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

**FORM 8-K
CURRENT REPORT**

Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 17, 2018

NetApp, Inc.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation)

0-27130
(Commission
File Number)

77-0307520
(IRS Employer
Identification No.)

1395 Crossman Avenue
Sunnyvale, CA 94089
(Address of principal executive offices) (Zip Code)

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

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§ 240.12b-2 of this chapter).

Emerging growth company

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.

Item 2.02 Results of Operations and Financial Condition.

On May 23, 2018, NetApp, Inc. (“NetApp” or the “Company”) issued a press release reporting financial results for the fourth quarter and year ended April 27, 2018. The press release is furnished herewith as Exhibit 99.1, and is incorporated herein by reference.

The information contained herein and in the accompanying exhibits shall not be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing, unless expressly incorporated by specific reference in such filing. The information in this report, including the exhibits hereto, shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of that section or Sections 11 and 12(a)(2) of the Securities Act of 1933, as amended.

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

(e)

Fiscal 2019 Compensation

On May 17, 2018, the Compensation Committee (the “Committee”) of the Board of Directors of NetApp, Inc. (the “Company”) approved the fiscal year 2019 (“FY 19”) terms of cash compensation for the named executive officers identified below in the amounts reflected below:

Named Executive Officer	FY 19 Salary (1)	FY 19 Target Incentive Compensation Award (2) (3)
George Kurian Chief Executive Officer and President	\$925,000 (4)	170%
Ronald J. Pasek Executive Vice President and Chief Financial Officer	\$600,000	110%
Henri Richard Executive Vice President, Worldwide Field and Customer Operations	\$600,000	110%
Joel D. Reich Executive Vice President, Product Operations	\$524,000	110%
Matthew K. Fawcett Senior Vice President, General Counsel and Secretary	\$538,000	80%

- (1) Effective April 28, 2018.
- (2) Expressed as a target percentage of base salary. Incentive compensation for the Company’s named executive officers will be established pursuant and subject to the terms of the Company’s Executive Compensation Plan, as amended by the Company to reflect the elimination of the exception for qualified performance-based compensation under Section 162(m) of the Internal Revenue Code.
- (3) All target incentive compensation awards are unchanged from fiscal year 2018.
- (4) Mr. Kurian’s salary is unchanged from fiscal year 2018.

Performance-Based Restricted Stock Units

On May 17, 2018, the Committee approved terms of performance-based restricted stock units that are expected to be granted and become effective in June 2018 under one of two forms of Restricted Stock Unit Agreement (Performance-Based) (each, a “PBRSU Agreement” and together, the “PBRSU Agreements”). The two forms of PBRSU Agreement are substantially similar except for the inclusion of the applicable performance metric in the applicable PBRSU Agreement. The PBRSU Agreements have terms that are substantially consistent with the terms contained in the form of Restricted Stock Unit Agreement (Performance-Based) included as an exhibit to the Company’s Form 8-K filed on June 26, 2015 (the “Original Agreement”), subject to the following changes:

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- The performance period will be three years, subject to earlier termination under circumstances described in the PBR SU Agreement, and such circumstances are consistent with the provisions of the Original Agreement.
 - 50% of the target number of RSUs will become eligible to vest based upon the Company's Total Stockholder Return (as such term is defined in the applicable PBR SU Agreement) as compared to the total stockholder return of certain benchmark peers of the Company and not, as provided in the Original Agreement, as compared to the total stockholder return of companies listed in an index. The performance level necessary to achieve the maximum level of achievement for this performance metric and the percentage of RSUs that become eligible to vest upon satisfying the threshold target for this performance metric have been revised from the values shown in the Original Agreement.
 - A new performance metric has been added such that 50% of the target number of RSUs will become eligible to vest based upon the Company's cumulative Adjusted Operating Income (as such term is defined in the applicable PBR SU Agreement) during the performance period, with a threshold, target and maximum level of achievement.

The foregoing summary of the PBR SU Agreements does not purport to be complete and is qualified in its entirety by the full text of the PBR SU Agreements, copies of which will be filed with the Company's Quarterly Report on Form 10-Q for the quarter ending July 27, 2018.

Item 8.01 Other Events

Share Repurchase Authorization

On May 21, 2018, the Company clarified that share repurchases under the \$4 billion share repurchase authorization approved on April 3, 2018 may be made 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 the Company's authorized officers deem appropriate.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Description
99.1	<u>Press release, dated May 23, 2018, reporting earnings for the fiscal quarter and year ended April 27, 2018</u>

SIGNATURES

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 hereunto duly authorized.

