

# NETAPP, INC.

## FORM 10-Q (Quarterly Report)

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

Form 10-Q

(Mark One)

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

For the quarterly period ended January 27, 2017

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-27130

**NetApp, Inc.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

495 East Java Drive,  
Sunnyvale, California 94089  
(Address of principal executive offices, including zip code)

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

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 and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

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

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

As of February 15, 2017, there were 270,951,328 shares of the registrant's common stock, \$0.001 par value, outstanding.

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### TRADEMARKS

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PART I — FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

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

	January 27, 2017	April 29, 2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,213	\$ 2,868
Short-term investments	2,426	2,435
Accounts receivable	605	813
Inventories	125	98
Other current assets	277	234
<b>Total current assets</b>	<b>5,646</b>	<b>6,448</b>
Property and equipment, net	892	937
Goodwill	1,676	1,676
Other intangible assets, net	145	180
Other non-current assets	696	796
<b>Total assets</b>	<b>\$ 9,055</b>	<b>\$ 10,037</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 258	\$ 254
Accrued expenses	747	765
Commercial paper notes	392	—
Short-term loan	—	849
Current portion of long-term debt	748	—
Short-term deferred revenue and financed unearned services revenue	1,699	1,794
<b>Total current liabilities</b>	<b>3,844</b>	<b>3,662</b>
Long-term debt	744	1,490
Other long-term liabilities	238	413
Long-term deferred revenue and financed unearned services revenue	1,535	1,591
<b>Total liabilities</b>	<b>6,361</b>	<b>7,156</b>
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Common stock and additional paid-in capital, \$0.001 par value, (271 and 281 shares issued and outstanding as of January 27, 2017 and April 29, 2016, respectively)	2,731	2,912
Retained earnings	—	—
Accumulated other comprehensive loss	(37)	(31)
<b>Total stockholders' equity</b>	<b>2,694</b>	<b>2,881</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 9,055</b>	<b>\$ 10,037</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		Nine Months Ended	
	January 27, 2017	January 29, 2016	January 27, 2017	January 29, 2016
<b>Revenues:</b>				
Product	\$ 784	\$ 750	\$ 2,154	\$ 2,229
Software maintenance	240	234	723	715
Hardware maintenance and other services	380	402	1,161	1,222
Net revenues	<u>1,404</u>	<u>1,386</u>	<u>4,038</u>	<u>4,166</u>
<b>Cost of revenues:</b>				
Cost of product	435	381	1,170	1,134
Cost of software maintenance	7	9	22	28
Cost of hardware maintenance and other services	111	141	369	449
Total cost of revenues	<u>553</u>	<u>531</u>	<u>1,561</u>	<u>1,611</u>
Gross profit	<u>851</u>	<u>855</u>	<u>2,477</u>	<u>2,555</u>
<b>Operating expenses:</b>				
Sales and marketing	381	418	1,228	1,358
Research and development	181	200	588	660
General and administrative	64	70	201	223
Restructuring charges	52	—	52	28
Acquisition-related expense	—	2	—	2
Gain on sale of properties	(10)	—	(10)	—
Total operating expenses	<u>668</u>	<u>690</u>	<u>2,059</u>	<u>2,271</u>
<b>Income from operations</b>	<u>183</u>	<u>165</u>	<u>418</u>	<u>284</u>
Other income (expense), net	—	(2)	(1)	1
<b>Income before income taxes</b>	<u>183</u>	<u>163</u>	<u>417</u>	<u>285</u>
Provision for income taxes	37	10	98	48
<b>Net income</b>	<u>\$ 146</u>	<u>\$ 153</u>	<u>\$ 319</u>	<u>\$ 237</u>
<b>Net income per share:</b>				
Basic	<u>\$ 0.53</u>	<u>\$ 0.52</u>	<u>\$ 1.15</u>	<u>\$ 0.80</u>
Diluted	<u>\$ 0.52</u>	<u>\$ 0.52</u>	<u>\$ 1.13</u>	<u>\$ 0.79</u>
<b>Shares used in net income per share calculations:</b>				
Basic	<u>274</u>	<u>293</u>	<u>277</u>	<u>297</u>
Diluted	<u>281</u>	<u>296</u>	<u>282</u>	<u>300</u>
<b>Cash dividends declared per share</b>	<u>\$ 0.190</u>	<u>\$ 0.180</u>	<u>\$ 0.570</u>	<u>\$ 0.540</u>

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	January 27, 2017	January 29, 2016	January 27, 2017	January 29, 2016
<b>Net income</b>	\$ 146	\$ 153	\$ 319	\$ 237
<b>Other comprehensive income (loss):</b>				
Foreign currency translation adjustments	(3)	(5)	(14)	(7)
Defined benefit obligations:				
Defined benefit obligation adjustments	25	—	25	—
Reclassification adjustments related to defined benefit obligations	—	—	1	2
Income tax effect	(10)	—	(10)	—
Unrealized gains (losses) on available-for-sale securities:				
Unrealized holding losses arising during the period	(8)	(2)	(10)	(11)
Reclassification adjustments for gains included in net income	—	—	—	(1)
Unrealized gains on cash flow hedges:				
Unrealized holding gains arising during the period	5	3	8	—
Reclassification adjustments for gains included in net income	(5)	(2)	(6)	—
<b>Other comprehensive income (loss):</b>	<u>4</u>	<u>(6)</u>	<u>(6)</u>	<u>(17)</u>
<b>Comprehensive income</b>	<u>\$ 150</u>	<u>\$ 147</u>	<u>\$ 313</u>	<u>\$ 220</u>

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	January 27, 2017	January 29, 2016
<b>Cash flows from operating activities:</b>		
Net income	\$ 319	\$ 237
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	173	202
Stock-based compensation	149	199
Deferred income taxes	73	(104)
Gain on sale of properties	(10)	—
Other items, net	(8)	30
Changes in assets and liabilities:		
Accounts receivable	208	190
Inventories	(27)	44
Other operating assets	16	82
Accounts payable	13	(113)
Accrued expenses	(121)	(78)
Deferred revenue and financed unearned services revenue	(148)	(52)
Other operating liabilities	(16)	(8)
Net cash provided by operating activities	<u>621</u>	<u>629</u>
<b>Cash flows from investing activities:</b>		
Purchases of investments	(1,383)	(1,169)
Maturities, sales and collections of investments	1,385	2,048
Purchases of property and equipment	(137)	(125)
Other investing activities, net	2	(1)
Net cash provided by (used in) investing activities	<u>(133)</u>	<u>753</u>
<b>Cash flows from financing activities:</b>		
Issuance of common stock under employee stock award plans	70	70
Repurchase of common stock	(576)	(698)
Changes in commercial paper notes, net	392	—
Repayment of short-term loan	(850)	—
Dividends paid	(157)	(159)
Other financing activities, net	(7)	(3)
Net cash used in financing activities	<u>(1,128)</u>	<u>(790)</u>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(15)	(19)
<b>Net increase (decrease) in cash and cash equivalents</b>	(655)	573
<b>Cash and cash equivalents:</b>		
Beginning of period	2,868	1,922
End of period	<u>\$ 2,213</u>	<u>\$ 2,495</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 software, systems and services to manage and store computer data. We enable enterprises, service providers, governmental organizations, and partners to envision, deploy and evolve their information technology environments and to reduce costs and risk while driving growth and success for their organizations.

***Basis of Presentation and Preparation***

Our fiscal year is reported on a 52- or 53-week year ending on the last Friday in April. An additional week is included in the first fiscal quarter approximately every six years to realign fiscal months with calendar months. Fiscal year 2017, ending on April 28, 2017, is a 52-week year, with 13 weeks in each of its quarters. Fiscal year 2016, which ended on April 29, 2016, was a 53-week year, with 14 weeks in its first quarter and 13 weeks in each subsequent quarter.

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company, and reflect all adjustments, consisting only of normal recurring adjustments, that are, in the opinion of management, necessary for the fair presentation of our financial position, results of operations, comprehensive income and cash flows for the interim periods presented. The statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information. Accordingly, these statements do not include all information and footnotes required by GAAP for annual consolidated financial statements, and should be read in conjunction with our audited consolidated financial statements as of and for the fiscal year ended April 29, 2016 contained in our Annual Report on Form 10-K. The results of operations for the three and nine months ended January 27, 2017 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 benefit accruals; stock-based compensation; loss contingencies; investment impairments; income taxes and fair value measurements. Actual results could differ materially from those estimates.

*Accounting Change* – In the first quarter of fiscal 2017, we early adopted a new accounting standards update that the Financial Accounting Standards Board (FASB) issued in March 2016 that simplifies the accounting for certain aspects of stock-based payments to employees. The new standard requires that certain amendments relevant to us be applied using a modified-retrospective transition method by means of a cumulative-effect adjustment to retained earnings as of the beginning of the period in which the guidance is adopted.

In connection with the adoption, we elected to account for forfeitures as they occur and the cumulative-effect impact of that change in accounting policy was a \$7 million increase in retained earnings and a corresponding decrease in additional paid-in capital as of April 30, 2016. We also recorded a \$3 million cumulative-effect adjustment decrease to retained earnings and a related decrease in deferred tax assets related to the forfeiture rate policy change on outstanding stock-based awards as of April 30, 2016. The standard also eliminates the requirement that excess tax benefits be realized before companies can recognize them. Accordingly, we recorded a \$17 million cumulative-effect adjustment increase in retained earnings and an offsetting increase in deferred tax assets for previously unrecognized excess tax benefits as of April 30, 2016.

The new standard eliminated the requirement to report excess tax benefits and certain tax deficiencies related to share-based payment transactions as additional paid-in capital. As a result, we recognized \$18 million of tax deficiencies in our provision for income taxes, rather than additional paid-in capital, for the nine months ended January 27, 2017.

We elected to report cash flows related to excess tax benefits on a prospective basis. The presentation requirements for cash flows related to employee taxes paid for withheld shares had no impact to our statements of cash flows since such cash flows have historically been presented as a financing activity.

There have been no other significant changes in our significant accounting policies as of and for the nine months ended January 27, 2017, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended April 29, 2016.

## 2. Recent Accounting Standards Not Yet Effective

In May 2014, the FASB issued an accounting standards update related to the recognition and reporting of revenue that establishes a comprehensive new revenue recognition model designed to depict the transfer of goods or services to a customer in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. The guidance allows for the use of either the full or modified retrospective transition method. This new standard, as amended, will be effective for us in our first quarter of fiscal 2019, although early adoption is permitted. We expect to adopt this accounting standard update in the first quarter of fiscal 2019, and are currently evaluating the impact of this new standard update on our consolidated financial statements, as well as which transition method we intend to use.

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 asset and corresponding lease liability, measured at the present value of the lease payments. This new standard will be effective for us in our first quarter of fiscal 2020, although early adoption is permitted. Upon adoption, lessees must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. We are currently evaluating the impact of this new standard on our consolidated financial statements.

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. We are currently evaluating the impact of this new standard on our consolidated financial statements.

In October 2016, the FASB issued an accounting standards update that requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This amends current GAAP which prohibits recognition of current and deferred income taxes for all types of intra-entity asset transfers until the asset has been sold to an outside party. This new standard will be effective for us in our first fiscal quarter of fiscal 2019, although early adoption is permitted. Upon adoption, companies must apply a modified retrospective transition approach through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. We are currently evaluating the impact of this new standard on our consolidated financial statements.

In January 2017, the FASB issued an accounting standards update that simplifies the subsequent measurement of goodwill. This standard will be effective for us in fiscal 2021, although early adoption is permitted after January 1, 2017. Companies must apply this standard on a prospective basis. We intend to adopt this accounting standard update in the fourth quarter of fiscal 2017, and we do not expect it to have a material impact on our consolidated financial statements.

