Moreover, some of our partners, particularly large, more diversified technology companies, are also competitors, thereby complicating our relationships. If we are unable to establish new partnerships or maintain existing partnerships, if our strategic partners favor their relationships with other vendors in the storage industry or if our strategic partners increasingly compete with us, we could experience lower than expected revenues, suffer delays in product development, or experience other harm to our business, operating results and financial condition.

A portion of our revenues is generated by large, recurring purchases from various customers, resellers and distributors. A loss, cancellation or delay in purchases by any of these parties has negatively affected our revenues in the past, and could negatively affect our revenues in the future.

A significant portion of our net revenues is generated through sales to a limited number of customers and distributors. We generally do not enter into binding purchase commitments with our customers, resellers and distributors for extended periods of time, and thus there is no guarantee we will continue to receive large, recurring orders from these customers, resellers or distributors. For example, our reseller agreements generally do not require minimum purchases, and our customers, resellers and distributors can stop purchasing and marketing our products at any time. In addition, unfavorable economic conditions may negatively impact the solvency of our customers, resellers and distributors or the ability of such customers, resellers and distributors to obtain credit to finance purchases of our products. If any of our key customers, resellers or distributors changes its pricing practices, reduces the size or frequency of its orders for our products, or stops purchasing our products altogether, our operating results and financial condition could be materially adversely impacted.

If we do not achieve forecasted bookings in any quarter, our financial results could be harmed.

We derive a majority of our revenues in any given quarter from orders booked in the same quarter. Bookings typically follow intra-quarter seasonality patterns weighted toward the back end of the quarter. If we do not achieve the level, timing and mix of bookings consistent with our quarterly targets and historical patterns, or if we experience cancellations of significant orders, our financial results could be harmed.

Our gross margins may vary.

Our gross margins reflect a variety of factors, including competitive pricing, component and product design, and the volume and relative mix of revenues from product, software maintenance, hardware maintenance and other services offerings. Increased component costs, increased pricing and discounting pressures, the relative and varying rates of increases or decreases in component costs and product prices, or changes in the mix of revenue or decreased volume from product, software maintenance, hardware maintenance and other services offerings could harm our revenues, gross margins or earnings. Our gross margins are also impacted by the cost of any materials that are of poor quality and our sales and distribution activities, including, without limitation, pricing actions, rebates, sales initiatives and discount levels, and the timing of service contract renewals.

The costs of third-party components comprise a significant portion of our product costs. While we generally have been able to manage our component and product design costs, we may have difficulty managing these costs if supplies of certain components become limited or component prices increase. Any such limitation could result in an increase in our product costs. An increase in component or design costs relative to our product prices could harm our gross margins and earnings.

We rely on a limited number of suppliers for critical product components.

We rely on a limited number of suppliers for drives and other components utilized in the assembly of our products, including certain single source suppliers, which has subjected us, and could in the future subject us, to price rigidity, periodic supply constraints, and the inability to produce our products with the quality and in the quantities demanded. Consolidation among suppliers, particularly within the semiconductor and disk drive industries, has contributed to price rigidity and may in the future create supply constraints. When industry supply is constrained, our suppliers may allocate volumes away from us and to our competitors, all of which rely on many of the same suppliers as we do. Accordingly, our operating results may be harmed.

Any disruption to our supply chain could materially harm our business, operating results and financial condition.

We do not manufacture our products or their components. Instead, we rely on third parties to make our products and critical components, such as disk drives, as well as for associated logistics. Our lack of direct responsibility for, and control over, these elements of our business, as well as the diverse international geographic locations of our manufacturing partners and suppliers, creates significant risks for us, including, among other things:

- Impacts on our supply chain from adverse public health developments, including outbreaks of contagious diseases such as the ongoing COVID-19 pandemic;
- Limited ability to control the quality, quantity and cost of our products or of their components;
- The potential for binding price or purchase commitments with our suppliers at higher than market rates;
- Limited ability to adjust production volumes in response to our customers' demand fluctuations;
- Labor and political unrest at facilities we do not operate or own;
- Geopolitical disputes disrupting our supply chain;
- Business, legal compliance, litigation and financial concerns affecting our suppliers or their ability to manufacture and ship our products in the quantities, quality and manner we require; and
- Disruptions due to floods, earthquakes, storms and other natural disasters, particularly in countries with limited infrastructure and disaster recovery resources.

Such risks have subjected us, and could in the future subject us, to supply constraints, price increases and minimum purchase requirements and our business, operating results and financial condition could be harmed. For example, the current global shortage of semiconductors could reduce our flexibility to react to product mix changes and un-forecasted orders. The risks associated with our outsourced manufacturing model are particularly acute when we transition products to new facilities or manufacturers, introduce and increase volumes of new products or qualify new contract manufacturers or suppliers, at which times our ability to manage the relationships among us, our manufacturing partners and our component suppliers, becomes critical. New manufacturers, products, components or facilities create increased costs and risk that we will fail to deliver high quality products in the required volumes to our customers. Any failure of a manufacturer or component supplier to meet our quality, quantity or delivery requirements in a cost-effective manner will harm our business, operating results and customer relationships.

Due to the global nature of our business, risks inherent in our international operations could materially harm our business.

A significant portion of our operations are located, and a significant portion of our revenues are derived, outside of the U.S. In addition, most of our products are manufactured outside of the U.S., and we have research and development, sales and service centers overseas. Accordingly, our business and future operating results could be adversely impacted by factors affecting our international operations including, among other things, local political or economic conditions, trade protection and export and import requirements, tariffs, local labor conditions, transportation costs, government spending patterns, acts of terrorism, international conflicts and natural disasters in areas with limited infrastructure and adverse public health developments. In particular, the ongoing COVID-19 pandemic, current trade tensions between the U.S. and China, and the United Kingdom's withdrawal from the European Union, effective on January 31, 2020, could impact our business and operating results. For products we manufacture in Mexico, tensions between the U.S. and Mexico related to trade and border security issues could delay our shipments to customers, or impact pricing or our business and operating results. In addition, due to the global nature of our business, we are subject to complex legal and regulatory requirements in the U.S. and the foreign jurisdictions in which we operate and sell our products, including antitrust and anti-competition laws, rules and regulations, and regulations related to data privacy, data protection, and cybersecurity. We are also subject to the potential loss of proprietary information due to piracy, misappropriation, or laws that may be less protective of our intellectual property rights than U.S. laws. Such factors could have an adverse impact on our business, operating results and financial condition.

We face exposure to adverse movements in foreign currency exchange rates as a result of our international operations. These exposures may change over time as business practices evolve, and they could have a material adverse impact on our financial results

and cash flows. We utilize forward and option contracts in an attempt to reduce the adverse earnings impact from the effect of exchange rate fluctuations on certain assets and liabilities. Our hedging strategies may not be successful, and currency exchange rate fluctuations could have a material adverse effect on our operating results and cash flows. In addition, our foreign currency exposure on assets, liabilities and cash flows that we do not hedge could have a material impact on our financial results in periods when the U.S. dollar significantly fluctuates in relation to foreign currencies.

Moreover, in many foreign countries, particularly in those with developing economies, it is common to engage in business practices that are prohibited by our internal policies and procedures, or U.S. laws and regulations applicable to us, such as the Foreign Corrupt Practices Act. There can be no assurance that all our employees, contractors and agents, as well as those companies to which we outsource certain of our business operations, will comply with these policies, procedures, laws and/or regulations. Any such violation could subject us to fines and other penalties, which could have a material adverse effect on our business, operating results and financial condition.

We often incur expenses before we receive related benefits, and expenses may be difficult to reduce quickly if demand declines.

We base our expense levels in part on future revenue expectations and a significant percentage of our expenses are fixed. It is difficult to reduce our fixed costs quickly, and if revenue levels are below our expectations, operating results could be adversely impacted. During periods of uneven growth or decline, we may incur costs before we realize the anticipated related benefits, which could also harm our operating results. We have made, and will continue to make, significant investments in engineering, sales, service and support, marketing and other functions to support and grow our business. We are likely to recognize the costs associated with these investments earlier than some of the related anticipated benefits, such as revenue growth, and the return on these investments may be lower, or may develop more slowly, than we expect, which could harm our business, operating results and financial condition.

We could be subject to additional income tax liabilities.

