

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 October 25, 2019

or

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

For the transition period from

to

Commission File Number 000-27130

**NetApp, Inc.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

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

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

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

Title of each class	Trading Symbol(s)	Name of exchange on which registered
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 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 November 13, 2019, there were 228,226,206 shares of the registrant's common stock, \$0.001 par value, outstanding.

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## TRADEMARKS

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**PART I — FINANCIAL INFORMATION**

**Item 1. Condensed Consolidated Financial Statements (Unaudited)**

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

	<u>October 25,</u> <u>2019</u>	<u>April 26,</u> <u>2019</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,545	\$ 2,325
Short-term investments	442	1,574
Accounts receivable	780	1,216
Inventories	111	131
Other current assets	<u>313</u>	<u>364</u>
<b>Total current assets</b>	<b>4,191</b>	<b>5,610</b>
Property and equipment, net	746	759
Goodwill	1,770	1,735
Other intangible assets, net	51	47
Other non-current assets	<u>714</u>	<u>590</u>
<b>Total assets</b>	<b><u>\$ 7,472</u></b>	<b><u>\$ 8,741</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 382	\$ 542
Accrued expenses	606	851
Commercial paper notes	498	249
Current portion of long-term debt	—	400
Short-term deferred revenue and financed unearned services revenue	<u>1,718</u>	<u>1,825</u>
<b>Total current liabilities</b>	<b>3,204</b>	<b>3,867</b>
Long-term debt	1,145	1,144
Other long-term liabilities	837	797
Long-term deferred revenue and financed unearned services revenue	<u>1,750</u>	<u>1,843</u>
<b>Total liabilities</b>	<b><u>6,936</u></b>	<b><u>7,651</u></b>
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Common stock and additional paid-in capital, \$0.001 par value; 229 and 240 shares issued and outstanding as of October 25, 2019 and April 26, 2019, respectively	572	1,133
Retained earnings	—	—
Accumulated other comprehensive loss	<u>(36)</u>	<u>(43)</u>
<b>Total stockholders' equity</b>	<b>536</b>	<b>1,090</b>
<b>Total liabilities and stockholders' equity</b>	<b><u>\$ 7,472</u></b>	<b><u>\$ 8,741</u></b>

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	October 25, 2019	October 26, 2018	October 25, 2019	October 26, 2018
<b>Revenues:</b>				
Product	\$ 771	\$ 913	\$ 1,415	\$ 1,788
Software maintenance	254	236	504	465
Hardware maintenance and other services	346	368	688	738
Net revenues	<u>1,371</u>	<u>1,517</u>	<u>2,607</u>	<u>2,991</u>
<b>Cost of revenues:</b>				
Cost of product	341	428	653	826
Cost of software maintenance	11	8	21	15
Cost of hardware maintenance and other services	94	107	192	213
Total cost of revenues	<u>446</u>	<u>543</u>	<u>866</u>	<u>1,054</u>
Gross profit	<u>925</u>	<u>974</u>	<u>1,741</u>	<u>1,937</u>
<b>Operating expenses:</b>				
Sales and marketing	389	408	794	817
Research and development	209	211	424	419
General and administrative	69	69	140	142
Restructuring charges	—	—	21	19
Gain on sale or derecognition of assets	(38)	—	(38)	—
Total operating expenses	<u>629</u>	<u>688</u>	<u>1,341</u>	<u>1,397</u>
<b>Income from operations</b>	296	286	400	540
Other income, net	3	7	18	25
<b>Income before income taxes</b>	299	293	418	565
Provision for income taxes	56	52	72	41
<b>Net income</b>	<u>\$ 243</u>	<u>\$ 241</u>	<u>\$ 346</u>	<u>\$ 524</u>
<b>Net income per share:</b>				
Basic	<u>\$ 1.03</u>	<u>\$ 0.93</u>	<u>\$ 1.46</u>	<u>\$ 2.02</u>
Diluted	<u>\$ 1.03</u>	<u>\$ 0.91</u>	<u>\$ 1.44</u>	<u>\$ 1.96</u>
<b>Shares used in net income per share calculations:</b>				
Basic	<u>235</u>	<u>258</u>	<u>237</u>	<u>260</u>
Diluted	<u>236</u>	<u>264</u>	<u>240</u>	<u>267</u>

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	October 25, 2019	October 26, 2018	October 25, 2019	October 26, 2018
<b>Net income</b>	\$ 243	\$ 241	\$ 346	\$ 524
<b>Other comprehensive income (loss):</b>				
Foreign currency translation adjustments	(1)	(3)	(2)	(3)
Defined benefit obligations:				
Reclassification adjustments related to defined benefit obligations	(1)	(1)	(1)	(1)
Income tax effect	1	—	1	—
Unrealized gains (losses) on available-for-sale securities:				
Unrealized holding gains (losses) arising during the period	2	(1)	22	(1)
Reclassification adjustments for gains included in net income	—	—	(14)	—
Unrealized gains on cash flow hedges:				
Unrealized holding gains arising during the period	2	—	1	—
<b>Other comprehensive income (loss)</b>	<u>3</u>	<u>(5)</u>	<u>7</u>	<u>(5)</u>
<b>Comprehensive income</b>	<u>\$ 246</u>	<u>\$ 236</u>	<u>\$ 353</u>	<u>\$ 519</u>

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended	
	October 25, 2019	October 26, 2018
<b>Cash flows from operating activities:</b>		
Net income	\$ 346	\$ 524
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	99	98
Stock-based compensation	82	78
Deferred income taxes	(23)	(25)
Gain on sale or derecognition of assets	(38)	—
Other items, net	13	11
Changes in assets and liabilities, net of acquisitions of businesses:		
Accounts receivable	435	269
Inventories	20	36
Other operating assets	41	(19)
Accounts payable	(157)	(127)
Accrued expenses	(315)	(162)
Deferred revenue and financed unearned services revenue	(197)	(129)
Long-term taxes payable	(49)	(63)
Net cash provided by operating activities	<u>257</u>	<u>491</u>
<b>Cash flows from investing activities:</b>		
Purchases of investments	(9)	(20)
Maturities, sales and collections of investments	1,155	509
Purchases of property and equipment	(68)	(107)
Proceeds from sale of properties	96	—
Acquisitions of businesses, net of cash acquired	(56)	(3)
Other investing activities, net	(2)	2
Net cash provided by investing activities	<u>1,116</u>	<u>381</u>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock under employee stock award plans	55	65
Payments for taxes related to net share settlement of stock awards	(74)	(89)
Repurchase of common stock	(750)	(1,061)
Proceeds from (repayments of) commercial paper notes, net	249	(135)
Repayment of long-term debt	(400)	—
Dividends paid	(226)	(207)
Other financing activities, net	(2)	(2)
Net cash used in financing activities	<u>(1,148)</u>	<u>(1,429)</u>
<b>Effect of exchange rate changes on cash, cash equivalents and restricted cash</b>	(5)	(25)
<b>Net increase (decrease) in cash, cash equivalents and restricted cash</b>	220	(582)
<b>Cash, cash equivalents and restricted cash:</b>		
Beginning of period	2,331	2,947
End of period	<u>\$ 2,551</u>	<u>\$ 2,365</u>

See accompanying notes to condensed consolidated financial statements.

**NETAPP, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(In millions)  
(Unaudited)

**Three Months Ended October 25, 2019**

	Common Stock and Additional Paid-in Capital		Retained Earnings	Accumulated Other Comprehensive Loss		Total
	Shares	Amount		Loss	Total	
	(In millions, except per share amounts)					
<b>Balances, July 26, 2019</b>	239	\$ 902	\$ —	\$ (39)	\$	863
Net income	—	—	243	—	—	243
Other comprehensive income	—	—	—	3	—	3
Issuance of common stock under employee stock award plans, net of taxes	—	(2)	—	—	—	(2)
Repurchase of common stock	(10)	(257)	(243)	—	—	(500)
Stock-based compensation	—	40	—	—	—	40
Cash dividends declared (\$0.48 per common share)	—	(111)	—	—	—	(111)
<b>Balances, October 25, 2019</b>	<u>229</u>	<u>\$ 572</u>	<u>\$ —</u>	<u>\$ (36)</u>	<u>\$</u>	<u>536</u>

**Three Months Ended October 26, 2018**

	Common Stock and Additional Paid-in Capital		Retained Earnings	Accumulated Other Comprehensive Loss		Total
	Shares	Amount		Loss	Total	
	(In millions, except per share amounts)					
<b>Balances, July 27, 2018</b>	260	\$ 1,992	\$ —	\$ (70)	\$	1,922
Net income	—	—	241	—	—	241
Other comprehensive loss	—	—	—	(5)	—	(5)
Issuance of common stock under employee stock award plans, net of taxes	1	(3)	—	—	—	(3)
Repurchase of common stock	(7)	(320)	(241)	—	—	(561)
Stock-based compensation	—	38	—	—	—	38
Cash dividends declared (\$0.40 per common share)	—	(102)	—	—	—	(102)
<b>Balances, October 26, 2018</b>	<u>254</u>	<u>\$ 1,605</u>	<u>\$ —</u>	<u>\$ (75)</u>	<u>\$</u>	<u>1,530</u>

See accompanying notes to condensed consolidated financial statements.

**Six Months Ended October 25, 2019**

	Common Stock and		Retained Earnings	Accumulated Other Comprehensive		Total
	Additional Paid-in Capital			Loss		
	Shares	Amount				
(In millions, except per share amounts)						
<b>Balances, April 26, 2019</b>	240	\$ 1,133	\$ —	\$ (43)	\$	1,090
Cumulative-effect of adoption of ASC 842	—	—	6	—	—	6
Net income	—	—	346	—	—	346
Other comprehensive income	—	—	—	7	—	7
Issuance of common stock under employee stock award plans, net of taxes	3	(19)	—	—	—	(19)
Repurchase of common stock	(14)	(398)	(352)	—	—	(750)
Stock-based compensation	—	82	—	—	—	82
Cash dividends declared (\$0.96 per common share)	—	(226)	—	—	—	(226)
<b>Balances, October 25, 2019</b>	<u>229</u>	<u>\$ 572</u>	<u>\$ —</u>	<u>\$ (36)</u>	<u>\$</u>	<u>536</u>

**Six Months Ended October 26, 2018**

	Common Stock and		Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive		Total
	Additional Paid-in Capital			Loss		
	Shares	Amount				
(In millions, except per share amounts)						
<b>Balances, April 27, 2018</b>	263	\$ 2,355	\$ (9)	\$ (70)	\$	2,276
Cumulative-effect of adoption of ASU 2016-16	—	—	(51)	—	—	(51)
Net income	—	—	524	—	—	524
Other comprehensive loss	—	—	—	(5)	—	(5)
Issuance of common stock under employee stock award plans, net of taxes	5	(24)	—	—	—	(24)
Repurchase of common stock	(14)	(597)	(464)	—	—	(1,061)
Stock-based compensation	—	78	—	—	—	78
Cash dividends declared (\$0.80 per common share)	—	(207)	—	—	—	(207)
<b>Balances, October 26, 2018</b>	<u>254</u>	<u>\$ 1,605</u>	<u>\$ —</u>	<u>\$ (75)</u>	<u>\$</u>	<u>1,530</u>

See accompanying notes to condensed consolidated financial statements.



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

**1. Description of Business and Significant Accounting Policies**

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

***Basis of Presentation and Preparation***

Our fiscal year is reported on a 52- or 53-week year ending on the last Friday in April. An additional week is included in the first fiscal quarter approximately every six years to realign fiscal months with calendar months. Fiscal years 2020 and 2019, ending on April 24, 2020, and April 26, 2019, respectively, are each 52-week years, with 13 weeks in each of their quarters.

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company, and reflect all adjustments, consisting only of normal recurring adjustments, that are, in the opinion of management, necessary for the fair presentation of our financial position, results of operations, comprehensive income, cash flows and stockholders' equity for the interim periods presented. The statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information. Accordingly, these statements do not include all information and footnotes required by GAAP for annual consolidated financial statements, and should be read in conjunction with our audited consolidated financial statements as of and for the fiscal year ended April 26, 2019 contained in our Annual Report on Form 10-K. The results of operations for the three and six months ended October 25, 2019 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 and purchase order accruals; valuation of goodwill and intangibles; restructuring reserves; product warranties; employee compensation and benefit accruals; stock-based compensation; loss contingencies; investment impairments; income taxes and fair value measurements. Actual results could differ materially from those estimates.

***Accounting Changes***

In February 2016, the FASB issued an accounting standards update on financial reporting for leasing arrangements, including requiring lessees to recognize an operating lease with a term greater than one year on their balance sheets as a right-of-use (ROU) asset and corresponding lease liability, measured at the present value of the lease payments. In the first quarter of fiscal 2020, we adopted this new standard using the modified retrospective approach, electing the optional transition approach of not adjusting our comparative period financial statements for the impacts of adoption. We also elected the package of practical expedients that did not require us to reassess existing leases under the new guidance, and the practical expedient to not separate lease and non-lease components for all leases. Adoption of the new standard on April 27, 2019 resulted in the recognition of approximately \$149 million of operating lease ROU assets, net of deferred rent and lease restructuring liabilities, \$158 million of lease liabilities, and a cumulative-effect adjustment to retained earnings of \$6 million on our condensed consolidated balance sheets. Adoption of the standard did not have a material impact on our condensed consolidated statements of operations or condensed consolidated statements of cash flows. Additional information is presented below and in Note 9 – Leases.

*Leases – We determine if an arrangement is or contains a lease at inception, and we classify leases as operating or finance leases at commencement. In our condensed consolidated balance sheets, operating lease ROU assets are included in other non-current assets, while finance lease ROU assets are included in property and equipment, net. Lease liabilities for both types of leases are included in accrued expenses and other long-term liabilities. ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments over that term.*

Operating and finance lease ROU assets and liabilities are recognized at commencement based on the present value of lease payments over the lease term. ROU assets also include any lease payments made prior to lease commencement and exclude lease incentives. The lease term is the noncancelable period of the lease and includes options to extend or terminate the lease when it is reasonably certain that an option will be exercised. As the rate implicit in our leases is typically not readily determinable, in computing the present value of lease payments we generally use our incremental borrowing rate based on information available at the commencement date. Variable lease payments not dependent on an index or rate are expensed as incurred and not included within the calculation of ROU assets and lease liabilities. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

We do not separate non-lease components from lease components for any class of leases, and we do not recognize ROU assets and lease liabilities for leases with a lease term of twelve months or less.

There have been no other significant changes in our significant accounting policies as of and for the six months ended October 25, 2019, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended April 26, 2019.

## 2. Recent Accounting Standards Not Yet Effective

### *Credit Losses on Financial Instruments*

In June 2016, the FASB issued an accounting standards update on the measurement of credit losses on financial instruments. The standard introduces a new model for measuring and recognizing credit losses on financial instruments, requiring financial assets measured at amortized cost basis to be presented at the net amount expected to be collected. It also requires that credit losses be recorded through an allowance for credit losses. This new standard will be effective for us in our first quarter of fiscal 2021, although early adoption is permitted. Upon adoption, companies must apply a modified retrospective transition approach through a cumulative-effect adjustment to retained earnings, though a prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. Based on the composition of our investment portfolio, current market conditions, and historical credit loss activity, the adoption of this standard is not expected to have a material impact on our consolidated financial statements.

## 3. Business Combination

On May 23, 2019, we acquired all the outstanding shares of privately-held Cognigo Research Ltd., a provider of data discovery classification software designed to manage and protect critical data, for \$58 million in cash.