## 3. Statements of Cash Flows Additional Information

Non-cash investing and financing activities and supplemental cash flow information are as follows (in millions):

	Nine Months Ended	
	January 27, 2017	January 29, 2016
<b>Non-cash Investing and Financing Activities:</b>		
Capital expenditures incurred but not paid	\$ 13	\$ 14
Non-cash extinguishment of sale-leaseback financing obligations	\$ 19	\$ —
<b>Supplemental Cash Flow Information:</b>		
Income taxes paid, net of refunds	\$ 90	\$ 113
Interest paid	\$ 43	\$ 40

#### 4. Purchased Intangible Assets, Net

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

	January 27, 2017			April 29, 2016		
	Gross Assets	Accumulated Amortization	Net Assets	Gross Assets	Accumulated Amortization	Net Assets
Developed technology	\$ 148	\$ (36)	\$ 112	\$ 403	\$ (289)	\$ 114
Customer contracts/relationships	43	(15)	28	46	(7)	39
Other purchased intangibles	9	(4)	5	10	(2)	8
Total intangible assets subject to amortization	200	(55)	145	459	(298)	161
In-process research and development	—	—	—	19	—	19
Total purchased intangible assets	\$ 200	\$ (55)	\$ 145	\$ 478	\$ (298)	\$ 180

As of January 27, 2017, the in-process research and development project related to the SolidFire acquisition had been completed, and the associated intangible asset was included in developed technology.

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

	Three Months Ended		Nine Months Ended		Statement of Operations Classifications
	January 27, 2017	January 29, 2016	January 27, 2017	January 29, 2016	
Developed technology	\$ 8	\$ 13	\$ 21	\$ 41	Cost of revenues
Customer contracts/relationships	4	1	11	1	Operating expenses
Other purchased intangibles	1	—	3	—	Operating expenses
Total	\$ 13	\$ 14	\$ 35	\$ 42	

As of January 27, 2017, future amortization expense related to purchased intangible assets subject to amortization is as follows (in millions):

Fiscal Year	Amount
Remainder of 2017	\$ 13
2018	49
2019	42
2020	26
2021	15
Total	\$ 145

#### 5. Balance Sheet Details

*Cash and cash equivalents (in millions):*

	January 27, 2017	April 29, 2016
Cash	\$ 1,989	\$ 2,714
Cash equivalents	224	154
Cash and cash equivalents	\$ 2,213	\$ 2,868

*Inventories (in millions):*

	January 27, 2017	April 29, 2016
Purchased components	\$ 19	\$ 10
Finished goods	106	88
Inventories	\$ 125	\$ 98

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

	January 27, 2017	April 29, 2016
Land	\$ 183	\$ 215
Buildings and improvements	695	605
Leasehold improvements	101	106
Computer, production, engineering and other equipment	756	751
Computer software	352	352
Furniture and fixtures	98	88
Construction-in-progress	11	74
	<u>2,196</u>	<u>2,191</u>
Accumulated depreciation and amortization	(1,304)	(1,254)
Property and equipment, net	<u>\$ 892</u>	<u>\$ 937</u>

As of January 27, 2017, we classified certain land previously reported as property and equipment as assets held-for-sale because we expect to sell it within the next twelve months. The book value of the land was \$24 million as of January 27, 2017 and is included in other current assets in the condensed consolidated balance sheets.

In addition, during the three months ended January 27, 2017, we recognized the sale of a portion of our properties that were subject to a sale-leaseback arrangement as further discussed in Note 8.

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

	January 27, 2017	April 29, 2016
Deferred tax assets	\$ 533	\$ 621
Other assets	163	175
Other non-current assets	<u>\$ 696</u>	<u>\$ 796</u>

**Accrued expenses (in millions):**

	January 27, 2017	April 29, 2016
Accrued compensation and benefits	\$ 307	\$ 371
Sale-leaseback financing obligations	130	—
Product warranty liability	34	48
Other current liabilities	276	346
Accrued expenses	<u>\$ 747</u>	<u>\$ 765</u>

**Product warranty liabilities:**

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

	Three Months Ended		Nine Months Ended	
	January 27, 2017	January 29, 2016	January 27, 2017	January 29, 2016
Balance at beginning of period	\$ 54	\$ 80	\$ 70	\$ 86
Expense accrued during the period	4	5	9	27
Warranty costs incurred	(8)	(12)	(29)	(40)
Balance at end of period	<u>\$ 50</u>	<u>\$ 73</u>	<u>\$ 50</u>	<u>\$ 73</u>

  

	January 27, 2017	April 29, 2016
Accrued expenses	\$ 34	\$ 48
Other long-term liabilities	16	22
Total warranty liabilities	<u>\$ 50</u>	<u>\$ 70</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.

**Deferred revenue and financed unearned services revenue (in millions):**

	January 27, 2017	April 29, 2016
Deferred product revenue	\$ 97	\$ 68
Deferred services revenue	2,941	3,100
Financed unearned services revenue	196	217
Total	<u>\$ 3,234</u>	<u>\$ 3,385</u>
Reported as:		
Short-term	\$ 1,699	\$ 1,794
Long-term	1,535	1,591
Total	<u>\$ 3,234</u>	<u>\$ 3,385</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 for additional information related to these arrangements.

**6. Other income (expense), net**

Other income (expense), net consists of the following (in millions):

	Three Months Ended		Nine Months Ended	
	January 27, 2017	January 29, 2016	January 27, 2017	January 29, 2016
Interest income	\$ 10	\$ 11	\$ 31	\$ 35
Interest expense	(12)	(11)	(39)	(34)
Other income (expense), net	2	(2)	7	—
Total other income (expense), net	<u>\$ —</u>	<u>\$ (2)</u>	<u>\$ (1)</u>	<u>\$ 1</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):

	January 27, 2017				April 29, 2016			
	Cost or Amortized Cost	Gross Unrealized		Estimated Fair Value	Cost or Amortized Cost	Gross Unrealized		Estimated Fair Value
		Gains	Losses			Gains	Losses	
Corporate bonds	\$ 1,411	\$ 2	\$ (3)	\$ 1,410	\$ 1,370	\$ 5	\$ (1)	\$ 1,374
U.S. Treasury and government debt securities	688	—	(3)	685	878	2	—	880
Foreign government debt securities	27	—	—	27	35	—	—	35
Commercial paper	426	—	—	426	202	—	—	202
Certificates of deposit	102	—	—	102	98	—	—	98
Mutual funds	30	—	—	30	30	—	—	30
Total debt and equity securities	<u>\$ 2,684</u>	<u>\$ 2</u>	<u>\$ (6)</u>	<u>\$ 2,680</u>	<u>\$ 2,613</u>	<u>\$ 7</u>	<u>\$ (1)</u>	<u>\$ 2,619</u>

As of January 27, 2017, gross unrealized losses related to individual securities were not significant.

The following table presents the contractual maturities of our debt investments as of January 27, 2017 (in millions):

	Amortized Cost	Fair Value
Due in one year or less	\$ 1,281	\$ 1,281
Due after one year through five years	1,363	1,359
Due after five years through ten years	5	5
Due after ten years	5	5
	<u>\$ 2,654</u>	<u>\$ 2,650</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):

	January 27, 2017		
	Total	Fair Value Measurements at Reporting Date Using	
		Level 1	Level 2
Cash	\$ 1,989	\$ 1,989	\$ —
Corporate bonds	1,410	—	1,410
U.S. Treasury and government debt securities	685	270	415
Foreign government debt securities	27	—	27
Commercial paper	426	—	426
Certificates of deposit	102	—	102
Total cash, cash equivalents and short-term investments	<u>\$ 4,639</u>	<u>\$ 2,259</u>	<u>\$ 2,380</u>
Other items:			
Mutual funds (1)	\$ 7	\$ 7	\$ —
Mutual funds (2)	\$ 23	\$ 23	\$ —
Foreign currency exchange contracts assets (1)	\$ 2	\$ —	\$ 2
Foreign currency exchange contracts liabilities (3)	\$ (2)	\$ —	\$ (2)

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

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

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

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

instruments. As of January 27, 2017 and April 29, 2016, we have not made any adjustments to the prices obtained from our third-party pricing providers.

### *Fair Value of Debt*

As of January 27, 2017 and April 29, 2016, the fair value of our long-term debt was approximately \$1,511 million and \$1,519 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 (in millions, except interest rates):

	January 27, 2017		April 29, 2016	
	Amount	Effective Interest Rate	Amount	Effective Interest Rate
2.00% Senior Notes Due December 2017	\$ 750	2.25%	\$ 750	2.25%
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%
Total principal amount	1,500		1,500	
Unamortized discount and issuance costs	(8)		(10)	
Total senior notes	1,492		1,490	
Less: Current portion of long-term debt	(748)		—	
Total long-term debt	<u>\$ 744</u>		<u>\$ 1,490</u>	

### *Senior Notes*

Our 3.375% Senior Notes, 2.00% Senior Notes and 3.25% Senior Notes, with a par value of \$500 million, \$750 million and \$250 million, respectively, were issued in June 2014, December 2012 and December 2012, respectively. We collectively refer to such long-term debt as our Senior Notes. Interest on our Senior Notes is paid semi-annually on June 15 and December 15. Our Senior Notes, which are unsecured, unsubordinated obligations, rank equally in right of payment with any existing and future senior unsecured indebtedness.

We may redeem the Senior Notes in whole or in part, at any time at our option at specified redemption prices. In addition, upon the occurrence of certain change of control triggering events, we may be required to repurchase the Senior Notes under specified terms. The Senior Notes also include covenants that limit our ability to incur debt secured by liens on assets or on shares of stock or indebtedness of our subsidiaries; to engage in certain sale and lease-back transactions; and to consolidate, merge or sell all or substantially all of our assets. As of January 27, 2017, we were in compliance with all covenants associated with the Senior Notes.

As of January 27, 2017, our aggregate future principal debt maturities are as follows (in millions):

<u>Fiscal Year</u>	<u>Amount</u>
2018	\$ 750
Thereafter	750
Total	<u>\$ 1,500</u>

### *Commercial Paper Program and Credit Facility*

In December 2016, we entered into 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 \$600 million. 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 will be used for general corporate purposes. As of January 27, 2017, we had commercial paper notes outstanding with an aggregate principal amount of \$392 million, a weighted-average interest rate of 1.10% and maturities ranging from 20 days to 36 days.

In connection with the Program, we entered into a new senior unsecured credit agreement with a syndicated group of lenders that expires on December 10, 2021, and we terminated our existing credit agreement that had been scheduled to expire on December 21,

2017. The new credit agreement provides a \$600 million 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. 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 January 27, 2017, no borrowings or letters of credit were outstanding under this facility, and we were in compliance with all associated covenants.

### **Short-Term Loan**

In February 2016, in connection with the SolidFire acquisition, we entered into a short-term loan of \$870 million with a maturity of November 2, 2016. As of January 27, 2017, we have repaid the loan in full and have terminated the related loan agreement.