Our effective tax rate is influenced by a variety of factors, many of which are outside of our control. These factors include among other things, fluctuations in our earnings and financial results in the various countries and states in which we do business, the outcome of income tax audits and changes to the tax laws in such jurisdictions. Changes to any of these factors could materially impact our operating results.

We receive significant tax benefits from sales to our non-U.S. customers. These benefits are contingent upon existing tax laws and regulations in the U.S. and in the countries in which our international operations are located. Future changes in domestic or international tax laws and regulations or a change in how we manage our international operations could adversely affect our ability to continue realizing these tax benefits.

Many countries around the world are beginning to implement legislation and other guidance to align their international tax rules with the Organisation for Economic Co-operation and Development's Base Erosion and Profit Shifting recommendations and related action plans that aim to standardize and modernize global corporate tax policy, including changes to cross-border tax, transfer-pricing documentation rules and nexus-based tax incentive practices. As a result, many of these changes, if enacted, could increase our worldwide effective tax rate and harm our financial position and results of operations.

We are routinely subject to income tax audits in the U.S. and several foreign tax jurisdictions. If the ultimate determination of income taxes or at-source withholding taxes assessed under these audits results in amounts in excess of the tax provision we have recorded or reserved for, our operating results, cash flows and financial condition could be adversely affected.

Our effective tax rate could also be adversely affected by different and evolving interpretations of existing law or regulations, which in turn would negatively impact our operating and financial results. Additionally, our effective tax rate could also be adversely affected if there is a change in international operations, our tax structure and how our operations are managed and structured, and as a result, we could experience harm to our operating results and financial condition. The U.S. tax law changes enacted through the Tax Cuts and Jobs Act effective in December 2017 are subject to further interpretations from the U.S. federal and state governments and regulatory organizations, such as the Treasury Department and/or Internal Revenue Service. Changes to interpretations of the law could change the amount or accounting treatment of the expense we have recorded in relation to the transition tax. We have elected to pay the transition tax over a period of eight years. As result, our cash flows from operating activities will be adversely impacted until the additional tax provisions are paid in full.

If a data center or other third-party who relies on our products experiences a disruption in service or a loss of data, such disruption could be attributed to the quality of our products, thereby causing financial or reputational harm to our business.

Our clients, including data centers, SaaS, cloud computing and internet infrastructure and bandwidth providers, rely on our products for their data storage needs. Our clients may authorize third-party technology providers to access their data on our systems. Because we do not control the transmissions between our clients, their customers, and third-party technology providers, or the processing of such data by third-party technology providers, we cannot ensure the complete integrity or security of such transmissions or processing. Errors or wrongdoing by clients, their customers, or third-party technology providers resulting in actual or perceived security breaches may result in such actual or perceived breaches being attributed to us.

A failure or inability to meet our clients' expectations with respect to security and confidentiality through a disruption in the services provided by these third-party vendors, or the loss or alteration of data stored by such vendors, could result in financial or reputational harm to our business to the extent that such disruption or loss is caused by, or perceived by our customers to have been caused by, defects in our products. Moreover, the risk of reputational harm may be magnified and/or distorted through the rapid dissemination of information over the internet, including through news articles, blogs, social media, and other online communication forums and services. This may affect our ability to retain clients and attract new business.

If a cybersecurity or other security breach occurs on our systems or on our end-user customer systems, or if stored data is improperly accessed, customers may reduce or cease using our solutions, our reputation may be harmed and we may incur significant liabilities.

We store and transmit personal, sensitive and proprietary data related to our products, our employees, customers, clients and partners (including third-party vendors such as data centers and providers of SaaS, cloud computing, and internet infrastructure and bandwidth), and their respective customers, including intellectual property, books of record and personal information. It is critical to our business strategy that our infrastructure, products and services remain secure and are perceived by customers, clients and partners to be secure. There are numerous and evolving risks to cybersecurity and privacy, including criminal hackers, state-sponsored intrusions, industrial espionage, human error and technological vulnerabilities. Cybersecurity incidents or other security breaches could result in (1) unauthorized access to, or loss or unauthorized use, alteration, or disclosure of, such information; (2) litigation, indemnity obligations, government investigations and proceedings, and other possible liabilities; (3) negative publicity; and (4) disruptions to our internal and external operations. Any of these could damage our reputation and public perception of the security and reliability of our products, as well as harm our business and cause us to incur significant liabilities. In addition, a cybersecurity incident or loss of personal information, or other security breach could result in other negative consequences, including remediation costs, disruption of internal operations, increased cybersecurity protection costs and lost revenues.

Our clients and customers use our platforms for the transmission and storage of sensitive data. We do not review the information or content that our clients and their customers upload and store, and, therefore, we have no direct control over the substance of the information or content stored within our platforms. If our employees, or our clients, partners or their respective customers use our platforms for the transmission or storage of personal or other sensitive information and our security measures are breached as a result of third-party action, employee error, malfeasance, stolen or fraudulently obtained log-in credentials or otherwise, our reputation could be damaged, our business may be harmed and we could incur significant liabilities.

High-profile cyberattacks and security breaches have increased in recent years, with the potential for such acts heightened as a result of the number of employees working remotely due to COVID-19. Security industry experts and government officials have warned about the risks of hackers and cyberattacks targeting IT products and businesses. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. As we continue to increase our client base and expand our brand, we may become more of a target for third parties seeking to compromise our security systems and we anticipate that hacking attempts and cyberattacks will increase in the future. We cannot give assurance that we will always be successful in preventing or repelling unauthorized access to our systems. We also may face delays in our ability to identify or otherwise respond to any cybersecurity incident or any other breach. Additionally, we use third-party service providers to provide some services to us that involve the storage or transmission of data, such as SaaS, cloud computing, and internet infrastructure and bandwidth, and they face various cybersecurity threats and also may suffer cybersecurity incidents or other security breaches.

Many jurisdictions have enacted or are enacting laws requiring companies to notify regulators or individuals of data security incidents involving certain types of personal data. These mandatory disclosures regarding security incidents often lead to widespread negative publicity. Moreover, the risk of reputational harm may be magnified and/or distorted through the rapid dissemination of information over the internet, including through news articles, blogs, social media, and other online communication forums and services. Any security incident, loss of data, or other security breach, whether actual or perceived, or whether impacting us or our third-party service providers, could harm our reputation, erode customer confidence in the effectiveness of our data security measures, negatively impact our ability to attract new customers, cause existing customers to elect not to renew their support contracts or their SaaS subscriptions, or subject us to third-party lawsuits, regulatory fines or other action or liability, which could materially and adversely affect our business and operating results.

There can be no assurance that the limitations of liability in our contracts would be enforceable or adequate or would otherwise protect us from any such liabilities or damages with respect to any particular claim. Our existing general liability insurance coverage and coverage for errors and omissions may not continue to be available on acceptable terms or may not be available in sufficient amounts to cover one or more large claims, or our insurers may deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceeds available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, operating results and financial condition.

Failure to comply with new and existing laws and regulations relating to privacy, data protection, and information security could cause harm to our reputation, result in liability and adversely impact our business.

Our business is subject to increasing regulation by various federal, state and international governmental agencies responsible for enacting and enforcing laws and regulations relating to privacy, data protection, and information security. The rapidly evolving regulatory framework in this area is likely to remain uncertain for the foreseeable future. In addition, changes in the interpretation and enforcement of existing laws and regulations could impact our business operations and those of our partners, vendors and customers. Privacy advocates and industry groups also may propose new and different self-regulatory standards that may legally or contractually apply to us, and these standards may be subject to change. These factors create uncertainty and we cannot yet determine the impacts such future laws, regulations and standards, or changes to such laws, regulations, or standards, or to their interpretation or enforcement, may have on our business or the businesses of our partners, vendors and customers. In addition, changes in the interpretation of existing laws and regulations could impact our business operations and those of our partners, vendors and customers.

Because the interpretation and application of many laws and regulations relating to privacy, data protection and information security, along with industry standards, are uncertain, it is possible that relevant laws, regulations, or standards may be interpreted and applied in manners that are, or are alleged to be, inconsistent with our data management practices or the features of our products. Any failure, or perceived failure, by us or our business partners to comply with federal, state or international laws and regulations relating to privacy, data protection, and information security, commitments relating to privacy, data protection, and information security contained in our contracts, self-regulatory standards that apply to us or that third parties assert are applicable to us, or our policies or notices we post or make available could subject us to claims, investigations, sanctions, enforcement actions and other proceedings, disgorgement of profits, fines, damages, civil and criminal liability, penalties or injunctions.

