

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 27, 2023

or

TRANSITION 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.)

3060 Olsen Drive,
San Jose, California 95128
(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:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of exchange on which registered</u>
Common Stock, \$0.001 Par Value	NTAP	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 22, 2023, there were 213,904,711 shares of the registrant's common stock, \$0.001 par value, outstanding.

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TRADEMARKS

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Item 1. Condensed Consolidated Financial Statements (Unaudited)

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

	January 27, 2023	April 29, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,640	\$ 4,112
Short-term investments	501	22
Accounts receivable	821	1,230
Inventories	175	204
Other current assets	403	377
Total current assets	4,540	5,945
Property and equipment, net	667	602
Goodwill	2,767	2,346
Other intangible assets, net	198	142
Other non-current assets	1,538	991
Total assets	\$ 9,710	\$ 10,026
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 432	\$ 607
Accrued expenses	835	925
Current portion of long-term debt	—	250
Short-term deferred revenue and financed unearned services revenue	2,126	2,171
Total current liabilities	3,393	3,953
Long-term debt	2,388	2,386
Other long-term liabilities	737	788
Long-term deferred revenue and financed unearned services revenue	2,090	2,061
Total liabilities	8,608	9,188
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Common stock and additional paid-in capital, \$0.001 par value; 214 and 220 shares issued and outstanding as of January 27, 2023 and April 29, 2022, respectively	889	760
Retained earnings	268	122
Accumulated other comprehensive loss	(55)	(44)
Total stockholders' equity	1,102	838
Total liabilities and stockholders' equity	\$ 9,710	\$ 10,026

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	January 27, 2023	January 28, 2022	January 27, 2023	January 28, 2022
Net revenues:				
Product	\$ 682	\$ 846	\$ 2,305	\$ 2,390
Services	844	768	2,476	2,248
Net revenues	<u>1,526</u>	<u>1,614</u>	<u>4,781</u>	<u>4,638</u>
Cost of revenues:				
Cost of product	367	407	1,182	1,108
Cost of services	158	134	465	399
Total cost of revenues	<u>525</u>	<u>541</u>	<u>1,647</u>	<u>1,507</u>
Gross profit	<u>1,001</u>	<u>1,073</u>	<u>3,134</u>	<u>3,131</u>
Operating expenses:				
Sales and marketing	450	461	1,387	1,377
Research and development	230	220	713	646
General and administrative	59	65	198	207
Restructuring charges	87	—	109	29
Acquisition-related expense	3	6	18	8
Total operating expenses	<u>829</u>	<u>752</u>	<u>2,425</u>	<u>2,267</u>
Income from operations	<u>172</u>	<u>321</u>	<u>709</u>	<u>864</u>
Other income (expense), net	5	(15)	43	(41)
Income before income taxes	<u>177</u>	<u>306</u>	<u>752</u>	<u>823</u>
Provision (benefit) for income taxes	112	54	(277)	145
Net income	<u>\$ 65</u>	<u>\$ 252</u>	<u>\$ 1,029</u>	<u>\$ 678</u>
Net income per share:				
Basic	<u>\$ 0.30</u>	<u>\$ 1.13</u>	<u>\$ 4.72</u>	<u>\$ 3.04</u>
Diluted	<u>\$ 0.30</u>	<u>\$ 1.10</u>	<u>\$ 4.66</u>	<u>\$ 2.96</u>
Shares used in net income per share calculations:				
Basic	<u>216</u>	<u>223</u>	<u>218</u>	<u>223</u>
Diluted	<u>219</u>	<u>229</u>	<u>221</u>	<u>229</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 27, 2023	January 28, 2022	January 27, 2023	January 28, 2022
Net income	\$ 65	\$ 252	\$ 1,029	\$ 678
Other comprehensive income (loss):				
Foreign currency translation adjustments	12	(3)	(6)	(11)
Unrealized losses on available-for-sale securities:				
Unrealized holding losses arising during the period	—	—	—	(1)
Unrealized gains on cash flow hedges:				
Unrealized holding (losses) gains arising during the period	(11)	4	(7)	6
Reclassification adjustments for losses (gains) included in net income	6	(4)	2	(5)
Other comprehensive income (loss)	<u>7</u>	<u>(3)</u>	<u>(11)</u>	<u>(11)</u>
Comprehensive income	<u>\$ 72</u>	<u>\$ 249</u>	<u>\$ 1,018</u>	<u>\$ 667</u>

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	January 27, 2023	January 28, 2022
Cash flows from operating activities:		
Net income	\$ 1,029	\$ 678
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	182	143
Non-cash operating lease cost	40	40
Stock-based compensation	238	179
Deferred income taxes	(577)	(66)
Other items, net	(69)	(35)
Changes in assets and liabilities, net of acquisitions of businesses:		
Accounts receivable	425	137
Inventories	29	(53)
Other operating assets	(8)	—
Accounts payable	(173)	10
Accrued expenses	(117)	(207)
Deferred revenue and financed unearned services revenue	(47)	46
Long-term taxes payable	(82)	(66)
Other operating liabilities	2	(6)
Net cash provided by operating activities	<u>872</u>	<u>800</u>
Cash flows from investing activities:		
Purchases of investments	(762)	(7)
Maturities, sales and collections of investments	288	43
Purchases of property and equipment	(200)	(158)
Acquisitions of businesses, net of cash acquired	(491)	(359)
Other investing activities, net	60	—
Net cash used in investing activities	<u>(1,105)</u>	<u>(481)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee stock award plans	108	105
Payments for taxes related to net share settlement of stock awards	(74)	(69)
Repurchase of common stock	(700)	(350)
Repayments and extinguishment of debt	(250)	—
Dividends paid	(326)	(335)
Other financing activities, net	(2)	(2)
Net cash used in financing activities	<u>(1,244)</u>	<u>(651)</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	4	(26)
Net change in cash, cash equivalents and restricted cash	<u>(1,473)</u>	<u>(358)</u>
Cash, cash equivalents and restricted cash:		
Beginning of period	4,119	4,535
End of period	<u>\$ 2,646</u>	<u>\$ 4,177</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 27, 2023					
	Common Stock and Additional Paid-in Capital		Retained Earnings	Accumulated Other Comprehensive		Total
	Shares	Amount		Loss		
Balances, October 28, 2022	217	\$ 765	\$ 499	\$ (62)	\$ 1,202	
Net income	—	—	65	—	65	
Other comprehensive income	—	—	—	7	7	
Issuance of common stock under employee stock award plans, net of taxes	—	43	—	—	43	
Repurchase of common stock	(3)	(12)	(188)	—	(200)	
Stock-based compensation	—	93	—	—	93	
Cash dividends declared (\$0.50 per common share)	—	—	(108)	—	(108)	
Balances, January 27, 2023	214	\$ 889	\$ 268	\$ (55)	\$ 1,102	

	Three Months Ended January 28, 2022					
	Common Stock and Additional Paid-in Capital		Retained Earnings	Accumulated Other Comprehensive		Total
	Shares	Amount		Loss		
Balances, October 29, 2021	223	\$ 603	\$ 194	\$ (38)	\$ 759	
Net income	—	—	252	—	252	
Other comprehensive loss	—	—	—	(3)	(3)	
Issuance of common stock under employee stock award plans, net of taxes	1	46	—	—	46	
Repurchase of common stock	(1)	(4)	(121)	—	(125)	
Stock-based compensation	—	64	—	—	64	
Cash dividends declared (\$0.50 per common share)	—	—	(111)	—	(111)	
Balances, January 28, 2022	223	\$ 709	\$ 214	\$ (41)	\$ 882	

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended January 27, 2023					
	Common Stock and Additional Paid-in Capital		Retained Earnings	Accumulated Other Comprehensive Loss		Total
	Shares	Amount				
Balances, April 29, 2022	220	\$ 760	\$ 122	\$ (44)	\$ 838	
Net income	—	—	1,029	—	1,029	
Other comprehensive loss	—	—	—	(11)	(11)	
Issuance of common stock under employee stock award plans, net of taxes	4	34	—	—	34	
Repurchase of common stock	(10)	(37)	(663)	—	(700)	
Stock-based compensation	—	238	—	—	238	
Cash dividends declared (\$1.50 per common share)	—	(106)	(220)	—	(326)	
Balances, January 27, 2023	214	\$ 889	\$ 268	\$ (55)	\$ 1,102	

	Nine Months Ended January 28, 2022					
	Common Stock and Additional Paid-in Capital		Retained Earnings	Accumulated Other Comprehensive Loss		Total
	Shares	Amount				
Balances, April 30, 2021	222	\$ 504	\$ 211	\$ (30)	\$ 685	
Net income	—	—	678	—	678	
Other comprehensive loss	—	—	—	(11)	(11)	
Issuance of common stock under employee stock award plans, net of taxes	5	36	—	—	36	
Repurchase of common stock	(4)	(10)	(340)	—	(350)	
Stock-based compensation	—	179	—	—	179	
Cash dividends declared (\$1.50 per common share)	—	—	(335)	—	(335)	
Balances, January 28, 2022	223	\$ 709	\$ 214	\$ (41)	\$ 882	

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, NetApp, or the Company) is a global cloud-led, data-centric software company that provides organizations the ability to manage and share their data across on-premises, private and public clouds. 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 years 2023 and 2022, ending on April 28, 2023, and April 29, 2022, respectively, are each 52-week years, with 13 weeks in each quarter.

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 29, 2022 contained in our Annual Report on Form 10-K. The results of operations for the three and nine months ended January 27, 2023 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; valuation of intellectual property; restructuring reserves; employee 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. Recent Accounting Pronouncements

Although there are new accounting pronouncements issued or proposed by the FASB that we have adopted or will adopt, as applicable, we do not believe any of these accounting pronouncements had or will have a material impact on our consolidated financial position, operating results, cash flows or disclosures.

3. Business Combinations

Fiscal 2023 Acquisition

Instaclustr Acquisition

On May 20, 2022, we acquired all the outstanding shares of privately-held Instaclustr US Holding, Inc. (Instaclustr) for approximately \$498 million. Instaclustr is a leading platform provider of fully managed open-source database, pipeline and workflow applications delivered as-a-service.