### **Sale-leaseback Transactions**

In fiscal 2016, we entered into a sale-leaseback arrangement of certain of our land and buildings, under which we leased back certain of our properties rent free over lease terms ending at various dates ranging from March 31, 2017 to December 31, 2017, unless terminated early by us. Due to the existence of a prohibited form of continuing involvement, these properties did not qualify for sale-leaseback accounting and as a result they have been accounted for as financing transactions under lease accounting standards. Under the financing method, until such time as the related leases are terminated, the assets will remain on our condensed consolidated balance sheets, and proceeds received by us from these transactions are reported as financing obligations. During the three months ended January 27, 2017, we terminated one of the leases, ending our continuing involvement with the related properties. As a result, we recorded a non-cash sale of properties having a net book value of \$9 million, the extinguishment of \$19 million of associated financing obligations, and a gain of \$10 million. As of January 27, 2017, the balance of the remaining financing obligations, which relate to properties whose leases we expect to terminate in December 2017, was \$130 million. At the end of the leaseback period, or when our continuing involvement under the leaseback agreement ends, this transaction will be reported as a non-cash sale and extinguishment of financing obligations, and the difference between the then net book value of the properties and the unamortized balance of the financing obligations will be recognized as a gain.

## **9. Stockholders' Equity**

### **Equity Incentive Awards**

As of January 27, 2017, we have outstanding certain equity incentive awards (awards), which include stock options, restricted stock units (RSUs), including time-based RSUs and performance-based RSUs (PBRsUs), and Employee Stock Purchase Plan (ESPP) awards.

### **Stock Options**

The following table summarizes information related to our stock options (in millions, except exercise price and contractual term):

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding as of April 29, 2016	9	\$ 34.01		
Exercised	(2)	\$ 22.13		
Forfeited and expired	(2)	\$ 39.44		
Outstanding as of January 27, 2017	5	\$ 35.01	3.42	\$ 33
Exercisable as of January 27, 2017	4	\$ 40.19	2.50	\$ 10

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.

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

	Nine Months Ended	
	January 27, 2017	January 29, 2016
Intrinsic value of exercises	\$ 18	\$ 12
Proceeds received from exercises	\$ 33	\$ 24
Fair value of options vested	\$ 12	\$ 10

### Restricted Stock Units

In the nine months ended January 27, 2017, 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 PBRsU cliff-vests at the end of either an approximate two year or three year performance period, which began on the date specified in the grant agreement and ends the last day of fiscal 2018 or 2019, respectively. 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, and will depend upon our Total Stockholder Return (TSR) as compared to an index TSR (each expressed as a growth rate percentage) calculated as of the applicable period end date. The fair values of the PBRsUs were fixed at grant date using a Monte Carlo simulation model and the related aggregate compensation cost of \$15 million is being recognized over the shorter of the remaining applicable performance or service periods.

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

	Number of Shares	Weighted- Average Grant Date Fair Value
Outstanding as of April 29, 2016	13	\$ 32.46
Granted	5	\$ 24.42
Vested	(5)	\$ 32.69
Forfeited	(2)	\$ 32.01
Outstanding as of January 27, 2017	<u>11</u>	<u>\$ 28.46</u>

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

	Nine Months Ended	
	January 27, 2017	January 29, 2016
Shares withheld for taxes	2	2
Fair value of shares withheld	\$ 42	\$ 47

### Employee Stock Purchase Plan

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

	Nine Months Ended	
	January 27, 2017	January 29, 2016
Shares issued under the ESPP	4	3
Proceeds from issuance of shares	\$ 80	\$ 93

### Stock-Based Compensation Expense

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

	Three Months Ended		Nine Months Ended	
	January 27, 2017	January 29, 2016	January 27, 2017	January 29, 2016
Cost of product revenues	\$ 1	\$ 1	\$ 3	\$ 4
Cost of hardware maintenance and other services revenues	3	5	10	15
Sales and marketing	20	27	64	84
Research and development	14	20	46	64
General and administrative	8	10	26	32
Total stock-based compensation expense	<u>\$ 46</u>	<u>\$ 63</u>	<u>\$ 149</u>	<u>\$ 199</u>

As of January 27, 2017, total unrecognized compensation expense related to our equity awards was \$257 million, which is expected to be recognized on a straight-line basis over a weighted-average remaining service period of 2.0 years.

### **Stock Repurchase Program**

As of January 27, 2017, our Board of Directors has authorized the repurchase of up to \$9.6 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 open market and privately negotiated transactions at prices deemed appropriate by our management.

The following table summarizes activity related to this program for the nine months ended January 27, 2017 (in millions, except per share amounts):

Number of shares repurchased		18
Average price per share	\$	31.19
Aggregate purchase price	\$	576
Remaining authorization at end of period	\$	924

The aggregate purchase price of our stock repurchases for the nine months ended January 27, 2017 consisted of \$576 million of open market purchases, of which \$305 million and \$271 million were allocated to additional paid-in capital and retained earnings, respectively.

Since the May 13, 2003 inception of our stock repurchase program through January 27, 2017, we repurchased a total of 266 million shares of our common stock at an average price of \$32.74 per share, for an aggregate purchase price of \$8.7 billion.

### **Dividends**

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

	Nine Months Ended			
	January 27, 2017		January 29, 2016	
Dividends per share declared	\$	0.57	\$	0.54
Dividend payments allocated to additional paid-in capital	\$	88	\$	84
Dividend payments allocated to retained earnings	\$	69	\$	75

On February 15, 2017, we declared a cash dividend of \$0.19 per share of common stock, payable on April 26, 2017 to holders of record as of the close of business on April 7, 2017. 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.

### **Retained Earnings**

A reconciliation of retained earnings is as follows (in millions):

Balance as of April 29, 2016	\$	—
Cumulative-effect of new accounting principle		21
Net income		319
Repurchases of common stock		(271)
Dividends		(69)
Balance as of January 27, 2017	\$	—

### 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 <sup>(1)</sup>	Unrealized Gains (Losses) on Available- for-Sale Securities	Unrealized Gains (Losses) on Derivative Instruments	Total
Balance as of April 29, 2016	\$ (19)	\$ (16)	\$ 6	\$ (2)	\$ (31)
OCI before reclassifications, net of tax	(14)	15	(10)	8	(1)
Amounts reclassified from AOCI, net of tax	—	1	—	(6)	(5)
Total OCI	(14)	16	(10)	2	(6)
Balance as of January 27, 2017	\$ (33)	\$ —	\$ (4)	\$ —	\$ (37)

(1) See Note 15 – Employee Benefits for details of defined benefit obligation adjustments resulting from amendments made to our postretirement healthcare plan.

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

	Three Months Ended		Nine Months Ended		Statements of Operations Location
	January 27, 2017	January 29, 2016	January 27, 2017	January 29, 2016	
	Amounts Reclassified from AOCI		Amounts Reclassified from AOCI		
Recognized losses on defined benefit obligations	\$ —	\$ —	\$ 1	\$ 2	Operating expenses
Realized gains on available-for-sale securities	—	—	—	(1)	Other income (expense), net
Realized gains on cash flow hedges	(5)	(2)	(6)	—	Net revenues
Total reclassifications	\$ (5)	\$ (2)	\$ (5)	\$ 1	

### 10. Derivatives and Hedging Activities

We use derivative instruments to manage exposures to foreign currency risk. Our primary objective in holding derivatives is to reduce the volatility of earnings and cash flows associated with changes in foreign currency exchange rates. The 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 the agreement. We seek to mitigate such risk by limiting our counterparties to major financial institutions. In addition, the potential risk of loss with any one counterparty resulting from this type of credit risk is monitored on an ongoing basis. We also have in place master netting arrangements to mitigate the credit risk of our counterparties and to potentially reduce our losses due to counterparty nonperformance. We present our derivative instruments as net amounts in our condensed consolidated balance sheets. The gross and net fair value amounts of such instruments were not material as of January 27, 2017 and April 29, 2016. We did not recognize any gains and losses in earnings due to hedge ineffectiveness for any period presented. All contracts have a maturity of less than six months.

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

	January 27, 2017	April 29, 2016
<b>Cash Flow Hedges</b>		
Forward contracts purchased	\$ 128	\$ 99
<b>Balance Sheet Contracts</b>		
Forward contracts sold	\$ 166	\$ 160
Forward contracts purchased	\$ 377	\$ 396

The effect of derivative instruments designated as cash flow hedges recognized in net revenues on our condensed consolidated statements of operations is presented in the condensed consolidated statements of comprehensive income and Note 9 – Stockholders' Equity.

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

	Three Months Ended		Nine Months Ended	
	January 27, 2017	January 29, 2016	January 27, 2017	January 29, 2016
	Gain Recognized into Income		Gain (Loss) Recognized into Income	
Foreign currency exchange contracts	\$ 2	\$ 1	\$ 8	\$ (6)

## 11. Restructuring Charges

During the three months ended January 27, 2017, we announced a restructuring plan (the November 2016 Plan) to streamline our core business and decrease operating expenses, which included a reduction in our global workforce of approximately 6%. We expect to complete the November 2016 Plan by the fourth quarter of fiscal 2017 with no significant additional charges.

During fiscal 2016, management approved two restructuring actions to streamline our business, eliminate costs and redirect resources to our highest return activities. These actions consisted of the May 2015 Plan and the March 2016 Plan, under which we reduced our global workforce by an aggregate of approximately 14%. These plans have been completed as of January 27, 2017.

Restructuring charges related to each of these plans consisted primarily of employee severance-related costs.

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

	Nine Months Ended January 27, 2017			Nine Months Ended January 29, 2016
	November 2016 Plan	March 2016 Plan	Total	May 2015 Plan
	Balance at beginning of period	\$ —	\$ 45	\$ 45
Net charges	52	—	52	28
Cash payments	(27)	(45)	(72)	(28)
Balance at end of period	\$ 25	\$ —	\$ 25	\$ —

## 12. Income Taxes

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

	Nine Months Ended	
	January 27, 2017	January 29, 2016
Effective tax rates	23.5%	16.8%

Our effective tax rates reflect the impact of a significant amount of our earnings, primarily income from our European operations which are headquartered in the Netherlands, being taxed in foreign jurisdictions at rates below the U.S. statutory tax rate. The differences in effective tax rates for the nine months ended January 27, 2017 and January 29, 2016 were primarily a result of differences in year-to-date profits before tax and the impacts of discrete events as described below.

During the first quarter of fiscal 2017, we adopted a new accounting standard that simplifies stock-based compensation income tax accounting and presentation within the financial statements. During the nine months ended January 27, 2017, we recorded discrete charges of \$18 million following the post-adoption rules which require that all excess tax benefits and deficiencies from stock-based compensation be recognized as a component of income tax expense. See Note 1 – Description of Business and Significant Accounting Policies for more details regarding the adoption of this accounting standard.

In June 2015, the Internal Revenue Service (IRS) signed a closing agreement on our fiscal 2008 to 2010 transfer pricing arrangements and, in October 2015, completed the examination of our fiscal 2008 to 2010 income tax returns. During the nine months ended January 29, 2016, we recorded discrete charges totaling \$23 million, attributable to the audit settlements and related re-measurement of uncertain tax positions for tax years subject to future audits.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in millions):

	Nine Months Ended	
	January 27, 2017	January 29, 2016
Balance at beginning of period	\$ 216	\$ 272
Additions based on tax positions related to the current year	5	13
Additions for tax positions of prior years	6	21
Decreases for tax positions of prior years	—	(38)
Settlements	(12)	(52)
Balance at end of period	\$ 215	\$ 216

As of January 27, 2017, we had \$215 million of gross unrecognized tax benefits, of which \$147 million has been recorded in other long-term liabilities. Unrecognized tax benefits of \$157 million, including penalties, interest and indirect benefits, would affect our provision for income taxes if recognized.

We are currently undergoing income tax audits in the United States (U.S.) and 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 federal income tax returns for our fiscal years through 2010. The IRS commenced the examination of our federal income tax returns for our fiscal years 2012 and 2013 in August 2016.