Additionally, as a technology provider, our customers expect that we can demonstrate compliance with laws and regulations relating to privacy, data protection, and information security, and our inability or perceived inability to do so may adversely impact sales of our products and services, particularly to customers in highly-regulated industries. We have invested company resources in complying with new laws, regulations, and other obligations relating to privacy, data protection, and information security, and we may be required to make additional, significant changes in our business operations, all of which may adversely affect our revenue and our business overall. As a result of any inability or inability to comply with such laws and regulations, our reputation and brand may be harmed, we could incur significant costs, and financial and operating results could be materially adversely affected, and we could be required to modify or change our products or our business practices, any of which could have an adverse effect on our business. Our business could be subject to stricter obligations, greater fines and private causes of action under the enactment of new laws and regulations relating to privacy, data protection, and information security, including but not limited to, the European Union General Data Protection Regulation, which became effective on May 25, 2018, and which provides for penalties of up to 20 million Euros or four percent of our annual global revenues, the California Consumer Privacy Act, which became effective on January 1, 2020, as well as the California Privacy Rights Act adopted by California voters on November 3, 2020.

Our success depends upon our ability to effectively plan and manage our resources and restructure our business in response to changing market conditions and market demand for our products, and such actions may have an adverse effect on our financial and operating results.

Our ability to successfully offer our products and services in a rapidly evolving market requires an effective planning, forecasting, and management process to enable us to effectively scale and adjust our business in response to fluctuating market opportunities and conditions.

In response to changes in market conditions and market demand for our products, we have in the past undertaken cost savings initiatives. For example, in May 2018, April 2019, May 2019, May 2020 and August 2020 we executed restructuring events designed to streamline our business, reduce our cost structure and focus our resources on key strategic opportunities. As a result, we have recognized substantial restructuring charges. In fiscal 2020, we further reorganized our go-to-market organization to streamline operations and improve alignment with customer and market opportunities. In the first quarter of fiscal 2021, we realigned resources to optimize our business and fund our biggest opportunities. We may in the future undertake initiatives that could include reorganizing our workforce, restructuring, disposing of, and/or otherwise discontinuing certain products, or a combination of these actions. Rapid changes in the size, alignment or organization of our workforce, including our business unit structure and sales account coverage, could adversely affect our ability to develop, sell and deliver products and services as planned or impair our ability to realize our current or future business and financial objectives. Any decision to take these actions may result in charges to earnings associated with, among other things, inventory or other fixed, intangible or goodwill asset reductions (including, without limitation, impairment charges), workforce and facility reductions and penalties and claims from third-party resellers or users of discontinued products. Charges associated with these activities would harm our operating results. In addition to the costs associated with these activities, we may not realize any of the anticipated benefits of the underlying restructuring activities.

If our products or services are defective, or are perceived to be defective as a result of improper use or maintenance, our gross margins, operating results and customer relationships may be harmed.

Our products and services are complex. We have experienced in the past, and expect to experience in the future, quality issues impacting certain products, and in the future, we could experience reliability issues with services we provide. Such quality and reliability issues may be due to, for example, our own designs or processes, the designs or processes of our suppliers, and/or flaws in third-party software used in our products. These types of risks are most acute when we are introducing new products. Quality or reliability issues have and could again in the future cause customers to experience outages or disruptions in service, data loss or data corruption. If we fail to remedy a product defect or flaw, we may experience a failure of a product line, temporary or permanent withdrawal from a product or market, damage to our reputation, loss of revenue, inventory costs or product reengineering expenses and higher ongoing warranty and service costs, and these occurrences could have a material impact on our gross margins, business and operating results. In addition, we exercise little control over how our customers use or maintain our products and services, and in some cases improper usage or maintenance could impair the performance of our products and services, which could lead to a perception of a quality or reliability issue. Customers may experience losses that may result from or are alleged to result from defects or flaws in our products and services, which could subject us to claims for damages, including consequential damages.

If we are unable to attract and retain qualified personnel, our business, operating results and financial condition could be harmed.

Our continued success depends, in part, on our ability to hire and retain qualified personnel and to preserve the key aspects of our corporate culture. Because our future success is dependent on our ability to continue to enhance and introduce new products, we are particularly dependent on our ability to hire and retain qualified engineers, including in emerging areas of technology such as artificial intelligence and machine learning. In addition, to increase revenues, we will be required to increase the productivity of our sales force and support infrastructure to achieve adequate customer coverage. Competition for qualified employees, particularly in Silicon Valley, is intense. We have periodically reduced our workforce, including reductions announced in fiscal 2019, fiscal 2020 and fiscal 2021, and these actions may make it more difficult to attract and retain qualified employees. Our inability to hire and retain qualified management and skilled personnel, particularly engineers, salespeople and key executive management, could be disruptive to our development efforts, sales results, business relationships and/or our ability to execute our business plan and strategy on a timely basis and could materially and adversely affect our operating results.

Equity grants are a critical component of our current compensation programs. If we reduce, modify or eliminate our equity programs, we may have difficulty attracting and retaining critical employees.

In addition, because of the structure of our sales, cash and equity incentive compensation plans, we may be at increased risk of losing employees at certain times. For example, the retention value of our compensation plans decreases after the payment of periodic bonuses or the vesting of equity awards.

Our acquisitions may not achieve expected benefits, and may increase our liabilities, disrupt our existing business and harm our operating results.

As part of our strategy, we seek to acquire other businesses and technologies to complement our current products, expand the breadth of our markets, or enhance our technical capabilities. For example, in both fiscal 2021 and fiscal 2020 we acquired two privately held companies. The benefits we have received, and expect to receive, from these and other acquisitions depend on our ability to successfully conduct due diligence, negotiate the terms of the acquisition and integrate the acquired business into our systems, procedures and organizational structure. Any inaccuracy in our acquisition assumptions or any failure to uncover liabilities or risks associated with the acquisition, make the acquisition on favorable terms, integrate the acquired business or assets as and when expected or retain key employees of the acquired company may reduce or eliminate the expected benefits of the acquisition to us, increase our costs, disrupt our operations, result in additional liabilities, investigations and litigation, and may also harm our strategy, our business and our operating results. The failure to achieve expected acquisition benefits may also result in impairment charges for goodwill and purchased intangible assets.

Reduced U.S. government demand could materially harm our business and operating results. In addition, we could be harmed by claims that we have or a channel partner has failed to comply with regulatory and contractual requirements applicable to sales to the U.S. government.

The U.S. government is an important customer for us. However, government demand is uncertain, as it is subject to political and budgetary fluctuations and constraints. Events such as the U.S. federal government shutdown from December 2018 to January 2019 and continued uncertainty regarding the U.S. budget and debt levels have increased demand uncertainty for our products. In addition, like other customers, the U.S. government may evaluate competing products and delay purchasing in the face of the technology transitions taking place in the storage industry. If the U.S. government or an individual agency or multiple agencies within the U.S. government continue to reduce or shift their IT spending patterns, our revenues and operating results may be harmed.

Selling our products to the U.S. government, whether directly or through channel partners, also subjects us to certain regulatory and contractual requirements. Failure to comply with these requirements by either us or our channel partners could subject us to investigations, fines, and other penalties, which could materially harm our operating results and financial condition. As an example, the United States Department of Justice (DOJ) and the General Services Administration (GSA) have in the past pursued claims against and financial settlements with IT vendors, including us and several of our competitors and channel partners, under the False Claims Act and other statutes related to pricing and discount practices and compliance with certain provisions of GSA contracts for sales to the federal government. Although the DOJ and GSA currently have no claims pending against us, we could face claims in the future. Violations of certain regulatory and contractual requirements, including with respect to data security, could also result in us being suspended or debarred from future government contracting. Any of these outcomes could have a material adverse effect on our business, operating results and financial condition.

Initiatives intended to make our cost structure, business processes and systems more efficient may not achieve the expected benefits and could inadvertently have an adverse effect on our business, operating results and financial condition.