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

Cash	\$	2
Developed technology intangible asset		26
Goodwill		<u>35</u>
Total assets acquired		63
Liabilities assumed		<u>(5)</u>
Total purchase price	\$	<u><u>58</u></u>

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

## 4. Goodwill and Purchased Intangible Assets, Net

Goodwill activity is summarized as follows (in millions):

Balance as of April 26, 2019	\$	1,735
Additions		<u>35</u>
Balance as of October 25, 2019	\$	<u><u>1,770</u></u>

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

	October 25, 2019			April 26, 2019		
	Gross Assets	Accumulated Amortization	Net Assets	Gross Assets	Accumulated Amortization	Net Assets
Developed technology	\$ 186	\$ (135)	\$ 51	\$ 160	\$ (113)	\$ 47
Customer contracts/relationships	—	—	—	41	(41)	—
Total purchased intangible assets	<u>\$ 186</u>	<u>\$ (135)</u>	<u>\$ 51</u>	<u>\$ 201</u>	<u>\$ (154)</u>	<u>\$ 47</u>

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

	Three Months Ended		Six Months Ended		Statements of Operations Classification
	October 25, 2019	October 26, 2018	October 25, 2019	October 26, 2018	
Developed technology	\$ 11	\$ 9	\$ 22	\$ 18	Cost of revenues
Customer contracts/relationships	—	3	—	7	Operating expenses
Total	<u>\$ 11</u>	<u>\$ 12</u>	<u>\$ 22</u>	<u>\$ 25</u>	

As of October 25, 2019, future amortization expense related to purchased intangible assets is as follows (in millions):

Fiscal Year	Amount
Remainder of 2020	\$ 16
2021	25
2022	9
2023	1
Total	<u>\$ 51</u>

## 5. Supplemental Financial Information

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

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

	October 25, 2019	April 26, 2019
Cash and cash equivalents	\$ 2,545	\$ 2,325
Restricted cash	6	6
Cash, cash equivalents and restricted cash	<u>\$ 2,551</u>	<u>\$ 2,331</u>

### *Inventories (in millions):*

	October 25, 2019	April 26, 2019
Purchased components	\$ 14	\$ 8
Finished goods	97	123
Inventories	<u>\$ 111</u>	<u>\$ 131</u>

### *Property and equipment, net (in millions):*

	October 25, 2019	April 26, 2019
Land	\$ 104	\$ 106
Buildings and improvements	609	605
Leasehold improvements	86	86
Computer, production, engineering and other equipment	841	817
Computer software	358	357
Furniture and fixtures	106	105
Construction-in-progress	21	10
	2,125	2,086
Accumulated depreciation and amortization	<u>(1,379)</u>	<u>(1,327)</u>
Property and equipment, net	<u>\$ 746</u>	<u>\$ 759</u>

In September 2017, we entered into an agreement to sell certain land and buildings located in Sunnyvale, California, through two separate and independent closings, the first of which was completed in the third quarter of fiscal 2018. The remaining properties, consisting of land, were classified as assets held for sale, and included as other current assets in our condensed consolidated balance

sheets as of April 26, 2019. On August 29, 2019, the second closing occurred and we consummated the sale of the land, with a net book value of \$53 million, and received cash proceeds of \$96 million, resulting in a gain, net of direct selling costs, of \$38 million.

**Other non-current assets (in millions):**

	October 25, 2019	April 26, 2019
Deferred tax assets	\$ 223	\$ 201
Operating lease ROU assets	143	—
Other assets	348	389
Other non-current assets	<u>\$ 714</u>	<u>\$ 590</u>

Other non-current assets as of October 25, 2019 and April 26, 2019 includes \$77 million and \$78 million, respectively, for our 49% non-controlling equity interest in Lenovo NetApp Technology Limited, a China-based entity that we formed with Lenovo (Beijing) Information Technology Ltd. in fiscal 2019.

**Accrued expenses (in millions):**

	October 25, 2019	April 26, 2019
Accrued compensation and benefits	\$ 279	\$ 433
Product warranty liabilities	26	25
Operating lease liabilities	49	—
Other current liabilities	252	393
Accrued expenses	<u>\$ 606</u>	<u>\$ 851</u>

**Product warranty liabilities:**

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

	Three Months Ended		Six Months Ended	
	October 25, 2019	October 26, 2018	October 25, 2019	October 26, 2018
Balance at beginning of period	\$ 39	\$ 38	\$ 40	\$ 40
Expense accrued during the period	7	6	12	10
Warranty costs incurred	(6)	(5)	(12)	(11)
Balance at end of period	<u>\$ 40</u>	<u>\$ 39</u>	<u>\$ 40</u>	<u>\$ 39</u>

  

	October 25, 2019	April 26, 2019
Accrued expenses	\$ 26	\$ 25
Other long-term liabilities	14	15
Total warranty liabilities	<u>\$ 40</u>	<u>\$ 40</u>

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

**Other long-term liabilities (in millions):**

	October 25, 2019	April 26, 2019
Liability for uncertain tax positions	\$ 251	\$ 252
Income taxes payable	399	447
Product warranty liabilities	14	15
Operating lease liabilities	102	—
Other liabilities	71	83
Other long-term liabilities	<u>\$ 837</u>	<u>\$ 797</u>

*Other income, net (in millions):*

	Three Months Ended		Six Months Ended	
	October 25, 2019	October 26, 2018	October 25, 2019	October 26, 2018
Interest income	\$ 12	\$ 21	\$ 31	\$ 46
Interest expense	(12)	(14)	(27)	(28)
Other income, net	3	—	14	7
Total other income, net	<u>\$ 3</u>	<u>\$ 7</u>	<u>\$ 18</u>	<u>\$ 25</u>

*Statements of cash flows additional information (in millions):*

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

	Six Months Ended	
	October 25, 2019	October 26, 2018
<b>Non-cash Investing Activities:</b>		
Capital expenditures incurred but not paid	\$ 6	\$ 7
<b>Supplemental Cash Flow Information:</b>		
Income taxes paid, net of refunds	\$ 260	\$ 104
Interest paid	\$ 25	\$ 26

## 6. Revenue

*Disaggregation of revenue*

To provide visibility into our transition from older products to our newer, higher growth products and clarity into the dynamics of our product revenue, we group our products by “Strategic” and “Mature” solutions. As our product portfolio evolves, market dynamics change, and management continues to assess of our largest growth opportunities, we periodically change how we group certain products. Beginning in fiscal 2020, Strategic includes All-flash FAS (AFF) products, including all related add-on hardware and operating system (OS) software, private cloud solutions (including SolidFire, converged and hyper-converged infrastructure products, StorageGrid), enterprise software license agreements (ELAs) and other optional add-on software products. Mature now includes Hybrid FAS products, including all related add-on hardware and OS software, original equipment manufacturers (OEM) products, and branded E-Series. Prior to this grouping change, Hybrid FAS products and branded E-Series were included in Strategic, while all add-on hardware and OS software were included in Mature. For comparability, Strategic and Mature revenues presented for the prior year periods have been recast based on the revised groupings.

In addition to the sale of our products and solutions, we provide a variety of services to our customers, including software maintenance, hardware maintenance and other services including professional services, global support solutions, and customer education and training.

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

	Three Months Ended		Six Months Ended	
	October 25, 2019	October 26, 2018	October 25, 2019	October 26, 2018
<b>Product revenues</b>	<b>\$ 771</b>	<b>\$ 913</b>	<b>\$ 1,415</b>	<b>\$ 1,788</b>
Strategic	442	485	779	960
Mature	329	428	636	828
<b>Software maintenance revenues</b>	<b>254</b>	<b>236</b>	<b>504</b>	<b>465</b>
<b>Hardware maintenance and other services revenues</b>	<b>346</b>	<b>368</b>	<b>688</b>	<b>738</b>
Hardware maintenance support contracts	286	303	570	606
Professional and other services	60	65	118	132
<b>Net revenues</b>	<b><u>\$ 1,371</u></b>	<b><u>\$ 1,517</u></b>	<b><u>\$ 2,607</u></b>	<b><u>\$ 2,991</u></b>

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



### *Deferred revenue and financed unearned services revenue*

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

	October 25, 2019	April 26, 2019
Deferred product revenue	\$ 85	\$ 84
Deferred services revenue	3,314	3,502
Financed unearned services revenue	69	82
Total	<u>\$ 3,468</u>	<u>\$ 3,668</u>

Reported as:

Short-term	\$ 1,718	\$ 1,825
Long-term	1,750	1,843
Total	<u>\$ 3,468</u>	<u>\$ 3,668</u>

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

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

	Six Months Ended	
	October 25, 2019	October 26, 2018
Balance at beginning of period	\$ 3,668	\$ 3,363
Additions	1,011	1,067
Revenue recognized during the period	(1,211)	(1,224)
Balance at end of period	<u>\$ 3,468</u>	<u>\$ 3,206</u>

During the six months ended October 25, 2019 and October 26, 2018, we recognized \$1,045 million and \$1,019 million, respectively, that was included in the deferred revenue and financed unearned services revenue balance at the beginning of the respective periods.

As of October 25, 2019, the aggregate amount of the transaction price allocated to the remaining performance obligations related to customer contracts that are unsatisfied or partially unsatisfied was \$3,468 million, which is equivalent to our deferred revenue and unearned services revenue balance. Because customer orders are typically placed on an as-needed basis, and cancellable without penalty prior to shipment, orders in backlog may not be a meaningful indicator of future revenue and have not been included in this amount. We expect to recognize as revenue approximately 49% of our deferred revenue and financed unearned services revenue balance in the next 12 months, approximately 26% in the next 13 to 24 months, and the remainder thereafter.

### *Deferred commissions*

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

	Six Months Ended	
	October 25, 2019	October 26, 2018
Balance at beginning of period	\$ 172	\$ 137
Additions	32	35
Expense recognized during the period	(50)	(41)
Balance at end of period	<u>\$ 154</u>	<u>\$ 131</u>



	October 25, 2019	April 26, 2019
Other current assets	\$ 66	\$ 75
Other non-current assets	88	97
Total deferred commissions	<u>\$ 154</u>	<u>\$ 172</u>

## 7. Financial Instruments and Fair Value Measurements

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

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

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

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

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

### Investments

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

	October 25, 2019				April 26, 2019			
	Cost or Amortized	Gross Unrealized		Estimated Fair	Cost or Amortized	Gross Unrealized		Estimated Fair
	Cost	Gains	Losses	Value	Cost	Gains	Losses	Value
Corporate bonds	\$ 319	\$ 1	\$ —	\$ 320	\$ 1,359	\$ 2	\$ (8)	\$ 1,353
U.S. Treasury and government debt securities	122	—	—	122	214	—	(1)	213
Certificates of deposit	150	—	—	150	117	—	—	117
Mutual funds	40	—	—	40	35	—	—	35
Total debt and equity securities	<u>\$ 631</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ 632</u>	<u>\$ 1,725</u>	<u>\$ 2</u>	<u>\$ (9)</u>	<u>\$ 1,718</u>

During the six months ended October 25, 2019, we sold approximately \$1.0 billion of corporate bonds held by foreign subsidiaries and recognized a gain on sale of \$14 million, which is presented in other income, net on our condensed consolidated statement of operations.

The following table presents the contractual maturities of our debt investments as of October 25, 2019 (in millions):

	Amortized Cost	Fair Value
Due in one year or less	\$ 464	\$ 464
Due after one year through five years	122	123
Due after five years through ten years	5	5
	<u>\$ 591</u>	<u>\$ 592</u>

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



## Fair Value of Financial Instruments

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

	October 25, 2019		
	Total	Fair Value Measurements at Reporting Date Using	
		Level 1	Level 2
Cash	\$ 2,395	\$ 2,395	\$ —
Corporate bonds	320	—	320
U.S. Treasury and government debt securities	122	91	31
Certificates of deposit	150	—	150
Total cash, cash equivalents and short-term investments	<u>\$ 2,987</u>	<u>\$ 2,486</u>	<u>\$ 501</u>
Other items:			
Mutual funds <sup>(1)</sup>	\$ 9	\$ 9	\$ —
Mutual funds <sup>(2)</sup>	\$ 31	\$ 31	\$ —
Foreign currency exchange contracts assets <sup>(1)</sup>	\$ 3	\$ —	\$ 3
Foreign currency exchange contracts liabilities <sup>(3)</sup>	\$ (1)	\$ —	\$ (1)

<sup>(1)</sup> Reported as other current assets in the condensed consolidated balance sheets

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

<sup>(3)</sup> 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 October 25, 2019 and April 26, 2019, we have not made any adjustments to the prices obtained from our third-party pricing providers.

## Fair Value of Debt

As of October 25, 2019 and April 26, 2019, the fair value of our long-term debt was approximately \$1,174 million and \$1,553 million, respectively. The fair value of our long-term debt was based on observable market prices in a less active market. The fair value of our commercial paper notes approximated their carrying value. All of our debt obligations are categorized as Level 2 instruments.

## 8. Financing Arrangements

### Long-Term Debt

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

	October 25, 2019		April 26, 2019	
	Amount	Effective Interest Rate	Amount	Effective Interest Rate
2.00% Senior Notes Due September 2019	\$ —	N/A	\$ 400	2.32%
3.375% Senior Notes Due June 2021	500	3.54%	500	3.54%
3.25% Senior Notes Due December 2022	250	3.43%	250	3.43%
3.30% Senior Notes Due September 2024	400	3.42%	400	3.42%
Total principal amount	1,150		1,550	
Unamortized discount and issuance costs	(5)		(6)	
Total senior notes	1,145		1,544	
Less: Current portion of long-term debt	—		(400)	

Total long-term debt

\$ 1,145

\$ 1,144

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N/A – Not Applicable

## Senior Notes

On September 27, 2019, we made an aggregate cash payment of \$400 million to extinguish our 2.00% Senior Notes at maturity.

Our 3.30% Senior Notes, with a principal amount of \$400 million, were issued in September 2017. Interest on these Senior Notes is paid semi-annually in March and September. Our 3.375% Senior Notes and 3.25% Senior Notes, with principal amounts of \$500 million and \$250 million, respectively, were issued in June 2014 and December 2012, respectively. Interest on these Senior Notes is paid semi-annually in June and December. Our Senior Notes, which are unsecured, unsubordinated obligations, rank equally in right of payment with any existing and future senior unsecured indebtedness.

We may redeem the Senior Notes in whole or in part, at any time at our option at specified redemption prices. In addition, upon the occurrence of certain change of control triggering events, we may be required to repurchase the Senior Notes under specified terms. The Senior Notes also include covenants that limit our ability to incur debt secured by liens on assets or on shares of stock or indebtedness of our subsidiaries; to engage in certain sale and lease-back transactions; and to consolidate, merge or sell all or substantially all of our assets. As of October 25, 2019, we were in compliance with all covenants associated with the Senior Notes.

As of October 25, 2019, our aggregate future principal debt maturities are as follows (in millions):

Fiscal Year	Amount
2022	\$ 500
2023	250
2025	400
Total	<u>\$ 1,150</u>

## 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. As of October 25, 2019, we had commercial paper notes outstanding with an aggregate principal amount of \$499 million, a weighted-average interest rate of 2.20% and maturities ranging from 7 days to 91 days. As of April 26, 2019, we had commercial paper notes outstanding with an aggregate principal amount of \$249 million, a weighted-average interest rate of 2.73% and maturities ranging from 27 days to 38 days.