NETAPP, INC.
(Registrant)

May 23, 2018

By: /s/ Matthew K. Fawcett
Matthew K. Fawcett
Senior Vice President, General Counsel and
Corporate Secretary

NetApp Reports Fourth Quarter and Fiscal Year 2018 Results

Net Revenues of \$1.64 Billion for the Fourth Quarter and \$5.91 Billion for Fiscal Year 2018

- Net revenue for fiscal year 2018 increased 7% year-over-year
- Product revenue for fiscal year 2018 grew 15% year-over-year
- All-flash array annualized net revenue run rate of \$2.4 billion increased 43% year-over-year
- Free Cash Flow was 23% of revenue for fiscal year 2018 and increased 64% year-over-year
- \$1.01 billion returned to shareholders in share repurchases and cash dividends in fiscal year 2018

Sunnyvale, Calif.—May 23, 2018—NetApp (NASDAQ: NTAP) today reported financial results for the fourth quarter and fiscal year 2018, ended April 27, 2018.

“The fourth quarter marked a great finish to a strong year. We successfully pivoted to the growth areas of the market, expanded our opportunity with HCI and new cloud partnerships, and improved operational discipline to deliver sustained and profitable growth,” said George Kurian, chief executive officer. “Clear innovation leadership, coupled with strong go-to-market execution, has enabled us to gain share in all key product categories and in every geography. Our momentum with customers continues to accelerate and we are increasingly viewed as a critical strategic partner for data-driven digital transformations.”

Fourth Quarter Fiscal Year 2018 Financial Results

- **Net Revenues:** \$1.64 billion, increased 11% year-over-year from \$1.48 billion in the fourth quarter of fiscal 2017
 - **Net Income:** GAAP net income of \$271 million, compared to GAAP net income of \$190 million in the fourth quarter of fiscal 2017; non-GAAP net income¹ of \$288 million, compared to non-GAAP net income of \$239 million in the fourth quarter of fiscal 2017
 - **Earnings per Share:** GAAP earnings per share² of \$0.99 compared to GAAP earnings per share of \$0.68 in the fourth quarter of fiscal 2017; non-GAAP earnings per share of \$1.05, compared to non-GAAP earnings per share of \$0.86 in the fourth quarter of fiscal 2017
 - **Cash, Cash Equivalents and Investments:** \$5.4 billion at the end of fiscal 2018
 - **Cash from Operations:** \$494 million, compared to \$365 million in the fourth quarter of fiscal 2017
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- **Share Repurchase and Dividend:** Returned \$397 million to shareholders through share repurchases and a cash dividend

Fiscal Year 2018 Financial Results

- **Net Revenues:** \$5.91 billion, increased 7% year-over-year from \$5.52 billion in fiscal 2017
- **Net Income:** GAAP net income of \$76 million*, compared to GAAP net income of \$509 million in fiscal 2017; non-GAAP net income of \$957 million, compared to non-GAAP net income of \$768 million in fiscal 2017
- **Earnings per Share:** GAAP earnings per share of \$0.28*, compared to GAAP earnings per share of \$1.81 in fiscal 2017; non-GAAP earnings per share of \$3.47, compared to non-GAAP earnings per share of \$2.73 in fiscal 2017
- **Cash from Operations:** \$1.48 billion, compared to \$986 million in fiscal year 2017
- **Share Repurchase and Dividend:** Returned \$1.01 billion to shareholders through share repurchases and cash dividends

*On December 22, 2017, The 2017 Tax Reform Reconciliation Act was enacted into law. This tax reform legislation contains several key tax provisions that affected the company, including a one-time mandatory transition tax on accumulated foreign earnings and a reduction of the U.S. corporate income tax rate to 21% effective January 1, 2018, among others. GAAP net income in fiscal year 2018 was impacted by a resulting one-time charge of approximately \$850 million.

First Quarter Fiscal Year 2019 Financial Outlook

The Company provided the following financial guidance for the first quarter of fiscal year 2019:

- Net revenues are expected to be in the range of \$1.365 billion to \$1.465 billion

- Earnings per share is expected to be in the range of:

<u>GAAP</u>	<u>Non-GAAP</u>
\$0.53-\$0.59	\$0.76-\$0.82

Full Fiscal Year 2019 Financial Outlook

The Company provided the following financial guidance for the full fiscal year 2019:

- Net revenues are expected to grow in the mid-single digits

- Consolidated gross margins are expected to be:

<u>GAAP</u>	<u>Non-GAAP</u>
~62%	~63%

- Operating margins are expected to be in the range of:

18%-19%	20%-21%
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•Effective tax rate is expected to be:

~22%

~18%

Dividend

- In the first quarter of fiscal year 2019, the Company will double its quarterly dividend to \$0.40 per share. The quarterly dividend will be paid on July 25, 2018 to shareholders of record as of the close of business on July 6, 2018.

Fourth Quarter Fiscal Year 2018 Business Highlights

- **Ducati** partners with NetApp to drive digital transformation of motorcycle racing in the MotoGP World Championship, counting on the **NetApp™ Data Fabric** as it participates in 19 races in 15 countries on 5 continents around the globe. Ducati will use NetApp technologies to modernize its IT and data protection infrastructure, enhancing data protection and security.
- **NetApp** helps customers build **General Data Protection Regulation (GDPR)**–compliant processes. NetApp helps customers integrate NetApp and partner technologies to enable them to identify where personal information is held, improve their data management and governance processes, and build GDPR-compliant processes into their day-to-day activities.
- **NetApp** is one of the few data management companies with a dedicated healthcare solutions team and is uniquely positioned to assist healthcare organizations providing secure access to critical information, so customers can quickly accelerate workloads and analytics and can integrate cloud data services with industry-leading simplicity and efficiency.