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

	Amount
Cash	\$ 4
Intangible assets	107
Goodwill	421
Other assets	15
Total assets acquired	547
Liabilities assumed	(49)
Total purchase price	\$ 498

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

	Amount	Estimated useful life (years)
Developed technology	\$ 55	5
Customer contracts/relationships	50	5
Trade name	2	3
Total intangible assets	<u>\$ 107</u>	

The acquired net assets and assumed debt of Instaclustr were recorded at their estimated values. We determined the estimated values with the assistance of valuations and appraisals performed by third party specialists and estimates made by management. We expect to realize revenue synergies and 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 value of their identifiable net assets acquired, and as a result, we have recorded goodwill in connection with the acquisition. The goodwill is not deductible for income tax purposes.

The results of operations related to the acquisition of Instaclustr have been included in our condensed consolidated statements of income from the acquisition date. Pro forma results of operations have not been presented because the impact from the acquisition was not material to our consolidated results of operations.

Fiscal 2022 Acquisitions

Fylamynt Acquisition

On February 18, 2022, we acquired all the outstanding shares of privately-held NeurOps Inc. (which operated under the name "Fylamynt") for approximately \$27 million in cash, of which \$22 million was paid at closing. The purchase price includes \$5 million related to an indemnity holdback provision, of which \$4 million was paid in the fourth quarter of fiscal 2023. Fylamynt is an innovative CloudOps automation technology company that enables customers to build, run, manage and analyze workflows securely in any cloud with little to no code.

The acquisition-date values of the assets acquired are as follows (in millions):

	Amount
Cash	\$ 1
Developed technology	6
Goodwill	20
Total assets acquired	27
Total purchase price	<u>\$ 27</u>

CloudCheckr Acquisition

On November 5, 2021, we acquired all the outstanding shares of privately-held CloudCheckr Inc. (CloudCheckr) for approximately \$347 million in cash. CloudCheckr is a leading cloud optimization platform that provides cloud visibility and insights to lower costs, maintain security and compliance, and optimize cloud resources.

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

	Amount
Cash	\$ 2
Intangible assets	76
Goodwill	276
Other assets	6
Total assets acquired	360
Liabilities assumed	(13)
Total purchase price	<u>\$ 347</u>

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

	Amount	Estimated useful life (years)
Developed technology	\$ 45	5
Customer contracts/relationships	30	5
Trade name	1	3
Total intangible assets	<u>\$ 76</u>	

Data Mechanics Acquisition

On June 18, 2021, we acquired all the outstanding shares of privately-held Data Mechanics Inc. (Data Mechanics), a provider of managed platforms for big data processing and cloud analytics headquartered in Paris, France, for approximately \$15 million in cash.

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

	<u>Amount</u>
Cash	\$ 1
Developed technology	5
Goodwill	11
Total assets acquired	17
Liabilities assumed	(2)
Total purchase price	<u>\$ 15</u>

The acquired assets and assumed liabilities of Fylamynt, CloudCheckr and Data Mechanics were recorded at their estimated values. We determined the estimated values with the assistance of valuations and appraisals performed by third party specialists and estimates made by management. We expect to realize incremental revenue by offering continuous cost optimization and managed services from our existing capabilities to help customers improve their cloud resources and realize the benefits of cloud faster and at scale. 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 these acquisitions. The goodwill is not deductible for income tax purposes.

The results of operations related to the acquisitions of Fylamynt, CloudCheckr and Data Mechanics have been included in our consolidated statements of income from their respective acquisition dates. Pro forma results of operations have not been presented because the impact from these acquisitions was not material to our consolidated results of operations.

4. Goodwill and Purchased Intangible Assets, Net

Goodwill activity is summarized as follows (in millions):

	<u>Amount</u>
Balance as of April 29, 2022	\$ 2,346
Additions	421
Balance as of January 27, 2023	<u>\$ 2,767</u>

The goodwill addition of \$421 million related to the acquisition of Instaclustr has been allocated to our Public Cloud segment.

Goodwill by reportable segment as of January 27, 2023 is as follows (in millions):

	<u>Amount</u>
Hybrid Cloud	\$ 1,714
Public Cloud	1,053
Total goodwill	<u>\$ 2,767</u>

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

	January 27, 2023			April 29, 2022		
	Gross Assets	Accumulated Amortization	Net Assets	Gross Assets	Accumulated Amortization	Net Assets
Developed technology	\$ 212	\$ (97)	\$ 115	\$ 157	\$ (65)	\$ 92
Customer contracts/relationships	118	(38)	80	68	(20)	48
Other purchased intangibles	6	(3)	3	4	(2)	2
Total purchased intangible assets	<u>\$ 336</u>	<u>\$ (138)</u>	<u>\$ 198</u>	<u>\$ 229</u>	<u>\$ (87)</u>	<u>\$ 142</u>

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

	Three Months Ended		Nine Months Ended		Statements of Income Classification
	January 27, 2023	January 28, 2022	January 27, 2023	January 28, 2022	
Developed technology	\$ 10	\$ 9	\$ 31	\$ 23	Cost of revenues
Customer contracts/relationships	7	4	19	7	Operating expenses
Other purchased intangibles	—	—	1	2	Operating expenses
Total	<u>\$ 17</u>	<u>\$ 13</u>	<u>\$ 51</u>	<u>\$ 32</u>	

As of January 27, 2023, future amortization expense related to purchased intangible assets is as follows (in millions):

Fiscal Year	Amount
2023 (remainder)	\$ 17
2024	57
2025	55
2026	39
2027	29
2028	1
Total	<u>\$ 198</u>

5. Supplemental Financial Information

Cash and cash equivalents (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:

	January 27, 2023	April 29, 2022
Cash and cash equivalents	\$ 2,640	\$ 4,112
Restricted cash	6	7
Cash, cash equivalents and restricted cash	<u>\$ 2,646</u>	<u>\$ 4,119</u>

Inventories (in millions):

	January 27, 2023	April 29, 2022
Purchased components	\$ 84	\$ 131
Finished goods	91	73
Inventories	<u>\$ 175</u>	<u>\$ 204</u>

Property and equipment, net (in millions):

	January 27, 2023	April 29, 2022
Land	\$ 46	\$ 46
Buildings and improvements	357	353
Leasehold improvements	93	92
Computer, production, engineering and other equipment	1,050	904
Computer software	329	316
Furniture and fixtures	86	76
Construction-in-progress	51	65
	2,012	1,852
Accumulated depreciation and amortization	(1,345)	(1,250)
Property and equipment, net	<u>\$ 667</u>	<u>\$ 602</u>

Other non-current assets (in millions):

	January 27, 2023	April 29, 2022
Deferred tax assets	\$ 938	\$ 362
Operating lease ROU assets	289	294
Other assets	311	335
Other non-current assets	<u>\$ 1,538</u>	<u>\$ 991</u>

Other non-current assets as of January 27, 2023 and April 29, 2022 include \$79 million and \$73 million, respectively, for our 49% non-controlling equity interest in Lenovo NetApp Technology Limited (LNTL), a China-based entity that we formed with Lenovo (Beijing) Information Technology Ltd. in fiscal 2019. LNTL is integral to our sales channel strategy in China, acting as a distributor of our offerings to customers headquartered there, and involved in certain OEM sales to Lenovo. LNTL is also focused on localizing our products and services, and developing new joint offerings for the China market by leveraging NetApp and Lenovo technologies. Our sales to LNTL are conducted on terms equivalent to those prevailing in an arm's length transaction.

Accrued expenses (in millions):

	January 27, 2023	April 29, 2022
Accrued compensation and benefits	\$ 341	\$ 462
Product warranty liabilities	17	17
Operating lease liabilities	48	47
Other current liabilities	429	399
Accrued expenses	<u>\$ 835</u>	<u>\$ 925</u>

Other long-term liabilities (in millions):

	January 27, 2023	April 29, 2022
Liability for uncertain tax positions	\$ 141	\$ 131
Income taxes payable	215	303
Product warranty liabilities	8	9
Operating lease liabilities	254	257
Other liabilities	119	88
Other long-term liabilities	<u>\$ 737</u>	<u>\$ 788</u>

Deferred revenue and financed unearned services revenue

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

	January 27, 2023	April 29, 2022
Deferred product revenue	\$ 21	\$ 31
Deferred services revenue	4,146	4,140
Financed unearned services revenue	49	61
Total	<u>\$ 4,216</u>	<u>\$ 4,232</u>

Reported as:

Short-term	\$ 2,126	\$ 2,171
Long-term	2,090	2,061
Total	<u>\$ 4,216</u>	<u>\$ 4,232</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 support contracts, certain public cloud services and other services. Financed unearned services revenue represents undelivered services for which cash has been received under certain third-party financing arrangements. See Note 15 – Commitments and Contingencies for additional information related to these arrangements.

During the nine months ended January 27, 2023, we recognized revenue of \$1,751 million that was included in the deferred revenue and financed unearned services revenue balance as of April 29, 2022.

As of January 27, 2023, the aggregate amount of the transaction price allocated to the remaining performance obligations related to customer contracts that are unsatisfied or partially unsatisfied approximated 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 50% of our deferred revenue and financed unearned services revenue balance in the next 12 months, approximately 24% in the next 13 to 24 months, and the remainder thereafter.

Deferred commissions

The following table summarizes deferred commissions balances as reported in our condensed consolidated balance sheets (in millions):

	January 27, 2023	April 29, 2022
Other current assets	\$ 67	\$ 80
Other non-current assets	103	117
Total deferred commissions	<u>\$ 170</u>	<u>\$ 197</u>

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

	Three Months Ended		Nine Months Ended	
	January 27, 2023	January 28, 2022	January 27, 2023	January 28, 2022
Interest income	\$ 21	\$ 2	\$ 42	\$ 5
Interest expense	(16)	(19)	(51)	(55)
Other, net	—	2	52	9
Total other income (expense), net	<u>\$ 5</u>	<u>\$ (15)</u>	<u>\$ 43</u>	<u>\$ (41)</u>

In the nine months ended January 27, 2023, Other, net includes \$21 million of other income for non-refundable, up-front payments from customers in Russia for support contracts, which we were not able to fulfill due to imposed sanctions and for which we have no remaining legal obligation to perform. Other, net also includes a \$32 million gain recognized on our sale of a minority equity interest in a privately held company for proceeds of approximately \$59 million in the first quarter of fiscal 2023.