In connection with the Program, we have a senior unsecured credit agreement with a syndicated group of lenders that expires on December 10, 2021. The credit agreement, as amended in July 2017, provides a \$1.0 billion revolving unsecured credit facility, with a \$50 million letter of credit sub-facility, that serves as a back-up for the Program. Proceeds from the facility may also be used for general corporate purposes to the extent that the credit facility exceeds the outstanding debt issued under the Program. The credit agreement includes options that allow us to request an increase in the facility of up to an additional \$300 million and to extend its maturity date for two additional one-year periods, both subject to certain conditions. As of October 25, 2019 we were in compliance with all associated covenants in this agreement. No amounts were drawn against this facility during any of the periods presented.

## 9. Leases

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

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

	Three Months Ended October 25, 2019	Six Months Ended October 25, 2019
Operating lease cost	\$ 15	\$ 29
Variable lease cost	4	8
Total lease cost	<u>\$ 19</u>	<u>\$ 37</u>



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

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

	<u>Six Months Ended</u>
	<u>October 25,</u>
	<u>2019</u>
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 29
Right-of-use assets obtained in exchange for new operating lease obligations	\$ 21

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

	<u>October 25,</u>
	<u>2019</u>
Other non-current assets	\$ 143
Total operating lease ROU assets	<u>\$ 143</u>
Accrued expenses	\$ 49
Other long-term liabilities	<u>102</u>
Total operating lease liabilities	<u>\$ 151</u>
Weighted Average Remaining Lease Term	3.9 years
Weighted Average Discount Rate	2.6%

Future minimum operating lease payments as of October 25, 2019 are as follows (in millions):

	<u>Operating Leases</u>
Fiscal 2020 (remainder)	\$ 28
Fiscal 2021	46
Fiscal 2022	34
Fiscal 2023	20
Fiscal 2024	14
Thereafter	18
Total lease payments	<u>\$ 160</u>
Less: Interest	<u>(9)</u>
Total	<u>\$ 151</u>

Prior to our adoption of the new lease standard, future minimum operating lease payments as of April 26, 2019, which were undiscounted and excluded non-lease components, were as follows (in millions):

	<u>Operating Leases</u>
Fiscal 2020	\$ 47
Fiscal 2021	38
Fiscal 2022	26
Fiscal 2023	14
Fiscal 2024	10
Thereafter	16
Total lease payments	<u>\$ 151</u>

## 10. Stockholders' Equity

### Equity Incentive Awards

As of October 25, 2019, we have certain equity incentive awards (awards) outstanding, which include stock options and restricted stock units (RSUs), including time-based RSUs and performance-based RSUs (PBRsUs). Also outstanding are purchase rights under our Employee Stock Purchase Plan (ESPP). During the second quarter of fiscal 2020, the 1999 Stock Option Plan, under which stock options and RSUs are granted, was extended for a 10 year term.

### Stock Options

Less than 1 million options were outstanding as of October 25, 2019 and April 26, 2019.

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

	Six Months Ended	
	October 25, 2019	October 26, 2018
Intrinsic value of exercises	\$ 3	\$ 22
Proceeds received from exercises	\$ 2	\$ 17
Fair value of options vested	\$ —	\$ 1

The aggregate intrinsic value represents the pre-tax difference between the exercise price of stock options and the quoted market price of our stock on that day for all in-the-money options.

### Restricted Stock Units

In the six months ended October 25, 2019, 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 three year performance period, which began on the date specified in the grant agreements and ends the last day of fiscal 2022. The number of shares of common stock that will be issued to settle the 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 current year, 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 fiscal 2022. The fair values of these awards were fixed at grant date using a Monte Carlo simulation model. For the remaining PBRsUs granted, the number of shares issued will depend upon our achievement against a cumulative Adjusted Operating Income (AOI) target, as defined in the grant agreements, for the three year period from fiscal 2020 through 2022. The fair values of these awards 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 all PBRsUs granted in the current year was \$18 million, which is being recognized to compensation expense over the remaining applicable performance / service periods.

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

	Number of Shares	Weighted- Average Grant Date Fair Value
Outstanding as of April 26, 2019	8	\$ 45.68
Granted	3	\$ 52.21
Vested	(3)	\$ 37.88
Forfeited	(1)	\$ 47.64
Outstanding as of October 25, 2019	7	\$ 51.25

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

	Six Months Ended	
	October 25, 2019	October 26, 2018
Shares withheld for taxes	1	1
Fair value of shares withheld	\$ 74	\$ 89





## Employee Stock Purchase Plan

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

	Six Months Ended	
	October 25, 2019	October 26, 2018
Shares issued under the ESPP	1	2
Proceeds from issuance of shares	\$ 54	\$ 49

## Stock-Based Compensation Expense

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

	Three Months Ended		Six Months Ended	
	October 25, 2019	October 26, 2018	October 25, 2019	October 26, 2018
Cost of product revenues	\$ 1	\$ —	\$ 2	\$ 1
Cost of hardware maintenance and other services revenues	3	2	5	5
Sales and marketing	17	16	35	33
Research and development	13	12	28	24
General and administrative	6	8	12	15
Total stock-based compensation expense	\$ 40	\$ 38	\$ 82	\$ 78
Income tax benefit for stock-based compensation expense	\$ 4	\$ 5	\$ 8	\$ 10

As of October 25, 2019, total unrecognized compensation expense related to our equity awards was \$339 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

Our Board of Directors has authorized the repurchase of up to \$13.6 billion of our common stock. Under this program, which we may suspend or discontinue at any time, 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 following table summarizes activity related to this program for the six months ended October 25, 2019 (in millions, except per share amounts):

Number of shares repurchased	14
Average price per share	\$ 55.06
Aggregate purchase price	\$ 750
Remaining authorization at end of period	\$ 1,139

The aggregate purchase price of our stock repurchases for the six months ended October 25, 2019 consisted of \$750 million of open market purchases, of which \$398 million and \$352 million were allocated to additional paid-in capital and retained earnings, respectively.

Since the May 13, 2003 inception of our stock repurchase program through October 25, 2019, we repurchased a total of 327 million shares of our common stock at an average price of \$38.20 per share, for an aggregate purchase price of \$12.5 billion.

## Dividends

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

	Six Months Ended	
	October 25, 2019	October 26, 2018
Dividends per share declared	\$ 0.96	\$ 0.80
Dividend payments allocated to additional paid-in capital	\$ 226	\$ 207
Dividend payments allocated to retained earnings	\$ —	\$ —



On November 13, 2019, we declared a cash dividend of \$0.48 per share of common stock, payable on January 22, 2020 to holders of record as of the close of business on January 3, 2020. The timing and amount of future dividends will depend on market conditions, corporate business and financial considerations and regulatory requirements. All dividends declared have been determined by us to be legally authorized under the laws of the state in which we are incorporated.

### Accumulated Other Comprehensive Income (Loss)

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

	Foreign Currency Translation Adjustments	Defined Benefit Obligation Adjustments	Unrealized Gains (Losses) on Available- for-Sale Securities	Unrealized Gains (Losses) on Derivative Instruments	Total
Balance as of April 26, 2019	\$ (34)	\$ (3)	\$ (7)	\$ 1	\$ (43)
Other comprehensive income (loss), net of tax	(2)	—	22	1	21
Amounts reclassified from AOCI, net of tax	—	—	(14)	—	(14)
Total other comprehensive income	(2)	—	8	1	7
Balance as of October 25, 2019	\$ (36)	\$ (3)	\$ 1	\$ 2	\$ (36)

During the first six months of fiscal 2020, realized gains of \$14 million from the sale of available-for-sale securities were recorded in other income, net on our condensed consolidated statements of operations.

### 11. Derivatives and Hedging Activities

We use derivative instruments to manage exposures to foreign currency risk. Our primary objective in holding derivatives is to reduce the volatility of earnings and cash flows associated with changes in foreign currency exchange rates. The maximum length of time over which forecasted foreign currency denominated revenues are hedged is 12 months. The program is not designated for trading or speculative purposes. Our derivatives expose us to credit risk to the extent that the counterparties may be unable to meet the terms of our agreements with them. 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 October 25, 2019 or April 26, 2019. 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):

	October 25, 2019	April 26, 2019
<b>Cash Flow Hedges</b>		
Forward contracts purchased	\$ 305	\$ 103
<b>Balance Sheet Contracts</b>		
Forward contracts sold	\$ 114	\$ 121
Forward contracts purchased	\$ 145	\$ 363

The effect of cash flow hedges recognized in net revenues on our condensed consolidated statements of operations was immaterial in all periods presented.

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

	Three Months Ended		Six Months Ended	
	October 25, 2019	October 26, 2018	October 25, 2019	October 26, 2018
	Gain (Loss) Recognized in Income		Gain (Loss) Recognized in Income	
Foreign currency exchange contracts	\$ —	\$ 2	\$ (3)	\$ 12



## 12. Restructuring Charges

In the first quarter of fiscal 2020, we announced a restructuring plan (the May 2019 Plan) to reduce costs and redirect resources to our highest return activities, which included a reduction in our global workforce by approximately 2%. Charges related to the plan consisted primarily of employee severance-related costs. Substantially all activities under the plan have been completed.

Management has previously approved several restructuring actions, including the May 2018 Plan and April 2019 Plan, under which we reduced our global workforce by less than 2%, and approximately 1%, respectively. Charges related to our restructuring plans consisted primarily of employee severance-related costs. Substantially all activities under the May 2018 Plan were completed as of the end of fiscal 2019. We expect to complete all activities associated with the April 2019 plan by the end of the third quarter of fiscal 2020 with no significant additional charges.

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

	Six Months Ended October 25, 2019				Six Months Ended October 26, 2018		
	May 2019 Plan	April 2019 Plan	November 2016 Plan		May 2018 Plan	November 2016 Plan	Total
			6	Total			
Balance at beginning of period	\$ —	\$ 15	\$ 4	\$ 19	\$ —	\$ 6	\$ 6
Net charges	21	—	—	21	19	—	19
Cash payments	(19)	(12)	—	(31)	(17)	(1)	(18)
Other	—	—	(4)	(4)	—	—	—
Balance at end of period	<u>\$ 2</u>	<u>\$ 3</u>	<u>\$ —</u>	<u>\$ 5</u>	<u>\$ 2</u>	<u>\$ 5</u>	<u>\$ 7</u>

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

## 13. Income Taxes

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

	Six Months Ended	
	October 25, 2019	October 26, 2018
Effective tax rates	17.2%	7.3%

Our effective tax rates reflect the impact of a significant amount of our earnings, primarily income from our European operations, being taxed in foreign jurisdictions at rates below the United States (U.S.) statutory tax rate. The differences in effective tax rates for the six months ended October 25, 2019 and October 26, 2018 were primarily due to discrete tax benefits related to the adoption of the new revenue standard in fiscal 2019, the discrete tax charge on the sale of land in Sunnyvale, California in fiscal 2020 and the differences in discrete benefits for stock-based compensation.

On December 22, 2017, the Tax Cuts and Jobs Act (“TCJA”) was enacted into law. The TCJA made significant changes to the U.S. corporate income tax system including a reduction of the U.S. federal corporate income tax rate from 35% to 21%, the imposition of a one-time transition tax on deferred foreign earnings, and the creation of new taxes on certain foreign-sourced earnings. As of April 26, 2019, we had completed the accounting for the tax impacts of the TCJA, however, we will continue to assess the impact of further guidance from federal and state tax authorities on our business and consolidated financial statements, and recognize any adjustments in the period in which they are determined.

During fiscal 2019, we adopted the new revenue accounting standard and for the six months ended October 26, 2018, we recognized a \$34 million discrete tax benefit for adjustments to certain intercompany transactions resulting from the retrospective application of the new revenue accounting standard.

As of October 25, 2019, we had \$294 million of gross unrecognized tax benefits. Inclusive of penalties, interest and certain income tax benefits, \$246 million would affect our provision for income taxes if recognized, and \$251 million has been recorded in other long-term liabilities.

We are currently undergoing state income tax audits in the U.S. and audits in several foreign tax jurisdictions. Transfer pricing calculations are key issues under audits in various jurisdictions, and are often subject to dispute and appeals. The IRS has concluded the examination of our tax returns for our fiscal years through 2013.



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 do not believe that our Danish subsidiary is 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). Parties were heard before the court in October 2017. 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. The CJEU ruling did not preclude the Danish Tax Authorities from imposing withholding tax on distributions based on the benefits of certain European Union directives. The preliminary ruling will be reviewed and may be subjected to additional briefing by the DHC. Once complete, the DHC will then issue its final decision. While the timing and outcome of a final decision on this matter is uncertain, we believe it is more likely than not that our distributions were not subject to withholding tax and we intend to vigorously defend any withholding tax claims by the Danish Tax Authorities.

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 believe that within the next 12 months, it is reasonably possible that either certain audits will conclude, certain statutes of limitations will lapse, or both. As a result of uncertainties regarding tax audits and their possible outcomes, an estimate of the range of possible impacts to unrecognized tax benefits in the next twelve months cannot be made at this time.

#### 14. Net Income per Share

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

	Three Months Ended		Six Months Ended	
	October 25, 2019	October 26, 2018	October 25, 2019	October 26, 2018
<b>Numerator:</b>				
Net income	\$ 243	\$ 241	\$ 346	\$ 524
<b>Denominator:</b>				
Shares used in basic computation	235	258	237	260
Dilutive impact of employee equity award plans	1	6	3	7
Shares used in diluted computation	236	264	240	267
<b>Net Income per Share:</b>				
Basic	\$ 1.03	\$ 0.93	\$ 1.46	\$ 2.02
Diluted	\$ 1.03	\$ 0.91	\$ 1.44	\$ 1.96

Six million and three million potential shares from outstanding employee equity awards were excluded from the diluted net income per share calculations for the three and six months ended October 25, 2019, respectively, as their inclusion would have been anti-dilutive, while no potential shares were excluded from the calculation for the three or six months ended October 26, 2018.

#### 15. Segment, Geographic, and Significant Customer Information

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



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

	Three Months Ended		Six Months Ended	
	October 25, 2019	October 26, 2018	October 25, 2019	October 26, 2018
United States, Canada and Latin America (Americas)	\$ 771	\$ 868	\$ 1,406	\$ 1,711
Europe, Middle East and Africa (EMEA)	402	429	804	859
Asia Pacific (APAC)	198	220	397	421
Net revenues	<u>\$ 1,371</u>	<u>\$ 1,517</u>	<u>\$ 2,607</u>	<u>\$ 2,991</u>

Americas revenues consist of sales to Americas commercial and U.S. public sector markets. Sales to customers inside the U.S. were \$703 million and \$789 million during the three months ended October 25, 2019 and October 26, 2018, respectively, and were \$1,277 million and \$1,550 million during the six months ended October 25, 2019 and October 26, 2018, 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):

	October 25, 2019	April 26, 2019
U.S.	\$ 125	\$ 159
International	2,862	3,740
Total	<u>\$ 2,987</u>	<u>\$ 3,899</u>

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):

	October 25, 2019	April 26, 2019
U.S.	\$ 559	\$ 572
International	187	187
Total	<u>\$ 746</u>	<u>\$ 759</u>

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

	Three Months Ended		Six Months Ended	
	October 25, 2019	October 26, 2018	October 25, 2019	October 26, 2018
Arrow Electronics, Inc.	24%	24%	24%	23%
Tech Data Corporation	21%	21%	21%	19%

The following customers accounted for 10% or more of accounts receivable:

	October 25, 2019	April 26, 2019
Arrow Electronics, Inc.	11%	11%
Tech Data Corporation	20%	24%

## 16. Commitments and Contingencies

### *Purchase Orders and Other Commitments*

In the ordinary course of business, we make commitments to third-party contract manufacturers to manage manufacturer lead times and meet product forecasts, and to other parties to purchase various key components used in the manufacturing of our products. A significant portion of our reported purchase commitments arising from these agreements consists of firm, non-cancelable, and unconditional commitments. As of October 25, 2019, we had \$447 million in non-cancelable purchase commitments for inventory. We record a liability for firm, non-cancelable and unconditional purchase commitments for quantities in excess of our future demand forecasts consistent with the valuation of our excess and obsolete inventory. As of October 25, 2019 and April 26, 2019, such liability amounted to \$13 million and \$16 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 October 25, 2019, we had \$5 million in construction related obligations and \$244 million in other purchase obligations.