We continuously seek to make our cost structure and business processes more efficient, including by moving our business activities from higher-cost to lower-cost locations, outsourcing certain business processes and functions, and implementing changes to our business information systems. These efforts involve a significant investment of financial and human resources and significant changes to our current operating processes. In addition, as we move operations into lower-cost jurisdictions and outsource certain business processes, we become subject to new regulatory regimes and lose control of certain aspects of our operations and, as a consequence, become more dependent upon the systems and business processes of third-parties. If we are unable to move our operations, outsource business processes and implement new business information systems in a manner that complies with local law and maintains adequate standards, controls and procedures, the quality of our products and services may suffer and we may be subject to increased litigation risk, either of which could have an adverse effect on our business, operating results and financial condition. Additionally, we may not achieve the expected benefits of these and other transformational initiatives, which could harm our business, operating results and financial condition.

There are risks associated with our outstanding and future indebtedness.

As of January 29, 2021, we had \$2.7 billion aggregate principal amount of outstanding indebtedness for our senior notes that mature at specific dates in calendar years 2022, 2024, 2025, 2027 and 2030. We may incur additional indebtedness in the future under existing credit facilities and/or enter into new financing arrangements. We may fail to pay these or additional future obligations, as and when required. Specifically, if we are unable to generate sufficient cash flows from operations or to borrow sufficient funds in the future to service or refinance our debt, our business, operating results and financial condition will be harmed. Any downgrades from credit rating agencies such as Moody's Investors Service or Standard & Poor's Rating Services may adversely impact our ability to obtain additional financing or the terms of such financing and reduce the market capacity for our commercial paper. Furthermore, if prevailing interest rates or other factors result in higher interest rates upon any potential future financing, then interest expense related to the refinance indebtedness would increase. Significant volatility in capital markets caused by the COVID-19 pandemic has recently heightened these risks.

In addition, all our debt and credit facility arrangements subject us to continued compliance with restrictive and financial covenants. If we do not comply with these covenants or otherwise default under the arrangements, we may be required to repay any outstanding amounts borrowed under these agreements. Moreover, compliance with these covenants may restrict our strategic or operational flexibility in the future, which could harm our business, operating results and financial condition.

We are exposed to credit risks and our investment portfolio may experience fluctuations in market value or returns.

We maintain an investment portfolio of various holdings, types, and maturities. Credit ratings and pricing of our investments can be negatively affected by liquidity, credit deterioration, financial results, economic risk, political risk, sovereign risk or other factors. As a result, the value and liquidity of our investments and the returns thereon may fluctuate substantially. Further, the impact of the COVID-19 pandemic could exacerbate an economic slowdown and possibly cause a global recession. An economic slowdown or increased regional or global economic uncertainty may lead to failures of counterparties, including financial institutions, governments and insurers which could result in a material decline in the value of our investment portfolio and substantially reduce our investment returns.

Our failure to adjust to emerging standards in the storage and data management industry may harm our business.

Emerging standards in the storage and data management markets may adversely affect the UNIX®, Windows® and World Wide Web server markets upon which we depend. For example, we provide our open access data retention solutions to customers within the financial services, healthcare, pharmaceutical and government market segments, industries that are subject to various evolving governmental regulations with respect to data access, reliability and permanence in the U.S. and in the other countries in which we operate. If our products do not meet and continue to comply with these evolving governmental regulations in this regard, customers in these market and geographical segments will not purchase our products, and we may not be able to expand our product offerings in these market and geographical segments at the rates which we have forecasted.

Some of our products are subject to U.S. export control laws and other laws affecting the countries in which our products and services may be sold, distributed, or delivered, and any violation of these laws could have a material and adverse effect on our business, operating results and financial condition.

Due to the global nature of our business, we are subject to import and export restrictions and regulations, including the Export Administration Regulations administered by the Commerce Department's Bureau of Industry and Security (BIS) and the trade and economic sanctions regulations administered by the Treasury Department's Office of Foreign Assets Control (OFAC). The U.S., through the BIS and OFAC, places restrictions on the sale or export of certain products and services to certain countries and persons. Violators of these export control and sanctions laws may be subject to significant penalties, which may include significant monetary fines, criminal proceedings against them and their officers and employees, a denial of export privileges, and suspension or debarment from selling products to the federal government. Our products could be shipped to those targets by third parties, including potentially our channel partners, despite our precautions.

If we were ever found to have violated U.S. export control laws, we may be subject to various penalties available under the laws, any of which could have a material and adverse impact on our business, operating results and financial condition. Even if we were not found to have violated such laws, the political and media scrutiny surrounding any governmental investigation of us could cause us significant expense and reputational harm. Such collateral consequences could have a material adverse impact on our business, operating results and financial condition.

Our failure to protect our intellectual property could harm our business, operating results and financial condition.

Our success depends significantly upon developing, maintaining and protecting our proprietary technology. We rely on a combination of patents, copyrights, trademarks, trade secrets, confidentiality procedures and contractual provisions with employees, resellers, strategic partners and customers, to protect our proprietary rights. We currently have multiple U.S. and international patent applications pending and multiple U.S. and international patents issued. The pending applications may not be approved, and our existing and future patents may be challenged. If such challenges are brought, the patents may be invalidated. We may not be able to develop proprietary products or technologies that are patentable, and patents issued to us may not provide us with any competitive advantages and may be challenged by third parties. Further, the patents of others may materially and adversely affect our ability to do business. In addition, a failure to obtain and defend our trademark registrations may impede our marketing and branding efforts and competitive condition. Litigation may be necessary to protect our proprietary technology. Any such litigation may be time-consuming and costly. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or obtain and use information that we regard as proprietary. In addition, the laws of some foreign countries do not protect proprietary rights to as great an extent as do the laws of the U.S. Our means of protecting our proprietary rights may not be adequate or our competitors may independently develop similar technology, duplicate our products, or design around patents issued to us or other intellectual property rights of ours. In addition, while we train employees in confidentiality practices and include terms in our employee and consultant agreements to protect our intellectual property, there is persistent risk that some individuals will improperly take our intellectual property after terminating their employment or other engagements with us, which could lead to intellectual property leakage to competitors and a loss of our competitive advantages.

We may be found to infringe on intellectual property rights of others.

We compete in markets in which intellectual property infringement claims arise in the normal course of business. Third parties have, from time to time, asserted intellectual property-related claims against us, including claims for alleged patent infringement brought by non-practicing entities. Such claims may be made against our products and services, our customers' use of our products and services, or a combination of our products and third-party products. We also may be subject to claims and indemnification obligations from customers and resellers with respect to third-party intellectual property rights pursuant to our agreements with them. If we refuse to indemnify or defend such claims, even in situations in which the third-party's allegations are meritless, then customers and resellers may refuse to do business with us.

Patent litigation is particularly common in our industry. We have been, and continue to be, in active patent litigations with non-practicing entities. While we vigorously defend our ability to compete in the marketplace, there is no guarantee that, in patent or other types of intellectual property litigation, we will prevail at trial or be able to settle at a reasonable cost. If a judge or jury were to find that our products infringe, we could be required to pay significant monetary damages and be subject to an injunction that could cause product shipment delays, require us to redesign our products, affect our ability to supply or service our customers, and/or require us to enter into compulsory royalty or licensing agreements.

We expect that companies in the network storage and data management markets will increasingly be subject to infringement claims as the number of products and competitors in our industry segment grows and the functionality of products in different industry segments overlaps. Any such claims, and any such infringement claims discussed above, could be time consuming, result in costly litigation, cause product shipment delays, require us to redesign our products, or require us to enter into royalty or licensing agreements, any of which could materially and adversely affect our operating results. Such royalty or licensing agreements, if required, may not be available on terms acceptable to us or at all.

We rely on software from third parties, and a failure to properly manage our use of third-party software could result in increased costs or loss of revenue.

Many of our products are designed to include software licensed from third parties. Such third-party software includes software licensed from commercial suppliers and software licensed under public open source licenses. We have internal processes to manage our use of such third-party software. However, if we fail to adequately manage our use of third-party software, then we may be subject to copyright infringement or other third-party claims. If we are non-compliant with a license for commercial software, then we may be required to pay penalties or undergo costly audits pursuant to the license agreement. In the case of open-source software licensed under certain “copyleft” licenses, the license itself may require, or a court-imposed remedy for non-compliant use of the open source software may require, that proprietary portions of our own software be publicly disclosed or licensed. This could result in a loss of intellectual property rights, increased costs, damage to our reputation and/or a loss of revenue.

We are exposed to the credit and non-payment risk of our customers, resellers and distributors, especially during times of economic uncertainty and tight credit markets, which could result in material losses.