Statements of cash flows additional information (in millions):

Supplemental cash flow information related to our operating leases is included in Note 8 — Leases. Non-cash investing and financing activities and other supplemental cash flow information are presented below:

	Nine Months Ended	
	January 27, 2023	January 28, 2022
Non-cash Investing and Financing Activities:		
Capital expenditures incurred but not paid	\$ 19	\$ 24
Liabilities incurred to former owners of acquired business	\$ 3	\$ —
Supplemental Cash Flow Information:		
Income taxes paid, net of refunds	\$ 290	\$ 318
Interest paid	\$ 59	\$ 61

6. 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 at their cost or amortized cost for the periods ended January 27, 2023 and April 29, 2022 (in millions):

	January 27, 2023	April 29, 2022
Corporate bonds	\$ —	\$ 9
U.S. Treasury and government debt securities	501	13
Money market funds	730	2,166
Certificates of deposit	50	71
Mutual funds	37	36
Total debt and equity securities	<u>\$ 1,318</u>	<u>\$ 2,295</u>

The fair value of our investments approximates their cost or amortized cost for both periods presented. Investments in mutual funds relate to the non-qualified deferred compensation plan offered to certain employees.

As of January 27, 2023, all our debt investments are due to mature in one year or less.

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 27, 2023	
		Fair Value Measurements at Reporting Date Using	
		Level 1	Level 2
Cash and cash equivalents:			
Cash	\$ 1,860	\$ 1,860	\$ —
Money market funds	730	730	—
Certificates of deposit	50	—	50
Total cash and cash equivalents	<u>2,640</u>	<u>2,590</u>	<u>50</u>
Short-term investments:			
U.S. Treasury and government debt securities	501	501	—
Total short-term investments	<u>501</u>	<u>501</u>	<u>—</u>
Total cash, cash equivalents and short-term investments	<u>\$ 3,141</u>	<u>\$ 3,091</u>	<u>\$ 50</u>
Other items:			
Mutual funds ⁽¹⁾	\$ 6	\$ 6	\$ —
Mutual funds ⁽²⁾	\$ 31	\$ 31	\$ —
Foreign currency exchange contracts assets ⁽¹⁾	\$ 11	\$ —	\$ 11
Foreign currency exchange contracts liabilities ⁽³⁾	\$ (4)	\$ —	\$ (4)

	April 29, 2022			
	Total	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	
Cash and cash equivalents:				
Cash	\$ 1,875	\$ 1,875	\$	—
Money market funds	2,166	2,166		—
Certificates of deposit	71	—		71
Total cash and cash equivalents	4,112	4,041		71
Short-term investments:				
Corporate bonds	9	—		9
U.S. Treasury and government debt securities	13	13		—
Total short-term investments	22	13		9
Total cash, cash equivalents and short-term investments	\$ 4,134	\$ 4,054	\$	80
Other items:				
Mutual funds ⁽¹⁾	\$ 6	\$ 6	\$	—
Mutual funds ⁽²⁾	\$ 30	\$ 30	\$	—
Foreign currency exchange contracts assets ⁽¹⁾	\$ 2	\$ —	\$	2
Foreign currency exchange contracts liabilities ⁽³⁾	\$ (29)	\$ —	\$	(29)

⁽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 27, 2023 and April 29, 2022, we have not made any adjustments to the prices obtained from our third-party pricing providers.

Fair Value of Debt

As of January 27, 2023 and April 29, 2022, the fair value of our long-term debt was approximately \$2,189 million and \$2,491 million, respectively. The fair value of our long-term debt was based on observable market prices in a less active market.

7. 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 27, 2023	April 29, 2022
3.25% Senior Notes Due December 2022	3.43%	\$ —	\$ 250
3.30% Senior Notes Due September 2024	3.42%	400	400
1.875% Senior Notes Due June 2025	2.03%	750	750
2.375% Senior Notes Due June 2027	2.51%	550	550
2.70% Senior Notes Due June 2030	2.81%	700	700
Total principal amount		2,400	2,650
Unamortized discount and issuance costs		(12)	(14)
Total senior notes		2,388	2,636
Less: Current portion of long-term debt		—	(250)
Total long-term debt		\$ 2,388	\$ 2,386

Senior Notes

Our \$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, were each issued in June 2020. Interest on each of these Senior Notes is payable semi-annually in June and December. 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.

On September 15, 2022, we extinguished our 3.25% Senior Notes due December 2022 for an aggregate cash redemption price of \$252 million, comprised of the principal and unpaid interest.

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 27, 2023, we were in compliance with all covenants associated with the Senior Notes.

As of January 27, 2023, our aggregate future principal debt maturities are as follows (in millions):

Fiscal Year	Amount
2023 (remainder)	\$ —
2024	—
2025	400
2026	750
2027	—
Thereafter	1,250
Total	\$ 2,400

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. There were no commercial paper notes outstanding as of January 27, 2023 or April 29, 2022.

In connection with the Program, we have a senior unsecured credit agreement with a syndicated group of lenders. The credit agreement, which was amended in January 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 27, 2023, we were compliant with all associated covenants in the agreement. No amounts were drawn against this credit facility during any of the periods presented.

8. 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 27, 2023, have remaining lease terms not exceeding 19 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 27, 2023, have remaining lease terms not exceeding 4 years. As of January 27, 2023, our automobile leases have remaining lease terms not exceeding 4 years. All our leases are classified as operating leases except for certain immaterial equipment finance leases.

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

	Three Months Ended		Nine Months Ended	
	January 27, 2023	January 28, 2022	January 27, 2023	January 28, 2022
Operating lease cost	\$ 15	\$ 15	\$ 46	\$ 46
Variable lease cost	4	3	12	11
Total lease cost	\$ 19	\$ 18	\$ 58	\$ 57

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 27, 2023	January 28, 2022
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 41	\$ 41
Right-of-use assets obtained in exchange for new operating lease obligations	\$ 33	\$ 236

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

	January 27, 2023	April 29, 2022
	Other non-current assets	\$ 289
Total operating lease ROU assets	\$ 289	\$ 294
Accrued expenses	\$ 48	\$ 47
Other long-term liabilities	254	257
Total operating lease liabilities	\$ 302	\$ 304
Weighted Average Remaining Lease Term	9.5 years	9.6 years
Weighted Average Discount Rate	2.9%	2.8%

Future minimum operating lease payments as of January 27, 2023, are as follows (in millions):

Fiscal Year	Amount
2023 (remainder)	\$ 14
2024	51
2025	41
2026	36
2027	32
Thereafter	176
Total lease payments	350
Less: Interest	(48)
Total	\$ 302

9. Stockholders' Equity

Restricted Stock Units

We granted approximately 7 million restricted stock units (RSUs) with a weighted average grant date fair value of \$59.80 per share, including performance-based RSUs (PBRsUs), during the nine months ended January 27, 2023. In the nine months ended January 27, 2023, we granted PBRsUs to certain of our executives. Each PBRsU has 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 applicable performance and service period will range from 0% to 200% of a target number of shares originally granted. For half of the PBRsUs granted in the nine months ended January 27, 2023, 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. For the remaining half of the PBRsUs granted in the nine months ended January 27, 2023, the number of shares issued will depend upon the Company's billings result average over the three-year performance period as compared to a predetermined billings target. Billings for purposes of measuring the performance of these PBRsUs means the total obtained by adding net revenues as reported on the Company's Consolidated Statements of Income to the amount reported as the change in deferred revenue and financed unearned services revenue on the Consolidated Statements of Cash Flows for the applicable measurement period, excluding the impact of fluctuations in foreign currency exchange rates. The fair values of these billings PBRsUs were established consistent with our methodology for valuing time-based RSUs, while compensation cost is being recognized based on the probable outcome of the performance condition. The aggregate grant date fair value of PBRsUs effectively granted in the current year was \$27 million, which is being recognized to compensation expense over the remaining performance / service periods.

Stock-Based Compensation Expense

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

	Three Months Ended		Nine Months Ended	
	January 27, 2023	January 28, 2022	January 27, 2023	January 28, 2022
Cost of product revenues	\$ 2	\$ 1	\$ 4	\$ 3
Cost of services revenues	6	4	14	10
Sales and marketing	40	30	103	85
Research and development	32	19	82	53
General and administrative	13	10	35	28
Total stock-based compensation expense	<u>\$ 93</u>	<u>\$ 64</u>	<u>\$ 238</u>	<u>\$ 179</u>

As of January 27, 2023, total unrecognized compensation expense related to our equity awards was \$704 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 27, 2023, our Board of Directors has authorized the repurchase of up to \$15.1 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.

The following table summarizes activity related to the stock repurchase program for the nine months ended January 27, 2023 (in millions, except for per share amounts):

Number of shares repurchased	10
Average price per share	\$ 66.93
Stock repurchases allocated to additional paid-in capital	\$ 37
Stock repurchases allocated to retained earnings	\$ 663
Remaining authorization at end of period	\$ 552

Since the May 13, 2003 inception of our stock repurchase program through January 27, 2023, we repurchased a total of 358 million shares of our common stock at an average price of \$40.74 per share, for an aggregate purchase price of \$14.6 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 27, 2023	January 28, 2022
Dividends per share declared	\$ 1.50	\$ 1.50
Dividend payments allocated to additional paid-in capital	\$ 106	\$ —
Dividend payments allocated to retained earnings	\$ 220	\$ 335

On February 17, 2023, we declared a cash dividend of \$0.50 per share of common stock, payable on April 26, 2023 to holders of record as of the close of business on April 6, 2023. 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 Derivative Instruments	Total
Balance as of April 29, 2022	\$ (44)	\$ (1)	\$ 1	\$ (44)
Other comprehensive loss, net of tax	(6)	—	(7)	(13)
Amounts reclassified from AOCI, net of tax	—	—	2	2
Total other comprehensive loss	(6)	—	(5)	(11)
Balance as of January 27, 2023	\$ (50)	\$ (1)	\$ (4)	\$ (55)

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

	Three Months Ended		Nine Months Ended		Statements of Income Classification
	January 27, 2023	January 28, 2022	January 27, 2023	January 28, 2022	
Realized gains (losses) on cash flow hedges	\$ 6	\$ (4)	\$ 2	\$ (5)	Net revenues
Total reclassifications	\$ 6	\$ (4)	\$ 2	\$ (5)	

10. 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 27, 2023 or April 29, 2022. 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 27, 2023	April 29, 2022
Cash Flow Hedges		
Forward contracts purchased	\$ 156	\$ 78
Balance Sheet Contracts		
Forward contracts sold	\$ 799	\$ 841
Forward contracts purchased	\$ 92	\$ 129

The gain (loss) of cash flow hedges recognized in net revenues is presented in the condensed consolidated statements of comprehensive income and Note 9 – Stockholders' Equity.