### ***Financing Guarantees***

While most of our arrangements for sales include short-term payment terms, from time to time we provide long-term financing to creditworthy customers. We have generally sold receivables financed through these arrangements on a non-recourse basis to third party financing institutions within 10 days of the contracts' dates of execution, and we classify the proceeds from these sales as cash flows from operating activities in our condensed consolidated statements of cash flows. We account for the sales of these receivables as "true sales" as defined in the accounting standards on transfers of financial assets, as we are considered to have surrendered control of these financing receivables. Provided all other revenue recognition criteria have been met, we recognize product revenues for these arrangements, net of any payment discounts from financing transactions, upon product acceptance. We sold \$34 million and \$43 million of receivables during the six months ended October 25, 2019 and October 26, 2018, 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 October 25, 2019 and April 26, 2019, 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 October 25, 2019, 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. We believe the complaint is without merit and intend to defend the case vigorously.

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

Although management at present believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not materially harm our financial position, results of operations, cash flows, or overall trends, legal proceedings are subject to inherent uncertainties, and unfavorable rulings or other events could occur. Unfavorable resolutions could include significant monetary damages. In addition, in matters for which injunctive relief or other conduct remedies are sought, unfavorable resolutions could include an injunction or other order prohibiting us from selling one or more products at all or in particular ways or requiring other remedies. An unfavorable outcome may result in a material adverse impact on our business, results of operations, financial position, and overall trends. No material accrual has been recorded as of October 25, 2019 related to such matters.

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

*This section and other parts of this Form 10-Q contain forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Forward-looking statements also can be identified by words such as “future,” “anticipates,” “believes,” “estimates,” “expects,” “intends,” “will,” “would,” “could,” “can,” “may,” and similar terms. Forward-looking statements are not guarantees of future performance and the actual results of NetApp, Inc. (“we,” “us,” or the “Company”) may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Part II, Item 1A of this Form 10-Q under the heading “Risk Factors,” which are incorporated herein by reference. The following discussion should be read in conjunction with our consolidated financial statements as of and for the fiscal year ended April 26, 2019, 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 the data authority for hybrid cloud. We provide a full range of hybrid cloud data services that simplify management of applications and data across cloud and on-premises environments to accelerate digital transformation. Together with our partners, we empower global organizations to unleash the full potential of their data to expand customer touchpoints, foster greater innovation and optimize their operations.

NetApp delivers a Data Fabric built for the data-driven world. Our Data Fabric simplifies the integration and orchestration of data for applications and analytics in clouds, across clouds and on-premises to accelerate digital transformation. We deliver a Data Fabric with consistent data services for data visibility and insights, data access and control, and data protection and security, that unleashes the power of data to achieve a new competitive advantage.

We focus on delivering an exceptional customer experience to become our customers' preferred data partner. NetApp's unique approach to data services enables organizations to inspire innovation with the cloud, build clouds to accelerate new services, and modernize IT architecture with cloud-connected flash.

With NetApp products and solutions, customers can:

- Continually fuel business growth by delivering data-rich customer experiences through new application deployments that easily use data and services regardless of where they reside or in what form.
- Accelerate digital transformation by developing a next-generation, cloud-architected infrastructure that manages data and services as one integrated resource supporting both public and private clouds.
- Free the resources necessary to fund transformation by deploying the industry's leading flash storage solution, which is highly efficient and scales from the edge to the core to the cloud.

Customers are attracted by the speed and scale benefits of the public cloud but need new data management capabilities to keep control of data as it moves beyond the walls of the enterprise. NetApp believes the hybrid cloud is fast becoming the dominant model for enterprise IT. Our Data Fabric approach enables our customers to manage, secure and protect their data from on-premises to public to hybrid clouds, all at the scale needed to accommodate the exponential data growth of the digital world.

Budget constraints and skill imbalances lead our customers to seek help in integrating, deploying and managing the solutions they need to stay competitive. This drives demand for converged and hyper-converged infrastructure solutions. FlexPod is the converged infrastructure of choice for many of the largest enterprises around the globe. Customers can break free from the limits of first-generation HCI with NetApp HCI and attain guaranteed performance with high levels of flexibility, scale, automation, and integration with the Data Fabric.

Flash plays a key role in customers' digital transformation efforts as they seek to gain advantage through greater speed, responsiveness and value from key business applications - all while lowering total cost of ownership. All-flash array technology is the de facto choice as customers seek performance and economic benefits from replacing hard disk installations. With a highly differentiated and broad portfolio of all-flash and hybrid array offerings, NetApp is well positioned to enable customers to accomplish this transition.

To provide visibility into our transition from older products to our newer, higher growth products and clarity into the dynamics of our product revenue, we group our products by "Strategic" and "Mature" solutions. As our product portfolio evolves, market dynamics change, and management continues to assess our largest growth opportunities, we periodically change how we group certain products. Beginning in fiscal 2020, Strategic includes All-flash FAS (AFF) products, including all related add-on hardware and operating system (OS) software, private cloud solutions (including SolidFire, converged and hyper-converged infrastructure products, StorageGrid), enterprise software license agreements (ELAs) and other optional add-on software products. Mature now includes Hybrid FAS products, including all related add-on hardware and OS software, original equipment manufacturers (OEM) products, and branded E-Series. Prior to this grouping change, Hybrid FAS products and branded E-Series were included in Strategic, while all add-on hardware and OS software were included in Mature. For comparability, Strategic and Mature revenues presented for the prior year periods have been recast based on the revised groupings.

In addition to our products and solutions, we provide a variety of services to our customers, including software maintenance, hardware maintenance and other services including professional services, global support solutions, and customer education and training. Revenues generated by our Cloud Data Services offerings are included in software maintenance revenues.

## Financial Results and Key Performance Metrics Overview

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

	Three Months Ended		Six Months Ended	
	October 25, 2019	October 26, 2018	October 25, 2019	October 26, 2018
Net revenues	\$ 1,371	\$ 1,517	\$ 2,607	\$ 2,991
Gross profit	\$ 925	\$ 974	\$ 1,741	\$ 1,937
Gross profit margin percentage	67%	64%	67%	65%
Income from operations	\$ 296	\$ 286	\$ 400	\$ 540
Income from operations as a percentage of net revenues	22%	19%	15%	18%
Net income	\$ 243	\$ 241	\$ 346	\$ 524
Diluted net income per share	\$ 1.03	\$ 0.91	\$ 1.44	\$ 1.96
Operating cash flows	\$ (53)	\$ 165	\$ 257	\$ 491
			October 25, 2019	April 26, 2019
Deferred revenue and financed unearned services revenue		\$ 3,468	\$ 3,668	
Cash conversion cycle (days)			(4)	3

### Stock Repurchase Program and Dividend Activity

During the first six months of fiscal 2020, we repurchased 14 million shares of our common stock at an average price of \$55.06 per share, for an aggregate of \$750 million. We also declared aggregate cash dividends of \$0.96 per share in that period, for which we paid an aggregate of \$226 million.

### Senior Notes Maturity

On September 27, 2019, we made an aggregate cash payment of \$400 million to extinguish our 2.00% Senior Notes at maturity. This repayment was funded through the sale of short-term commercial paper notes issued under our existing program and cash on hand.

### Real Estate Transaction

In September 2017, we entered into an agreement to sell certain land and buildings located in Sunnyvale, California, through two separate and independent closings, the first of which was completed in the third quarter of fiscal 2018. The remaining properties, consisting of land, were classified as assets held for sale, and included as other current assets in our condensed consolidated balance sheets as of April 26, 2019. On August 29, 2019, the second closing occurred and we consummated the sale of the land, with a net book value of \$53 million, and received cash proceeds of \$96 million, resulting in a gain, net of direct selling costs, of \$38 million.

### Critical Accounting Policies and Estimates

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

The summary of our significant accounting policies is included under Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations of our fiscal 2019 Form 10-K. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the estimate that are reasonably possible could materially impact the financial statements. There have been no material changes to the critical accounting policies and estimates as filed in such report.

### New Accounting Standards

See Note 1 – Description of Business and Significant Accounting policies for the impact to our financial statements of the adoption of the accounting standard Leases (ASC 842) in the first quarter of fiscal 2020.





See Note 2 – Recent Accounting Standards Not Yet Effective of the Notes to Condensed Consolidated Financial Statements for a full description of new accounting pronouncements, including the respective expected dates of adoption and effects on our financial statements.

## Results of Operations

Our fiscal year is reported as a 52- or 53-week year that ends on the last Friday in April. Fiscal years 2020 and 2019 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 Operations data as a percentage of net revenues for the periods indicated:

	Three Months Ended		Six Months Ended	
	October 25, 2019	October 26, 2018	October 25, 2019	October 26, 2018
<b>Revenues:</b>				
Product	56 %	60 %	54 %	60 %
Software maintenance	19	16	19	16
Hardware maintenance and other services	25	24	26	25
Net revenues	100	100	100	100
<b>Cost of revenues:</b>				
Cost of product	25	28	25	28
Cost of software maintenance	1	1	1	1
Cost of hardware maintenance and other services	7	7	7	7
<b>Gross profit</b>	<b>67</b>	<b>64</b>	<b>67</b>	<b>65</b>
<b>Operating expenses:</b>				
Sales and marketing	28	27	30	27
Research and development	15	14	16	14
General and administrative	5	5	5	5
Restructuring charges	—	—	1	1
Gain on sale or derecognition of assets	(3)	—	(1)	—
Total operating expenses	46	45	51	47
<b>Income from operations</b>	<b>22</b>	<b>19</b>	<b>15</b>	<b>18</b>
Other income, net	—	—	1	1
<b>Income before income taxes</b>	<b>22</b>	<b>19</b>	<b>16</b>	<b>19</b>
Provision for income taxes	4	3	3	1
<b>Net income</b>	<b>18 %</b>	<b>16 %</b>	<b>13 %</b>	<b>18 %</b>

Percentages may not add due to rounding

## Discussion and Analysis of Results of Operations

### Overview

Net revenues for the second quarter and first six months of fiscal 2020 were \$1,371 million and \$2,607 million, respectively, reflecting a decrease of \$146 million, or 10%, and \$384 million, or 13%, respectively, compared to the corresponding periods of the prior year, primarily reflecting lower product revenues, and to a lesser extent, the unfavorable impact of foreign exchange rate fluctuations in the quarter. Hardware maintenance and other services revenues also decreased compared to the corresponding periods of the prior year, offset by an increase in software maintenance revenues.

Gross profit as a percentage of net revenues for the second quarter and first six months of fiscal 2020 increased by three and a half percentage points and two percentage points, respectively, compared to the corresponding periods in fiscal 2019, primarily reflecting higher margins on product revenues and hardware maintenance and other services revenues. Gross profit margins on product revenues increased by two and a half percentage points in the second quarter of fiscal 2020 and were relatively flat in the first six months of fiscal 2020, compared to the corresponding periods of fiscal 2019. Gross profit margins in both the second quarter and first six months of fiscal 2020 benefitted from a higher mix of All Flash FAS (AFF) product sales and cost reductions. These benefits were partially offset in the second quarter of fiscal 2020, and fully offset in the first six months of fiscal 2020, by high-margin revenue recognized related to the software license components of several ELAs in the corresponding periods of fiscal 2019, which did not repeat in fiscal 2020.



Sales and marketing, research and development, and general and administrative expenses for the second quarter and the first six months of fiscal 2020 totaled \$667 million, or 49% of net revenues and \$1,358 million, or 52% of revenues, respectively, representing an increase of three and a half percentage points and six percentage points, respectively, when compared to the corresponding periods of fiscal 2019, primarily due to lower net revenues in the current year periods.

**Net Revenues (in millions, except percentages):**

	Three Months Ended			Six Months Ended		
	October 25, 2019	October 26, 2018	% Change	October 25, 2019	October 26, 2018	% Change
Net revenues	\$ 1,371	\$ 1,517	(10)%	\$ 2,607	\$ 2,991	(13)%

The decrease in net revenues for the second quarter and first six months of fiscal 2020 compared to the corresponding periods of fiscal 2019 was primarily due to a decrease in product revenues of \$142 million and \$373 million, respectively. Product revenues as a percentage of net revenues decreased by four percentage points and five and a half percentage points in the second quarter and first six months of fiscal 2020, respectively, compared to the corresponding periods of fiscal 2019.

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

	Three Months Ended		Six Months Ended	
	October 25, 2019	October 26, 2018	October 25, 2019	October 26, 2018
Arrow Electronics, Inc.	24%	24%	24%	23%
Tech Data Corporation	21%	21%	21%	19%

**Product Revenues (in millions, except percentages):**

	Three Months Ended			Six Months Ended		
	October 25, 2019	October 26, 2018	% Change	October 25, 2019	October 26, 2018	% Change
Product revenues	\$ 771	\$ 913	(16)%	\$ 1,415	\$ 1,788	(21)%

Product revenues are derived through the sale of our strategic and mature solutions, and consist of sales of configured AFF and Hybrid systems, which are bundled hardware and software products, as well as add-on flash, disk and/or hybrid storage and related OS, private cloud solutions (including SolidFire, converged and hyper-converged infrastructure products, StorageGrid), original equipment manufacturer (OEM) products and add-on optional software.

Under the revised Strategic and Mature product groupings, as described in the Overview section above, product revenues from strategic solutions represented 57% and 55% of product revenues in the second quarter and first six months of fiscal 2020, respectively, compared to 53% and 54% in the corresponding periods of the prior year, respectively. Product revenues from mature solutions represented 43% and 45% of product revenues in the second quarter and first six months of fiscal 2020, respectively, compared to 47% and 46% in the corresponding periods of the prior year, respectively.

Product revenues declined in the second quarter and first six months of fiscal 2020 compared to the corresponding periods of the prior year primarily due less favorable macroeconomic conditions, lower enterprise IT spending and, in the first quarter of fiscal 2020, go-to-market execution issues experienced with some of our largest global customer accounts.

Total product revenues from strategic solutions totaled \$442 million in the second quarter of fiscal 2020 reflecting a 9% decrease from \$485 million in the second quarter of fiscal 2019. Total product revenues from strategic solutions totaled \$779 million in the first six months of fiscal 2020 reflecting a 19% decrease from \$960 million in the first six months of fiscal 2019. These decreases were primarily due to a substantial amount of revenue recognized in the prior year periods related to the software license components of several ELAs which did not repeat, a decrease in add-on optional software sales in the current year periods and, for the six month period, decreased sales of AFF products. These decreases were partially offset by an increase in revenues from private cloud solutions in both fiscal 2020 periods and, for the second quarter, increased sales of AFF products.