Webcast and Conference Call Information

NetApp will host a conference call to discuss these results today at 2:00 p.m. Pacific Time. To access the live webcast of this event, visit the NetApp Investor Relations website at investors.netapp.com. In addition, this press release, historical supplemental data tables, and other information related to the call will be posted on the Investor Relations website. An audio replay will also be available on the website after 4:00 p.m. Pacific Time today.

About NetApp

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. For more information, visit www.netapp.com. #DataDriven

“Safe Harbor” Statement Under U.S. Private Securities Litigation Reform Act of 1995

This press release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include, but are not limited to, all of the statements made under the First Quarter Fiscal Year 2019 Financial Outlook and the Full Fiscal Year 2019 Financial Outlook sections, statements about our ability to deliver sustained and profitable growth, and statements about the acceleration of our momentum with customers. . All of these forward-looking statements involve risk and uncertainty. Actual results may differ materially from these statements for a variety of reasons, including, without limitation, general global political, macroeconomic and market conditions, changes in U.S. government spending, revenue seasonality and matters specific to our business, such as our ability to expand our total available market and grow our portfolio of products, customer demand for and acceptance of our products and services, our ability to successfully execute new business models, our ability to successfully execute on our Data Fabric strategy to generate profitable growth and stockholder return and our ability to manage our gross profit margins. These and other equally important factors are described in reports and documents we file from time to time with the Securities and Exchange Commission, including the factors described under the section titled “Risk Factors” in our most recently submitted reports on Form 10-Q and 10-K. We disclaim any obligation to update information contained in this press release whether as a result of new information, future events, or otherwise.

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NetApp and the NetApp logo and the marks listed at <http://www.netapp.com/TM> are trademarks of NetApp, Inc. Other company and product names may be trademarks of their respective owners.

Footnotes

¹Non-GAAP net income excludes, when applicable, (a) amortization of intangible assets, (b) stock-based compensation expenses, (c) litigation settlements, (d) acquisition-related expenses, (e) restructuring charges, (f) asset impairments, (g) gains/losses on the sale of properties, and (h) our GAAP tax provision, but includes a non-GAAP tax provision based upon our projected annual non-GAAP effective tax rate for the first three quarters of the fiscal year and an actual non-GAAP tax provision for the fourth quarter of the fiscal year. NetApp makes additional adjustments to the non-GAAP tax provision for certain tax matters as described below. A detailed reconciliation of our non-GAAP to GAAP results can be found at <http://investors.netapp.com>. NetApp’s management uses these non-GAAP measures in making operating decisions because it believes the measurements provide meaningful supplemental information regarding NetApp’s ongoing operational performance.

²GAAP earnings per share and non-GAAP earnings per share are calculated using the diluted number of shares.

NetApp Usage of Non-GAAP Financial Information

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

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

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

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

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

B. *Stock-based compensation expenses.* NetApp excludes stock-based compensation expenses from its non-GAAP measures primarily because they are non-cash expenses. While management views stock-based

compensation as a key element of our employee retention and long-term incentives, we do not view it as an expense to be used in evaluating operational performance in any given period.

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

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

E. *Restructuring charges.* These charges consist of restructuring charges that are incurred based on the particular facts and circumstances of restructuring decisions, including employment and contractual settlement terms, and other related charges, and can vary in size and frequency. We therefore exclude them in our assessment of operational performance.

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

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

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

These non-GAAP measures are not in accordance with, or an alternative for, measures prepared in accordance with GAAP, and may be different from non-GAAP measures used by other companies. In addition, these non-GAAP measures are not based on any comprehensive set of accounting rules or

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

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

	<u>April 27, 2018</u>	<u>April 28, 2017</u>
ASSETS		
Current assets:		
Cash, cash equivalents and investments	\$ 5,391	\$ 4,921
Accounts receivable	1,009	731
Inventories	126	163
Other current assets	330	383
Total current assets	6,856	6,198
Property and equipment, net	756	799
Goodwill and purchased intangible assets, net	1,833	1,815
Other non-current assets	420	681
Total assets	\$ 9,865	\$ 9,493
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 609	\$ 347
Accrued expenses	825	782
Commercial paper notes	385	500
Current portion of long-term debt	—	749
Short-term deferred revenue and financed unearned services revenue	1,804	1,744
Total current liabilities	3,623	4,122
Long-term debt	1,541	744
Other long-term liabilities	961	249
Long-term deferred revenue and financed unearned services revenue	1,673	1,598
Total liabilities	7,798	6,713
Stockholders' equity	2,067	2,780
Total liabilities and stockholders' equity	\$ 9,865	\$ 9,493