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

	Three Months Ended		Nine Months Ended	
	January 27, 2023	January 28, 2022	January 27, 2023	January 28, 2022
Foreign currency exchange contracts	\$ 58	\$ (20)	\$ 2	\$ (46)

11. Restructuring Charges

During the third quarter of fiscal 2023, management approved a restructuring plan to redirect resources to highest return activities and reduce costs. As a result, we recorded restructuring charges in the third quarter comprised of employee severance-related expenses. This plan will reduce our global workforce by approximately 8% and activities under this plan are expected to be substantially complete by the end of fiscal 2023.

In the first six months of fiscal 2023, we executed a restructuring plan to redirect resources to highest return activities, which included a reduction in our global workforce of approximately 1% and resulted in restructuring charges comprised primarily of employee severance-related costs. Activities under this plan are substantially complete.

We also continued activities related to the establishment of an international headquarters in Cork, Ireland, during the first nine months of fiscal 2023, and incurred restructuring charges consisting primarily of severance-related costs and legal and tax-related professional fees. Activities under this plan, for which we expect to incur additional charges, will continue during the remainder of fiscal 2023.

During the first nine months of fiscal 2022, we executed a restructuring plan to reduce the amount of office space we occupied as we allow more employees to work remotely. In connection with the plan, we also reduced our global workforce by approximately 1%. Charges related to the plan consisted primarily of office relocation costs, lease termination fees, and employee severance-related costs. Substantially all activities under the plan had been completed by the end of fiscal 2022.

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

	Nine Months Ended	
	January 27, 2023	January 28, 2022
Balance at beginning of period	\$ 3	\$ 1
Net charges	109	29
Cash payments	(22)	(30)
Balance at end of period	<u>\$ 90</u>	<u>\$ —</u>

12. Income Taxes

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

	Nine Months Ended	
	January 27, 2023	January 28, 2022
Effective tax rates	(36.8)%	17.6%

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. Our effective tax rate for the nine months ended January 27, 2023 was primarily driven by a discrete tax benefit of \$524 million that resulted from an intra-entity asset transfer of certain intellectual property (“IP”) offset partially by a Danish Supreme Court decision resulting in \$69 million of discrete tax expense. Additionally, our effective tax rate for the nine months ended January 27, 2023 includes an increase from the prior year primarily due to the capitalization of research and development expenses partially offset by the discrete benefits related to stock-based compensation. Under the Tax Cuts and Jobs Act of 2017, research and development costs incurred beginning in our fiscal 2023 are to be amortized over five or 15 years depending on where the research activities are conducted. The effective tax rate for the nine months ended January 28, 2022, includes the impact of discrete tax benefits for lapses of statute of limitations as well as larger benefits related to stock-based compensation as compared to the current year.

During the second quarter of fiscal 2023, we completed an intra-entity asset transfer of certain IP to our international headquarters (the “IP Transfer”). The transaction resulted in a step-up of tax-deductible basis in the transferred assets, and accordingly, created a temporary difference where the tax basis exceeded the financial statement basis of such intangible assets, which resulted in the recognition of a discrete tax benefit and related deferred tax asset of \$524 million during the second quarter of fiscal 2023. Management applied significant judgment when determining the fair value of the IP, which serves as the tax basis of the deferred tax asset. With the assistance of third-party valuation specialists, the fair value of the IP was determined principally based on the present value of projected cash flows related to the IP which reflects management’s assumptions regarding projected revenues, expenses and a discount rate. The tax-deductible amortization related to the transferred IP rights will be recognized in future periods and any amortization that is unused in a particular year can be carried forward indefinitely. The deferred tax asset and the tax benefit were measured based on the enacted tax rates expected to apply in the years the asset is expected to be realized. We expect to realize the deferred tax asset resulting from the IP Transfer and will assess the realizability of the deferred tax asset quarterly. Any Organisation for Economic Co-operation and Development’s (“OECD”) actions adopted internationally, could impact our financial results in future periods.

In September 2010, the Danish Tax Authorities issued a decision concluding that distributions declared in 2005 and 2006 by our Danish subsidiary were subject to Danish at-source dividend withholding tax. We did not believe that our Danish subsidiary was liable for such withholding tax and filed an appeal with the Danish Tax Tribunal. In December 2011, the Danish Tax Tribunal issued a ruling in favor of NetApp. The Danish tax examination agency appealed this decision at the Danish High Court (DHC) in March 2012. In February 2016, the DHC requested a preliminary ruling from the Court of Justice of the European Union (CJEU). In March 2018, the Advocate General issued an opinion which was largely in favor of NetApp. The CJEU was not bound by the opinion of the Advocate General and issued its preliminary ruling in February 2019. On May 3, 2021, the DHC reached a decision resulting in NetApp prevailing on the predominate distribution made in 2005. The smaller distribution made in 2006 was ruled in favor of the Danish Tax Authorities. On May 28, 2021, the Danish Tax Authorities appealed the DHC decision to the Danish Supreme Court. On January 9, 2023, the Danish Supreme Court reversed the lower court's decision and ruled the 2005 dividend was subject to withholding tax while the smaller 2006 distribution would not be subject to withholding tax. The Danish Supreme Court ruling on the distributions declared in 2005 and 2006 is non-appealable. During the third quarter ended January 27, 2023, we recorded \$69 million of discrete tax expense, which includes \$23 million of withholding tax and \$46 million of interest, associated with the Danish Supreme Court ruling.

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.

As of January 27, 2023, we had \$228 million of gross unrecognized tax benefits. Inclusive of penalties, interest and certain income tax benefits, \$141 million would affect our provision for income taxes if recognized. Net unrecognized tax benefits of \$141 million have been recorded in other long-term liabilities.

13. 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 27, 2023	January 28, 2022	January 27, 2023	January 28, 2022
Numerator:				
Net income	\$ 65	\$ 252	\$ 1,029	\$ 678
Denominator:				
Shares used in basic computation	216	223	218	223
Dilutive impact of employee equity award plans	3	6	3	6
Shares used in diluted computation	219	229	221	229
Net Income per Share:				
Basic	\$ 0.30	\$ 1.13	\$ 4.72	\$ 3.04
Diluted	\$ 0.30	\$ 1.10	\$ 4.66	\$ 2.96

Six million shares each from outstanding employee awards were excluded from the diluted net income per share calculation for the three and nine months ended January 27, 2023, respectively, as their inclusion would have been anti-dilutive. No potential shares from outstanding employee equity awards were excluded from the diluted net income per share calculations for the three and nine months ended January 28, 2022.

14. Segment, Geographic, and Significant Customer Information

Our operations are organized into two segments: Hybrid Cloud and Public Cloud. The two segments are based on the information reviewed by our Chief Operating Decision Maker (CODM), who is the Chief Executive Officer, to evaluate results and allocate resources. The CODM measures performance of each segment based on segment revenue and segment gross profit. We do not allocate to our segments certain cost of revenues which we manage at the corporate level. These unallocated costs include stock-based compensation and amortization of intangible assets. We do not allocate assets to our segments.

Hybrid Cloud offers a portfolio of storage and infrastructure solutions that help customers recast their data centers with the power of cloud. This portfolio is designed to operate with public clouds to unlock the potential of hybrid, multi-cloud operations. Hybrid Cloud is composed of software, hardware, and related support, as well as professional and other services.

Public Cloud offers a portfolio of products delivered primarily as-a-service, including related support. This portfolio includes cloud storage and data services, and cloud operations services.

Segment Revenues and Gross Profit

Financial information by segment is as follows (in millions, except percentages):

	Three Months Ended January 27, 2023		
	Hybrid Cloud	Public Cloud	Consolidated
Product revenues	\$ 682	\$ —	\$ 682
Support revenues	616	—	616
Professional and other services revenues	78	—	78
Public cloud revenues	—	150	150
Net revenues	1,376	150	1,526
Cost of product revenues	365	—	365
Cost of support revenues	44	—	44
Cost of professional and other services revenues	50	—	50
Cost of public cloud revenues	—	47	47
Segment cost of revenues	459	47	506
Segment gross profit	\$ 917	\$ 103	\$ 1,020
Segment gross margin	66.6%	68.7%	66.8%
Unallocated cost of revenues ¹			19
Total gross profit			\$ 1,001
Total gross margin			65.6%

¹ Unallocated cost of revenues are composed of \$8 million of stock-based compensation expense and \$11 million of amortization of intangible assets.

	Three Months Ended January 28, 2022		
	Hybrid Cloud	Public Cloud	Consolidated
Product revenues	\$ 846	\$ —	\$ 846
Support revenues	586	—	586
Professional and other services revenues	72	—	72
Public cloud revenues	—	110	110
Net revenues	1,504	110	1,614
Cost of product revenues	404	—	404
Cost of support revenues	45	—	45
Cost of professional and other services revenues	46	—	46
Cost of public cloud revenues	—	32	32
Segment cost of revenues	495	32	527
Segment gross profit	\$ 1,009	\$ 78	\$ 1,087
Segment gross margin	67.1%	70.9%	67.3%
Unallocated cost of revenues ¹			14
Total gross profit			\$ 1,073
Total gross margin			66.5%

¹ Unallocated cost of revenues are composed of \$5 million of stock-based compensation expense and \$9 million of amortization of intangible assets.

	Nine Months Ended January 27, 2023		
	Hybrid Cloud	Public Cloud	Consolidated
Product revenues	\$ 2,305	\$ —	\$ 2,305
Support revenues	1,821	—	1,821
Professional and other services revenues	231	—	231
Public cloud revenues	—	424	424
Net revenues	4,357	424	4,781
Cost of product revenues	1,177	—	1,177
Cost of support revenues	132	—	132
Cost of professional and other services revenues	156	—	156
Cost of public cloud revenues	—	132	132
Segment cost of revenues	1,465	132	1,597
Segment gross profit	\$ 2,892	\$ 292	\$ 3,184
Segment gross margin	66.4%	68.9%	66.6%
Unallocated cost of revenues ¹			50
Total gross profit			\$ 3,134
Total gross margin			65.6%

¹ Unallocated cost of revenues are composed of \$18 million of stock-based compensation expense and \$32 million of amortization of intangible assets.