On September 17, 2010, the Danish Tax Authorities issued a decision concluding that distributions declared in 2005 and 2006 from our Danish subsidiary were subject to Danish at-source dividend withholding tax. We do not believe that our Danish subsidiary is liable for withholding tax and filed an appeal with the Danish Tax Tribunal to that effect. On December 19, 2011, the Danish Tax Tribunal issued a ruling that our Danish subsidiary was not liable for Danish withholding tax. The Danish tax examination agency appealed to the Danish High Court in March 2012. In February 2016, the Danish High Court referred the case to the European Court of Justice.

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.

### 13. Net Income per Share

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

	Three Months Ended		Nine Months Ended	
	January 27, 2017	January 29, 2016	January 27, 2017	January 29, 2016
<b>Numerator:</b>				
Net income	\$ 146	\$ 153	\$ 319	\$ 237
<b>Denominator:</b>				
Shares used in basic computation	274	293	277	297
Dilutive impact of employee equity award plans	7	3	5	3
Shares used in diluted computation	281	296	282	300
<b>Net Income per Share:</b>				
Basic	\$ 0.53	\$ 0.52	\$ 1.15	\$ 0.80
Diluted	\$ 0.52	\$ 0.52	\$ 1.13	\$ 0.79

In the three months ended January 27, 2017 and January 29, 2016, we have excluded from the diluted net income per share calculations 4 million and 11 million shares, respectively, and in the nine months ended January 27, 2017 and January 29, 2016, we have excluded 8 million and 13 million shares, respectively, of common stock potentially issuable under employee equity award plans as their effect would have been anti-dilutive.

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

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

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

	Three Months Ended		Nine Months Ended	
	January 27, 2017	January 29, 2016	January 27, 2017	January 29, 2016
United States, Canada and Latin America (Americas)	\$ 767	\$ 752	\$ 2,271	\$ 2,316
Europe, Middle East and Africa (EMEA)	460	456	1,243	1,301
Asia Pacific (APAC)	177	178	524	549
Net revenues	<u>\$ 1,404</u>	<u>\$ 1,386</u>	<u>\$ 4,038</u>	<u>\$ 4,166</u>

Americas revenues consist of sales to Americas commercial and U.S. public sector markets. Sales to customers inside the U.S. were \$684 million and \$664 million during the three months ended January 27, 2017 and January 29, 2016, respectively, and were \$2,047 million and \$2,072 million during the nine months ended January 27, 2017 and January 29, 2016, respectively.

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

	January 27, 2017	April 29, 2016
U.S.	\$ 531	\$ 513
International	4,108	4,790
Total	<u>\$ 4,639</u>	<u>\$ 5,303</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):

	January 27, 2017	April 29, 2016
U.S.	\$ 708	\$ 797
International	184	140
Total	<u>\$ 892</u>	<u>\$ 937</u>

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

	Three Months Ended		Nine Months Ended	
	January 27, 2017	January 29, 2016	January 27, 2017	January 29, 2016
Arrow Electronics, Inc.	22%	21%	21%	22%
Avnet, Inc.	20%	19%	20%	19%

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

	January 27, 2017	April 29, 2016
Arrow Electronics, Inc.	11%	12%
Avnet, Inc.	N/A	15%

N/A - Not applicable

## 15. Postretirement Health Care Plan

Certain of our executive officers are eligible to participate in our Executive Retirement Medical Plan (the ERM Plan). The ERM Plan provides, upon retirement, medical benefits beyond the COBRA maximum benefit period to a defined group of senior executives based on minimum age, years of service and position. The ERM Plan is unfunded as of April 29, 2016 and January 31, 2017, and there is no minimum funding requirement under the ERM Plan.

In November 2016, we made certain amendments to the ERM Plan, which prior to amendment, provided group health insurance benefits to eligible retirees. Effective January 1, 2017, the amended ERM Plan provides each eligible retiree with a capped reimbursement of premiums for the period from January 1, 2017 through December 31, 2019. During the period from December 31, 2019 through December 31, 2021, participants in the ERM Plan will be eligible to receive a lump sum cash payment equal to two years of projected health care costs, or a prorated portion thereof, pursuant to the methodology set forth in the ERM Plan. Such payment will be made by us outside the ERM Plan as the ERM Plan is expected to terminate on December 31, 2019.

These plan amendments resulted in a prior service credit adjustment, with the following impacts to our condensed consolidated financial statements in the three and nine months ended January 27, 2017 (in millions):

Decrease in other long-term liabilities	\$	23
Decrease in deferred tax assets	\$	9
Other comprehensive income, net of taxes	\$	14

## 16. Commitments and Contingencies

### *Operating Leases*

We lease various equipment, vehicles and office space in the U.S. and internationally. Future annual minimum lease payments under non-cancelable operating leases with an initial term in excess of one year totaled \$227 million as of January 27, 2017.

### *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 manufacture of our products. A significant portion of our reported purchase commitments arising from these agreements consist of firm, non-cancelable, and unconditional commitments. As of January 27, 2017, we had \$313 million in non-cancelable purchase commitments for inventory. We record a liability for firm, non-cancelable and unconditional purchase commitments for quantities in excess of our future demand forecasts consistent with the valuation of our excess and obsolete inventory. As of January 27, 2017 and April 29, 2016, such liability amounted to \$11 million and \$7 million, respectively, and is included in accrued expenses in our condensed consolidated balance sheets. To the extent that such forecasts are not achieved, our commitments and associated accruals may change.

In addition to inventory commitments with contract manufacturers and component suppliers, we have open purchase orders and contractual obligations associated with our ordinary course of business for which we have not yet received goods or services. As of January 27, 2017, we had \$20 million in construction related obligations and \$220 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 \$142 million and \$153 million of receivables during the nine months ended January 27, 2017 and January 29, 2016, 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, we defer revenues subject to the industry-specific software revenue recognition guidance and recognize revenues for non-software deliverables in accordance with our multiple deliverable revenue arrangement policy. In connection with certain recourse financing arrangements, we receive advance payments associated with undelivered elements that are subject to customer refund rights. As of January 27, 2017 and April 29, 2016, the aggregate amount by which such contingencies exceeded the associated liabilities was not significant. To date, we have not experienced significant losses under our lease financing programs or other financing arrangements.

We have entered into service contracts with certain of our end-user customers that are supported by third-party financing arrangements. If a service contract is terminated as a result of our non-performance under the contract or our failure to comply with the terms of the financing arrangement, we could, under certain circumstances, be required to acquire certain assets related to the service contract or to pay the aggregate unpaid financing payments under such arrangements. As of January 27, 2017, we have not been required to make any significant 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.

We are subject to various legal proceedings and claims that arise in the normal course of business. No accrual has been recorded as of January 27, 2017 related to such matters as they are not probable and/or reasonably estimable.

## **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 2016 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

We are a leading global provider of software, systems and services to manage and store customer data. We enable enterprises, service providers, governmental organizations, and partners to envision, deploy and evolve their information technology environments and to reduce costs and risk while driving growth and success for their organizations through our portfolio of products and services that satisfy a broad range of customer workloads across different data types and deployment models.

In order to provide better visibility into our transition from older products to our newer, higher growth products and greater clarity into the dynamics of our product revenue, rather than grouping our product revenues by hardware platform, we are now grouping them by “Strategic” and “Mature” solutions. Strategic solutions include Clustered ONTAP (formerly named clustered Data OnTap or cDOT), branded E-Series, SolidFire, AltaVault and optional add-on software products. Mature solutions include 7-mode OnTap, add-on hardware and related operating system (OS) software and original equipment manufacturers (OEM) products. Both our Mature and Strategic product lines include a mix of disk, hybrid and all flash storage media.

We continue to report services as software maintenance services and hardware maintenance and other services.

### 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 days sales outstanding):

	Three Months Ended		Nine Months Ended	
	January 27, 2017	January 29, 2016	January 27, 2017	January 29, 2016
Net revenues	\$ 1,404	\$ 1,386	\$ 4,038	\$ 4,166
Gross profit	\$ 851	\$ 855	\$ 2,477	\$ 2,555
Gross profit margin percentage	61%	62%	61%	61%
Income from operations	\$ 183	\$ 165	\$ 418	\$ 284
Income from operations as a percentage of net revenues	13%	12%	10%	7%
Net income	\$ 146	\$ 153	\$ 319	\$ 237
Diluted net income per share	\$ 0.52	\$ 0.52	\$ 1.13	\$ 0.79
Operating cash flows	\$ 235	\$ 355	\$ 621	\$ 629
			January 27, 2017	April 29, 2016
Deferred revenue and financed unearned services revenue		\$	3,234	\$ 3,385
Days sales outstanding (DSO)			39	54

### Key Events

#### Restructuring

During the third quarter of fiscal 2017, we announced a restructuring and reduction in workforce to streamline our business and reduce operating expenses. In connection with these actions, we reduced our worldwide headcount by approximately 6% and incurred aggregate charges of approximately \$52 million, primarily related to employee terminations. We expect to complete these actions in the fourth quarter of fiscal 2017 with no significant additional charges.

#### Commercial Paper Program

On December 12, 2016, we entered into a commercial paper program, under which we may issue unsecured commercial paper notes, with the aggregate face or principal amount of the notes outstanding at any time not to exceed \$600 million. As of January 27, 2017, we had \$392 million of commercial paper notes outstanding.

## 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 2016 Form 10-K. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the estimate that are reasonably possible could materially impact the financial statements. There have been no material changes to the critical accounting policies and estimates as filed in such report.

## New Accounting Standards

See Note 2 – 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 year 2017, ending April 28, 2017, is a 52-week year, with 13 weeks in each of its quarters. Fiscal year 2016, which ended on April 29, 2016, was a 53-week year, with its first quarter spanning 14 weeks and each subsequent quarter spanning 13 weeks. Unless otherwise stated, references to particular years, quarters, months and periods refer to the Company’s fiscal years ended in April and the associated quarters, months and periods of those fiscal years .

The following table sets forth certain Condensed Consolidated Statements of Operations data as a percentage of net revenues for the periods indicated:

	Three Months Ended		Nine Months Ended	
	January 27, 2017	January 29, 2016	January 27, 2017	January 29, 2016
<b>Revenues:</b>				
Product	56 %	54 %	53 %	54 %
Software maintenance	17	17	18	17
Hardware maintenance and other services	27	29	29	29
Net revenues	100	100	100	100
<b>Cost of revenues:</b>				
Cost of product	31	27	29	27
Cost of software maintenance	-	1	1	1
Cost of hardware maintenance and other services	8	10	9	11
<b>Gross profit</b>	61	62	61	61
<b>Operating expenses:</b>				
Sales and marketing	27	30	30	33
Research and development	13	14	15	16
General and administrative	5	5	5	5
Restructuring charges	4	—	1	1
Acquisition-related expense	—	—	—	—
Gain on sale of properties	(1)	—	—	—
Total operating expenses	48	50	51	55
<b>Income from operations</b>	13	12	10	7
Other income (expense), net	—	—	—	—
<b>Income before income taxes</b>	13	12	10	7
Provision for income taxes	3	1	2	1
<b>Net income</b>	10 %	11 %	8 %	6 %

Percentages may not add due to rounding

## Discussion and Analysis of Results of Operations

### Overview

Net revenues for the third quarter and first nine months of fiscal 2017 were \$1,404 million and \$4,038 million, respectively, reflecting an increase of \$18 million, or 1%, and a decrease of \$128 million, or 3%, respectively, compared to the corresponding periods of the prior year. The increase in the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016 was primarily due to higher product revenue, driven by the increase in revenues from strategic products more than offsetting the decrease in mature products. The increase in product revenues was partially offset by lower hardware maintenance and other services revenue. The decrease in the first nine months of fiscal 2017 compared to the first nine months of fiscal 2016 was primarily due to lower product revenue and lower hardware maintenance and other services revenue.