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

	<u>Three Months Ended</u>		<u>Year Ended</u>	
	<u>April 27, 2018</u>	<u>April 28, 2017</u>	<u>April 27, 2018</u>	<u>April 28, 2017</u>
Revenues:				
Product	\$ 1,011	\$ 852	\$ 3,461	\$ 3,006
Software maintenance	247	242	958	965
Hardware maintenance and other services	383	387	1,492	1,548
Net revenues	<u>1,641</u>	<u>1,481</u>	<u>5,911</u>	<u>5,519</u>
Cost of revenues:				
Cost of product	500	444	1,738	1,614
Cost of software maintenance	6	6	25	28
Cost of hardware maintenance and other services	113	118	449	487
Total cost of revenues	<u>619</u>	<u>568</u>	<u>2,212</u>	<u>2,129</u>
Gross profit	<u>1,022</u>	<u>913</u>	<u>3,699</u>	<u>3,390</u>
Operating expenses:				
Sales and marketing	461	405	1,729	1,633
Research and development	203	191	783	779
General and administrative	71	70	280	271
Restructuring charges	—	—	—	52
Gain on sale of properties	—	—	(218)	(10)
Total operating expenses	<u>735</u>	<u>666</u>	<u>2,574</u>	<u>2,725</u>
Income from operations	287	247	1,125	665
Other income (expense), net	16	1	41	—
Income before income taxes	303	248	1,166	665
Provision for income taxes	32	58	1,090	156
Net income	<u>\$ 271</u>	<u>\$ 190</u>	<u>\$ 76</u>	<u>\$ 509</u>
Net income per share:				
Basic	<u>\$ 1.02</u>	<u>\$ 0.70</u>	<u>\$ 0.28</u>	<u>\$ 1.85</u>
Diluted	<u>\$ 0.99</u>	<u>\$ 0.68</u>	<u>\$ 0.28</u>	<u>\$ 1.81</u>
Shares used in net income per share calculations:				
Basic	<u>265</u>	<u>270</u>	<u>268</u>	<u>275</u>
Diluted	<u>273</u>	<u>278</u>	<u>276</u>	<u>281</u>
Cash dividends declared per share	<u>\$ 0.20</u>	<u>\$ 0.19</u>	<u>\$ 0.80</u>	<u>\$ 0.76</u>

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

	Three Months Ended		Year Ended	
	April 27, 2018	April 28, 2017	April 27, 2018	April 28, 2017
Cash flows from operating activities:				
Net income	\$ 271	\$ 190	\$ 76	\$ 509
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	48	53	198	226
Stock-based compensation	36	46	161	195
Deferred income taxes	19	17	277	90
Gain on sale of properties	—	—	(218)	(10)
Other items, net	(19)	2	(27)	(6)
Changes in assets and liabilities, net of acquisitions of businesses:				
Accounts receivable	(264)	(127)	(272)	81
Inventories	(28)	(38)	37	(65)
Accounts payable	147	81	262	94
Accrued expenses	104	35	162	(86)
Deferred revenue and financed unearned services revenue	226	111	124	(37)
Long-term taxes payable	(9)	10	714	(6)
Changes in other operating assets and liabilities, net	(37)	(15)	(16)	1
Net cash provided by operating activities	<u>494</u>	<u>365</u>	<u>1,478</u>	<u>986</u>
Cash flows from investing activities:				
Redemptions (purchases) of investments, net	168	(45)	(10)	(43)
Purchases of property and equipment	(48)	(38)	(145)	(175)
Proceeds from sale of properties	—	—	210	—
Acquisitions of businesses, net of cash acquired	—	(8)	(75)	(8)
Other investing activities, net	—	4	(1)	6
Net cash provided by (used in) investing activities	<u>120</u>	<u>(87)</u>	<u>(21)</u>	<u>(220)</u>
Cash flows from financing activities:				
Proceeds from issuance of common stock under employee stock award plans	16	28	173	140
Payments for taxes related to net share settlement of stock awards	(8)	(6)	(75)	(48)
Repurchase of common stock	(344)	(129)	(794)	(705)
Proceeds from (repayments of) commercial paper notes, net	(247)	107	(115)	499
Issuance of long-term debt, net	—	—	795	—
Repayment of short-term loan	—	—	—	(850)
Repayment of long-term debt	—	—	(750)	—
Dividends paid	(53)	(51)	(214)	(208)
Other financing activities, net	—	—	(6)	(7)
Net cash used in financing activities	<u>(636)</u>	<u>(51)</u>	<u>(986)</u>	<u>(1,179)</u>
Effect of exchange rate changes on cash and cash equivalents	(11)	4	26	(11)
Net increase (decrease) in cash and cash equivalents	(33)	231	497	(424)
Cash and cash equivalents:				
Beginning of period	2,974	2,213	2,444	2,868
End of period	<u>\$ 2,941</u>	<u>\$ 2,444</u>	<u>\$ 2,941</u>	<u>\$ 2,444</u>