Most of our sales to customers are on an open credit basis, with typical payment terms of 30 days. We may experience increased losses as potentially more customers are unable to pay all or a portion of their obligations to us, particularly in the current environment when access to sources of liquidity is limited as a result of the global COVID-19 pandemic. Beyond our open credit arrangements, some of our customers have entered into recourse and non-recourse financing leasing arrangements using third-party leasing companies. Under the terms of recourse leases, which are generally three years or less, we remain liable for the aggregate unpaid remaining lease payments to the third-party leasing companies in the event of end-user customer default. During periods of economic uncertainty, our exposure to credit risks from our customers increases. In addition, our exposure to credit risks of our customers may increase further if our customers and their customers or their lease financing sources are adversely affected by global economic conditions.

Our business could be materially and adversely affected as a result of natural disasters, terrorist acts or other catastrophic events.

We depend on the ability of our personnel, inventories, equipment and products to move reasonably unimpeded around the world. Any political, military, terrorism, global trade, world health or other issue that hinders this movement or restricts the import or export of materials could lead to significant business disruptions. For example, the ongoing COVID-19 pandemic is impeding the mobility of our personnel, inventories, equipment and products and disrupting our business operations. Furthermore, any economic failure or other material disruption caused by natural disasters, including fires, floods, hurricanes, earthquakes, and volcanoes; power loss or shortages; environmental disasters; telecommunications or business information systems failures or break-ins and similar events could also adversely affect our ability to conduct business. If such disruptions result in cancellations of customer orders or contribute to a general decrease in economic activity or corporate spending on IT, or directly impact our marketing, manufacturing, financial and logistics functions, or impair our ability to meet our customer demands, our operating results and financial condition could be materially adversely affected. Our headquarters is located in Northern California, an area susceptible to earthquakes and wildfires. If any significant disaster were to occur there, our ability to operate our business and our financial condition could be impaired.

Changes in regulations relating to our products or their components, or the manufacture, sourcing, distribution or use thereof, may harm our business and operating results.

The laws and regulations governing the manufacturing, sourcing, distribution and use of our products have become more complex and stringent over time. For example, in addition to various environmental laws relating to carbon emissions, the use and discharge of hazardous materials and the use of certain minerals originating from identified conflict zones, many governments, including the U.S., the United Kingdom and Australia, have adopted regulations concerning the risk of human trafficking in supply chains which govern how workers are recruited and managed. We incur costs to comply with the requirements of such laws. Further, since our supply chain is complex, we may face reputational harm if our customers or other stakeholders conclude that we are unable to verify sufficiently the origins of the minerals used in the products we sell or the actions of our suppliers with respect to workers. As the laws and regulations governing our products continue to expand and change, our costs are likely to rise, and the failure to comply with any such laws and regulations could subject us to business interruptions, litigation risks and reputational harm.

Our stock price is subject to volatility.

Our stock price is subject to changes in recommendations or earnings estimates by financial analysts, changes in investors' or analysts' valuation measures for our stock, changes in our capital structure, including issuance of additional debt, changes in our credit ratings, our ability to pay dividends and to continue to execute our stock repurchase program as planned and market trends unrelated to our performance.

Our ability to pay quarterly dividends and to continue to execute our stock repurchase program as planned will be subject to, among other things, our financial condition and operating results, available cash and cash flows in the U.S., capital requirements, and other factors. Future dividends are subject to declaration by our Board of Directors, and our stock repurchase program does not obligate us to acquire any specific number of shares. For example, during the first quarter of fiscal 2021 we announced the suspension

of our stock repurchases to strengthen our liquidity position given the uncertainty surrounding the overall impact of the ongoing COVID-19 pandemic. However, if we fail to meet any expectations related to dividends and/or stock repurchases, the market price of our stock could decline significantly, and could have a material adverse impact on investor confidence. Additionally, price volatility of our stock over a given period may cause the average price at which we repurchase our own stock to exceed the stock's market price at a given point in time.

Furthermore, speculation in the press or investment community about our strategic position, financial condition, results of operations or business can cause changes in our stock price. These factors, as well as general economic and political conditions and the timing of announcements in the public market regarding new products or services, product enhancements or technological advances by our competitors or us, and any announcements by us of acquisitions, major transactions, or management changes may adversely affect our stock price.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Purchases of equity securities

The following table provides information with respect to the shares of common stock repurchased by us during the three months ended January 29, 2021:

Period	Total Number of Shares Purchased (Shares in thousands)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (Shares in thousands)	Approximate Dollar Value of Shares That May Yet Be Purchased Under The Repurchase Program (Dollars in millions)
October 31, 2020 - November 27, 2020	—	\$ —	338,297	\$ 477
November 28, 2020 - December 25, 2020	263	\$ 63.34	338,560	\$ 461
December 26, 2020 - January 29, 2021	509	\$ 65.52	339,069	\$ 427
Total	772	\$ 64.78		

In May 2003, our Board of Directors approved a stock repurchase program. As of January 29, 2021, our Board of Directors has authorized the repurchase of up to \$13.6 billion of our common stock. Since inception of the program through January 29, 2021, we repurchased a total of 339 million shares of our common stock for an aggregate purchase price of \$13.2 billion. Under this program, we may purchase shares of our outstanding common stock through solicited or unsolicited transactions in the open market, in privately negotiated transactions, through accelerated share repurchase programs, pursuant to a Rule 10b5-1 plan or in such other manner as deemed appropriate by our management. The stock repurchase program may be suspended or discontinued at any time, and it was suspended for the first half of fiscal 2021 due to the economic impact of the COVID-19 pandemic. We reinitiated our stock repurchase program in the third quarter of fiscal 2021.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

The following documents are filed as exhibits to this report.

Exhibit No	Description	Form	Incorporation by Reference		
			File No.	Exhibit	Filing Date
10.1	Senior Executive Employment Contract by and between NetApp Sales Spain S.L., a subsidiary of the Company, and Cesar Cernuda, effective January 1, 2021	—	—	—	—
10.2	Amended and Restated Credit Agreement, dated as of January 22, 2021, by and among NetApp, Inc., the lenders from time to time party thereto and JPMorgan Chase Bank, N.A., as administrative agent	8-K	000-27130	10.1	January 22, 2021
31.1	Certification of the Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.	—	—	—	—
31.2	Certification of the Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.	—	—	—	—
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.	—	—	—	—
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.	—	—	—	—
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document	—	—	—	—
101.SCH	Inline XBRL Taxonomy Extension Schema Document	—	—	—	—
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document	—	—	—	—
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	—	—	—	—
101.LAB	Inline XBRL Taxonomy Label Linkbase Document	—	—	—	—
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	—	—	—	—
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)	—	—	—	—

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NETAPP, INC.

(Registrant)

/s/ MICHAEL J. BERRY

Michael J. Berry
Executive Vice President and
Chief Financial Officer

Date: March 1, 2021

SENIOR EXECUTIVE EMPLOYMENT CONTRACT

This Agreement is made in Madrid effective January 1, 2021.

APPEAR

On the one side, **NetApp Spain Sales S.L.**, a company of Spanish nationality, with registered office at C/Rosario Pino, 14-16, planta 17, Madrid, 28020, and Tax Id Code number B-82585076, (hereinafter the "**Company**"), represented in this act by Stephen Faulkner, is his capacity as authorized representative.

On the other side, **Mr. César Cernuda**, of legal age, of Spanish nationality, with national identification number 09417064-J (hereinafter, the "**Senior Executive**").

WHEREAS

- I. The Senior Executive started to render services for NetApp Inc on 1 July 2020 (hereinafter, the "**Start Date**").
- II. As a result of significant travel and mobility restrictions currently in effect, and for the purposes of enhancing the presence and development of NetApp Inc. within the European and Middle Eastern markets, NetApp Inc has requested the Senior Executive to be relocated to Spain to perform the duties of General Manager of the Company and to become his employer while keeping his former position with NetApp, Inc.. Hereinafter, the Company and NetApp, Inc will be jointly referred as "**NetApp**".
- III. It is the wish of the Company and the Senior Executive, hereinafter also referred to jointly as 'the Parties' to regulate in this contract (the "**Contract**") the terms and conditions applicable to the relationship between NetApp and the Senior Executive.