Total product revenue from mature solutions totaled \$329 million in the second quarter of fiscal 2020 reflecting a 23% decrease from \$428 million in the second quarter of fiscal 2019. Total product revenue from mature solutions totaled \$636 million in the first six months of fiscal 2020 reflecting a 23% decrease from \$828 million in the first six months of fiscal 2019. These decreases were primarily due to decreased sales of FAS Hybrid and OEM products, as well as add-on storage, in the current year periods.

**Software Maintenance Revenues (in millions, except percentages):**

	Three Months Ended			Six Months Ended		
	October 25, 2019	October 26, 2018	% Change	October 25, 2019	October 26, 2018	% Change
Software maintenance revenues	\$ 254	\$ 236	8%	\$ 504	\$ 465	8%

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

The fluctuations in software maintenance revenues reflect fluctuations in the aggregate contract value of the installed base under software maintenance contracts, which is recognized as revenue ratably over the terms of the underlying contracts.

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

	Three Months Ended			Six Months Ended		
	October 25, 2019	October 26, 2018	% Change	October 25, 2019	October 26, 2018	% Change
Hardware maintenance and other services revenues	\$ 346	\$ 368	(6)%	\$ 688	\$ 738	(7)%

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

Hardware maintenance contract revenues decreased year over year, at \$286 million and \$570 million, respectively, for the second quarter and first six months of fiscal 2020, compared to \$303 million and \$606 million, respectively, for the corresponding periods of the prior year. The decreases were primarily attributable to a decline in average selling price on contracts executed recently.

Professional services and educational and training services revenues were \$60 million and \$118 million, respectively, for the second quarter and first six months of fiscal 2020, compared to \$65 million and \$132 million, respectively, for the corresponding periods of the prior year.

**Revenues by Geographic Area:**

	Three Months Ended		Six Months Ended	
	October 25, 2019	October 26, 2018	October 25, 2019	October 26, 2018
United States, Canada and Latin America (Americas)	56%	57%	54%	57%
Europe, Middle East and Africa (EMEA)	29%	28%	31%	29%
Asia Pacific (APAC)	14%	15%	15%	14%

Percentages may not add due to rounding

Americas revenues consist of sales to Americas commercial and U.S. public sector markets. During the first six months of fiscal 2020, Americas revenues were negatively impacted by general macroeconomic conditions in the region and, in the first quarter of fiscal 2020, go-to-market execution issues with some of our largest customer accounts, which was reflected in the geographic distribution of revenues as a percentage of net revenues in the second quarter and first six months of fiscal 2020 compared to the corresponding periods of fiscal 2019.

**Cost of Revenues**

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

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

	Three Months Ended			Six Months Ended		
	October 25, 2019	October 26, 2018	% Change	October 25, 2019	October 26, 2018	% Change
Cost of product revenues	\$ 341	\$ 428	(20)%	\$ 653	\$ 826	(21)%



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

	<b>Three Months Ended Fiscal 2020 to Fiscal 2019 Percentage Change Points</b>	<b>Six Months Ended Fiscal 2020 to Fiscal 2019 Percentage Change Points</b>
Materials costs	(23)	(23)
Excess and obsolete inventory	2	1
Other	1	1
Total change	<u>(20)</u>	<u>(21)</u>

Cost of product revenues represented 44% and 46% of product revenues for the second quarter and first six months of fiscal 2020, respectively, compared to 47% and 46% for the corresponding periods of fiscal 2019. Materials costs represented 86% and 84% of product costs for the second quarter and first six months of fiscal 2020, respectively, compared to 91% and 89% in the corresponding periods of fiscal 2019.

Materials costs decreased \$98 million and \$190 million in the second quarter and first six months of fiscal 2020, respectively, compared to the corresponding periods of the prior year, primarily due to a decline in product revenue and, to a lesser extent, a decline in the price of certain product components. The average unit materials costs of both AFF and FAS Hybrid systems decreased in the second quarter and first six months of fiscal 2020 compared to the corresponding periods of fiscal 2019.

Margins on revenue recognized for strategic solutions increased during the second quarter and first six months of fiscal 2020 compared to the corresponding periods of fiscal 2019, while margins for mature solutions were relatively flat.

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

	<b>Three Months Ended</b>			<b>Six Months Ended</b>		
	<b>October 25, 2019</b>	<b>October 26, 2018</b>	<b>% Change</b>	<b>October 25, 2019</b>	<b>October 26, 2018</b>	<b>% Change</b>
Cost of software maintenance revenues	\$ 11	\$ 8	38%	\$ 21	\$ 15	40%

Cost of software maintenance revenues in dollars were relatively flat in the second quarter and first six months of fiscal 2020 compared to the corresponding periods of fiscal 2019 and represented 4% of software maintenance revenues for second quarter and first six months of fiscal 2020, and 3% for the corresponding periods of fiscal 2019.

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

	<b>Three Months Ended</b>			<b>Six Months Ended</b>		
	<b>October 25, 2019</b>	<b>October 26, 2018</b>	<b>% Change</b>	<b>October 25, 2019</b>	<b>October 26, 2018</b>	<b>% Change</b>
Cost of hardware maintenance and other services revenues	\$ 94	\$ 107	(12)%	\$ 192	\$ 213	(10)%

Cost of hardware maintenance and other services revenues decreased by \$13 million, or 12%, and \$21 million, or 10%, respectively, for the second quarter and first six months of fiscal 2020 compared to the corresponding periods of fiscal 2019, in line with the decreases in hardware maintenance and other services revenues, and also as a result of cost savings initiatives. Costs represented 27% of hardware maintenance and other services revenues in the second quarter, and 28% in the first six months of fiscal 2020, compared to 29% in the second quarter and first six months of fiscal 2019.

***Operating Expenses***

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

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

Total compensation costs included in operating expenses decreased by \$9 million and \$13 million, respectively, or 2%, in the second quarter and first six months of fiscal 2020, compared to the corresponding periods of the prior year primarily due to lower incentive compensation expense and, to a lesser extent, the favorable impact of foreign exchange rate fluctuations, partially offset by higher salaries expense, reflecting a 2% increase in average headcount in the fiscal 2020 periods.

*Sales and Marketing (in millions, except percentages):*

	Three Months Ended			Six Months Ended		
	October 25, 2019	October 26, 2018	% Change	October 25, 2019	October 26, 2018	% Change
Sales and marketing expenses	\$ 389	\$ 408	(5)%	\$ 794	\$ 817	(3)%

Sales and marketing expenses consist primarily of compensation costs, commissions, outside services, allocated facilities and information technology (IT) costs, advertising and marketing promotional expense and travel and entertainment expense.

	Three Months Ended Fiscal 2020 to Fiscal 2019 Percentage Change Points	Six Months Ended Fiscal 2020 to Fiscal 2019 Percentage Change Points
Compensation costs	(1)	(1)
Advertising and marketing promotional expense	(3)	(2)
Other	(1)	—
<b>Total change</b>	<b>(5)</b>	<b>(3)</b>

Compensation costs decreased slightly for the second quarter and first six months of fiscal 2020 compared to the corresponding periods of the prior year, reflecting a 2% decrease in average headcount in each of the current year periods. Advertising and marketing promotional expense decreased in the second quarter and first six months of fiscal 2020, primarily due to certain annual marketing events being held earlier in the prior year. Sales and marketing expenses in the second quarter and first six months of fiscal 2020 also benefitted slightly from foreign exchange rate fluctuations.

*Research and Development (in millions, except percentages):*

	Three Months Ended			Six Months Ended		
	October 25, 2019	October 26, 2018	% Change	October 25, 2019	October 26, 2018	% Change
Research and development expenses	\$ 209	\$ 211	(1)%	\$ 424	\$ 419	1%

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

	Three Months Ended Fiscal 2020 to Fiscal 2019 Percentage Change Points	Six Months Ended Fiscal 2020 to Fiscal 2019 Percentage Change Points
Compensation costs	1	2
Development projects and outside services	(1)	(1)
Other	(1)	—
<b>Total change</b>	<b>(1)</b>	<b>1</b>

The increase in compensation costs for the second quarter and first six months of fiscal 2020 compared to the corresponding periods in the prior year was attributable to an increase in average headcount of 9% and 8%, respectively, resulting in higher salaries, benefits and stock-based compensation expense, partially offset by lower incentive compensation expense. The increase in headcount reflects our investment in additional engineering resources to support the expansion and enhancement of products and solutions targeted at our most important customer and market opportunities. Development projects and outside services expense for the second quarter and first six months of fiscal 2020 decreased slightly as a result of lower spending on materials and services associated with engineering activities to develop new and enhanced products, due to the timing of new product introductions.

*General and Administrative (in millions, except percentages):*

	Three Months Ended			Six Months Ended		
	October 25, 2019	October 26, 2018	% Change	October 25, 2019	October 26, 2018	% Change
General and administrative expenses	\$ 69	\$ 69	—%	\$ 140	\$ 142	(1)%

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

	Three Months Ended Fiscal 2020 to Fiscal 2019 Percentage Change Points	Six Months Ended Fiscal 2020 to Fiscal 2019 Percentage Change Points
Compensation costs	(10)	(9)
Professional and legal fees and outside services	13	11
Facilities and IT support costs	(6)	(5)
Other	3	2
<b>Total change</b>	<b>—</b>	<b>(1)</b>

While average headcount increased in the second quarter and first six months of fiscal 2020 compared to the corresponding periods of the prior year, compensation costs decreased because a greater percentage of employees were located in lower cost geographies. The increases in professional and legal fees and outside services expense in the second quarter and first six months of fiscal 2020 were primarily due to the higher spending levels on business transformation projects, while the decreases in facilities and IT support costs were primarily due to lower spending levels on IT projects.

*Restructuring Charges (in millions, except percentages):*

	Three Months Ended			Six Months Ended		
	October 25, 2019	October 26, 2018	% Change	October 25, 2019	October 26, 2018	% Change
Restructuring charges	\$ —	\$ —	NM	\$ 21	\$ 19	NM

NM – Not Meaningful

In the first quarter of fiscal 2020, we announced a restructuring plan (the May 2019 Plan) to reduce costs and redirect resources to our highest return activities, which included a reduction in our global workforce of approximately 2%. Charges related to the plan consisted primarily of employee severance-related costs. Substantially all activities under the plan have been completed. See Note 12 – Restructuring Charges of the Notes to Condensed Consolidated Financial Statements for more details.

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

	Three Months Ended			Six Months Ended		
	October 25, 2019	October 26, 2018	% Change	October 25, 2019	October 26, 2018	% Change
Gain on sale or derecognition of assets	\$ (38)	\$ —	NM	\$ (38)	\$ —	NM

NM – Not Meaningful

In September 2017, we entered into an agreement to sell certain land and buildings located in Sunnyvale, California, through two separate and independent closings, the first of which was completed in the third quarter of fiscal 2018. The remaining properties, consisting of land, were classified as assets held for sale, and included as other current assets in our condensed consolidated balance sheet as of April 26, 2019. On August 29, 2019, the second closing occurred and we consummated the sale of the land, with a net book value of \$53 million, and received cash proceeds of \$96 million, resulting in a gain, net of direct selling costs, of \$38 million.

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

The components of other income, net were as follows:

	Three Months Ended			Six Months Ended		
	October 25, 2019	October 26, 2018	% Change	October 25, 2019	October 26, 2018	% Change
Interest income	\$ 12	\$ 21	(43)%	\$ 31	\$ 46	(33)%
Interest expense	(12)	(14)	(14)%	(27)	(28)	(4)%
Other income, net	3	—	NM	14	7	100%
<b>Total</b>	<b>\$ 3</b>	<b>\$ 7</b>	<b>(57)%</b>	<b>\$ 18</b>	<b>\$ 25</b>	<b>(28)%</b>

NM – Not Meaningful





Interest income decreased in the second quarter and first six months of fiscal 2020 compared to the corresponding periods of the prior year due to a reduction in size of our investment portfolio as a result of our sale of approximately \$1.0 billion of available-for-sale debt securities in the first quarter of fiscal 2020. Other income, net increased in the first six months of fiscal 2020 compared to the corresponding period of fiscal 2019 as a result of the \$14 million gain we realized from the sale of these securities, partially offset by differences in foreign exchange gains and losses. Interest expense remained relatively flat in the second quarter and first six months of fiscal 2020 compared to the corresponding periods of the prior year, as we repaid our maturing Senior Notes but increased our average outstanding commercial paper balance.

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

	Three Months Ended			Six Months Ended		
	October 25, 2019	October 26, 2018	% Change	October 25, 2019	October 26, 2018	% Change
Provision for income taxes	\$ 56	\$ 52	8%	\$ 72	\$ 41	76%

Our effective tax rate for the second quarter of fiscal 2020 was 18.7% compared to 17.7% for the second quarter of fiscal 2019. Our effective tax rate for the first six months of fiscal 2020 was 17.2% compared to 7.3% for the corresponding period of fiscal 2019. Our effective tax rates reflect the impact of a significant amount of our earnings, primarily income from our European operations, being taxed in foreign jurisdictions at rates below the U.S. statutory tax rate. Our effective tax rate increased for the second quarter of fiscal 2020 compared to the corresponding period of the prior year primarily due to the discrete tax charge on the sale of land in Sunnyvale, California and the differences in discrete benefits for stock-based compensation. Our effective tax rate increased for the first six months of fiscal 2020 compared to the corresponding period in the prior year primarily due to the discrete tax benefits related to the adoption of the new revenue standard in fiscal 2019, and the same items that impacted the second quarter effective tax rate.

On December 22, 2017, the Tax Cuts and Jobs Act (“TCJA”) was enacted into law. The TCJA made significant changes to the U.S. corporate income tax system including a reduction of the U.S. federal corporate income tax rate from 35% to 21%, the imposition of a one-time transition tax on deferred foreign earnings, and the creation of new taxes on certain foreign-sourced earnings. As of April 26, 2019, we had completed the accounting for the tax impacts of the TCJA, however, we will continue to assess the impact of further guidance from federal and state tax authorities on our business and consolidated financial statements, and recognize any adjustments in the period in which they are determined.

During fiscal 2019, we adopted the new revenue accounting standard and, during the six months ended October 26, 2018, we recognized a \$34 million discrete tax benefit for adjustments to certain intercompany transactions resulting from the retrospective application of the new revenue accounting standard.

As of October 25, 2019, we had \$294 million of gross unrecognized tax benefits. Inclusive of penalties, interest and certain income tax benefits, \$246 million would affect our provision for income taxes if recognized, and \$251 million has been recorded in other long-term liabilities.

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 believe that within the next 12 months, it is reasonably possible that either certain audits will conclude, certain statutes of limitations will lapse, or both. As a result of uncertainties regarding tax audits and their possible outcomes, an estimate of the range of possible impacts to unrecognized tax benefits in the next twelve months cannot be made at this time.

**Liquidity, Capital Resources and Cash Requirements**

(In millions, except percentages)	October 25, 2019	April 26, 2019
Cash, cash equivalents and short-term investments	\$ 2,987	\$ 3,899
Principal amount of debt	\$ 1,649	\$ 1,799

The following is a summary of our cash flow activities:

(In millions)	Six Months Ended	
	October 25, 2019	October 26, 2018
Net cash provided by operating activities	\$ 257	\$ 491
Net cash provided by investing activities	1,116	381
Net cash used in financing activities	(1,148)	(1,429)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(5)	(25)
Net increase (decrease) in cash, cash equivalents and restricted cash	\$ 220	\$ (582)



## Cash Flows

As of October 25, 2019, our cash, cash equivalents and short-term investments were \$3.0 billion, a decrease of \$0.9 billion from April 26, 2019. The decrease was primarily due to \$750 million paid for the repurchase of our common stock, \$400 million used for the repayment of our Senior Notes due September 2019, \$226 million used for the payment of dividends, and \$68 million in purchases of property and equipment, partially offset by \$249 million in proceeds from the issuance of commercial paper notes, net, \$96 million in proceeds from the sale of properties, and \$257 million of cash provided by operating activities. Working capital decreased by \$0.7 billion to \$1.0 billion as of October 25, 2019 compared to April 26, 2019 primarily due to the decreases in cash, cash equivalents and short-term investments discussed above.