NETAPP, INC.
SUPPLEMENTAL DATA
(In millions except net income per share, percentages, DSO, DIO, DPO, CCC and Inventory Turns)
(Unaudited)

	<u>Q4 FY'18</u>	<u>Q3 FY'18</u>	<u>Q4 FY'17</u>	<u>FY 2018</u>	<u>FY 2017</u>
Revenues					
Product	\$ 1,011	\$ 920	\$ 852	\$ 3,461	\$ 3,006
<i>Strategic</i>	\$ 745	\$ 647	\$ 596	\$ 2,449	\$ 1,971
<i>Mature</i>	\$ 266	\$ 273	\$ 256	\$ 1,012	\$ 1,035
Software Maintenance	\$ 247	\$ 237	\$ 242	\$ 958	\$ 965
Hardware Maintenance and Other Services	\$ 383	\$ 366	\$ 387	\$ 1,492	\$ 1,548
<i>Hardware Maintenance Support Contracts</i>	\$ 310	\$ 299	\$ 313	\$ 1,213	\$ 1,265
<i>Professional and Other Services</i>	\$ 73	\$ 67	\$ 74	\$ 279	\$ 283
Net Revenues	\$ 1,641	\$ 1,523	\$ 1,481	\$ 5,911	\$ 5,519

	<u>% of Q4 FY'18 Revenue</u>	<u>% of Q3 FY'18 Revenue</u>	<u>% of Q4 FY'17 Revenue</u>	<u>% of FY 2018 Revenue</u>	<u>% of FY 2017 Revenue</u>
Geographic Mix					
Americas	51%	54%	54%	54%	56%
<i>Americas Commercial</i>	39%	44%	42%	41%	43%
<i>U.S. Public Sector</i>	12%	10%	12%	13%	13%
EMEA	34%	32%	32%	32%	31%
Asia Pacific	15%	14%	14%	14%	13%

	<u>% of Q4 FY'18 Revenue</u>	<u>% of Q3 FY'18 Revenue</u>	<u>% of Q4 FY'17 Revenue</u>	<u>% of FY 2018 Revenue</u>	<u>% of FY 2017 Revenue</u>
Pathways Mix					
Direct	21%	22%	22%	21%	22%
Indirect	79%	78%	78%	79%	78%

	<u>Q4 FY'18</u>	<u>Q3 FY'18</u>	<u>Q4 FY'17</u>	<u>FY 2018</u>	<u>FY 2017</u>
Non-GAAP Gross Margins					
Non-GAAP Gross Margin	63.0%	62.6%	62.5%	63.4%	62.3%
Product	51.5%	50.2%	48.9%	50.9%	47.4%
Software Maintenance	97.6%	97.5%	97.5%	97.4%	97.1%
Hardware Maintenance and Other Services	71.0%	71.3%	70.3%	70.6%	69.4%

	<u>Q4 FY'18</u>	<u>Q3 FY'18</u>	<u>Q4 FY'17</u>	<u>FY 2018</u>	<u>FY 2017</u>
Non-GAAP Income from Operations, Income before Income Taxes & Effective Tax Rate					
Non-GAAP Income from Operations	\$ 335	\$ 310	\$ 306	\$ 1,126	\$ 950
% of Net Revenues	20.4%	20.4%	20.7%	19.0%	17.2%
Non-GAAP Income before Income Taxes	\$ 351	\$ 324	\$ 307	\$ 1,167	\$ 950
Non-GAAP Effective Tax Rate	17.9%	15.7%	22.1%	18.0%	19.2%

Non-GAAP Net Income

	<u>Q4 FY'18</u>	<u>Q3 FY'18</u>	<u>Q4 FY'17</u>	<u>FY 2018</u>	<u>FY 2017</u>
Non-GAAP Net Income	\$ 288	\$ 273	\$ 239	\$ 957	\$ 768
Non-GAAP Weighted Average Common Shares Outstanding, Diluted	273	276	278	276	281
Non-GAAP Income per Share, Diluted	\$ 1.05	\$ 0.99	\$ 0.86	\$ 3.47	\$ 2.73

Select Balance Sheet Items

	<u>Q4 FY'18</u>	<u>Q3 FY'18</u>	<u>Q4 FY'17</u>
Deferred Revenue and Financed Unearned Services Revenue	\$ 3,477	\$ 3,269	\$ 3,342
DSO (days)	56	45	45
DIO (days)	19	15	26
DPO (days)	90	72	56
CCC (days)	(15)	(11)	15
Inventory Turns	20	24	14

Days sales outstanding (DSO) is defined as accounts receivable divided by net revenues, multiplied by the number of days in the quarter.

Days inventory outstanding (DIO) is defined as net inventories divided by cost of revenues, multiplied by the number of days in the quarter.

Days payables outstanding (DPO) is defined as accounts payable divided by cost of revenues, multiplied by the number of days in the quarter.

Cash conversion cycle (CCC) is defined as DSO plus DIO minus DPO.