NOW, THEREFORE, the Parties, mutually acknowledging the necessary legal capacity to contract and be bound by this Contract and, especially, to execute this document, hereby agree to regulate their reciprocal services, in accordance with the provisions of the Royal Decree 1382/1985 of August 1st, that regulates special senior management relationships (hereinafter, the "**Royal Decree**") and the following:

CLAUSES

1. STATEMENT OF PRINCIPLE

The employment relationship governed by this Contract is based on the mutual trust of the Parties, who shall exercise their rights and obligations in good faith. The Senior Executive undertakes to perform any duties conferred upon him by the Company with complete dedication and professional expertise. The shared objective of both the Senior Executive and NetApp are to honour the commitments reached between the Senior Executive and NetApp, Inc. within the context of their previous relationship.

2. OBJECT OF THE CONTRACT

The Senior Executive shall offer services to the Company as General Manager, also keeping his former compromises with NetApp Inc, exercising his duties with autonomy and full responsibility, according to the limitations and instructions issued by the Company's administration body.

The Company reserves the right to require the Senior Executive to perform other responsibilities and duties that may be required from time to time, without the Senior Executive being entitled to an additional pay for such additional work.

The Senior Executive shall be compensated for these services through the system of remuneration established in this Contract.

3. RESPONSIBILITY

During the length of the Contract, and notwithstanding the obligations and responsibilities inherent to his position within NetApp, Inc, the Senior Executive shall:

- a) Carry out such duties and functions and exercise such powers to the extent that they are consistent with the terms set out in this Contract.
- b) Comply with all reasonable instructions given by the Company from time to time.
- c) Comply with the Company's Code of Conduct and policies, and adhere to the rules contained therein, including but not limited to the NetApp, Inc Insider Trading Policy. The Senior Executive is considered to be an Insider under this policy and as a result he is required to abide by all obligations under this policy.
- d) Dedicate the necessary time and attention to his duties with the Company, serving the latter faithfully with his best knowledge and experience, as well as to use his best efforts to stimulate the interests and the appropriate development thereof.
- e) Handle and fulfil all reasonable demands from the Company's management bodies, having to provide the adequate explanations, information and assistance as may be required of him relation to his functions and activities at the Company.
- f) Not to commit himself to other activities that might go in detriment or against the adequate performance of the obligations contracted hereunder.

4. TERM OF THE AGREEMENT

This Contract will be effective as of January 1, 2021 (the "**Commencement Date**") and its duration shall be for an indefinite term.

5. WORKPLACE

The Senior Executive shall perform his services for the Company at the workplace currently located in Madrid. However, the Company reserves the right to change the Senior Executive's workplace to other locations, including to locations abroad, should this be considered necessary for the performance of the Senior Executive's duties.

Similarly, the Senior Executive shall make the necessary trips to any domestic or foreign location in order to carry out his duties.

6. WORKING TIME

6.1 Working week

Due to his position in the Company, the working hours and working schedule of the Senior Executive shall be, within reason, freely determined according to the performance of the duties arising from the objective of this Contract and with consideration to the Company's needs. Therefore, the Senior Executive's working hours are not subject to any limits or any allocation of working hours as established by common statutory provisions.

The Senior Executive shall not be entitled to receive any additional remuneration for working outside the Company's normal office hours. In this regard, the Senior Executive recognizes that his Fixed gross annual Remuneration properly compensates any potential extensions of working-hours. Consequently, the Senior Executive understands, recognizes and accepts that any potential overtime is duly compensated.

6.2 Annual leave and public holidays

In keeping with the flexibility agreed upon herein with respect to the working day and the hours of work, the Senior Executive shall be entitled to annual leave and any official public holidays listed in the employment calendar. In any event, the Company may, in exceptional circumstances, deem such public holidays to be working days, or days subject to travel, journeys or meetings.

The Senior Executive's annual leave shall consist of 30 calendar days, which shall be taken at times that suit the interests of both the Company and the Senior Executive. The Senior Executive must give reasonable notice of proposed holiday dates, which must be agreed in advance with the Company.

The Parties agree that the Company is empowered to exclude or establish certain periods to be taken as holidays according to its needs. Unused holiday from one year may not be carried forward to the subsequent year and consequently any accrued holiday not enjoyed by December 31st will be lost and forfeit without consideration.

7. EXCLUSIVITY

During the term of the Contract, and except where the Company has given express written consent (such as in the case of the company GESTAMP, in which the Senior Executive is member of its Board of Directors), the Senior Executive shall work exclusively for the Company. The Senior Executive may not work either directly or indirectly for any third party or on his own behalf, even if such activities are not considered to be in competition with those carried out by the Company or any other company of the group, and shall devote the entire working day to the Company.

8. REMUNERATION

8.1 Fixed remuneration

The fixed remuneration of the Senior Executive shall be a gross annual salary of EUR 672,162.00 hereinafter, the "**Fixed Remuneration**" or the "**Base Salary**"). This amount shall be payable in 12 equal monthly instalments, to be paid at the end of each month by bank transfer to the account number provided by the Senior Executive.

The gross annual salary received, at any time, by the Senior Executive shall fully compensate and include all amounts that may be due to him under any existing or future legal provisions, regulations applicable thereto.

8.2 Variable remuneration

Incentive Compensation

In addition to the Senior Executives' Fixed Remuneration, the Senior Executive will be eligible to earn an annual cash incentive compensation payout in accordance with the Executive Compensation Plan, as amended from time to time (hereinafter, the "**Plan**"). For the position of the Senior Executive, the annual target incentive compensation payout is 130% of his Fixed Remuneration for the applicable fiscal year as defined in the Plan, beginning in NetApp Inc.'s fiscal year 2021 (FY21). Target incentives do not constitute a promise of payment. The actual annual payout may be higher or lower than the target based on the overall NetApp Inc. performance and the individual performance of the Senior Executive and is subject to, and governed by, the Plan and the terms and conditions approved by the Compensation Committee (hereinafter, the "**Compensation Committee**") of the Board of Directors of NetApp, Inc. (hereinafter, the "**Board**").

9. EQUITY COMPONENTS

The equity offered to the Senior Executive as a consequence of his former relationship with NetApp Inc. including the terms and conditions for the eligibility, granting and vesting of the equity will continue to apply during the term of this Contract.

The equity benefits received will not be considered as salary for the purposes of calculations of any severance payment due at the termination of this Contract.

10. TARGET EARNINGS

The total target earnings of the Senior Executive for NetApp Inc FY22 will be benchmarked against NetApp, Inc's peer group for executive compensation and will be based upon the performance of NetApp, Inc. and the individual performance of the Senior Executive and shall be subject to the review and approval of Compensation Committee of NetApp, Inc. Based on current market data, it is anticipated that the total target value of the Senior Executive equity grant for FY22, including service-based and performance-based equity, will be approximately US\$7,000,000.

11. PENSION AND BENEFITS

Insofar not agreed specifically otherwise herein the Senior Executive will be eligible to participate in the Company Benefits plan for Spain, as the Senior Executive qualifies for them or as the Employee selects to participate in them, subject to the rules of the benefits plans. The Senior Executive acknowledges that he has received and signed copy of the Company Benefits plan for Spain.

The Senior Executive will continue on the current benefit plan (currently enrolled in the Company's Cigna global health care program) which may change subject to the local requirements or the ability to secure the current coverage in the future. For clarification of doubt, the intent is to provide coverage in-kind or substantially similar to coverage in which the Senior Executive is currently enrolled..

The Senior Executive elects herewith voluntarily to participate in the Company's supplementary pension plan.

The Senior Executive waives for the duration of this Contract any rights he may have to participate in the EMEA Company Car and Car Allowance Policy.

12. WITHHOLDINGS

Withholdings on account of Personal Income Tax and the Social Security Tax for the Senior Executive in accordance with current legislation, including payments in kind, shall be deducted from the compensation agreed upon in this Contract.

13. CONFIDENTIALITY

The Senior Executive must maintain confidentiality concerning all confidential matters and processes that come to his/her knowledge during the period of employment. This confidentiality duty, which extends to all personal data to which the Senior Executive has access, must remain in force even after termination of the Contract.

For the purposes of this Contract, "**Confidential Information**" means all information of any nature and in any form, whether written, oral or electronic, that is disclosed to or known by the Senior Executive as a consequence of or through employment with the Company, whether such information is developed by the Company or is submitted to the Company in confidence by third parties and shall include without limitation:

- (i). any information in respect of the business of the Company, including, but not limited to, any ideas, business methods, prices, finance, marketing, research, development, manpower plans, processes, market opportunities, intentions, design rights, product information, customer lists or details, trade secrets, computer systems and software, know-how or listings imparted by the Company;
- (ii). information related to any other matters connected with the products or services manufactured, marketed, provided or obtained by the Company;
- (iii). information concerning the Company's relationships with actual or potential clients, customers and suppliers and the needs and requirements of such clients' or customers' operations.
- (iv). any other information deemed confidential by the Company which has or may have come to the knowledge of the Senior Executive in the course of the Employee's employment.