### Cash Conversion Cycle

The following table presents the components of our cash conversion cycle:

(In days)	Three Months Ended		
	October 25, 2019	April 26, 2019	October 26, 2018
Days sales outstanding <sup>(1)</sup>	52	70	46
Days inventory outstanding <sup>(2)</sup>	23	21	14
Days payables outstanding <sup>(3)</sup>	(78)	(87)	(79)
Cash conversion cycle <sup>(4)</sup>	(4)	3	(19)

Days may not add due to rounding

- <sup>(1)</sup> Days sales outstanding, referred to as DSO, calculates the average collection period of our receivables. DSO is based on ending accounts receivable and net revenue for each period. DSO is calculated by dividing accounts receivable by average net revenue per day for the current quarter (91 days for each of the quarters presented above). DSO for the second quarter of fiscal 2020 increased compared to the corresponding period of fiscal 2019 due to less favorable shipping linearity and the timing of shipments to certain large customers, while it decreased compared to the fourth quarter of fiscal 2019 due to lower seasonal invoicing levels and more favorable shipping linearity.
- <sup>(2)</sup> Days inventory outstanding, referred to as DIO, measures the average number of days from procurement to sale of our products. DIO is based on ending inventory and cost of revenues for each period. DIO is calculated by dividing ending inventory by average cost of revenues per day for the current quarter. DIO for the second quarter of fiscal 2020 increased compared to the corresponding period of fiscal 2019 as a result of higher levels of on hand inventory and lower cost of goods sold in the current year period, while it was relatively flat compared to the fourth quarter of fiscal 2019.
- <sup>(3)</sup> Days payables outstanding, referred to as DPO, calculates the average number of days our payables remain outstanding before payment. DPO is based on ending accounts payable and cost of revenues for each period. DPO is calculated by dividing accounts payable by average cost of revenues per day for the current quarter. DPO for the second quarter of fiscal 2020 was relatively consistent with the corresponding period of fiscal 2019, while it decreased compared to the fourth quarter of 2019, primarily due to the timing of purchases from contract manufacturers.
- <sup>(4)</sup> The cash conversion cycle is the sum of DSO and DIO less DPO. Items which may cause the cash conversion cycle in a particular period to differ include, but are not limited to, changes in business mix, changes in payment terms (including extended payment terms from suppliers), the extent of shipment linearity, seasonal trends and the timing of revenue recognition and inventory purchases within the period.

### Cash Flows from Operating Activities

During the first six months of fiscal 2020, we generated cash from operating activities of \$257 million, reflecting net income of \$346 million, adjusted by non-cash depreciation and amortization of \$99 million, stock-based compensation of \$82 million, and a gain on sale of properties of \$38 million, compared to \$491 million of cash generated from operating activities during the first six months of fiscal 2019.

Changes in assets and liabilities in the first six months of fiscal 2020 included the following:

- Accounts receivable decreased \$435 million, reflecting lower DSO.
- Accounts payable decreased \$157 million, reflecting lower DPO.
- Accrued expenses decreased \$315 million, primarily due to employee compensation payouts related to fiscal year 2019 commissions and incentive compensation plans and payments of income taxes.

- Deferred revenue and financed unearned services revenue decreased \$197 million, primarily due to a decrease in deferred software and hardware maintenance contract revenues reflecting the seasonality of maintenance contract renewal activities.

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

### *Cash Flows from Investing Activities*

During the first six months of fiscal 2020, we generated \$1.1 billion from maturities and sales of investments, net of purchases, and paid \$68 million for capital expenditures, while during the first six months of fiscal 2019, we generated \$489 million from maturities and sales of investments, net of purchases, and paid \$107 million for capital expenditures. Additionally, during the first six months of fiscal 2020, we received \$96 million for the sale of land in Sunnyvale, California and paid \$56 million net to acquire a privately-held company.

### *Cash Flows from Financing Activities*

During the first six months of fiscal 2020, we used \$750 million for the repurchase of fourteen million shares of our common stock, \$226 million for the payment of dividends, and \$400 million for the repayment of our Senior Notes due September 2019, partially offset by \$249 million in proceeds from the issuance of commercial paper notes, net, compared to \$1.1 billion used for the repurchase of fourteen million shares of common stock, \$207 million used for the payment of dividends, and \$135 million used for the repayment of commercial paper notes, net, during the first six months of fiscal 2019.

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

### **Liquidity**

Our principal sources of liquidity as of October 25, 2019 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):

	October 25, 2019	April 26, 2019
Cash and cash equivalents	\$ 2,545	\$ 2,325
Short-term investments	442	1,574
Total	<u>\$ 2,987</u>	<u>\$ 3,899</u>

As of October 25, 2019 and April 26, 2019, \$2.9 billion and \$3.7 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 \$0.1 billion and \$0.2 billion, respectively, were available in the U.S. The TCJA imposed a one-time transition tax on substantially all accumulated foreign earnings through December 31, 2017, and generally allows companies to make distributions of foreign earnings without incurring additional federal taxes. As a part of the recognition of the impacts of the TCJA, we have reviewed our projected global cash requirements and have determined that certain historical and future foreign earnings will no longer be indefinitely reinvested.

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

The principal objectives of our investment policy are the preservation of principal and maintenance of liquidity. We attempt to mitigate default risk by investing in high-quality investment grade securities, limiting the time to maturity and monitoring the counter-parties and underlying obligors closely. We believe our cash equivalents and short-term investments are liquid and accessible. We are not aware of any significant deterioration in the fair value of our cash equivalents or investments from the values reported as of October 25, 2019.

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

### *Senior Notes*

The following table summarizes the principal amount of our Senior Notes as of October 25, 2019 (in millions):

3.375% Senior Notes Due June 2021	\$	500
3.25% Senior Notes Due December 2022		250
3.30% Senior Notes Due September 2024		400
Total	<u>\$</u>	<u>1,150</u>

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

### *Commercial Paper Program and Credit Facility*

We have a commercial paper program (the Program), under which we may issue unsecured commercial paper notes. Amounts available under the Program may be borrowed, repaid and re-borrowed, with the aggregate face or principal amount of the notes outstanding under the Program at any time not to exceed \$1.0 billion. The maturities of the notes can vary, but may not exceed 397 days from the date of issue. The notes are sold under customary terms in the commercial paper market and may be issued at a discount from par or, alternatively, may be sold at par and bear interest at rates dictated by market conditions at the time of their issuance. The proceeds from the issuance of the notes are used for general corporate purposes. As of October 25, 2019, we had commercial paper notes outstanding with an aggregate principal amount of \$499 million, a weighted-average interest rate of 2.20% and maturities ranging from 7 days to 91 days.

In connection with the Program, we have a senior unsecured credit agreement that expires on December 10, 2021. The credit agreement provides a \$1.0 billion revolving unsecured credit facility that serves as a back-up for the Program. Proceeds from the facility may also be used for general corporate purposes, providing another potential source of liquidity to the extent that the credit facility exceeds the outstanding debt issued under the Program. The credit agreement also includes options that allow us to request an increase in the facility of up to an additional \$300 million and to extend its maturity date for two additional one-year periods, both subject to certain conditions. As of October 25, 2019, we were in compliance with all associated covenants in this agreement. No amounts were drawn against this 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 2020 to be between \$75 million and \$100 million.

### *Dividends and Stock Repurchase Program*

On November 13, 2019, we declared a cash dividend of \$0.48 per share of common stock, payable on January 22, 2020 to holders of record as of the close of business on January 3, 2020.

Our Board of Directors has authorized the repurchase of up to \$13.6 billion of our common stock under our stock repurchase program. Under this program, we may purchase shares of our outstanding common stock through solicited or unsolicited transactions in the open market, in privately negotiated transactions, through accelerated share repurchase programs, pursuant to a Rule 10b5-1 plan or in such other manner as deemed appropriate by our management. The stock repurchase program may be suspended or discontinued at any time. Since the May 13, 2003 inception of this program through October 25, 2019, we repurchased a total of 327 million shares of our common stock at an average price of \$38.20 per share, for an aggregate purchase price of \$12.5 billion. As of October 25, 2019, the remaining authorized amount for stock repurchases under this program was \$1.1 billion.





The timing and amount of stock repurchase transactions and future dividends will depend on market conditions, corporate business and financial considerations and regulatory requirements.

### ***Contractual Obligations***

#### ***Purchase Orders and Other Commitments***

In the ordinary course of business, we make commitments to our third-party contract manufacturers 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 consists of firm, non-cancelable, and unconditional commitments. As of October 25, 2019, we had \$447 million in non-cancelable purchase commitments for inventory. We record a liability for firm, non-cancelable and unconditional purchase commitments for quantities in excess of our future demand forecasts consistent with the valuation of our excess and obsolete inventory. To the extent that such forecasts are not achieved, our commitments and associated accruals may change.

In addition to inventory commitments with contract manufacturers and component suppliers, we have open purchase orders and construction related obligations associated with our ordinary course of business for which we have not received goods or services. As of October 25, 2019, we had \$5 million in construction related obligations and \$244 million in other purchase obligations.

#### ***Unrecognized Tax Benefits***

As of October 25, 2019, our liability for uncertain tax positions was \$251 million, including interest, penalties and certain income tax benefits. Due to uncertainties regarding tax audits and their possible outcomes, we are unable to make reasonably reliable estimates of the period of cash settlement with the taxing authorities.

### ***Financing Guarantees***

While most of our arrangements for sales include short-term payment terms, from time to time we provide long-term financing to creditworthy customers. We have generally sold receivables financed through these arrangements on a non-recourse basis to third party financing institutions within 10 days of the contracts' dates of execution, and we classify the proceeds from these sales as cash flows from operating activities in our condensed consolidated statements of cash flows. We account for the sales of these receivables as "true sales" as defined in the accounting standards on transfers of financial assets, as we are considered to have surrendered control of these financing receivables. 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 \$34 million and \$43 million of receivables during the first six months of fiscal 2020 and fiscal 2019, 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 October 25, 2019 and April 26, 2019, 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 October 25, 2019, 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.

### ***Indemnification Agreements***

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

### ***Legal Contingencies***

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

### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

#### Interest Rate Risk

*Fixed Income Investments — As of October 25, 2019, we had fixed income debt investments of \$442 million. Our investment portfolio primarily consists of investments with original maturities greater than three months at the date of purchase, which are classified as available-for-sale investments. These investments, which consist primarily of corporate bonds, U.S. Treasury and government debt securities and certificates of deposit, are subject to interest rate and interest income risk and will decrease in value if market interest rates increase. Conversely, declines in interest rates, including the impact from lower credit spreads, could have a material adverse impact on interest income for our investment portfolio. A hypothetical 100 basis point increase in market interest rates from levels as of October 25, 2019 would have resulted in a decrease in the fair value of our fixed-income securities of approximately \$2 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 October 25, 2019, we have outstanding \$1.2 billion aggregate principal amount of Senior Notes. We carry these instruments at face value less unamortized discount on our condensed consolidated balance sheets. Since these instruments bear interest at fixed rates, we have no financial statement risk associated with changes in interest rates. However, the fair value of these instruments fluctuates when interest rates change. See Note 8 – Financing Arrangements of the Notes to Condensed Consolidated Financial Statements for more information.*

*Credit Facility — We are exposed to the impact of changes in interest rates in connection with our \$1.0 billion five-year revolving credit facility. Borrowings under the facility accrue interest at rates that vary based on certain market rates and our credit rating on our Senior Notes. Consequently, our interest expense would fluctuate with any changes in these market interest rates or in our credit rating if we were to borrow any amounts under the credit facility. As of October 25, 2019, no amounts were outstanding under the credit facility.*

#### Foreign Currency Exchange Rate Risk

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

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

## **Item 4. Controls and Procedures.**

### *Disclosure Controls and Procedures*

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

Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of October 25, 2019, 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 second quarter of fiscal 2020 that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings.

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

### Item 1A. Risk Factors.

The following descriptions of risk factors includes any material changes to, and supersedes the description of risk factors associated with, the Company's business previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended April 26, 2019 (the "2019 Form 10-K") filed with the U.S. Securities and Exchange Commission (the "SEC") under the heading "Risk Factors." Our business, financial condition and operating results can be affected by a number of factors, whether currently known or unknown, including but not limited to those described below, any one or more of which could, directly or indirectly cause our actual results of operations and financial condition to vary materially from the past, or from anticipated future, results of operations and financial condition. Any of these factors, in whole or in part, could materially and adversely affect our business, financial condition, results of operations and common stock price.

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

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

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

Our industry and the markets in which we compete have historically experienced significant growth due to the increase in the demand for storage and data management solutions by consumers, enterprises and government bodies around the world, and the resultant purchases of storage and data management solutions to address this demand. However, despite continued data growth, our traditional market, the networked storage hardware market, experienced a decline in each of the last three calendar years due to a combination of customers delaying purchases in the face of technology transitions, increasing adoption of Cloud environments built on commodity hardware, increased storage efficiency, and changing economic and business environments. While customers are navigating through their information technology (IT) transformations, which leverage modern architectures and hybrid cloud environments, they are also reducing IT budgets, looking for simpler solutions, and rethinking how they consume IT. This evolution is diverting spending towards transformational projects and architectures like flash, hybrid cloud, IT as a service, converged infrastructure, and software defined storage. Our business may be adversely impacted if we are unable to keep pace with rapid industry, technological or market changes or if our Data Fabric strategy is not accepted in the marketplace. As a result of these and other factors discussed in the report, our revenue may decline on a year-over-year basis, as it did in fiscal years 2015, 2016 and 2017. The future impact of these trends on both short-term and long-term growth patterns is uncertain. If the general historical rate of industry growth declines, if the growth rates of the specific markets in which we compete decline, and/or if the consumption model of storage changes and our new and existing products, services and solutions do not receive customer acceptance, our business, operating results and financial condition could suffer.

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

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

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

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

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

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

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

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

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

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

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

The storage and data management markets are intensely competitive and are characterized by rapidly changing technology and fragmentation. We compete with many companies in the markets we serve, including established public companies, newer public companies with a strong flash focus, and new market entrants addressing the growing opportunity for hyper-converged systems. Some offer a broad spectrum of IT products and services (full-stack vendors) and others offer a more limited set of storage and data management products or services. Technology trends, such as the emergence of hosted or public cloud storage, SaaS and flash storage are driving significant changes in storage architectures and solution requirements. Cloud service providers provide customers storage for their data centers on demand, without requiring a capital expenditure, which meets rapidly evolving business needs and has changed the competitive landscape.

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

For additional information regarding our competitors, see the section entitled “Competition” contained in Item 1 – Business of Part I of this Form 10-K. It is possible that new competitors or alliances among competitors might emerge and rapidly acquire significant market share or buying power. An increase in industry consolidation might result in stronger competitors that are better able to compete as full-stack vendors for customers and achieve increased economies of scale in the supply chain. For example, in October 2016, Dell Inc. and EMC Corp. consummated their agreement to merge. Also, in April 2017, HP Enterprise completed their acquisition of Nimble Storage. In addition, current and potential competitors have established or might establish cooperative relationships among themselves or with third parties, including some of our partners or suppliers.