	Nine Months Ended January 28, 2022		
	Hybrid Cloud	Public Cloud	Consolidated
Product revenues	\$ 2,390	\$ —	\$ 2,390
Support revenues	1,754	—	1,754
Professional and other services revenues	218	—	218
Public cloud revenues	—	276	276
Net revenues	4,362	276	4,638
Cost of product revenues	1,099	—	1,099
Cost of support revenues	141	—	141
Cost of professional and other services revenues	151	—	151
Cost of public cloud revenues	—	80	80
Segment cost of revenues	1,391	80	1,471
Segment gross profit	\$ 2,971	\$ 196	\$ 3,167
Segment gross margin	68.1%	71.0%	68.3%
Unallocated cost of revenues ¹			36
Total gross profit			\$ 3,131
Total gross margin			67.5%

¹ Unallocated cost of revenues are composed of \$13 million of stock-based compensation expense and \$23 million of amortization of intangible assets.

Geographical Revenues and Certain Assets

Revenues summarized by geographic region are as follows (in millions):

	Three Months Ended		Nine Months Ended	
	January 27, 2023	January 28, 2022	January 27, 2023	January 28, 2022
United States, Canada and Latin America (Americas)	\$ 821	\$ 902	\$ 2,566	\$ 2,556
Europe, Middle East and Africa (EMEA)	491	516	1,526	1,431
Asia Pacific (APAC)	214	196	689	651
Net revenues	\$ 1,526	\$ 1,614	\$ 4,781	\$ 4,638

Americas revenues consist of sales to Americas commercial and U.S. public sector markets. Sales to customers inside the U.S. were \$714 million and \$796 million during the three months ended January 27, 2023 and January 28, 2022, respectively, and were \$2,241 million and \$2,265 million during the nine months ended January 27, 2023 and January 28, 2022, 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 27, 2023	April 29, 2022
U.S.	\$ 1,113	\$ 1,820
International	2,028	2,314
Total	\$ 3,141	\$ 4,134

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 27, 2023	April 29, 2022
U.S.	\$ 427	\$ 392
International	240	210
Total	\$ 667	\$ 602

Significant Customers

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 27, 2023	January 28, 2022	January 27, 2023	January 28, 2022
Arrow Electronics, Inc.	24 %	25 %	24 %	25 %
Tech Data Corporation	21 %	21 %	20 %	21 %

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

	January 27, 2023	April 29, 2022
Arrow Electronics, Inc.	10 %	10 %
Tech Data Corporation	17 %	19 %

15. Commitments and Contingencies

Purchase Orders and Other Commitments

In the ordinary course of business, we make commitments to third-party contract manufacturers and component suppliers to manage manufacturer 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 consist of firm, non-cancelable, and unconditional commitments. As of January 27, 2023, we had approximately \$0.5 billion 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 27, 2023 and April 29, 2022, such liability amounted to \$20 million and \$18 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 27, 2023, we had approximately \$0.3 billion 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 \$32 million and \$48 million of receivables during the nine months ended January 27, 2023 and January 28, 2022, 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 27, 2023 and April 29, 2022, 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 27, 2023, 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. The defendants' Motion to Dismiss was granted and on February 26, 2021 and the judge entered judgment in favor of NetApp and the other defendants. On March 26, 2021, plaintiffs filed a notice of appeal. The parties subsequently engaged in settlement discussions, and on July 30, 2021 entered into a Memorandum of Understanding (MOU) providing for the settlement of the class action. Pursuant to the terms of the MOU, NetApp has agreed to pay approximately \$2.0 million in connection with the settlement, and this amount was accrued during the three months ended July 30, 2021. The parties subsequently executed a stipulation of settlement, which contains no admission of liability, wrongdoing or responsibility by any of the parties, and which provides that the class action will be dismissed with prejudice, with mutual releases by all parties, upon final court approval. On September 24, 2021, plaintiff filed an unopposed motion seeking court approval of the settlement. On May 2, 2022, the court preliminarily approved the settlement. On September 1, 2022, the court held a final approval hearing, approved the settlement and dismissed the case with prejudice.

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 or stoppages, 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, cash flows and overall trends. No material accrual has been recorded as of January 27, 2023 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 Quarterly Report on Form 10-Q contain forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, as amended, 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 described in our 2022 Annual Report on Form 10-K, including under the heading “Risk Factors” and discussed in 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 29, 2022, 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 global cloud-led, data-centric software company that gives organizations the freedom to put data to work in the applications that elevate their business. We help our customers get the most out of their data with industry-leading public cloud services, and hybrid cloud solutions. Building on more than three decades of innovation, we give customers the freedom to manage applications and data across hybrid multicloud environments. We envision a better IT experience — an evolved cloud state where on-premises and cloud environments are united, always delivering simplicity, security, savings, and sustainability. To that end, we build solutions that drive faster innovation wherever a customer’s data and applications are located, with unified management and AI-driven optimization.

Our operations are organized into two segments: Hybrid Cloud and Public Cloud.

Hybrid Cloud offers a portfolio of storage management and infrastructure solutions that help customers recast their data centers with the power of cloud. This portfolio is designed to operate with public clouds to unlock the potential of hybrid, multi-cloud operations. We offer a broad portfolio of cloud-connected all-flash, hybrid-flash, and object storage systems, powered by intelligent data management software. Hybrid Cloud is composed of software, hardware, and related support, as well as professional and other services.

Public Cloud offers a portfolio of products delivered primarily as-a-service, including related support. This portfolio includes cloud storage and data services, and cloud operations services. Our enterprise-class solutions and services enable customers to control and manage storage in the cloud, consume high-performance storage services for primary workloads, and optimize cloud environments for cost and efficiency. These solutions and services are generally available on the leading public clouds, including Microsoft Azure, Google Cloud Platform and Amazon AWS.

Global Business Environment

Macroeconomic Conditions

Continuing global economic uncertainty, political conditions and fiscal challenges in the U.S. and abroad have resulted, and could continue to result in adverse macroeconomic conditions, including inflation, rising interest rates, foreign exchange volatility, slower growth or recession. In particular, during the first nine months of fiscal 2023, we continued to experience inflationary pressure, constraints in our supply chain and foreign exchange volatility. We also observed a slowdown in customer demand during the second and third quarters of fiscal 2023 as a result of continuing global economic uncertainty.

Supply chain constraints, which substantially began to impact us in the second half of fiscal 2022, and have eased in the second half of fiscal 2023, led to higher product component and freight costs in the first nine months of fiscal 2023 than incurred in the first nine months of fiscal 2022. Supply chain constraints also delayed our ability to fulfill certain customer orders during the first six months of fiscal 2023.

If these macroeconomic uncertainties or supply chain challenges persist or worsen for the remainder of fiscal 2023, we may continue to observe reduced customer demand for our offerings, increased competition for critical components, challenges fulfilling certain customer orders or continued increases in component and freight costs, any of which could impact our operating results.

COVID-19

The COVID-19 pandemic and efforts to control its spread have significantly curtailed the movement of people, goods and services worldwide, including in many 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.

Russia Sanctions

Beginning in February 2022, in response to Russian military actions in Ukraine, the U.S. and other countries imposed sanctions on Russia, and we suspended business operations, including sales, support on existing contracts and professional services, in Russia and Belarus. In the second quarter of fiscal 2023, we discontinued business operations in Russia, Belarus, and certain regions of Ukraine. The impact of these actions was not significant to our results in either the third quarter or first nine months of fiscal 2023.

The magnitude and duration of the disruption to our business, and impact to our operational and financial performance of the factors above remain uncertain. Refer to Part II, Item 1A. – Risk Factors for the significant risks we have identified related to the global business environment.

Stock Repurchase and Dividend Activity

During the first nine months of fiscal 2023, we repurchased approximately 10 million shares of our common stock at an average price of \$66.93 per share, for an aggregate of \$700 million. We also declared aggregate cash dividends of \$1.50 per share in that period, for which we paid \$326 million.

Restructuring Events

In the third quarter of fiscal 2023 management approved a restructuring plan to redirect resources to highest return activities and reduce costs, which will reduce our global workforce by approximately 8%. Activities under this plan are expected to substantially complete by the end of fiscal 2023. Aggregate charges recorded from restructuring plans in the third quarter and first nine months of fiscal 2023 totaled \$87 million and \$109 million, respectively, and consisted primarily of employee severance-related costs.

Results of Operations

Our fiscal year is reported as a 52- or 53-week year that ends on the last Friday in April. Fiscal years 2023 and 2022, ending on April 28, 2023 and April 29, 2022, respectively, are each 52-week years, with 13 weeks in each of their 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 income data as a percentage of net revenues for the periods indicated:

	Three Months Ended		Nine Months Ended	
	January 27, 2023	January 28, 2022	January 27, 2023	January 28, 2022
Net revenues:				
Product	45 %	52 %	48 %	52 %
Services	55	48	52	48
Net revenues	100	100	100	100
Cost of revenues:				
Cost of product	24	25	25	24
Cost of services	10	8	10	9
Gross profit	66	66	66	68
Operating expenses:				
Sales and marketing	29	29	29	30
Research and development	15	14	15	14
General and administrative	4	4	4	4
Restructuring charges	6	—	2	1
Acquisition-related expense	—	—	—	—
Total operating expenses	54	47	51	49
Income from operations	11	20	15	19
Other income (expense), net	—	(1)	1	(1)
Income before income taxes	12	19	16	18
Provision (benefit) for income taxes	7	3	(6)	3
Net income	4 %	16 %	22 %	15 %

Percentages may not add due to rounding

Discussion and Analysis of Results of Operations

Net Revenues (in millions, except percentages):

	Three Months Ended			Nine Months Ended		
	January 27, 2023	January 28, 2022	% Change	January 27, 2023	January 28, 2022	% Change
Net revenues	\$ 1,526	\$ 1,614	(5)%	\$ 4,781	\$ 4,638	3%

The decrease in net revenues for the third quarter of fiscal 2023 compared to the corresponding period of fiscal 2022 was primarily due to a decrease in product revenues, partially offset by an increase in services revenues. The increase in net revenues for the first nine months of fiscal 2023 compared to the corresponding period of fiscal 2022 was primarily due to an increase in services revenues, partially offset by a decrease in product revenues. Product revenues as a percentage of net revenues decreased by eight percentage points and three percentage points in the third quarter and first nine months of fiscal 2023, respectively, compared to the corresponding periods of fiscal 2022. Fluctuations in foreign currency exchange rates adversely impacted net revenues percent growth by three percentage points and four percentage points in the third quarter and first nine months of fiscal 2023, respectively, compared to the corresponding periods of fiscal 2022.