Furthermore, "Confidential Information" shall mean all the information that the Senior Executive may have had access to or created, as a consequence of his relationship with the Company, and that may have been classified as exclusive and/or confidential property, or in relation to its nature and/or the circumstances in which the creation or disclosure may occur, should, in good faith, be deemed confidential.

"Confidential Information" shall not include any information that was part of the public domain at the time of disclosure to the Senior Executive or becomes part of the public domain, otherwise than as a result of a direct or indirect disclosure by the Senior Executive in breach of this Contract.

The Senior Executive also compromises to use his best endeavors to prevent the publication or disclosure by others of any such trade secrets, manufacturing process or confidential information.

14. DATA PROTECTION

The Senior Executive acknowledges that the Company will collect, use, store, transfer and disclose personal information of the Senior Executive at the start but also in the course of his/her employment, in accordance with local applicable data privacy legislation, as well as with the respective regulations of the European

Union. The Senior Executive acknowledges he has had access to the Employee Personal Information Notice (Privacy Notice) of the Company, that he has properly understood. Such Notice is reachable through the following [link](#). The Notice sets out who the Data Controller is, what categories of personal information is processed, the sources of personal information used, the reasons and legal basis of the processing of personal information, how the information can be transferred and shared and what the individual rights of the Employee are. The Senior Executive can exercise his right of access, rectification, erasure, restriction of processing, objection to the processing or to the adoption of automated decisions and, be it the case, data portability, as well as the remaining privacy rights and digital rights in front of the Data Controller at the address indicated in the Notice.

15. INDUSTRIAL AND INTELLECTUAL PROPERTY RIGHTS

The Senior Executive is aware and agrees that all rights relating to industrial and intellectual property (including software) developed by the Senior Executive in the context of the employment relationship shall automatically and exclusively belong to the Company, as also further outlined in the NetApp Proprietary Information & Inventions Agreement and Disclosure (PIIA). The Senior Executive acknowledges that he has received and signed copy of the PIIA

In addition to the foregoing, the Senior Executive agrees to cooperate with the Company in a safe and efficient manner to ensure that all the said rights are properly vested in and, if relevant, registered in favor of the Company and enjoyed thereby.

The Senior Executive therefore agrees to the exclusive right of the Company to register under its own name the aforementioned rights.

The salary received by the Senior Executive shall be considered as comprising also any compensation of any kind to which he/she may become entitled in connection to the development of intellectual and industrial property assets.

16. TERMINATION OF THE CONTRACT

This Contract will be terminated in accordance with the provisions and effects established in the Royal Decree.

16.1. Termination of Contract by the Senior Executive

The Senior Executive may terminate the Contract by giving at least 3 months prior notice to the Company. In the event that the Senior Executive fails to provide such prior notice, he shall be obligated to compensate the Company with an amount equivalent to the Fixed gross Remuneration set out in Section 8.1 above that the Senior Executive was being paid at the time of the termination of the Contract, proportional to the period corresponding to the notice so defaulted.

During the length of the period notice the Company may choose not to assign any duties to the Senior Executive and shall be entitled to prevent him to enter into the Company premises and to require the Senior Executive to return any Company property held by him. However, during this time the Senior Executive will remain entitled to receive his salary and other benefits, and will remain bound by his obligations under this Contract.

For the avoidance of doubt, the right to impose a period of Garden Leave as set out in the preceding paragraph is in addition to any other rights available to the Company during the length of the notice period.

The resignation by the Senior Executive to his position with NetApp, Inc, will imply the automatic termination of this Contract as from the resignation date without any right to severance for the Senior Executive and with the economic effects detailed in this Clause 16.1.

16.2. Termination of Contract by will of the Company. Abandonment ("Desistimiento")

The Company may unilaterally terminate this Contract by abandonment, pursuant to section 11.1 of the Royal Decree, by notification in writing to the Senior Executive at least 3 months in advance. In that event, the Senior Executive shall be entitled to severance compensation, subject to the Senior Executive execution of a full release of claims in favour of the Company, of a gross amount equal to 18 months of the Fixed Remuneration and target incentive bonus to which the Senior Executive would have been entitled to if all the targets of the FY of the termination are achieved. This severance compensation is inclusive of any statutory severance entitlement the Senior Executive may have. If the Senior Executive rejects to sign the release of claims provided by the Company, the Senior Executive shall be only entitled to receive a severance payment of an amount equal to 7 days of Fixed Remuneration in cash per year of service limited to 6 months of salary.

In the event of default by the Company of the duty of prior notice, the Senior Executive shall be entitled to compensation equivalent to his Fixed Salary for the period of notice so defaulted.

Removal by NetApp of the Senior Executive from his position with NetApp, Inc. will imply the automatic termination of this contract with the economic consequences detailed in this Clause 16.2 as from the date of such removal, unless such removal is done for 'Cause' as defined in clause 16.3.

16.3. Termination of Contract by will of the employer. Disciplinary Dismissal

This Contract may also be terminated by a decision of the Company to dismiss the Senior Executive for Cause (as defined below) or due to disciplinary grounds for a serious and blameworthy breach committed by the Senior Executive. There is no requirement to give any forewarning of such a dismissal.

In addition to the grounds qualified as fair dismissal ("despido procedente") in accordance to the Spanish regulations applicable to this contract, for purposes of this Clause, "Cause" shall mean (a) Senior Executives continued intentional and demonstrable failure to perform his duties customarily associated with his position as an employee of the Company and with his position with NetApp Inc, (other than any such failure resulting from the Senior Executive mental or physical disability) after the Senior Executive has received a written demand of performance from the Company which specifically sets forth the factual basis for the Company's belief that the Senior Executive has not devoted sufficient time and effort to the performance of his duties and has failed to cure such non-performance within thirty (30) days after receiving such notice (it being understood that if the Senior Executive is in good-faith performing his duties, not achieving results the Company deems satisfactory for his position, it will not be considered to be grounds for his termination for "Cause"); (b) the Senior Executives conviction of, or plea of nolo contendere to, a felony that the Company reasonably believes has had or will have a material detrimental effect on the Company's reputation or business; or (c) the Senior Executive commission of an act of fraud, embezzlement, misappropriation, wilful misconduct or violation of policy, or breach of fiduciary duty against, the Company.

16.4 Change of Control Severance Agreement

The Senior Executive shall be eligible to enter into a Change of Control Severance Agreement entitling him to certain benefits in the event of his termination following a change of control of the Company. This benefit

is exclusive of, and not coincident with, the Severance Entitlement referenced in Clause 16.2 above. The form of agreement can be found at:

https://www.sec.gov/Archives/edgar/data/1002047/000156459019020164/ntap-ex101_40.htm.

17. REIMBURSEMENT OF THE SIGN-ON BONUS

In case of voluntary termination of the Contract during the first 24 months of employment, the Senior Executive will reimburse the amount of \$1,000,000 received as sign-on bonus (less applicable tax withholdings and deductions). The Senior Executive understands and agrees that this bonus is an advanced payment given to the Senior Executive in consideration for his commitment to remain employed by NetApp following his Start Date. Therefore, the Senior Executive also understands and agrees that if he voluntarily terminates the Contract, he will be required to reimburse NetApp certain amounts based on the date of voluntary termination. Specifically the Senior Executive understands and agrees that if he voluntarily terminates the Contract: a) prior to or on the six month anniversary of the Start Date, the Senior Executive will be required to reimburse 100% of the dollar value of all compensation, including any equity compensation (which dollar value shall be based on the thirty (30) day trailing average stock price as of the date of termination), paid to the Senior Executive since his Start Date, excluding his Fixed Remuneration b) on or after six (6) months from his Start Date and until the twelve (12) month anniversary of his Start Date, the Senior Executive will be required to reimburse NetApp \$2,000,000; and (c) after twelve (12) months but prior to twenty-four (24) months from his Start Date, the Senior Executive will be required to reimburse NetApp \$1,000,000. The Senior Executive agrees to reimburse NetApp by December 31 of the calendar year of his voluntary termination.