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

Continuing global economic uncertainty, political conditions and fiscal challenges in the United States (U.S.) and abroad have, among other things, limited our ability to forecast future demand for our products, contributed to increased periodic volatility in the computer, storage and networking industries at large, as well as the IT market, and could constrain future access to capital for our suppliers, customers and partners. The impacts of these circumstances are global and pervasive, and the timing and nature of any ultimate resolution of these matters remain highly uncertain. Consequently, we expect these concerns to challenge our business for the foreseeable future, which could cause harm to our operating results. Such conditions have resulted, and may in the future again result, in failure to meet our forecasted financial expectations and to achieve historical levels of revenue growth.

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

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

- Seasonality, such as our historical seasonal decline in revenues in the first quarter of our fiscal year and seasonal increase in revenues in the second quarter of our fiscal year, with the latter due in part to the impact of the U.S. federal government’s September 30 fiscal year end on the timing of its orders; and
- Linearity, such as our historical intra-quarter bookings and revenue pattern in which a disproportionate percentage of each quarter’s total bookings and related revenue occur in the last month of the quarter; and
- Unpredictability associated with larger scale enterprise software license agreements which generally take longer to negotiate and occur less consistently than other types of contracts, and for which revenue attributable to the software license component is typically recognized in full upon delivery.

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

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



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

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

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

***Our gross margins vary.***

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

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

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

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

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

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

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

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





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

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

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

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

We face exposure to adverse movements in foreign currency exchange rates as a result of our international operations. These exposures may change over time as business practices evolve, and they could have a material adverse impact on our financial results and cash flows. We utilize forward and option contracts in an attempt to reduce the adverse earnings impact from the effect of exchange rate fluctuations on certain assets and liabilities. Our hedging strategies may not be successful, and currency exchange rate fluctuations could have a material adverse effect on our operating results and cash flows. In addition, our foreign currency exposure on assets, liabilities and cash flows that we do not hedge could have a material impact on our financial results in periods when the U.S. dollar significantly fluctuates in relation to foreign currencies.

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

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

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

***We could be subject to additional income tax liabilities.***

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

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

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

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

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

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

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

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

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

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

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

High-profile cyberattacks and security breaches have increased in recent years, and security industry experts and government officials have warned about the risks of hackers and cyberattacks targeting IT products and businesses. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. As we continue to increase our client base and expand our brand, we may become more of a target for third parties seeking to compromise our security systems and we anticipate that hacking attempts and cyberattacks will increase in the future. We cannot give assurance that we will always be successful in preventing or repelling unauthorized access to our systems.

Many jurisdictions have enacted or are enacting laws requiring companies to notify regulators or individuals of data security incidents involving certain types of personal data. These mandatory disclosures regarding security incidents often lead to widespread negative publicity. Moreover, the risk of reputational harm may be magnified and/or distorted through the rapid dissemination of information over the internet, including through news articles, blogs, chat rooms, and social media sites. Any security incident, whether actual or perceived, could harm our reputation, erode customer confidence in the effectiveness of our data security measures, negatively impact our ability to attract new customers, cause existing customers to elect not to renew their support contracts or their SaaS subscriptions, or subject us to third-party lawsuits, regulatory fines or other action or liability, which could materially and adversely affect our business and operating results. Our business could be subject to stricter obligations, greater fines and private causes of action under the enactment of new data privacy laws, including but not limited to, the European Union General Data Protection Regulation enacted on May 25, 2018 and the California Consumer Privacy Act to be enacted on January 1, 2020.

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

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

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

In response to changes in market conditions and market demand for our products, we have in the past undertaken cost savings initiatives. For example, in March 2016, November 2016, May 2018, April 2019 and May 2019 we executed restructuring events designed to streamline our business, reduce our cost structure and focus our resources on key strategic opportunities. As a result, we have recognized substantial restructuring charges. In fiscal 2018, we created the Storage Systems and Software, Cloud Data Services, and Cloud Infrastructure business units to enable us to develop the organization and systems to successfully execute a multi-product business. We also reorganized our sales resources to better align with customer and market opportunities. We may in the future undertake initiatives that could include reorganizing our workforce, restructuring, disposing of, and/or otherwise discontinuing certain products, or a combination of these actions. Rapid changes in the size, alignment or organization of our workforce, including our new business unit structure and sales account coverage, could adversely affect our ability to develop, sell and deliver products and services as planned or impair our ability to realize our current or future business and financial objectives. Any decision to take these actions may result in charges to earnings associated with, among other things, inventory or other fixed, intangible or goodwill asset reductions (including, without limitation, impairment charges), workforce and facility reductions and penalties and claims from third-party resellers or users of discontinued products. Charges associated with these activities would harm our operating results. In addition to the costs associated with these activities, we may not realize any of the anticipated benefits of the underlying restructuring activities.

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

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

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

Our continued success depends, in part, on our ability to hire and retain qualified personnel and to preserve the key aspects of our corporate culture. Because our future success is dependent on our ability to continue to enhance and introduce new products, we are particularly dependent on our ability to hire and retain qualified engineers, including in emerging areas of technology such as artificial intelligence and machine learning. In addition, to increase revenues, we will be required to increase the productivity of our sales force and support infrastructure to achieve adequate customer coverage. Competition for qualified employees, particularly in Silicon Valley, is intense. We have periodically reduced our workforce, including an 11% reduction announced in March 2016, a 6% reduction announced in November 2016, and more minor reductions announced in fiscal 2019 and fiscal 2020, and these actions may make it more difficult to attract and retain qualified employees. Our inability to hire and retain qualified management and skilled personnel, particularly engineers, salespeople and key executive management, could be disruptive to our development efforts, sales results, business relationships and/or our ability to execute our business plan and strategy on a timely basis and could materially and adversely affect our operating results.

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

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

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

As part of our strategy, we seek to acquire other businesses and technologies to complement our current products, expand the breadth of our markets, or enhance our technical capabilities. For example, in May 2019 (fiscal 2020), we acquired a privately held company, in fiscal 2018 we acquired two privately held companies, and in fiscal 2016 we acquired SolidFire, Inc. The benefits we have received, and expect to receive, from these and other acquisitions depend on our ability to successfully conduct due diligence, negotiate the terms of the acquisition and integrate the acquired business into our systems, procedures and organizational structure. Any inaccuracy in our acquisition assumptions or any failure to uncover liabilities or risks associated with the acquisition, make the acquisition on favorable terms, integrate the acquired business or assets as and when expected or retain key employees of the acquired company may reduce or eliminate the expected benefits of the acquisition to us, increase our costs, disrupt our operations, result in additional liabilities, investigations and litigation, and may also harm our strategy, our business and our operating results. The failure to achieve expected acquisition benefits may also result in impairment charges for goodwill and purchased intangible assets.

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

The U.S. government is an important customer for us. However, government demand is uncertain, as it is subject to political and budgetary fluctuations and constraints. Events such as the U.S. federal government shutdown from December 2018 to January 2019 and continued uncertainty regarding the U.S. budget and debt levels have increased demand uncertainty for our products, and in our fiscal 2016 resulted in lower sales to these customers. In addition, like other customers, the U.S. government may evaluate competing products and delay purchasing in the face of the technology transitions taking place in the storage industry. If the U.S. government or an individual agency or multiple agencies within the U.S. government continue to reduce or shift their IT spending patterns, our revenues and operating results may be harmed.

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

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

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

***There are risks associated with our outstanding and future indebtedness.***

As of October 25, 2019, we had \$1.2 billion aggregate principal amount of outstanding indebtedness for our senior notes that mature at specific dates in calendar years 2021, 2022 and 2024, and we had an aggregate of \$499 million of commercial paper notes outstanding with maturities ranging from 7 days to 91 days. We may incur additional indebtedness in the future under existing credit facilities and/or enter into new financing arrangements. We may fail to pay these or additional future obligations, as and when required. Specifically, if we are unable to generate sufficient cash flows from operations or to borrow sufficient funds in the future to service or refinance our debt, our business, operating results and financial condition will be harmed. Any downgrades from credit rating agencies such as Moody's Investors Service or Standard & Poor's Rating Services may adversely impact our ability to obtain additional financing or the terms of such financing and reduce the market capacity for our commercial paper. Furthermore, if prevailing interest rates or other factors result in higher interest rates upon any potential future financing, then interest expense related to the refinance indebtedness would increase.



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

***We are exposed to credit risks and fluctuations in the market values of our investment portfolio.***

We maintain an investment portfolio of various holdings, types, and maturities. Credit ratings and pricing of our investments can be negatively affected by liquidity, credit deterioration, financial results, economic risk, political risk, sovereign risk or other factors. As a result, the value and liquidity of our investments may fluctuate substantially. Therefore, although we have not recently realized any significant losses on our investments, future fluctuations in their value could result in a significant realized loss.

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

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

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

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

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

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

The laws and regulations governing the manufacturing, sourcing, distribution and use of our products have become more complex and stringent over time. For example, in addition to various environmental laws relating to carbon emissions and the use and discharge of hazardous materials, the SEC adopted regulations concerning the supply of certain minerals originating from the conflict zones of the Democratic Republic of Congo or adjoining countries. We incur costs to comply with the disclosure requirements of this law and may realize other costs relating to the sourcing and availability of minerals used in our products. Further, since our supply chain is complex, we may face reputational harm if our customers or other stakeholders conclude that we are unable to verify sufficiently the origins of the minerals used in the products we sell. As the laws and regulations governing our products continue to expand and change, our costs are likely to rise, and the failure to comply with any such laws and regulations could subject us to business interruptions, litigation risks and reputational harm.

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

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

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

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

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

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

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

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



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

Most of our sales to customers are on an open credit basis, with typical payment terms of 30 days. We may experience losses due to a customer's inability to pay. Beyond our open credit arrangements, some of our customers have entered into recourse and non-recourse financing leasing arrangements using third-party leasing companies. Under the terms of recourse leases, which are generally three years or less, we remain liable for the aggregate unpaid remaining lease payments to the third-party leasing companies in the event of end-user customer default. During periods of economic uncertainty, our exposure to credit risks from our customers increases. In addition, our exposure to credit risks of our customers may increase further if our customers and their customers or their lease financing sources are adversely affected by global economic conditions.

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

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

*Our stock price is subject to volatility.*

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

Our ability to pay quarterly dividends and to continue to execute our stock repurchase program as planned will be subject to, among other things, our financial condition and operating results, available cash and cash flows in the U.S., capital requirements, and other factors. Future dividends are subject to declaration by our Board of Directors, and our stock repurchase program does not obligate us to acquire any specific number of shares. If we fail to meet any expectations related to dividends and/or stock repurchases, the market price of our stock could decline significantly, and could have a material adverse impact on investor confidence. Additionally, price volatility of our stock over a given period may cause the average price at which we repurchase our own stock to exceed the stock's market price at a given point in time.

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

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

### *Purchases of equity securities*

The following table provides information with respect to the shares of common stock repurchased by us during the three months ended October 25, 2019:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Program</b>	<b>Approximate Dollar Value of Shares That May Yet Be Purchased Under The Repurchase Program</b>
	(Shares in thousands)		(Shares in thousands)	(Dollars in millions)
July 27, 2019 - August 23, 2019	2,293	\$ 48.23	319,390	\$ 1,528
August 24, 2019 - September 20, 2019	3,077	\$ 50.94	322,467	\$ 1,371
September 21, 2019 - October 25, 2019	4,398	\$ 52.90	326,865	\$ 1,139

Total

9,768 \$ 51.19

In May 2003, our Board of Directors approved a stock repurchase program. As of October 25, 2019, our Board of Directors has authorized the repurchase of up to \$13.6 billion of our common stock. Since inception of the program through October 25, 2019, we repurchased a total of 327 million shares of our common stock for an aggregate purchase price of \$12.5 billion. Under this program, which we may suspend or discontinue at any time, 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.

**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			
		Form	File No.	Exhibit	Filing Date
10.1	<a href="#">Retirement Agreement dated August 14, 2019 by and between the Company and Joel Reich</a>	—	—	—	—
31.1	<a href="#">Certification of the Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.</a>	—	—	—	—
31.2	<a href="#">Certification of the Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.</a>	—	—	—	—
32.1	<a href="#">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.</a>	—	—	—	—
32.2	<a href="#">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.</a>	—	—	—	—
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/ RONALD J. PASEK

Ronald J. Pasek

Executive Vice President and  
Chief Financial Officer

Date: November 18, 2019

August 14, 2019

Joel Reich  
ID # 003507

Dear Joel:

This letter confirms the agreement between NetApp, Inc. (“NetApp” or the “Company”) and you regarding the terms of your retirement from the Company (the “Agreement”)

1. **Retirement Benefits.** In consideration for you signing this Agreement, you will be provided the following retirement benefits:
  - a. Your employment with NetApp will terminate due to retirement on August 16, 2019 (your “Retirement Date”). Between now and your Retirement Date, you will remain a regular NetApp employee and continue to receive the same pay and benefits, including stock besting and 401(k) employer match, if applicable. Your health insurance coverage will continue through the end of the month in which you retire.
  - b. As soon as administratively practical following your Retirement Date and no later than September 15, 2019, you will receive a lump sum payment in the amount of \$262,000, less customary withholdings, representing six months of separation pay.
  - c. Following your Retirement Date, you are eligible to participate in the NetApp, Inc. Executive Retiree Health Plan, pursuant to the terms and conditions of that plan as they exist as of your Retirement Date. If you choose not to join the NetApp, Inc. Executive Retiree Health Plan or if you are ineligible to join the plan pursuant to the terms and conditions of the plan (for example, because you do not retire, but become employed elsewhere), you may elect to continue your health insurance coverage under COBRA, assuming you are eligible for COBRA continuation.
  - d. NetApp will assume the lease on the apartment in Sunnyvale, CA, which you were occupying and for which NetApp reimbursed you for rental expenses.

You agree that the foregoing retirement benefits (“Retirement Benefits”) shall constitute the entire amount of consideration provided to you under this Agreement, and that you will not seek any further compensation for any other claimed damage, costs or attorneys’ fees in connection with the matters encompassed in this Agreement.

2. **Stock Options and Restricted Stock Units (RSUs).** The vesting of your performance-based RSUs (“PBRSU’s”) will be governed by the terms of the applicable grant agreement. All other time-based RSUs and stock options will stop vesting on your Retirement Date. Stock Administration will send a Closing Statement to your mailing address on file with NetApp. The Closing Statement will identify any stock options available for exercise and the deadline to exercise those options. You must exercise any vested options that are exercisable by the “Last Date to Exercise” on the Closing Statement. If the Last Date to Exercise falls on a weekend or holiday, you must complete your transaction on or before the business day immediately preceding the Last Date to Exercise. If you have any questions or do not receive the statement within two (2) weeks of your Retirement Date, it is your responsibility to contact NetApp Stock Administration at [stockadmin@netapp.com](mailto:stockadmin@netapp.com) or (408) 822-4034. Any unvested stock options and RSUs as of your Retirement Date will be cancelled.
  3. **Return of Company Property.** By the Retirement Date, you will return to the Company all Company documents (and all copies thereof) and other Company property and materials in your
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possession, or your control, including, but not limited to, Company files, notes, memoranda, correspondence, lists, drawings, records, plans and forecasts, financial information, personnel information, customer and customer prospect information, sales and marketing information, product development and pricing information, specifications, computer-recorded information, tangible property, credit cards, entry cards, identification badges and keys, and any material of any kind which contain or embody any proprietary or confidential material of the Company (and all reproductions thereof). You agree to return all Company electronic equipment with all Company files, including but not limited to Company email, intact. You further confirm that you have cancelled all accounts for your benefit, if any, in the Company's name, including, but not limited to, credit cards, telephone charge cards, cellular phone and/or pager accounts and computer accounts. The Company will not pay any unpaid Retirement Benefits set forth in paragraph 1 of this Agreement following your Retirement Date and all Company property has been returned.