Inventory turns is defined as annualized cost of revenues divided by net inventories.

Select Cash Flow Statement Items

	<u>Q4 FY'18</u>	<u>Q3 FY'18</u>	<u>Q4 FY'17</u>	<u>FY 2018</u>	<u>FY 2017</u>
Net Cash Provided by Operating Activities	\$ 494	\$ 420	\$ 365	\$ 1,478	\$ 986
Purchases of Property and Equipment	\$ 48	\$ 32	\$ 38	\$ 145	\$ 175
Free Cash Flow	\$ 446	\$ 388	\$ 327	\$ 1,333	\$ 811
Free Cash Flow as a % of Net Revenues	27.2%	25.5%	22.1%	22.6%	14.7%

Free cash flow is a non-GAAP measure and is defined as net cash provided by operating activities less purchases of property and equipment.

Some items may not add or recalculate due to rounding.

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

	<u>Q4'FY18</u>	<u>Q3'FY18</u>	<u>Q4'FY17</u>	<u>FY2018</u>	<u>FY2017</u>
NET INCOME (LOSS)	\$ 271	\$ (506)	\$ 190	\$ 76	\$ 509
Adjustments:					
Amortization of intangible assets	12	14	13	53	48
Stock-based compensation	36	38	46	161	195
Litigation settlements	—	5	—	5	—
Restructuring charges	—	—	—	—	52
Gain on sale of properties	—	(218)	—	(218)	(10)
Income tax effects	(31)	84	(10)	24	(26)
Tax reform	—	856	—	856	—
NON-GAAP NET INCOME	<u>\$ 288</u>	<u>\$ 273</u>	<u>\$ 239</u>	<u>\$ 957</u>	<u>\$ 768</u>
COST OF REVENUES	\$ 619	\$ 582	\$ 568	\$ 2,212	\$ 2,129
Adjustments:					
Amortization of intangible assets	(9)	(10)	(8)	(36)	(29)
Stock-based compensation	(3)	(3)	(4)	(13)	(17)
NON-GAAP COST OF REVENUES	<u>\$ 607</u>	<u>\$ 569</u>	<u>\$ 556</u>	<u>\$ 2,163</u>	<u>\$ 2,083</u>
COST OF PRODUCT REVENUES	\$ 500	\$ 468	\$ 444	\$ 1,738	\$ 1,614
Adjustments:					
Amortization of intangible assets	(9)	(10)	(8)	(36)	(29)
Stock-based compensation	(1)	—	(1)	(3)	(4)
NON-GAAP COST OF PRODUCT REVENUES	<u>\$ 490</u>	<u>\$ 458</u>	<u>\$ 435</u>	<u>\$ 1,699</u>	<u>\$ 1,581</u>
COST OF HARDWARE MAINTENANCE AND OTHER SERVICES REVENUES	\$ 113	\$ 108	\$ 118	\$ 449	\$ 487
Adjustment:					
Stock-based compensation	(2)	(3)	(3)	(10)	(13)
NON-GAAP COST OF HARDWARE MAINTENANCE AND OTHER SERVICES REVENUES	<u>\$ 111</u>	<u>\$ 105</u>	<u>\$ 115</u>	<u>\$ 439</u>	<u>\$ 474</u>
GROSS PROFIT	\$ 1,022	\$ 941	\$ 913	\$ 3,699	\$ 3,390
Adjustments:					
Amortization of intangible assets	9	10	8	36	29
Stock-based compensation	3	3	4	13	17
NON-GAAP GROSS PROFIT	<u>\$ 1,034</u>	<u>\$ 954</u>	<u>\$ 925</u>	<u>\$ 3,748</u>	<u>\$ 3,436</u>

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

	<u>Q4'FY18</u>	<u>Q3'FY18</u>	<u>Q4'FY17</u>	<u>FY2018</u>	<u>FY2017</u>
SALES AND MARKETING EXPENSES	\$ 461	\$ 423	\$ 405	\$ 1,729	\$ 1,633
Adjustments:					
Amortization of intangible assets	(3)	(4)	(5)	(17)	(19)
Stock-based compensation	(15)	(16)	(20)	(68)	(84)
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$ 443</u>	<u>\$ 403</u>	<u>\$ 380</u>	<u>\$ 1,644</u>	<u>\$ 1,530</u>
RESEARCH AND DEVELOPMENT EXPENSES	\$ 203	\$ 193	\$ 191	\$ 783	\$ 779
Adjustment:					
Stock-based compensation	(11)	(11)	(13)	(49)	(59)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$ 192</u>	<u>\$ 182</u>	<u>\$ 178</u>	<u>\$ 734</u>	<u>\$ 720</u>
GENERAL AND ADMINISTRATIVE EXPENSES	\$ 71	\$ 72	\$ 70	\$ 280	\$ 271
Adjustments:					
Stock-based compensation	(7)	(8)	(9)	(31)	(35)
Litigation settlements	—	(5)	—	(5)	—
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 64</u>	<u>\$ 59</u>	<u>\$ 61</u>	<u>\$ 244</u>	<u>\$ 236</u>
RESTRUCTURING CHARGES	\$ —	\$ —	\$ —	\$ —	\$ 52
Adjustment:					
Restructuring charges	—	—	—	—	(52)
NON-GAAP RESTRUCTURING CHARGES	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
GAIN ON SALE OF PROPERTIES	\$ —	\$ (218)	\$ —	\$ (218)	\$ (10)
Adjustment:					
Gain on sale of properties	—	218	—	218	10
NON-GAAP GAIN ON SALE OF PROPERTIES	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
OPERATING EXPENSES	\$ 735	\$ 470	\$ 666	\$ 2,574	\$ 2,725
Adjustments:					
Amortization of intangible assets	(3)	(4)	(5)	(17)	(19)
Stock-based compensation	(33)	(35)	(42)	(148)	(178)
Litigation settlements	—	(5)	—	(5)	—
Restructuring charges	—	—	—	—	(52)
Gain on sale of properties	—	218	—	218	10
NON-GAAP OPERATING EXPENSES	<u>\$ 699</u>	<u>\$ 644</u>	<u>\$ 619</u>	<u>\$ 2,622</u>	<u>\$ 2,486</u>