Gross profit as a percentage of net revenues decreased one percentage point for the third quarter of fiscal 2017 and was relatively flat for the first nine months of fiscal 2017 compared to the corresponding periods of the prior year, primarily due to lower gross margins on product revenues, but higher gross margins on software and hardware maintenance and other services revenues.

Sales and marketing, research and development, and general and administrative expenses for the third quarter and first nine months of fiscal 2017 totaled \$626 million, or 45% of net revenues and \$2,017 million, or 50% of net revenues, respectively, compared to \$688 million, or 50% of net revenues, and \$2,241 million, or 54% of net revenues, respectively, for the corresponding periods of the prior year. The decreases in expenses were primarily due to decreases in average headcount as a result of our restructuring plans, as well as other cost reduction initiatives, partially offset by additional operating expenses related to the February 2016 acquisition of SolidFire, Inc.

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

	Three Months Ended			Nine Months Ended		
	January 27, 2017	January 29, 2016	% Change	January 27, 2017	January 29, 2016	% Change
Net revenues	\$ 1,404	\$ 1,386	1%	\$ 4,038	\$ 4,166	(3)%

Product revenues increased in the third quarter of fiscal 2017 compared to the corresponding period in the prior year, while hardware maintenance and other services revenues decreased and software maintenance revenues were relatively flat. Product revenues represented 56% of net revenues for the third quarter of fiscal 2017 compared to 54% for the corresponding period of the prior year. Software maintenance represented 17% of net revenues for each of the third quarter of fiscal 2017 and the corresponding period of the prior year. Hardware maintenance and other services revenues represented 27% of net revenues for the third quarter of fiscal 2017 compared to 29% for the corresponding period of the prior year.

Product revenues and hardware maintenance and other services revenues decreased in the first nine months of fiscal 2017 compared to the corresponding period in the prior year, while software maintenance revenues were relatively flat. Product revenues represented 53% of net revenues for the first nine months of fiscal 2017 compared to 54% for the corresponding periods of the prior year. Software maintenance represented 18% of net revenues for the first nine months of fiscal 2017 compared to 17% for the corresponding period of the prior year. Hardware maintenance and other services revenues represented 29% of net revenues for the first nine months of fiscal 2017 compared to 29% for the corresponding period of the prior year.

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

	Three Months Ended		Nine Months Ended	
	January 27, 2017	January 29, 2016	January 27, 2017	January 29, 2016
Arrow Electronics, Inc.	22%	21%	21%	22%
Avnet, Inc.	20%	19%	20%	19%

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

	Three Months Ended			Nine Months Ended		
	January 27, 2017	January 29, 2016	% Change	January 27, 2017	January 29, 2016	% Change
Product revenues	\$ 784	\$ 750	5%	\$ 2,154	\$ 2,229	(3)%

Product revenues are derived through the sale of our strategic and mature solutions, and consist of sales of configured systems, which are bundled hardware and software products, as well as add-on flash, disk and/or hybrid storage and related OS, original equipment manufacturer (OEM) products and add-on hardware and software.

Product revenues from strategic solutions represented 65 % and 64 % of product revenues in the third quarter and first nine months of fiscal 2017 , respectively, compared to 56 % and 54 % in the third quarter and first nine months of the prior year . Product revenues from mature solutions represented 35 % and 36 % of product revenues, in the third quarter and first nine months of fiscal 2017, respectively, compared to 44 % and 46 % in the third quarter and first nine months of the prior year.

Total product revenues from strategic solutions totaled \$512 million in the third quarter of fiscal 2017, reflecting a 22% increase from \$419 million in the third quarter of fiscal 2016. This increase was primarily due to a 24% increase in unit volume of Clustered ONTAP systems, partially offset by a decrease in Average Selling Price (ASP) primarily due to higher discounting and promotional programs. Total product revenue from mature solutions totaled \$272 million in the third quarter of fiscal 2017, reflecting an 18% decrease from \$331 million in the third quarter of fiscal 2016. This decrease was primarily due to a 64% decrease in unit volume of 7-mode systems, as well as a decrease in ASP. In addition, add-on hardware storage and related OS revenues decreased 5% and OEM revenue decreased 2%. These fluctuations reflect the on-going trend of movement of customer demand from our older products to our newer products.

Total product revenues from strategic solutions totaled \$1,375 million in the first nine months of fiscal 2017, reflecting a 14% increase from \$1,201 million in the first nine months of fiscal 2016. This increase was primarily due to a 23% increase in unit volume of Clustered ONTAP systems, partially offset by a decrease in ASP reflecting higher discounting and promotional programs. Total product revenue from mature solutions totaled \$779 million in the first nine months of fiscal 2017, reflecting a 24% decrease from \$1,028 million in the first nine months of fiscal 2016. This decrease was primarily due to a 55% decrease in unit volume of 7-mode systems, as well as a decrease in ASP. In addition, add-on hardware, storage and related OS revenues decreased 14% and OEM revenue decreased 4%. These fluctuations are primarily due to the factors discussed above.

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

	Three Months Ended			Nine Months Ended		
	January 27, 2017	January 29, 2016	% Change	January 27, 2017	January 29, 2016	% Change
Software maintenance revenues	\$ 240	\$ 234	3%	\$ 723	\$ 715	1%

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			Nine Months Ended		
	January 27, 2017	January 29, 2016	% Change	January 27, 2017	January 29, 2016	% Change
Hardware maintenance and other services revenues	\$ 380	\$ 402	(5)%	\$ 1,161	\$ 1,222	(5)%

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

Hardware maintenance contract revenues were \$313 million and \$952 million for the third quarter and first nine months of fiscal 2017, respectively, compared to \$326 million and \$998 million for the corresponding periods of the prior year. The decreases in hardware maintenance contract revenues reflected lower average contract values, partially offset by a higher installed base under contract.

Professional services and educational and training services revenues were \$67 million and \$209 million for the third quarter and first nine months of fiscal 2017, respectively, compared to \$76 million and \$224 for the corresponding periods of the prior year.

**Revenues by Geographic Area:**

	Three Months Ended		Nine Months Ended	
	January 27, 2017	January 29, 2016	January 27, 2017	January 29, 2016
United States, Canada and Latin America (Americas)	55%	54%	56%	56%
Europe, Middle East and Africa (EMEA)	33%	33%	31%	31%
Asia Pacific (APAC)	13%	13%	13%	13%

Percentages may not add due to rounding

Americas revenues consist of sales to Americas commercial and United States public sector (USPS) markets. Our geographic distribution of revenues as a percentage of net revenues was relatively consistent in the third quarter and first nine months of fiscal 2017 compared to the third quarter and first nine months of fiscal 2016.

### **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			Nine Months Ended		
	January 27, 2017	January 29, 2016	% Change	January 27, 2017	January 29, 2016	% Change
Cost of product revenues	\$ 435	\$ 381	14%	\$ 1,170	\$ 1,134	3%

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

	Three Months Ended Fiscal 2017 to Fiscal 2016 Percentage Change Points	Nine Months Ended Fiscal 2017 to Fiscal 2016 Percentage Change Points
Materials costs	15	9
Warranty	—	(2)
Excess and obsolete inventory	2	—
Amortization of purchased intangible assets	(1)	(2)
Other	(2)	(2)
Total change	14	3

Cost of product revenues represented 55% and 54% of product revenues for the third quarter and first nine months of fiscal 2017, respectively, compared to 51% for each of the third quarter and first nine months of fiscal 2016.

Materials costs represented 90% of product costs for the third quarter of fiscal 2017 compared to 88% in the third quarter of fiscal 2016, and increased \$58 million from the third quarter of fiscal 2016. Materials costs were impacted by a 42% increase in materials costs related to strategic products, primarily due to higher unit volume for configured Clustered ONTAP systems, partially offset by a 13% decrease in materials costs for mature products reflecting lower volume in 7-Mode systems. Average unit materials costs for both Clustered ONTAP and 7-mode systems decreased compared to the corresponding period in the prior year primarily due to changes in platform and configuration mix.

Materials costs represented 91% of product costs for the first nine months of fiscal 2017 compared to 84% in the first nine months of fiscal 2016, and increased \$104 million from the first nine months of fiscal 2016. Materials costs were impacted by a 37% increase in materials costs related to strategic products, primarily due to an increase in volume for configured Clustered ONTAP systems, partially offset by an 18% decrease in materials costs for mature products reflecting a decrease in volume in 7-Mode systems. Average unit materials costs for both Clustered ONTAP and 7-mode systems decreased in the first nine months of fiscal 2017 compared to the corresponding period in the prior year for the same reasons described above.

The impact of the decreases in ASP were only partially offset by the decreases in unit materials costs, resulting in lower standard margins for both strategic and mature products in each of the third quarter and first nine months of fiscal 2017 compared to the corresponding periods in the prior year.

Cost of product revenues in the first nine months of fiscal 2017 reflected a decrease in warranty costs due to our product quality and cost reduction efforts. Charges for excess and obsolete inventories increased \$7 million in the third quarter of fiscal 2017 as a result of our transition to new product platforms. The amortization of acquired intangibles in the third quarter and first nine months of fiscal 2017 decreased \$5 million and \$19 million, respectively, compared to the corresponding periods in the prior year due to the impact of certain acquired developed technology being fully amortized by the end of fiscal 2016, partially offset by the amortization of developed technology related to the SolidFire acquisition.

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

	Three Months Ended			Nine Months Ended		
	January 27, 2017	January 29, 2016	% Change	January 27, 2017	January 29, 2016	% Change
Cost of software maintenance revenues	\$ 7	\$ 9	(22)%	\$ 22	\$ 28	(21)%

Cost of software maintenance revenues decreased in the third quarter and first nine months of fiscal 2017 compared to the third quarter and first nine months of fiscal 2016. Cost of software maintenance revenues represented 3% of software maintenance revenues for each of the third quarter and first nine months of fiscal 2017 compared to 4% of software maintenance revenues for each of the third quarter and first nine months of 2016.

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

	Three Months Ended			Nine Months Ended		
	January 27, 2017	January 29, 2016	% Change	January 27, 2017	January 29, 2016	% Change
Cost of hardware maintenance and other services revenues	\$ 111	\$ 141	(21)%	\$ 369	\$ 449	(18)%

Cost of hardware maintenance and other services revenues decreased \$30 million and \$80 million for the third quarter and first nine months of fiscal 2017, respectively, compared to the corresponding periods of the prior year, primarily due to the benefits of our cost reduction initiatives. Costs represented 29% and 32% of hardware and maintenance and other services revenues in the third quarter and first nine months of fiscal 2017, respectively, compared to 35% and 37% in the third quarter and first nine months of fiscal 2016, respectively.

**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 \$35 million, or 9% and \$124 million, or 10%, in the third quarter and first nine months of fiscal 2017, respectively, compared to the comparable periods in the prior year primarily due to lower salary and stock-based compensation expenses reflecting a 14% decrease in average headcount as a result of restructuring plans, partially offset by higher incentive compensation expense, reflecting stronger operating performance against goals.