4. **Maintaining Confidential Information.** You agree not to disclose any confidential information you acquired while an employee of the Company to any other person, or use such information in any manner that is detrimental to the Company's interests, per NetApp's Proprietary Information and Inventions Agreement ("PIIA") which you signed when you were hired, and you further agree to honor the terms of the PIIA, including those terms which survive your employment with the Company.

However, nothing in this Agreement prohibits you from reporting an event that you reasonably and in good faith believe is a violation of the law to the relevant law enforcement agency (such as the Securities and Exchange Commission, Equal Employment Opportunity Commission or Department of Labor), or from cooperating in an investigation conducted by such a government agency. You are hereby provided notice that under the 2016 Defend Trade Secrets Act, (1) no individual will be held criminally or civilly liable under Federal or State trade secret law for the disclosure of a trade secret (as defined in the Economic Espionage Act) that (A) is made in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and made solely for the purpose of reporting or investigating a suspected violation of law; or, (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal so that it is not made public; and (2) an individual who pursues a lawsuit for retaliation by an employer for reporting a suspected violation of the law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual files any document containing the trade secret under seal, and does not disclose the trade secret, except as permitted by court order. This Agreement also does not prevent the disclosure of factual information relating to claims of sexual assault, sexual harassment, harassment or discrimination based on sex, or retaliation for filing a claim of sexual assault.

You agree to keep confidential and not disclose the terms and contents of this Agreement, and the contents of any negotiations and discussion resulting in this Agreement; provided however, that you may discuss this matter in confidence with your spouse/domestic partner, attorney or accountant, so long as those parties agree to be bound by this confidentiality agreement. Nothing in this section prohibits you from disclosing the terms of this Agreement (1) in order to enforce the Agreement, (2) as otherwise required by law, or (3) as agreed to in writing by an authorized representative of the Company.

5. **Cooperation with the Company.** You agree to cooperate fully with the Company in its defense or prosecution of or other participation in any administrative, judicial or other proceeding arising
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from any charge, complaint, action for protection of intellectual property, or other action which has been or may be filed.

6. **Non-Disparagement.** You agree that, at all times, you shall not knowingly make any false, disparaging or derogatory statements to any media outlet, industry group, financial institution or current or former employee, consultant, client, customer of the Company or other person or entity regarding the company, or any of its directors, officers, employees, agents, or representatives, or about the Company's products, services, technologies, business affairs and/or financial condition. The Company agrees that its officers or directors shall not knowingly make any false, disparaging or derogatory statements to any media outlet, industry group, financial institution or current or former employee, consultant, client, customer of the Company or other person or entity regarding you. Nothing in this section prevents you or the Company from initiating or participating in any government investigation and testifying truthfully under oath pursuant to subpoena or other legal process.
  
7. **Non-Solicitation of Company Employees, Contractors or Consultants.** In accordance with the terms of the PIIA you signed upon commencement of employment, you will not for a period of one year immediately after the end of your employment, directly or indirectly, individually or on behalf of any person or entity, solicit or induce or assist in any manner in the solicitation or inducement of any employee, contractor or consultant of the Company or any affiliate company, to:
  - a. render services to you or for your benefit or for the benefit of another person or entity; and/or
  - b. terminate his or her employment or engagement by the Company or affiliated company.

As part of this restriction, subject to applicable laws, you will not provide any Proprietary Information (as defined in the PIIA) regarding an employee of the Company in connection with a third party considering that employee for employment. This restriction shall not apply to general and non-targeted communications that advertise employment opportunities. You understand that this restriction shall also not apply to communications with employees of the Company as part of your performance of duties for the Company (such as bona fide hiring and firing decisions affecting Company personnel).

Where required by applicable law to be enforceable, the foregoing restrictions shall be limited to employees, contractors, and consultants with whom you had material business-related contact or dealings or as to whom you performed supervisory responsibilities or received Proprietary Information about in the last two years of employment with the Company (or such shorter period of time if you have been employed with the Company for less than two years).

**California Exception:** If you reside in California and are subject to its laws, then you may not for a period of one year after your Retirement Date, either directly or indirectly solicit or attempt to solicit, as that term is defined pursuant to California law, any employee, independent contractor, or consultant of the Company to terminate his or her relationship with the Company in order to become an employee, consultant, independent contractor or re-seller to or for any other person or entity outside the Company. As part of this restriction, subject to California law, you will not provide any Proprietary Information regarding an employee of the Company in connection with a third party considering that employee for employment. This restriction shall not apply to general and non-targeted communications that advertise employment opportunities, unsolicited requests for employment or references so long as they do not disclose Proprietary Information, or communications with employees of the Company as part of the performance of

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duties for the Company (such as bona fide hiring and firing decisions affecting Company personnel).

8. **Acknowledgment of Payment of Wages.** Except as set forth in Sections 1(b) and 2, by your Retirement Date, you will have received your final paycheck which will include a final payment for wages through your Retirement Date, bonuses (if any), employee stock purchase plan reimbursement, accrued but unused vacation pay and any similar payments due from NetApp, less applicable taxes, deductions and withholdings, if applicable, as of the Retirement Date. You acknowledge that NetApp does not owe you any other amounts, except any valid unreimbursed business expenses that you will submit to the Company and except as provided in this Agreement. Requests for reimbursement of business expenses must be made within 45 days from your Retirement Date. **By signing this Agreement, you also expressly agree that the Company may deduct from your Retirement Benefits check any amounts owed to the Company as of your Retirement Date, including but not limited to repayment of expenses and other benefits advanced to you by the Company.**
9. **General Release.** You understand that by signing this Agreement, you are agreeing not to sue, or otherwise file any claim against, the Company or any of its employees or other agents for any reason whatsoever based on anything that has occurred as of the date you sign this Agreement.
- c. On behalf of yourself and your heirs and assigns, you hereby generally release and forever discharge the “Releasees” hereunder, consisting of the Company, and each of its owners, shareholders, affiliates, divisions, predecessors, successors, assigns, agents, directors, officers, partners, employees, attorneys and insurers, and all persons acting by, through, under or in concert with them, or any of them, of and from any and all manner of action or actions, cause or causes of action, in law or in equity, suits, debts, liens, contracts, agreements, promises, liability, claims, demands, damages, loss, cost or expense, of any nature whatsoever, known or unknown, fixed or contingent (hereinafter called “Claims”), which you now have or may hereafter have against the Releasees, or any of them, by reason of any matter, cause or thing whatsoever from the beginning of time to the date hereof, including, without limiting the generality of the foregoing, any Claims arising out of, based upon, or relating to your hire, employment, remuneration, benefits or resignation by the Releasees, or any of them, including any Claims arising under Title VII of the Civil Rights Act of 1964, as amended; the Equal Pay Act, as amended; the Fair Labor Standards Act, as amended; the Employee Retirement Income Security Act, as amended; the California Fair Employment and Housing Act, as amended; the Fair Labor Standards Act, as amended; the Employee Retirement Income Security Act, as amended; the California Fair Employment and Housing Act, as amended; the California Labor Code; and/or any other waiveable local, state or federal law governing discrimination in employment, the payment of wages and employment benefits, and all claims for attorneys’ fees costs and expenses.

Notwithstanding the generality of the foregoing, you do **NOT** release the following claims:

- i. Claims for unemployment compensation or any state disability insurance benefits pursuant to the terms of applicable state law;
  - ii. Claims for workers’ compensation insurance benefits under the terms of any workers’ compensation insurance policy or fund of the Company, though you acknowledge that you did not suffer any workplace or work-related injury during the term of your employment that you have not already reported to the Company;
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- iii. Claims to continued participation in certain of the Company's group benefit plans pursuant to the terms and conditions of the federal law known as COBRA;
  - iv. The right to file a charge with or report a claim or concern to the National Labor Relations Board, Equal Employment Opportunity Commission, Securities and Exchange Commission, the Occupational Safety and Health Administration and other similar government agencies. However, you agree that with respect to any non-waiveable Claims brought before any government agency, you waive your right (if any) to any monetary or other recovery should any government agency or other third party pursue any claims on your behalf, either individually, or as part of any collective action;
  - v. Claims for statutory indemnity;
  - vi. Claims to enforce this Agreement;
  - vii. The right to testify in an administrative, legislative, or judicial proceeding concerning alleged criminal conduct or alleged sexual harassment on the part of the Company or its agents or employees, if you have been required or requested to attend the proceeding pursuant to a court order, subpoena, or written request from an administrative agency or the legislature; and
  - viii. Claims that may not be released, waived, or compromised by private agreement.
- d. YOU ACKNOWLEDGE THAT YOU ARE FAMILIAR WITH THE PROVISION OF CALIFORNIA CIVIL CODE SECTION 1542, OR COMPARABLE APPLICABLE STATE STATUTE, WHICH PROVIDES AS FOLLOWS:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE AND THAT, IF KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY. BEING AWARE OF SAID CODE SECTION, YOU HEREBY EXPRESSLY WAIVE ANY RIGHTS YOU MAY HAVE THEREUNDER, AS WELL AS UNDER ANY OTHER STATUTES OR COMMON LAW PRINCIPLES OF SIMILAR EFFECT.

- c. **In accordance with the Older Workers Benefit Protection Act of 1990, you should be aware of the following:**
- i. **You have the right to consult with an attorney and are hereby advised in writing to consult with an attorney of your choice prior to signing this Agreement;**
  - ii. **You are, through this Agreement, releasing the Releasees from any and all claims you may have against them, including but not limited to claims for age discrimination under the Age Discrimination in Employment Act of 1967 (29 U.S.C. § 621, *et seq.*);**
  - iii. **You understand that rights or claims under the Age Discrimination in Employment Act of 1967 (29 U.S.C. § 621, *et seq.*), that may arise after the date this Agreement is signed, are not waived;**

- iv. **You have the opportunity of a full twenty-one (21) days from the date of this Agreement, or the day you were presented with this Agreement, whichever is later, to consider this Agreement before signing it, and if you have not availed yourself of that full time period, you have failed to do so knowingly and voluntarily; and**
  
  - v. **You have seven (7) days after signing this agreement to communicate in writing any revocation of this Agreement to the Chief Human**
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**Resources Officer of the Company, for receipt within seven (7) days of acceptance, and this Agreement will not be effective, and you will not receive any of the Retirement Benefits, until that revocation period has expired.**

10. **Severability.** The provisions of this Agreement are severable. If any provision is held to be invalid or unenforceable, it shall not affect the validity or enforceability of any other provision.
  11. **Choice of Law/Venue.** The Parties agree that all controversies arising out of this Agreement will be governed by the law of the state in which you were last employed by the Company. The prevailing party in any such action shall be entitled to recover costs and attorneys' fees.
  12. **Voluntary and Knowing Agreement.** You represent that you have thoroughly read and considered all aspects of this Agreement, that you understand all of its provisions, and that you are voluntarily entering into said Agreement.
  13. **Attorneys' Fees and Costs.** You and the Company each agree to bear your own attorneys' fees and costs and expenses incurred, and to be incurred, in connection with any Claim and the negotiation, execution and implementation of this Agreement.
  14. **Arbitration of Disputes.** Any controversy, dispute, or claim between the Parties to this Agreement, including any claim arising out of, in connection with, or in relation to the formation, interpretation, performance or breach of this Agreement; as well as all disputes arising out of or relating to the employment relationship including, but not limited to, claims arising under statute, regulation, contract or common law shall be resolved exclusively by arbitration, before a single arbitrator, in accordance with the Employment Arbitration Rules and Mediation Procedures of the American Arbitration Association ("AAA") then in effect, and not by a court or jury trial. AAA rules may be found at [www.adr.org](http://www.adr.org) or by using an internet search engine (such as [google.com](http://google.com) or [bing.com](http://bing.com)). If you, for any reason, want the Company to provide you with a copy of these rules, the request should be made within thirty (30) days of the execution of this Agreement. The arbitration shall be held within 45 miles of where you were last employed by the Company. Arbitration under this Agreement is governed by the Federal Arbitration Act (9 U.S.C. §§ 1 *et seq.*) and evidences a transaction involving commerce.
    - e. This Agreement does not prevent you from filing a complaint or charge with the Equal Employment Opportunity Commission or National Labor Relations Board, and it does not apply to claims for workers' compensation or unemployment insurance benefits.
    - f. The arbitrator will be selected by mutual agreement of the Parties or, if the Parties cannot agree, by alternatively striking names from a list of arbitrators supplied by the AAA in accordance with the AAA's rules. Each party will pay his/her/its own attorneys' fees, subject to any remedies a party may be entitled to under applicable law. However, in accordance with applicable law, the Company will pay the arbitrator's and arbitration fees. The award of the arbitrator shall be set forth in writing and shall be final and binding. Judgment upon any award may be entered in any court having jurisdiction.
    - g. Without waiving any other rights and remedies under this Paragraph, either you or the Company may apply for provisional equitable relief from a court of competent jurisdiction when an arbitration award may be ineffectual without such provisional relief. Nothing in this Paragraph shall preclude or excuse a party from bringing an administrative claim before any agency in order to fulfill the party's obligation to exhaust administrative remedies before making a claim in arbitration.
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- h. Before submission of the written claim for arbitration, the Parties shall submit the matter to non-binding mediation before a mutually selected neutral mediator. The Company shall pay the reasonable fees of the mediator and the expenses associated with the mediation. JAMS, Judicate West, or some comparable independent mediation service shall be used to provide the mediator and the rules under which the mediation shall be conducted. In the event the claim is not resolved through the mediation process, the claim shall be submitted to binding arbitration, as provided herein.

- 15. **Entire Agreement; Amendment.** This Agreement sets forth the entire Agreement between you and the Company and supersedes any and all prior oral and written agreements or understandings between you and the Company concerning the subject matter. This Agreement may not be altered, amended or modified, except by a further written document signed by you and the Company.

If the above accurately reflects your understanding, please date and sign the enclosed copy of this letter in the places indicated below and return it to NetApp, Human Resources Department, 1395 Crossman Avenue, Sunnyvale, CA 94089. Your deadline to sign this Agreement is 21 days from your receipt of the Agreement.

Respectfully

/s/ Debra McCowan  
Debra McCowan  
Chief Human Resources Officer

Accepted and agreed to on 8/29/2019

Signed by /s/ Joel Reich  
Joel Reich

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

I, George Kurian, certify that:

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

/s/ GEORGE KURIAN

George Kurian

*Chief Executive Officer and President*

*(Principal Executive Officer and Principal Operating Officer)*

Date: November 18, 2019

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

I, Ronald J. Pasek, 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/ RONALD J. PASEK

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Ronald J. Pasek

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

Date: November 18, 2019

**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 October 25, 2019 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

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George Kurian

*Chief Executive Officer and President*

*(Principal Executive Officer and Principal Operating Officer)*

Date: November 18, 2019



**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, Ronald J. Pasek, 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 October 25, 2019 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/ RONALD J. PASEK

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Ronald J. Pasek

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

Date: November 18, 2019