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

	<u>Q4'FY18</u>	<u>Q3'FY18</u>	<u>Q4'FY17</u>	<u>FY2018</u>	<u>FY2017</u>
INCOME FROM OPERATIONS	\$ 287	\$ 471	\$ 247	\$ 1,125	\$ 665
Adjustments:					
Amortization of intangible assets	12	14	13	53	48
Stock-based compensation	36	38	46	161	195
Litigation settlements	—	5	—	5	—
Restructuring charges	—	—	—	—	52
Gain on sale of properties	—	(218)	—	(218)	(10)
NON-GAAP INCOME FROM OPERATIONS	<u>\$ 335</u>	<u>\$ 310</u>	<u>\$ 306</u>	<u>\$ 1,126</u>	<u>\$ 950</u>
INCOME BEFORE INCOME TAXES	\$ 303	\$ 485	\$ 248	\$ 1,166	\$ 665
Adjustments:					
Amortization of intangible assets	12	14	13	53	48
Stock-based compensation	36	38	46	161	195
Litigation settlements	—	5	—	5	—
Restructuring charges	—	—	—	—	52
Gain on sale of properties	—	(218)	—	(218)	(10)
NON-GAAP INCOME BEFORE INCOME TAXES	<u>\$ 351</u>	<u>\$ 324</u>	<u>\$ 307</u>	<u>\$ 1,167</u>	<u>\$ 950</u>
PROVISION FOR INCOME TAXES	\$ 32	\$ 991	\$ 58	\$ 1,090	\$ 156
Adjustments:					
Income tax effects	31	(84)	10	(24)	26
Tax reform	—	(856)	—	(856)	—
NON-GAAP PROVISION FOR INCOME TAXES	<u>\$ 63</u>	<u>\$ 51</u>	<u>\$ 68</u>	<u>\$ 210</u>	<u>\$ 182</u>
NET INCOME (LOSS) PER SHARE	\$ 0.99	\$ (1.89)	\$ 0.68	\$ 0.28	\$ 1.81
Adjustments:					
Amortization of intangible assets	0.04	0.05	0.05	0.19	0.17
Stock-based compensation	0.13	0.14	0.17	0.58	0.69
Litigation settlements	—	0.02	—	0.02	—
Restructuring charges	—	—	—	—	0.19
Gain on sale of properties	-	(0.81)	—	(0.79)	(0.04)
Income tax effects	(0.11)	0.31	(0.04)	0.09	(0.09)
Tax reform	—	3.19	—	3.10	—
NON-GAAP NET INCOME PER SHARE	<u>\$ 1.05</u>	<u>\$ 0.99</u>	<u>\$ 0.86</u>	<u>\$ 3.47</u>	<u>\$ 2.73</u>

In Q3'FY18, our GAAP net loss per share was calculated using basic shares of 268 million, as the impact of common stock equivalents would have been anti-dilutive. Additionally, each adjustment presented in the reconciliation was computed using basic shares. However, because we reported net income on a non-GAAP basis, non-GAAP net income per share was computed using diluted shares of 276 million. As a result of the difference in the number of shares, the summation of GAAP net loss per share and the adjustments does not equal non-GAAP net income per share.