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

	Three Months Ended			Nine Months Ended		
	January 27, 2017	January 29, 2016	% Change	January 27, 2017	January 29, 2016	% Change
Sales and marketing expenses	\$ 381	\$ 418	(9)%	\$ 1,228	\$ 1,358	(10)%

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. The changes in sales and marketing expenses consisted of the following:

	Three Months Ended Fiscal 2017 to Fiscal 2016 Percentage Change Points	Nine Months Ended Fiscal 2017 to Fiscal 2016 Percentage Change Points
Compensation costs	(4)	(5)
Commissions	(2)	(1)
Facilities and IT support costs	(3)	(3)
Other	—	(1)
Total change	(9)	(10)

Compensation costs for the third quarter and the first nine months of fiscal 2017 compared to the corresponding periods in the prior year were favorably impacted by lower salary and stock-based compensation expenses due to a 12% decrease in average headcount, but were unfavorably impacted by higher incentive compensation expense. Facilities and IT support costs for the third quarter and first nine months of fiscal 2017 compared to the corresponding periods of the prior year were favorably impacted by cost containment efforts.

Research and Development (in millions, except percentages):

	Three Months Ended			Nine Months Ended		
	January 27, 2017	January 29, 2016	% Change	January 27, 2017	January 29, 2016	% Change
Research and development expenses	\$ 181	\$ 200	(10)%	\$ 588	\$ 660	(11)%

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 2017 to Fiscal 2016 Percentage Change Points	Nine Months Ended Fiscal 2017 to Fiscal 2016 Percentage Change Points
Compensation costs	(8)	(8)
Development projects and outside services	—	(1)
Other	(2)	(2)
Total change	(10)	(11)

Compensation costs for the third quarter and first nine months of fiscal 2017 compared to the corresponding periods of the prior year were favorably impacted by lower salary and stock-based compensation expenses due to a 19% decrease in average headcount, but were unfavorably impacted by higher incentive compensation expense. Development projects and outside services for the first nine months of fiscal 2017 compared to the corresponding period of the prior year were favorably impacted by lower spending on materials and services associated with engineering activities to develop new product lines and enhancements to existing products due to the completion of certain key development projects.

General and Administrative (in millions, except percentages):

	Three Months Ended			Nine Months Ended		
	January 27, 2017	January 29, 2016	% Change	January 27, 2017	January 29, 2016	% Change
General and administrative expenses	\$ 64	\$ 70	(9)%	\$ 201	\$ 223	(10)%

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 2017 to Fiscal 2016 Percentage Change Points	Nine Months Ended Fiscal 2017 to Fiscal 2016 Percentage Change Points
Compensation costs	(2)	(4)
Professional and legal fees and outside services	(11)	(5)
Facilities and IT support costs	4	1
Other	—	(2)
Total change	(9)	(10)

Compensation costs for the third quarter and the first nine months of fiscal 2017 compared to the third quarter of fiscal 2016 were favorably impacted by lower salary and stock-based compensation expenses due to decreases of 13% and 9% in average headcount, respectively, but were unfavorably impacted by higher incentive compensation expense. Professional and legal fees and outside services expense for the third quarter and first nine months of fiscal 2017 compared to the corresponding periods of the prior year were favorably impacted by lower spending levels on consulting fees and projects. The increase in facilities and IT support costs for the third quarter and first nine months of fiscal 2017 compared to the corresponding periods of the prior year is primarily due to an increase in spending on IT projects.

Restructuring Charges (in millions, except percentages):

	Three Months Ended			Nine Months Ended		
	January 27, 2017	January 29, 2016	% Change	January 27, 2017	January 29, 2016	% Change
Restructuring charges	\$ 52	\$ —	NM	\$ 52	\$ 28	86%

NM – Not Meaningful

In November 2016, we announced a restructuring plan to streamline our core business and decrease operating expenses, which included a reduction in our worldwide headcount of approximately 6%. During fiscal 2016, management approved two restructuring actions to streamline our business, eliminate costs and redirect resources to our highest return activities, which included a restructuring plan announced in May 2015 under which we reduced our global workforce by approximately 3%. Restructuring charges related to these plans consisted primarily of employee severance-related costs. See Note 11 – Restructuring Charges of the Notes to Condensed Consolidated Financial Statements for more details regarding our restructuring plans.

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

	Three Months Ended			Nine Months Ended		
	January 27, 2017	January 29, 2016	% Change	January 27, 2017	January 29, 2016	% Change
Acquisition-related expense	\$ —	2	(100)%	\$ —	2	(100)%

During the third quarter of fiscal 2016, we incurred \$2 million of acquisition costs, primarily related to legal and consulting fees associated with our acquisition of SolidFire.

*Gain on Sale of Properties (in millions, except percentages):*

	Three Months Ended			Nine Months Ended		
	January 27, 2017	January 29, 2016	% Change	January 27, 2017	January 29, 2016	% Change
Gain on sale of properties	\$ (10)	\$ —	NM	\$ (10)	\$ —	NM

NM – Not Meaningful

During the third quarter of fiscal 2017, our continuing involvement with certain properties subject to a sale-leaseback arrangement entered into in fiscal 2016 ended, and as a result we recorded a non-cash sale of properties, extinguished the associated financing obligation and recognized a gain of \$10 million.

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

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

	Three Months Ended			Nine Months Ended		
	January 27, 2017	January 29, 2016	% Change	January 27, 2017	January 29, 2016	% Change
Interest income	\$ 10	\$ 11	(9)%	\$ 31	\$ 35	(11)%
Interest expense	(12)	(11)	9%	(39)	(34)	15%
Other income, net	2	(2)	NM	7	—	NM
Total	\$ —	\$ (2)	(100)%	\$ (1)	\$ 1	NM

NM - Not Meaningful

The decreases in interest income in the third quarter and first nine months of fiscal 2017 compared to the corresponding periods of the prior year were primarily due to a decrease in the size of our investment portfolio.

Interest expense is primarily related to our Senior Notes, and in the nine months ended January 27, 2017 to interest on the short-term note related to our acquisition of SolidFire.

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

	Three Months Ended			Nine Months Ended		
	January 27, 2017	January 29, 2016	% Change	January 27, 2017	January 29, 2016	% Change
Provision for income taxes	\$ 37	\$ 10	270%	\$ 98	\$ 48	104%

Our effective tax rate for the third quarter of fiscal 2017 was 20.2% compared to an effective tax rate of 6.1% for the third quarter of fiscal 2016. Our effective tax rate for the first nine months of fiscal 2017 was 23.5% compared to an effective tax rate of 16.8% for the first nine months of fiscal 2016. Our effective tax rates reflect our corporate legal entity structure and the global nature of our business, with a significant amount of our profits generated and taxed in foreign jurisdictions at rates below the U.S. statutory tax rate. The effective tax rates for all periods presented were favorably impacted by the geographic mix of profits. Our effective tax rates increased for the three and nine months of fiscal 2017, compared to the corresponding periods in the prior year primarily as a result of differences in the respective periods' income before taxes, as well as the impacts of discrete events described below.

In the first quarter of fiscal 2017, we adopted a new accounting standard that simplifies stock-based compensation income tax accounting and presentation with in the financial statements . During the first nine months of fiscal 2017, we recorded a discrete charge of \$ 18 million following the post-adoption rules which require that all excess tax benefits and deficiencies from stock-based compensation be recognized as a component of income tax expense.

In June 2015, the IRS signed a closing agreement on our fiscal 2008 to 2010 transfer pricing arrangements and in October 2015 completed the examination of our fiscal 2008 to 2010 income tax returns. During the first nine months of fiscal 2016, we recorded discrete charges totaling \$23 million attributable to the audit settlements and related re-measurement of uncertain tax positions for tax years subject to future audits.

As of January 27, 2017, we had \$215 million of gross unrecognized tax benefits, of which \$147 million has been recorded in other long-term liabilities. Unrecognized tax benefits of \$157 million, including penalties, interest and indirect benefits, would affect our provision for income taxes if recognized.

We continue to monitor the progress of ongoing discussions with tax authorities and the impact, if any, of the expected expiration of the statute of limitations in various taxing jurisdictions.

### ***Liquidity, Capital Resources and Cash Requirements***

<b>(In millions, except percentages)</b>	<b>January 27, 2017</b>	<b>April 29, 2016</b>
Cash, cash equivalents and short-term investments	\$ 4,639	\$ 5,303
Principal amount of debt	\$ 1,892	\$ 2,350
Debt as a percentage of stockholders' equity	70%	82%

The following is a summary of our cash flows:

<b>(In millions)</b>	<b>Nine Months Ended</b>	
	<b>January 27, 2017</b>	<b>January 29, 2016</b>
Net cash provided by operating activities	\$ 621	\$ 629
Net cash provided by (used in) investing activities	(133)	753
Net cash used in financing activities	(1,128)	(790)
Effect of exchange rate changes on cash and cash equivalents	(15)	(19)
Net increase (decrease) in cash and cash equivalents	<u>\$ (655)</u>	<u>\$ 573</u>

### ***Cash Flows***

As of January 27, 2017, our cash, cash equivalents and short-term investments were \$4.6 billion, a decrease of \$0.7 billion from April 29, 2016. The decrease was primarily due to \$850 million used to repay our short-term loan, \$576 million paid for the repurchase of our common stock and \$157 million used for the payment of dividends, partially offset by \$621 million of cash provided by operating activities and \$392 million, net from the issuance of commercial paper notes. Accounts receivable DSO was 39 days for the third quarter of fiscal 2017 compared to 54 days for the fourth quarter of fiscal 2016 and 38 days for the third quarter of fiscal 2016, reflecting seasonal patterns of shipment linearity. Working capital decreased by \$984 million to \$1.8 billion as of January 27, 2017 compared to April 29, 2016 primarily due to a decrease in cash, cash equivalents and accounts receivable, the issuance of commercial paper notes and the reclassification of \$750 million of the principal balance of our senior notes to current, partially offset by the repayment of our short-term loan.

### ***Cash Flows from Operating Activities***

During the first nine months of fiscal 2017, we generated cash from operating activities of \$621 million, reflecting net income of \$319 million, adjusted by non-cash depreciation and amortization of \$173 million and stock-based compensation of \$149 million, compared to \$629 million of cash generated from operating activities during the first nine months of 2016.

Changes in assets and liabilities in the first nine months of fiscal 2017 included the following:

- *Accounts receivable* decreased \$208 million, primarily due to lower seasonal invoicing levels in the third quarter of fiscal 2017 compared to the fourth quarter of fiscal 2016.
- *Accrued compensation* decreased \$64 million, primarily due to employee compensation payouts related to fiscal year 2016 commissions and incentive compensation plans, as well as payments of restructuring obligations.

- *Deferred revenue and finance d unearned services revenue* decreased \$148 million, primarily due to a decrease in deferred software and hardware maintenance contract revenues reflecting lower levels 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 nine months of fiscal 2017, we generated \$2 million from maturities and sales of investments, net of purchases, and paid \$137 million for capital expenditures compared to \$879 million and \$125 million, respectively, during the first nine months of fiscal 2016.

#### *Cash Flows from Financing Activities*

During the first nine months of fiscal 2017, we used \$850 million to repay our short-term loan, \$576 million for the repurchase of 18 million shares of our common stock and \$157 million for the payment of dividends, compared to \$698 million used for the repurchase of common stock and \$159 million for the payment of dividends during the first nine months of fiscal 2016. In the third quarter of fiscal 2017, we initiated a commercial paper program under which we had net borrowings of \$392 million of commercial paper notes during the period.

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 January 27, 2017 consisted of cash, cash equivalents and short-term investments, as well as cash we expect to generate from operations.