Product Revenues (in millions, except percentages):

	Three Months Ended			Nine Months Ended		
	January 27, 2023	January 28, 2022	% Change	January 27, 2023	January 28, 2022	% Change
Product revenues	\$ 682	\$ 846	(19)%	\$ 2,305	\$ 2,390	(4)%
Hardware (Non-GAAP)	292	338	(14)%	945	993	(5)%
Software (Non-GAAP)	390	508	(23)%	1,360	1,397	(3)%

Hybrid Cloud

Product revenues 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.

In order to provide visibility into the value created by our software innovation and R&D investment, we disclose the software and hardware components of our product revenues. Software product revenues include the operating system software and optional add-on software solutions attached to our systems across our entire product set, while hardware product revenues include the non-software component of our systems across the entire set. Because our revenue recognition policy under 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.

Total product revenues decreased in the third quarter and first nine months of fiscal 2023 compared to the corresponding periods of the prior year primarily due to lower sales of all flash array systems, as a result of softening customer demand. Product revenues were also unfavorably impacted by foreign exchange rate fluctuations.

Revenues from the hardware component of product revenues represented 43% and 41% of product revenues in the third quarter and first nine months of fiscal 2023, compared to 40% and 42% of product revenues in the corresponding periods of the prior year. The software component of product revenues represented 57% and 59% of product revenues in the third quarter and first nine months of fiscal 2023, compared to 60% and 58% of product revenues in the corresponding periods of the prior year. The decrease in the software component percentage of product revenues in the third quarter of fiscal 2023 was primarily due to the mix of systems sold.

Services Revenues (in millions, except percentages):

	Three Months Ended			Nine Months Ended		
	January 27, 2023	January 28, 2022	% Change	January 27, 2023	January 28, 2022	% Change
Services revenues	\$ 844	\$ 768	10%	\$ 2,476	\$ 2,248	10%
Support	616	586	5%	1,821	1,754	4%
Professional and other services	78	72	8%	231	218	6%
Public cloud	150	110	36%	424	276	54%

Hybrid Cloud

Hybrid Cloud services revenues are derived from the sale of: (1) support, which includes both hardware and software support contracts (the latter of which entitle customers to receive unspecified product upgrades and enhancements, bug fixes and patch releases), and (2) professional and other services, which include customer education and training.

Support revenues increased in the third quarter and first nine months of fiscal 2023 compared to the corresponding periods of the prior year as a result of a higher aggregate support contract value for our installed based, primarily due to a higher mix of all-flash systems (which carry a higher support dollar content than our other products). This increase was partially offset by an unfavorable impact from foreign exchange rate fluctuations.

Professional and other services revenues increased slightly in the third quarter and first nine months of fiscal 2023 compared to the corresponding periods of the prior year.

Public Cloud

Public Cloud revenues are derived from the sale of public cloud offerings primarily delivered as-a-service, which include cloud storage and data services, and cloud operations services.

Public Cloud revenues increased in the third quarter and first nine months of fiscal 2023 compared to the corresponding periods of the prior year primarily due to customer demand for NetApp's diversified cloud offerings, coupled with overall growth in the cloud market and the acquisition of InstaClustr early in the first quarter of fiscal 2023. Revenues in the first nine months of fiscal 2023 also benefitted from the acquisition of CloudCheckr in the third quarter of fiscal 2022.

Cost of Revenues

Our cost of revenues consists of:

(1) cost of product revenues, composed of (a) cost of Hybrid Cloud product revenues, which includes the costs of manufacturing and shipping our products, inventory write-downs, and warranty costs, and (b) unallocated cost of product revenues, which includes stock-based compensation and amortization of intangibles, and;

(2) cost of services revenues, composed of (a) cost of support revenues, which includes the costs of providing support activities for hardware and software support, global support partnership programs, and third party royalty costs, (b) cost of professional and other services revenues, (c) cost of public cloud revenues, constituting the cost of providing our Public Cloud offerings which includes depreciation and amortization expense and third party datacenter fees, and (d) unallocated cost of services revenues, which includes stock-based compensation and amortization of intangibles.

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

	Three Months Ended			Nine Months Ended		
	January 27, 2023	January 28, 2022	% Change	January 27, 2023	January 28, 2022	% Change
Cost of product revenues	\$ 367	\$ 407	(10)%	\$ 1,182	\$ 1,108	7 %
Hybrid Cloud	365	404	(10)%	1,177	1,099	7 %
Unallocated	2	3	(33)%	5	9	(44)%

Hybrid Cloud

Cost of Hybrid Cloud product revenues represented approximately 54% and 51% of product revenues for the third quarter and first nine months of fiscal 2023 compared to 48% and 46% for the corresponding periods of fiscal 2022. Materials costs represented 94% of cost of Hybrid Cloud product revenues for each of the third quarter and first nine months of fiscal 2023, respectively, compared to 94% and 92% for the corresponding periods of fiscal 2022.

Materials costs decreased by approximately \$29 million in the third quarter of fiscal 2023 compared to the corresponding period of the prior year, reflecting the decrease in product revenues. Material costs increased by approximately \$95 million in the first nine months of fiscal 2023 compared to the corresponding period of the prior year, reflecting the higher component and freight costs as a result of COVID-19 related supply chain challenges, partially offset by the decrease in product revenues.

Hybrid Cloud product gross margins decreased by approximately six percentage points and five percentage points in the third quarter and first nine months of fiscal 2023, respectively, compared to the corresponding periods of the prior year, primarily due to the mix of products sold and the adverse impacts of fluctuations in foreign currency exchange rates on product revenues. For the first nine months of fiscal 2023, Hybrid Cloud product gross margins were also impacted by higher component and freight costs.

Unallocated

Unallocated cost of product revenues decreased in the third quarter and first nine months of fiscal 2023 compared to the corresponding periods of the prior year due to certain intangible assets becoming fully amortized during the first quarter of fiscal 2023.

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

	Three Months Ended			Nine Months Ended		
	January 27, 2023	January 28, 2022	% Change	January 27, 2023	January 28, 2022	% Change
Cost of services revenues	\$ 158	\$ 134	18 %	\$ 465	\$ 399	17 %
Support	44	45	(2)%	132	141	(6)%
Professional and other services	50	46	9 %	156	151	3 %
Public cloud	47	32	47 %	132	80	65 %
Unallocated	17	11	55 %	45	27	67 %

Hybrid Cloud

Cost of Hybrid Cloud services revenues, which are composed of the costs of support and professional and other services, increased in the third quarter of fiscal 2023 and decreased in the first nine months of fiscal 2023 compared to the corresponding periods of fiscal 2022. Cost of Hybrid Cloud services revenues represented approximately 14% of Hybrid Cloud services revenues in the third quarter and first nine months of fiscal 2023, compared to 14% and 15% for the corresponding periods of fiscal 2022, respectively.

Hybrid Cloud support gross margins increased by one percentage point in the third quarter and first nine months of fiscal 2023 compared to the corresponding periods of the prior year due to growth in support revenues achieved with a slightly reduced cost base resulting from operational efficiencies. Hybrid Cloud professional and other services gross margins were flat in the third quarter of fiscal 2023 compared to the corresponding period of fiscal 2022, while they increased by two percentage points in the first nine months of fiscal 2023 compared to the corresponding period of fiscal 2022 due to the mix of services provided.

Public Cloud

Cost of Public Cloud revenues increased in the third quarter and first nine months of fiscal 2023 compared to the corresponding periods of fiscal 2022 reflecting the increase in Public Cloud revenues. Public Cloud gross margins decreased by two percentage points in the third quarter and first nine months of fiscal 2023, respectively, compared to the corresponding periods of fiscal 2022, primarily due to the mix of offerings provided.

Unallocated

Unallocated cost of services revenues increased in the third quarter and first nine months of fiscal 2023 compared to the corresponding periods of the prior year due to our acquisition of InstaClustr in the first quarter of fiscal 2023, which resulted in higher amortization expense from acquired intangible assets.

Operating Expenses

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

Sales and marketing, research and development, and general and administrative expenses for the third quarter of fiscal 2023 totaled \$739 million, or 48% of net revenues, reflecting an increase of two percentage points compared to the corresponding period of fiscal 2022.

Sales and marketing, research and development, and general and administrative expenses for the first nine months of fiscal 2023 totaled \$2,298 million, or 48% of net revenues, which was flat compared to the corresponding period of fiscal 2022.

While fluctuations in foreign currency exchange rates adversely impacted net revenues in the third quarter and first nine months of fiscal 2023 compared to the corresponding periods of fiscal 2022, they favorably impacted sales and marketing, research and development and general and administrative expenses by approximately 3% in both periods.

Compensation costs represent the largest component of sales and marketing, research and development and general and administrative 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 sales and marketing, research and development and general and administrative expenses increased by \$14 million, or 3%, in the third quarter of fiscal 2023, and by \$99 million, or 8%, in the first nine months of fiscal 2023, compared to the corresponding periods of the prior year, primarily due to higher salaries and stock-based compensation expense, reflecting an increase in average headcount of 12% and 11%, respectively. Stock-based compensation expense in the current year periods also included incremental expense related to the reset and rollover mechanism of our employee stock purchase plan. These increases were partially offset by lower incentive compensation expense.