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

	<u>Q4'FY18</u>	<u>Q3'FY18</u>	<u>Q4'FY17</u>	<u>FY2018</u>	<u>FY2017</u>
Gross margin-GAAP	62.3%	61.8%	61.6%	62.6%	61.4%
Cost of revenues adjustments	0.7%	0.9%	0.8%	0.8%	0.8%
Gross margin-Non-GAAP	63.0%	62.6%	62.5%	63.4%	62.3%
GAAP cost of revenues	\$ 619	\$ 582	\$ 568	\$ 2,212	\$ 2,129
Cost of revenues adjustments:					
Amortization of intangible assets	(9)	(10)	(8)	(36)	(29)
Stock-based compensation	(3)	(3)	(4)	(13)	(17)
Non-GAAP cost of revenues	\$ 607	\$ 569	\$ 556	\$ 2,163	\$ 2,083
Net revenues	\$ 1,641	\$ 1,523	\$ 1,481	\$ 5,911	\$ 5,519

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

	<u>Q4'FY18</u>	<u>Q3'FY18</u>	<u>Q4'FY17</u>	<u>FY2018</u>	<u>FY2017</u>
Product gross margin-GAAP	50.5%	49.1%	47.9%	49.8%	46.3%
Cost of product revenues adjustments	1.0%	1.1%	1.1%	1.1%	1.1%
Product gross margin-Non-GAAP	51.5%	50.2%	48.9%	50.9%	47.4%
GAAP cost of product revenues	\$ 500	\$ 468	\$ 444	\$ 1,738	\$ 1,614
Cost of product revenues adjustments:					
Amortization of intangible assets	(9)	(10)	(8)	(36)	(29)
Stock-based compensation	(1)	—	(1)	(3)	(4)
Non-GAAP cost of product revenues	\$ 490	\$ 458	\$ 435	\$ 1,699	\$ 1,581
Product revenues	\$ 1,011	\$ 920	\$ 852	\$ 3,461	\$ 3,006

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

	<u>Q4'FY18</u>	<u>Q3'FY18</u>	<u>Q4'FY17</u>	<u>FY2018</u>	<u>FY2017</u>
Hardware maintenance and other services gross margin-GAAP	70.5%	70.5%	69.5%	69.9%	68.5%
Cost of hardware maintenance and other services revenues adjustment	0.5%	0.8%	0.8%	0.7%	0.8%
Hardware maintenance and other services gross margin-Non-GAAP	71.0%	71.3%	70.3%	70.6%	69.4%
GAAP cost of hardware maintenance and other services revenues	\$ 113	\$ 108	\$ 118	\$ 449	\$ 487
Cost of hardware maintenance and other services revenues adjustment:					
Stock-based compensation	(2)	(3)	(3)	(10)	(13)
Non-GAAP cost of hardware maintenance and other services revenues	\$ 111	\$ 105	\$ 115	\$ 439	\$ 474
Hardware maintenance and other services revenues	\$ 383	\$ 366	\$ 387	\$ 1,492	\$ 1,548

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

	<u>Q4'FY18</u>	<u>Q3'FY18</u>	<u>Q4'FY17</u>	<u>FY2018</u>	<u>FY2017</u>
GAAP effective tax rate	10.6%	204.3%	23.4%	93.5%	23.5%
Adjustments:					
Income tax effects	7.3%	(12.1)%	(1.3)%	(2.1)%	(4.3)%
Tax reform	—%	(176.5)%	—%	(73.4)%	—%
Non-GAAP effective tax rate	17.9%	15.7%	22.1%	18.0%	19.2%

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

	<u>Q4'FY18</u>	<u>Q3'FY18</u>	<u>Q4'FY17</u>	<u>FY2018</u>	<u>FY2017</u>
Net cash provided by operating activities	\$ 494	\$ 420	\$ 365	\$ 1,478	\$ 986
Purchases of property and equipment	(48)	(32)	(38)	(145)	(175)
Free cash flow	\$ 446	\$ 388	\$ 327	\$ 1,333	\$ 811

Some items may not add or recalculate due to rounding.

NETAPP, INC.
RECONCILIATION OF NON-GAAP GUIDANCE TO GAAP
EXPRESSED AS EARNINGS PER SHARE
FIRST QUARTER FISCAL 2019

First Quarter
Fiscal 2019

Non-GAAP Guidance - Net Income Per Share	\$0.76 - \$0.82
Adjustments of Specific Items to Net Income	
Per Share for the First Quarter Fiscal 2019:	
Amortization of intangible assets	(0.05)
Stock-based compensation expense	(0.15)
Restructuring charges	(0.07)
Income tax effects	0.04
Total Adjustments	<hr/> (0.23)
GAAP Guidance - Net Income Per Share	\$0.53 - 0.59

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

	GROSS MARGIN
Gross Margin - Non-GAAP Guidance	~63%
Adjustment:	
Cost of revenues adjustments	(1)%
Gross Margin - GAAP Guidance	~62%

	OPERATING MARGIN
Operating Margin - Non-GAAP Guidance	20% - 21%
Adjustments:	
Amortization of intangible assets	(1)%
Stock-based compensation expense	(2)%
Gain on sale of properties	1%
Operating Margin - GAAP Guidance	18% - 19%

	EFFECTIVE TAX RATE
Effective Tax Rate - Non-GAAP Guidance	~18%
Adjustment:	
Income tax effects	4%
Effective Tax Rate - GAAP Guidance	~22%

Some items may not add or recalculate due to rounding

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