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

	January 27, 2017	April 29, 2016
Cash and cash equivalents	\$ 2,213	\$ 2,868
Short-term investments	2,426	2,435
<b>Total</b>	<b>\$ 4,639</b>	<b>\$ 5,303</b>

As of January 27, 2017 and April 29, 2016, \$4.1 billion and \$4.8 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 \$0.5 billion was available in the U.S. as of each of those dates. Most of the amounts held outside the U.S. can be repatriated to the U.S. but, under current law, would be subject to U.S. federal, state income and foreign withholding taxes. If we were to repatriate foreign earnings to fund cash requirements in the U.S., we would incur U.S. federal and state income taxes reduced by the current amount of our U.S. federal and state tax credit carryforwards. However, our intent is to keep these funds indefinitely reinvested outside of the U.S., and our current plans do not contemplate a need to repatriate them to fund our U.S. operations. Our principal liquidity requirements are primarily to meet our working capital needs, support ongoing business activities, fund research and development, meet capital expenditure needs, and invest in critical or complementary technologies, and service interest and principal payments on our debt.

The principal objectives of our investment policy are the preservation of principal and maintenance of liquidity. We attempt to mitigate default risk by investing in high-quality investment grade securities, limiting the time to maturity and monitoring the counter-parties and underlying obligors closely. We believe our cash equivalents and short-term investments are liquid and accessible. We are not aware of any significant deterioration in the fair value of our cash equivalents or investments from the values reported as of January 27, 2017. 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 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 routinely monitor our financial exposure to both sovereign and non-sovereign borrowers and counterparties.

We also have an automatic shelf registration statement on file with the Securities and Exchange Commission. We may in the future offer an additional unspecified amount of debt, equity and other securities.

#### *Senior Notes*

The following table summarizes the principal amount of our Senior Notes as of January 27, 2017 (in millions):

2.00% Senior Notes Due December 2017	\$	750
3.375% Senior Notes Due June 2021		500
3.25% Senior Notes Due December 2022		250
Total	\$	<u>1,500</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*

In December 2016, we entered into 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 \$600 million. 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 will be used for general corporate purposes. As of January 27, 2017, we had commercial paper notes outstanding with an aggregate principal amount of \$392 million, a weighted-average interest rate of 1.10% and maturities ranging from 20 days to 36 days.

In connection with the Program, we entered into a new senior unsecured credit agreement that expires on December 10, 2021, and we terminated our existing credit agreement that had been scheduled to expire on December 21, 2017. The new credit agreement provides a \$600 million 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. 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 January 27, 2017, no borrowings or letters of credit were outstanding under this facility and we were in compliance with all associated covenants.

#### *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 2017 to be between \$25 and \$75 million.

#### *Dividends and Stock Repurchase Program*

On February 15, 2017, we declared a cash dividend of \$0.19 per share of common stock, payable on April 26, 2017 to holders of record as of the close of business on April 7, 2017.

As of January 27, 2017, our Board of Directors had authorized the repurchase of up to \$ 9.6 billion of our common stock under our stock repurchase program. Under this program, we can purchase shares of our outstanding common stock through open market and privately negotiated transactions at prices deemed appropriate by our management. The stock repurchase program may be suspended or discontinued at any time. Since the May 13, 2003 inception of this program through January 27, 2017, we repurchased a total of 266 million shares of our common stock at an average price of \$ 32.74 per share, for an aggregate purchase price of \$ 8.7 billion. As of January 27, 2017, the remaining authorized amount for stock repurchases under this program was \$ 0.9 billion, with no termination date, which we plan to complete by May 2018.

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***

#### ***Operating Lease Commitments***

As of January 27, 2017, future annual minimum lease payments under non-cancelable operating leases with an initial term in excess of one year totaled \$227 million.

#### ***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 consist of firm, non-cancelable, and unconditional commitments. As of January 27, 2017, we had \$313 million in non-cancelable purchase commitments for inventory. We record a liability for firm, non-cancelable and unconditional purchase commitments for quantities in excess of our future demand forecasts consistent with the valuation of our excess and obsolete inventory. To the extent that such forecasts are not achieved, our commitments and associated accruals may change.

In addition to inventory commitments with contract manufacturers and component suppliers, we have open purchase orders and construction related obligations associated with our ordinary course of business for which we have not received goods or services. As of January 27, 2017, we had \$20 million in construction-related obligations and \$220 million in other purchase obligations.

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

As of January 27, 2017, our liability for uncertain tax positions was \$138 million, including interest, penalties and offsetting indirect benefits. Due to the uncertainty of the timing of future cash payments, we cannot make reasonably reliable estimates of the period of cash settlement with the taxing authorities.

### ***Sale-leaseback Transactions***

In fiscal 2016, we entered into a sale-leaseback arrangement of certain of our land and buildings, under which we leased back certain of our properties rent free over lease terms ending at various dates ranging from March 31, 2017 to December 31, 2017, unless terminated early by us. Due to the existence of a prohibited form of continuing involvement, these properties did not qualify for sale-leaseback accounting and as a result they have been accounted for as financing transactions under lease accounting standards. Under the financing method, until such time as the related leases are terminated, the assets will remain on our condensed consolidated balance sheets, and proceeds received by us from these transactions are reported as financing obligations. During the three months ended January 27, 2017, we terminated one of the leases, ending our continuing involvement with the related properties. As a result, we recorded a non-cash sale of properties having a net book value of \$9 million, the extinguishment of \$19 million of associated financing obligations, and a gain of \$10 million. As of January 27, 2017, the balance of the remaining financing obligations, which relate to properties whose leases we expect to terminate in December 2017, was \$130 million. At the end of the leaseback period, or when our continuing involvement under the leaseback agreement ends, this transaction will be reported as a non-cash sale and extinguishment of financing obligations, and the difference between the then net book value of the properties and the unamortized balance of the financing obligations will be recognized as a gain.

### ***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 \$142 million and \$153 million of receivables during the first nine months of fiscal 2017 and fiscal 2016, 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, we defer revenues subject to the industry-specific software revenue recognition guidance and recognize revenues for non-software deliverables in accordance with our multiple deliverable revenue arrangement policy. In connection with certain recourse financing arrangements, we receive advance payments associated with undelivered elements that are subject to customer refund rights. As of January 27, 2017 and April 29, 2016, the aggregate amount by which such contingencies exceeded the associated liabilities was not significant. To date, we have not experienced significant losses under our lease financing programs or other financing arrangements.

We have entered into service contracts with certain of our end-user customers that are supported by third-party financing arrangements. If a service contract is terminated as a result of our non-performance under the contract or our failure to comply with the terms of the financing arrangement, we could, under certain circumstances, be required to acquire certain assets related to the service contract or to pay the aggregate unpaid payments under such arrangements. As of January 27, 2017, we have not been required to make any significant 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.

#### **Market Risk and Interest Rate Risk**

*Investments* — As of January 27, 2017, we had debt investments of \$2.7 billion. 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, commercial paper and certificates of deposit, are subject to interest rate and interest income risk and will decrease in value if market interest rates increase. Conversely, declines in interest rates, including the impact from lower credit spreads, could have a material adverse impact on interest income for our investment portfolio. A hypothetical 100 basis point increase in market interest rates from levels as of January 27, 2017 would have resulted in a decrease in the fair value of our fixed-income securities of approximately \$32 million. Volatility in market interest rates over time will cause variability in our interest income. We do not use derivative financial instruments in our investment portfolio.

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

*Debt* — As of January 27, 2017, we have outstanding \$1.5 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 \$600 million five-year revolving credit facility. Borrowings under the facility accrue interest at rates that vary based on certain market rates and our credit rating on our Senior Notes. Consequently, our interest expense would fluctuate with any changes in these market interest rates or in our credit rating if we were to borrow any amounts under the credit facility. As of January 27, 2017, no amounts were outstanding under the credit facility.

#### **Foreign Currency Exchange Rate Risk**

We hedge risks associated with 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 six months. See Note 10 – Derivatives and Hedging Activities of the Notes to Condensed Consolidated Financial Statements for more information regarding our derivatives and hedging activities.

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

##### *Disclosure Controls and Procedures*

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

Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of January 27, 2017, the end of the fiscal period covered by this Quarterly Report on Form 10-Q (the Evaluation Date). Based on this evaluation, our CEO and CFO concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that the information required to be disclosed in our SEC reports (i) is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

##### *Changes in Internal Control Over Financial Reporting*

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) identified in connection with our evaluation that occurred during the third quarter of fiscal 2017 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.

None

### 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 29, 2016 filed with the U.S. Securities and Exchange Commission (the "SEC") (the "2016 Form 10-K") 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 trends in the storage 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 solutions by consumers, enterprises and government bodies around the world, and the resultant purchases of storage solutions to address this demand. However, despite continued data growth, the storage market did not experience growth in the last three calendar years due to a combination of customers delaying purchases in the face of technology transitions, increased storage efficiency, and changing economic and business environments. At the same time that customers are navigating through their 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 evaluation is diverting spending towards transformational projects and architectures like flash, hybrid cloud, software 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 grow at a slower rate than in past periods, or may decline as it did in fiscal years 2014, 2015 and 2016, on a year-over year basis. 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 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 Clustered ONTAP-based products or other new products while managing the transition from older products, or if we cannot provide the expected level of quality, service and support for our new products, 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. Due to the complexity of storage subsystems and appliances and the difficulty in gauging the engineering effort required to produce new products, such products are subject to significant technical and quality control risks.

We are currently devoting considerable effort and resources to introduce and gain customer acceptance for our Clustered ONTAP (formerly named Data ONTAP or cDOT)-based products, as well as to develop new generations of our ONTAP products. The Clustered ONTAP storage operating system is the foundation for data management across flash, disk and cloud storage systems and represents a fundamental and revolutionary change to our solution architecture and to our Data Fabric strategy. Over time, our goal is to replace our Data ONTAP 7-Mode technology with Clustered ONTAP and new generations of ONTAP. We face considerable challenges as we continue to develop and market Clustered ONTAP, including, without limitation, cost and complexity associated with migrating customer data and applications from legacy systems to Clustered ONTAP-based systems, developing additional features for Clustered ONTAP currently available with ONTAP 7-Mode and potentially required by our customers, increasing sales of Clustered ONTAP through our channel and maintaining service, support and customer relationships as we replace Data ONTAP 7-Mode with Clustered ONTAP.

If we are unable, for technological, customer reluctance or other reasons, to develop, introduce and gain market acceptance for Clustered ONTAP and other next-generation ONTAP products, or any new products, 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 software and flash product offerings, such as Cloud ONTAP, StorageGRID Webscale, all flash FAS, AltaVault, and SolidFire, subject us to additional financial and operational risks, including our ability to forecast customer preferences and/or demand, our ability to expand production capacity to meet the demand for new products, our ability to successfully manage the transition from older products, and our ability to forecast the impact of customers' demand for new products or the products being replaced. In addition, as new or enhanced products are introduced, we must also avoid excessive levels of older product inventories and related components and ensure that enough supplies of new products can be delivered to meet customers' demands. Further risks inherent in new product introductions 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. If these risks are not managed effectively, we could experience material risks to our operations, financial condition and business model.

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

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

Our business and sales models make revenues difficult to forecast. We sell to a variety of customers, with a corresponding variety of sales cycles. In addition, 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. This structure significantly complicates our ability to forecast future revenue, particularly within any particular fiscal quarter or year. Moreover, our relationships with our indirect channel 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 partners to promote our products could harm our operating results, as qualifying and developing new indirect channel partners typically require 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, 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.

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

The continuing global economic uncertainty and political 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 information technology (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, and 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.

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.

***Our gross margins vary.***

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

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

***We 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 is 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.

***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, newly 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 cloud) storage, software as a service (SaaS) and flash storage are driving significant changes in storage architectures and solution requirements. Cloud service providers, led by AWS, provide customers storage as an operating expense, rather than storage systems capital expenditure, for the customers' data centers, 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 business models or technologies disruptive to us. By extending our flash and software-defined 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 our fiscal 2016 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 October 2015, Hewlett-Packard Company split its business into two entities, one of which, HP Enterprise, continues to focus on the storage marketplace and compete with us. 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.