Sales and Marketing (in millions, except percentages):

	Three Months Ended			Nine Months Ended		
	January 27, 2023	January 28, 2022	% Change	January 27, 2023	January 28, 2022	% Change
Sales and marketing expenses	\$ 450	\$ 461	(2)%	\$ 1,387	\$ 1,377	1%

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

	Three Months Ended Fiscal 2023 to Fiscal 2022	Nine Months Ended Fiscal 2023 to Fiscal 2022
Compensation costs	2	3
Commissions	(2)	(2)
Advertising and marketing promotional expense	(3)	(2)
Travel and entertainment	1	2
Total change	(2)	1

The increase in compensation costs for the third quarter and first nine months of fiscal 2023 compared to the corresponding periods of the prior year each reflected an increase in average headcount of approximately 9%. The impact of the increase in headcount was partially offset by lower incentive compensation expense and the impact of foreign exchange rate fluctuations.

The decrease in commissions expense for the third quarter and first nine months of fiscal 2023 compared to the corresponding periods of the prior year was primarily due to lower performance against sales goals.

Advertising and marketing promotional expense decreased in the third quarter and first nine months of fiscal 2023 compared to the corresponding periods of the prior year, primarily due to lower spending on certain marketing programs.

Travel and entertainment expense increased in the third quarter and first nine months of fiscal 2023 compared to the corresponding periods of the prior year as COVID-19 related travel restrictions eased.

Research and Development (in millions, except percentages):

	Three Months Ended			Nine Months Ended		
	January 27, 2023	January 28, 2022	% Change	January 27, 2023	January 28, 2022	% Change
Research and development expenses	\$ 230	\$ 220	5%	\$ 713	\$ 646	10%

Research and development expenses consist primarily of compensation costs, facilities and IT support 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 2023 to Fiscal 2022	Nine Months Ended Fiscal 2023 to Fiscal 2022
Compensation costs	4	9
Development projects and outside services	1	1
Total change	5	10

The increase in compensation costs for the third quarter and first nine months of fiscal 2023 compared to the corresponding periods in the prior year was primarily attributable to an increase in average headcount of 16% and 14%, respectively. The impact of the increase in headcount was partially offset by lower incentive compensation expense and the impact of foreign exchange rate fluctuations.

The increase in development projects and outside services for the third quarter and first nine months of fiscal 2023 compared to the corresponding periods in the prior year was primarily due to the higher spending on certain engineering projects.

General and Administrative (in millions, except percentages):

	Three Months Ended			Nine Months Ended		
	January 27, 2023	January 28, 2022	% Change	January 27, 2023	January 28, 2022	% Change
General and administrative expenses	\$ 59	\$ 65	(9)%	\$ 198	\$ 207	(4)%

General and administrative expenses consist primarily of compensation costs, professional and corporate legal fees, outside services and 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 2023 to Fiscal 2022	Nine Months Ended Fiscal 2023 to Fiscal 2022
Compensation costs	(7)	—
Facilities and IT support costs	(6)	(5)
Other	4	1
Total change	(9)	(4)

The decrease in compensation costs in the third quarter of fiscal 2023 compared to the corresponding period of the prior year was primarily attributable to lower incentive compensation expense, partially offset by the increase in salaries and stock-based compensation expenses.

The decrease in facilities and IT support costs in the third quarter and first nine months of fiscal 2023 was primarily related to lower spending for certain IT projects.

Restructuring Charges (in millions, except percentages):

	Three Months Ended			Nine Months Ended		
	January 27, 2023	January 28, 2022	% Change	January 27, 2023	January 28, 2022	% Change
Restructuring charges	\$ 87	\$ —	NM	\$ 109	\$ 29	276%

NM – Not Meaningful

The restructuring charges for the third quarter and first nine months of fiscal 2023 consisted primarily of severance-related costs associated with a restructuring plan approved by management during the third quarter of fiscal 2023 to redirect resources to highest return activities and reduce costs. This plan will result in a reduction of our global workforce by approximately 8%. The restructuring charges in fiscal 2023 also included severance-related costs, legal costs and tax-related consulting costs for ongoing restructuring activities related to the establishment of an international headquarters in Cork, Ireland, and a restructuring plan executed in the first quarter of fiscal 2023, which resulted in a reduction of our global workforce by approximately 1%.

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

	Three Months Ended			Nine Months Ended		
	January 27, 2023	January 28, 2022	% Change	January 27, 2023	January 28, 2022	% Change
Acquisition-related expense	\$ 3	\$ 6	NM	\$ 18	\$ 8	NM

NM – Not Meaningful

Acquisition-related expenses, primarily legal and consulting fees, totaled \$3 million and \$18 million in the third quarter and first nine months of fiscal 2023, respectively, and were primarily related to our acquisition of Instaclustr US Holding, Inc.

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 27, 2023	January 28, 2022	% Change	January 27, 2023	January 28, 2022	% Change
Interest income	\$ 21	\$ 2	NM	\$ 42	\$ 5	NM
Interest expense	(16)	(19)	(16)%	(51)	(55)	(7)%
Other, net	—	2	NM	52	9	NM
Total	\$ 5	\$ (15)	NM	\$ 43	\$ (41)	NM

NM – Not Meaningful

Interest income increased in the third quarter and first nine months of fiscal 2023 compared to the corresponding periods of the prior year due primarily to higher yields earned on our cash and investments. Interest expense decreased in the third quarter and first nine months of fiscal 2023 compared to the corresponding periods of fiscal 2022 due to the extinguishment of certain senior notes in the second quarter of fiscal 2023.

Other, net for the first nine months of fiscal 2023 includes \$21 million of other income for non-refundable, up-front payments from customers in Russia for support contracts, which we were not able to fulfill due to imposed sanctions and for which we have no remaining legal obligation to perform. Other, net for the first nine months of fiscal 2023 also includes a \$32 million gain recognized on our sale of a minority equity interest in a privately held company for proceeds of approximately \$59 million. The remaining differences in Other, net for the third quarter and first nine months of fiscal 2023 as compared to the corresponding periods of the prior year are partially due to foreign exchange gains and losses year-over-year.

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

	Three Months Ended			Nine Months Ended		
	January 27, 2023	January 28, 2022	% Change	January 27, 2023	January 28, 2022	% Change
Provision (benefit) for income taxes	\$ 112	\$ 54	107%	\$ (277)	\$ 145	NM

NM – Not Meaningful

Our effective tax rate for the three months ended January 27, 2023 increased compared to the corresponding period of the prior year, primarily due to the discrete tax expense recorded as a result of the Danish Supreme Court ruling received January 9, 2023. Our effective tax rate for the nine months ended January 27, 2023 decreased compared to the corresponding period of the prior year, primarily due to the discrete tax benefit resulting from an intra-entity asset transfer of certain IP.

During the second quarter of fiscal 2023, we completed an intra-entity asset transfer of certain IP to our international headquarters (the “IP Transfer”). The transaction resulted in a step-up of tax-deductible basis in the transferred assets, and accordingly, created a temporary difference where the tax basis exceeded the financial statement basis of such intangible assets, which resulted in the recognition of a discrete tax benefit and related deferred tax asset of \$524 million during the second quarter of fiscal 2023. Management applied significant judgment when determining the fair value of the IP, which serves as the tax basis of the deferred tax asset. With the assistance of third-party valuation specialists, the fair value of the IP was determined principally based on the present value of projected cash flows related to the IP which reflects management’s assumptions regarding projected revenues, expenses and a discount rate. The tax-deductible amortization related to the transferred IP rights will be recognized in future periods and any amortization that is unused in a particular year can be carried forward indefinitely. The deferred tax asset and the tax benefit were measured based on the enacted tax rates expected to apply in the years the asset is expected to be realized. We expect to realize the deferred tax asset resulting from the IP Transfer and will assess the realizability of the deferred tax asset quarterly. Any Organisation for Economic Co-operation and Development’s (“OECD”) actions adopted internationally, could impact our financial results in future periods. The impact of the transaction to net cash provided by or used in operating, investing and financing activities on the condensed consolidated statements of cash flows during the quarter ended January 27, 2023, was not material.

During the third quarter of fiscal 2023, the Danish Supreme Court issued a non-appealable ruling on the distributions declared in 2005 and 2006. The Danish Supreme Court reversed the lower court's decision and ruled the 2005 dividend was subject to at-source dividend withholding tax while the smaller 2006 distribution would not be subject to withholding tax. We recorded \$69 million of tax expense, which includes \$23 million of withholding tax and \$46 million of interest, associated with the Danish Supreme Court ruling as a discrete item during the quarter ended January 27, 2023.

As of January 27, 2023, we had \$228 million of gross unrecognized tax benefits. Inclusive of penalties, interest and certain income tax benefits, \$141 million would affect our provision for income taxes if recognized. Net unrecognized tax benefits of \$141 million have been recorded in other long-term liabilities.

Liquidity, Capital Resources and Cash Requirements

(In millions)	January 27, 2023	April 29, 2022
Cash, cash equivalents and short-term investments	\$ 3,141	\$ 4,134
Principal amount of debt	\$ 2,400	\$ 2,650

The following is a summary of our cash flow activities:

(In millions)	Nine Months Ended	
	January 27, 2023	January 28, 2022
Net cash provided by operating activities	\$ 872	\$ 800
Net cash used in investing activities	(1,105)	(481)
Net cash used in financing activities	(1,244)	(651)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	4	(26)
Net change in cash, cash equivalents and restricted cash	\$ (1,473)	\$ (358)

Cash Flows

As of January 27, 2023, our cash, cash equivalents and short-term investments were \$3.1 billion, which represents a decrease of \$1.0 billion for the first nine months of fiscal 2023. The decrease was primarily due to \$491 million, net of cash acquired, used for the acquisition of a privately-held company, \$700 million paid for the repurchase of our common stock, \$326 million used for the payment of dividends and \$250 million repayment of our Senior Notes, partially offset by \$872 million provided by operating activities. Net working capital was \$1.1 billion as of January 27, 2023, a reduction of \$845 million when compared to April 29, 2022, primarily due to the decrease in cash, cash equivalents and short-term investments discussed above.

Cash Flows from Operating Activities

During the first nine months of fiscal 2023, we generated cash from operating activities of \$872 million, reflecting net income of \$1.0 billion which was reduced by \$577 million for non-cash deferred tax benefits and increased for non-cash depreciation and amortization expense of \$182 million and non-cash stock-based compensation expense of \$238 million, compared to \$800 million of cash generated from operating activities during the first nine months of fiscal 2022.