18. CONFLICT OF INTEREST

The Senior Executive shall not, at any time, during his employment by the Company, unless specifically and previously approved in writing, be or become:

- (i) Interested or engaged in any manner, directly or indirectly, either alone or with any person, firm or corporation now existing or hereafter created, in any business which is or may be competitive with the business of the Company, or;
- (ii). directly or indirectly a stockholder, director or employee of, or in any manner associated with, or aid or abet or give information or financial assistance to any such business.

The Senior Executive hereby acknowledge that the provisions of this clause are reasonable and necessary to protect the legitimate interests of the Company and that any violation of such provisions may result in irreparable injury to the Company.

19. USE OF COMPUTER SYSTEMS

The Company shall provide the Senior Executive with those computer systems (laptop, access to the Internet, e-mail, etc.) which are required in order to perform the duties corresponding to his job position.

Consequently, the use of these tools shall be exclusively limited to lawful business and professional purposes given its condition of professional tools, and therefore the personal use of these tools is strictly forbidden. Personal use, even a moderated one, is not allowed. There is no expectation of privacy in user accounts given to Company's users for anything they create, store, send or receive on IT resources, which are and shall remain shared resources usable for every other Company at all times as directed in each case by Company management.

In particular, the Senior Executive accepts that email accounts are shared resources for all employees provided to employer users for business purposes. Corporate email is not to be used for personal needs or to conduct other (non-professional) business linked to the activity of the Company.

If the Company detects that the Senior Executive uses improperly or unlawfully those professional tools, watches downloads, sends or receives improper or inadequate material or any other kind of illicit material, or if the Company detects that the Senior Executive has breached the existing safety measures of the Company's information systems, the Company will take the appropriate disciplinary measures, including the possibility of disciplinary dismissal. Likewise, the Company may initiate the relevant actions as a result of the damages suffered, either directly or indirectly, caused by any infringement of this matter.

The before applies regardless of whether the Senior Manager obtains a personal benefit or the Company incurs a loss.

In order to control the implementation of the above, to determine whether the Senior Executive has breached Senior Executive's employment duties, to apply and support disciplinary actions, to guarantee the security of the Company's information and the information systems and to maintain correspondence when the Senior Executive is absent (e.g. due to illness or vacation leave) or when the correspondence cannot be guaranteed in any other way (e.g. through automatic response or redirection functions), the Company shall be able to access the electronic communications of the Senior Executive (email and Internet) and control their use by the Senior Executive.

For these reasons, the Senior Executive expressly accepts and authorizes the Company to access and monitor the email account given to him by the Company or the history of web pages visited by the Senior Executive or any other IT resource, insofar as this is punctual and strictly necessary to satisfy the above mentioned needs.

20. COMPLIANCE WITH COMPANY'S POLICIES

While employed by the Company, the Senior Executive is required to familiarise and comply fully with all of the employment policies of the Company or the group which be in place from time to time.

21. REPRESENTATIONS AND WARRANTIES

The Senior Executive hereby represents and warrants to Company that:

- a. He is fully authorized and empowered to enter into this Employment Contract.
 - b. He is fully authorized to work in Spain.
 - c. The execution, delivery and performance of this Employment Contract by the Senior Executive does not and will not violate any statute, law, order, judgment or award, or conflict with, breach, or cause a default of any covenant or obligation under any prior contract, contract or instrument to which the Employee is a party or by which he is bound.
 - d. He is not a party to or bound by any written or oral contract, employment contract, non-compete contract or confidentiality contract with any other person or entity which would restrict his ability to enter into this Employment Contract or to perform his duties to NetApp.
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- e. He will not, in the performance of his duties to NetApp, breach any non-disclosure, proprietary rights, non-competition, non-solicitation or other covenant in favor of any third party.

22. PRE-BOARDING DOCUMENTATION AND PRE-EMPLOYMENT SCREENING

NetApp works with sensitive technologies controlled under various United States export laws and associated federal regulations. The Senior Executive herewith confirms he is not a citizen or permanent resident of Cuba, Iran, North Korea, Sudan or Syria. The Senior Executive agrees that he will comply with all U.S. and other countries' export control laws, applicable export control licensing requirements, and NetApp's export compliance policies and procedures. Unless otherwise authorized by the U.S. Government and NetApp, the Senior Executive will not export or re-export directly or indirectly export-controlled technology, software, information, and hardware to any country prohibited under the U.S. export control laws, including Cuba, Iran, North Korea, Sudan and Syria.

It is herewith acknowledged by both the Company and the Senior Executive that the Senior Executive satisfactorily completed, agreed to, signed, and otherwise fulfilling the following documents and associated clearance processes as determined at the Company's sole discretion:

- a. NetApp Code of Conduct & Conflicts of Interest Certification
- b. NetApp Insider Trading Policy & Consent
- c. NetApp Proprietary Information & Inventions Agreement and Disclosure
- d. NetApp Employee Personal Information Notice
- e. Director and Officer Questionnaire

23. COMPANY'S PROPERTY

The Senior Executive must use his best efforts to look after all documents, items and materials he may receive from the Company, and to preserve them in good condition.

In the event the Contract is terminated for any reason, the Senior Executive shall deliver to the Company any documentation and records of any type relating to the transactions carried out by the Company or related to other clients of the Company or to any companies that have had any relationship with the Company.

Likewise, in the event of termination of the Contract for any reason, the Senior Executive shall deliver to the Company all the objects that the Senior Executive has received from the Company, including but not limited to *mobile phone, laptop, computer hardware and software, credit cards, keys to the workplace etc.*, as well as any other property belonging or relating to the Company which may be in the Senior Executive's possession or control.

24. HEALTH AND SAFETY

The Senior Executive states that he has been duly informed and that knows his duties and responsibilities regarding Health and Safety at work, as well as the labour risks and the preventive measures considered adequate in relation to the activity of the Company and the conditions and duties of his job position.

25. ENTIRE AGREEMENT

This Contract represents from its effective commencement date the entire agreement and understanding of the Senior Executive and the Company. Other mercantile or labour verbal or written agreements have not been made unless otherwise has been agreed in this Contract. Consequently, this Contract revokes, supersedes and extinguishes all prior written or verbal contracts between the Company or any company of the group and the Senior Executive. Any changes or supplements of this Contract must be made in writing in order to be legally binding.

If any individual terms of this Contract should become invalid, the remaining terms of the Contract shall remain in effect and to be binding on the Parties.

26. APPLICABLE LAW

In the absence of any express provision by the Parties, this Contract shall be governed pursuant to Royal Decree 1382/1985, of August 1 and in matters not regulated by this decree, by the provisions and general principles of civil or commercial law.

Given that the Contract is written in English and Spanish versions, the Parties agree that in case of doubt, the Spanish version shall prevail.

In witness whereof, both parties sign this employment contract, in two originals to one effect, in the place and on the date indicated above.

On behalf of the Company

The Senior Executive

/s/Stephen Faulkner

Stephen Faulkner

Director, NetApp Spain Sales S.L.

/s/Cesar Cernuda

Cesar Cernuda

**CERTIFICATION PURSUANT TO SECTION 302(a)
OF THE SARBANES-OXLEY ACT OF 2002**

I, George Kurian, certify that:

- 1) I have reviewed this Quarterly Report on Form 10-Q of NetApp, Inc.;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ GEORGE KURIAN

George Kurian

Chief Executive Officer and President

(Principal Executive Officer and Principal Operating Officer)

Date: March 1, 2021

**CERTIFICATION PURSUANT TO SECTION 302(a)
OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael J. Berry, certify that:

- 1) I have reviewed this Quarterly Report on Form 10-Q of NetApp, Inc.;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ MICHAEL J. BERRY

Michael J. Berry

*Executive Vice President and Chief Financial Officer
(Principal Financial Officer)*

Date: March 1, 2021

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, George Kurian, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of NetApp, Inc., on Form 10-Q for the quarterly period ended January 29, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of NetApp, Inc.

/s/ GEORGE KURIAN

George Kurian

Chief Executive Officer and President

(Principal Executive Officer and Principal Operating Officer)

Date: March 1, 2021

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael J. Berry, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of NetApp, Inc., on Form 10-Q for the quarterly period ended January 29, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of NetApp, Inc.

/s/ MICHAEL J. BERRY

Michael J. Berry

*Executive Vice President and Chief Financial Officer
(Principal Financial Officer)*

Date: March 1, 2021