Significant changes in assets and liabilities in the first nine months of fiscal 2023 included the following:

- *Accounts receivable* decreased \$425 million, reflecting lower billings in the first nine months of fiscal 2023 compared to the last nine months of fiscal 2022.
- *Accounts payable* decreased by \$173 million, primarily reflecting lower inventory purchases, and the timing of those purchases from, and payments to, our contract manufacturers.
- *Accrued expenses* decreased by \$117 million, primarily due to employee compensation payouts related to fiscal year 2022 incentive compensation and commissions plans.

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, shipping linearity, accounts receivable collections performance, inventory and supply chain management, vendor payment initiatives, and the timing and amount of compensation, income taxes and other payments.

Cash Flows from Investing Activities

During the first nine months of fiscal 2023, we used \$474 million for the purchases of investments, net of maturities and sales, and paid \$200 million for capital expenditures, as compared to the same period of fiscal 2022, in which we generated \$36 million from maturities and sales of investments, net of purchases, and paid \$158 million for capital expenditures. During the first nine months of fiscal 2023, we paid approximately \$491 million, net of cash acquired for a privately-held company, as compared to \$359 million, net of cash acquired, that we paid for two privately-held companies in the first nine months of fiscal 2022. Additionally, we received proceeds of \$59 million from the sale of one of our minority investments during the first nine months of fiscal 2023.

Cash Flows from Financing Activities

During the first nine months of fiscal 2023, cash flows used in financing activities totaled \$1.2 billion and include \$700 million for the repurchase of approximately ten million shares of common stock, \$326 million for the payment of dividends and \$250 million to redeem our Senior Notes due in December 2022. During the first nine months of fiscal 2022, cash flows used in financing activities totaled \$651 million and included \$350 million for the repurchase of approximately four million shares of common stock and \$335 million for the payment of dividends.

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 cash, cash equivalents and short-term investments, cash generated from operations, and our ability to access capital markets and committed credit lines 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 Part II, Item 1A. Risk Factors.

Liquidity

Our principal sources of liquidity as of January 27, 2023 consisted of cash, cash equivalents and 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 27, 2023	April 29, 2022
Cash and cash equivalents	\$ 2,640	\$ 4,112
Short-term investments	501	22
Total	\$ 3,141	\$ 4,134

As of January 27, 2023 and April 29, 2022, \$2.0 billion and \$2.3 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 \$1.1 billion and \$1.8 billion, respectively, were available in the U.S.

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 through asset purchases and/or business acquisitions, service interest and principal payments on our debt, fund our stock repurchase program, and pay dividends, as and if declared. In the ordinary course of business, we engage in periodic reviews of opportunities to invest in or acquire companies or units in companies to expand our total addressable market, leverage technological synergies and establish new streams of revenue, particularly in our Public Cloud segment.

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 27, 2023.

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. We also have an automatic shelf registration statement on file with the U.S. 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 27, 2023 (in millions):

	Amount
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	\$ 2,400

Interest on the Senior Notes is payable semi-annually. For further information on the underlying terms, see Note 7 – Financing Arrangements of the Notes to Condensed Consolidated Financial Statements.

On September 15, 2022, we extinguished our 3.25% Senior Notes due December 2022 for an aggregate cash redemption price of \$252 million, comprised of the principal and unpaid interest.

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 27, 2023.

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 27, 2023, 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 2023 to be between \$25 million and \$75 million.

Transition Tax Payments

The Tax Cuts and Jobs Act of 2017 imposed a mandatory, one-time transition tax on accumulated foreign earnings and profits that had not previously been subject to U.S. income tax. As of January 27, 2023, outstanding payments related to the transition tax are estimated to be approximately \$303 million of which \$88 million, \$115 million and \$100 million are expected to be paid during fiscal 2024, fiscal 2025 and fiscal 2026, respectively. During the first nine months of fiscal 2023, transition tax payments totaled \$48 million. Our estimates for future transition tax payments, however, could change with further guidance or review from U.S. federal and state tax authorities or other regulatory bodies.

Dividends and Stock Repurchase Program

On February 17, 2023, we declared a cash dividend of \$0.50 per share of common stock, payable on April 26, 2023, to holders of record as of the close of business on April 6, 2023.

As of January 27, 2023, our Board of Directors had authorized the repurchase of up to \$15.1 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 27, 2023, we repurchased a total of 358 million shares of our common stock at an average price of \$40.74 per share, for an aggregate purchase price of \$14.6 billion. As of January 27, 2023, the remaining authorized amount for stock repurchases under this program was \$0.5 billion.

Purchase Commitments

In the ordinary course of business, we make commitments to third-party contract manufacturers and component suppliers to manage manufacturer lead times and meet product forecasts, and to other parties, to purchase various key components used in the manufacture of our products. In addition, 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. These off-balance sheet purchase commitments totaled approximately \$0.8 billion at January 27, 2023.

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 \$32 million and \$48 million of receivables during the first nine months of fiscal 2023 and fiscal 2022, 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 27, 2023 and April 29, 2022, 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 27, 2023, 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

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 15 – Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP), 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, including the ongoing COVID-19 pandemic, 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.

The summary of significant accounting policies is included under Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations of our fiscal 2022 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, except with respect to Income Taxes, specifically estimates related to the intra-entity asset transfer of the IP to our international headquarters during the second quarter of fiscal 2023. The following are the key estimates and assumptions and corresponding uncertainties for estimating the value of the IP:

· The assessment of the fair value of the IP transferred to our international headquarters is based on factors that market participants would use in an orderly transaction in accordance with the accounting guidance for the fair value measurement of nonfinancial assets and transfer pricing principles from the Organisation for Economic Co-operation and Development.

The valuation of our IP is principally based on estimates of the future performance and cash flows expected to be generated through use of the IP.

· While we employ experts to determine the fair value of IP, its fair value is based on significant management assumptions and estimates, which are inherently uncertain and highly subjective and as a result, actual results may differ from estimates. If different assumptions were to be used, it could materially impact the IP valuation. Volatile macroeconomic and market conditions caused by the COVID-19 pandemic have increased the level of uncertainty and subjectivity of certain management assumptions and estimates.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to market risk related to fluctuations in 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 27, 2023, we had fixed income debt investments of \$501 million and certificates of deposit of \$50 million. Our fixed income debt 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 fixed income debt investments, which consist primarily of corporate bonds and U.S. Treasury and government debt securities, and our 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 an adverse impact on interest income for our investment portfolio. A hypothetical 100 basis point increase in market interest rates from levels as of January 27, 2023 would have resulted in a decrease in the fair value of our fixed-income securities of approximately \$1 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 is other-than-temporary. We monitor and evaluate our investment portfolio on a quarterly basis for any other-than-temporary impairments.

Debt — As of January 27, 2023, we have outstanding \$2.4 billion aggregate principal amount of Senior Notes. We carry these instruments at face value less unamortized discount and issuance costs 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 7 – 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 27, 2023, 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 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 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 12 months or less. See Note 10 – 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 27, 2023, 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 2023 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 15 – Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements.

Item 1A. Risk Factors.

Our future business, operations and financial results are subject to various risks and uncertainties, including those described in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended April 29, 2022, which could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our common and capital stock. Except as set forth below, there have been no material changes to the Company's risk factors since our Annual Report on Form 10-K for the year ended April 29, 2022.

Risks Related to Our Business and Industry***Continuing uncertain economic and political conditions restrict our visibility and may harm our business, operating results, including our revenue growth and profitability, financial condition and cash flows.***

Continuing global economic uncertainty, political conditions and fiscal challenges in the U.S. and abroad, such as inflation, foreign exchange volatility and potential economic recession, 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, impacted availability of supplies 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. Adverse macroeconomic conditions, including inflation, slower growth or recession, new or increased tariffs or other barriers to global trade, changes to fiscal and monetary policy and higher interest rates, could materially adversely impact our business and operating results. In fiscal 2023, the global economic uncertainty has had, and could continue to have, a material adverse impact on the demand for our products. In addition, the constraints in our supply chain, including higher component and freight costs, have resulted, and could continue to result in, increased costs of revenue and the delay in fulfillment of certain customer orders. Consequently, these concerns have challenged our business and we expect them to continue 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.

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

Our continued success depends, in part, on our ability to hire and retain qualified personnel and to advance our corporate strategy and 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 of approximately 5% and 8% announced in fiscal 2021 and the fourth quarter of fiscal 2023, respectively, 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 disrupt 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, financial condition and cash flows.

Equity grants are a critical component of our current compensation programs. If we reduce, modify or eliminate our equity programs or fail to grant equity competitively, 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.

General Risks***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, changes to

the tax laws in such jurisdictions and the outcome of income tax audits. Changes to any of these factors could materially impact our operating results, financial condition and cash flows.

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 operating results, financial condition and cash flows.

Our effective tax rate could also be adversely affected by changes in tax laws and regulations and interpretations of such laws and regulations, which in turn would negatively impact our earnings and cash and cash equivalent balances we currently maintain. 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. For example, on August 16, 2022, the U.S. enacted the Inflation Reduction Act, which includes a corporate minimum tax and a 1% excise tax on net stock repurchases. We continue to evaluate the impacts of changes in tax laws and regulations on our business.

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, financial condition and cash flows could be adversely affected.

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 27, 2023:

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 29, 2022 - November 25, 2022	452	\$ 71.20	355,085	\$ 720
November 26, 2022 - December 23, 2022	1,067	\$ 63.59	356,152	\$ 652
December 24, 2022 - January 27, 2023	1,554	\$ 64.33	357,706	\$ 552
Total	3,073	\$ 65.09		

In May 2003, our Board of Directors approved a stock repurchase program. As of January 27, 2023, our Board of Directors has authorized the repurchase of up to \$15.1 billion of our common stock. Since the May 13, 2003 inception of the program through January 27, 2023, we repurchased a total of 358 million shares of our common stock for an aggregate purchase price of \$14.6 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.

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	Incorporation by Reference			Filing Date
		Form	File No.	Exhibit	
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, 2023

**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 Director

(Principal Executive Officer and Principal Operating Officer)

Date: March 1, 2023

**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, 2023

**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 27, 2023 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 Director

(Principal Executive Officer and Principal Operating Officer)

Date: March 1, 2023

**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 27, 2023 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, 2023