***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 these strategic partners are industry leaders that offer us expanded access to segments of the storage and data management markets. 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, 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.

***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.

***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 us in the past, and in the future could negatively affect our revenues.***

A significant portion of our net revenues are generated through sales to a limited number of distributors. We generally do not enter into binding purchase commitments with our customers, resellers and distributors for extended periods of time, and thus we may not be able to 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.

***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 that are 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 in the past and could again 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 out-sourced 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 our future operating results could be adversely affected 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 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 as well as certain anticipated foreign currency cash flows on a short-term basis. Our hedging strategies may not be successful, and currency exchange rate fluctuations could have a material adverse effect on our operating results. In addition, our foreign currency exposure on assets and liabilities for which we do not hedge could have a material impact on our operating results in periods when the U.S. dollar significantly fluctuates in relation to unhedged non-U.S. currencies in which we transact business.

Additional risks inherent in our international business activities generally include, among others, longer accounts receivable payment cycles and difficulties in managing international operations.

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 of 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.

***Changes in our effective tax rate resulting from adverse outcomes from examination of our income tax returns and/or changes in the tax regimes and related government policies and regulations in the countries in which we operate could adversely affect our results.***

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. 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 could adversely affect our ability to continue to realize these tax benefits. We have not provided for U.S. federal and state income taxes or foreign withholding taxes that may result from future remittances of undistributed earnings of foreign subsidiaries. The U.S. President and Congress have called for comprehensive tax reform which, among other things, might change certain U.S. tax rules impacting the way U.S. based multinationals are taxed on foreign income. Additionally, on October 5, 2015, the Organisation for Economic Co-operation and Development (OECD), an international association of countries, including the U.S., released the final reports from its Base Erosion and Profit Shifting (BEPS) Action Plans. The BEPS recommendations covered a number of issues, including country-by-country reporting, permanent establishment rules, hybrid mismatch rules, anti-tax avoidance rules, transfer pricing rules and tax treaties. Recently, the European Commission (EC) concluded its investigations into tax ruling practices of certain European Union (EU) member countries. The EC concluded that certain member countries had granted unlawful rulings that artificially reduced tax burdens and has ordered the recovery of the unpaid taxes. Future tax reform resulting from these developments may result in changes to long-standing tax principles, which could adversely affect our effective tax rate or result in higher cash tax liabilities.

We are routinely subject to income tax audits in the U.S. and several foreign tax jurisdictions. The U.S. and foreign tax authorities have questioned our intercompany transfer pricing arrangements during these audits. In recent years, several other U.S. companies have had their transfer pricing arrangements challenged as part of Internal Revenue Service (IRS) examinations, which have resulted in material proposed assessments and/or litigation with respect to those companies. If the ultimate determination of income taxes or at-source withholding taxes assessed under the IRS audits or audits being conducted in any other tax jurisdiction results in an amount in excess of the tax provision we have recorded or reserved for, our operating results, cash flows and financial condition would 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.

***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 2014, May 2015, March 2016 and November 2016 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. We may in the future undertake initiatives that may include 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 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 products are complex. We have experienced in the past, and expect to experience in the future, quality issues. Quality risk is most acute when we are introducing new products. 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 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 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 personally identifiable information. It is critical to

our business strategy that our infrastructure remains secure and is 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 other security breach could result in other negative consequences, including remediation costs, disruption of internal operations, increased cybersecurity protection costs and lost revenues.

Our clients and customers use our platforms for the transmission and storage of sensitive data. We do not monitor or 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 personally identifiable 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 security breaches at other companies have increased in recent years, and security industry experts and government officials have warned about the risks of hackers and cyberattacks targeting information technology 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 laws requiring companies to notify individuals of data security breaches involving certain types of personal data. These mandatory disclosures regarding security breaches 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 breach, 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 subject us to third-party lawsuits, regulatory fines or other action or liability, which could materially and adversely affect our business and operating results.

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

***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. 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 and a 6% reduction announced in November 2016, 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 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.

***A repatriation of cash held by our foreign subsidiaries to fund U.S. operations, strategic opportunities or debt service may subject us to a significant tax liability.***

As of January 27, 2017, \$4.1 billion of cash, cash equivalents and short-term investments was held by our foreign subsidiaries. Under current law, repatriation of this cash may trigger significant adverse tax consequences in the U.S. As a result, if the cash generated by our domestic operations is lower than projected and is not sufficient to fund our domestic operations and our broader corporate initiatives, such as stock repurchases, dividends, acquisitions, and other strategic opportunities, and to service our outstanding indebtedness, we may need to raise additional funds through public or private debt or equity financings, or we may need to obtain new credit facilities to the extent we choose not to repatriate our overseas cash. Such additional financing may not be available on terms favorable to us, or at all, and any new equity financings or offerings would dilute our current stockholders' ownership. Furthermore, lenders may not agree to extend us new, additional or continuing credit. If adequate funds are not available, or are not available on acceptable terms, we may be forced to repatriate our foreign-held cash and incur a significant tax charge. In any such case, our business, operating results or financial condition could be adversely impacted.

***We are continually seeking ways to make our cost structure, business processes and systems more efficient, including by moving activities from higher-cost to lower-cost locations, outsourcing certain business processes and functions, and implementing new business information systems. Problems with the execution of these activities could have an adverse effect on our business, operating results and financial condition. In addition, we may not achieve the expected benefits of these initiatives.***

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.

***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 February 2016, we acquired SolidFire, Inc., and in fiscal 2015 we acquired the SteelStore product line from Riverbed Technology, Inc. The benefits we 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 in October 2013 and continued uncertainty regarding the U.S. budget and debt levels, have increased demand uncertainty for our products, and in our fiscal 2014 and 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 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.

***Our failure to pay quarterly dividends to our stockholders and/or to fully consummate our stock repurchase program could cause the market price of our stock to decline significantly.***

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.

***We are exposed to fluctuations in the market values of our investment portfolio and in interest rates, and impairment of our investments could harm our financial results.***

We maintain an investment portfolio of various holdings, types, and maturities. A significant part of our investment portfolio consists of U.S. government securities. If global credit experiences prolonged periods of decline, or if there is a downgrade of U.S. government debt, our investment portfolio may be adversely impacted and we could determine that some of our investments have experienced an other-than-temporary decline in fair value, requiring impairment charges that could adversely affect our financial results.

***If we default under our debt obligations, including our Senior Notes and commercial paper notes, our business, operating results and financial condition will be harmed. Moreover, covenants associated with our borrowing arrangements may unduly restrict our business.***

We have Senior Notes outstanding as of January 27, 2017 in an aggregate principal amount of \$1.5 billion that mature at specific dates in calendar 2017, 2021 and 2022. In addition, we have commercial paper notes outstanding as of January 27, 2017 in an aggregate principal amount of \$392 million with maturities ranging from 20 days to 36 days. We have also established a revolving credit facility under which we may borrow an aggregate amount outstanding at any time of \$600 million, under which we had no borrowings outstanding as of January 27, 2017. We may fail to pay these 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.

In addition, all of 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 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 failure to adjust to emerging standards in the storage 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 the 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; 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 and distract senior executives from managing our normal day-to-day operations. 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 has recently adopted regulations concerning the supply of certain minerals originating from the conflict zones of the Democratic Republic of Congo or adjoining countries. We may incur costs to comply with the new 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.

We are subject to intellectual property infringement claims. We may, from time to time, receive claims that we are infringing third parties' intellectual property rights. Third parties may in the future claim infringement by us with respect to current or future products, patents, trademarks or other proprietary rights. 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 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.

***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. In addition, our headquarters is located in Northern California, an area susceptible to earthquakes. If any significant disaster were to occur, our ability to operate our business and our financial condition could be impaired.

***Changes in financial accounting standards may cause adverse unexpected fluctuations and affect our reported operating results.***

A change in accounting standards or practices and varying interpretations of existing accounting pronouncements, the increased use of fair value measures, changes to revenue recognition, lease accounting, financial instruments and other accounting standards could have a significant effect on our reported financial results or the way we conduct our business. Implementation of accounting regulations and related interpretations and policies, particularly those related to revenue recognition, could cause us to defer recognition of revenue or recognize lower revenue, which may affect our operating results.

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

*Purchases of equity securities*

The following table provides information with respect to the shares of common stock repurchased by us during the three months ended January 27, 2017:

Period	Total Number of Shares Purchased (Shares in thousands)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (Shares in thousands)	Approximate Dollar Value of Shares That May Yet Be Purchased Under The Repurchase Program (Dollars in millions)
October 29, 2016 - November 25, 2016	1,008	\$ 34.21	258,878	\$ 1,173
November 26, 2016 - December 23, 2016	4,049	\$ 36.40	262,927	\$ 1,026
December 24, 2016 - January 27, 2017	2,831	\$ 36.08	265,758	\$ 924
Total	7,888	\$ 36.01		

In May 2003, our Board of Directors approved a stock repurchase program. As of January 27, 2017, our Board of Directors has authorized the repurchase of up to \$9.6 billion of our common stock. Since inception of the program through January 27, 2017, we repurchased a total of 266 million shares of our common stock for an aggregate purchase price of \$8.7 billion. Under this program, we may purchase shares of our outstanding common stock through open market and privately negotiated transactions at prices deemed appropriate by our management. The stock repurchase program may be suspended or discontinued at any time.

**Item 3. Defaults upon Senior Securities.**

None

**Item 4. Mine Safety Disclosures.**

Not Applicable.

**Item 5. Other Information.**

None

**Item 6. Exhibits.**

See the Exhibit Index immediately following the signature page of this Quarterly Report on Form 10-Q.

**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

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Ronald J. Pasek

Executive Vice President and

Chief Financial Officer

Date: February 28, 2017

**EXHIBIT INDEX**

Exhibit No	Description	Incorporation by Reference			
		Form	File No.	Exhibit	Filing Date
10.1	Credit Agreement, dated as of December 12, 2016, by and among NetApp, Inc., the lenders from time to time party thereto, JPMorgan Chase Bank, N.A., as administrative agent, Bank of America, N.A. and Wells Fargo Bank, National Association, as co-syndication agents, and The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Citibank, N.A., as co-documentation agents.	8-K	000-27130	10.1	December 12, 2016
10.2	Form of Dealer Agreement between NetApp, Inc., as issuer, and each dealer under the Company's commercial paper program.	8-K	000-27130	10.2	December 12, 2016
31.1	Certification of the Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.	—	—	—	—
31.2	Certification of the Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.	—	—	—	—
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.	—	—	—	—
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.	—	—	—	—
101.INS	XBRL Instance Document	—	—	—	—
101.SCH	XBRL Taxonomy Extension Schema Document	—	—	—	—
101.CAL	XBRL Taxonomy Calculation Linkbase Document	—	—	—	—
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	—	—	—	—
101.LAB	XBRL Taxonomy Label Linkbase Document	—	—	—	—
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	—	—	—	—

**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: February 28, 2017

**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 and Principal Accounting Officer)*

Date: February 28, 2017

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

I, George Kurian, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of NetApp, Inc., on Form 10-Q for the quarterly period ended January 27, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of NetApp, Inc.

/s/ GEORGE KURIAN

George Kurian

*Chief Executive Officer and President*

*(Principal Executive Officer and Principal Operating Officer)*

Date: February 28, 2017

**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 January 27, 2017 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 and Principal Accounting Officer)*

Date: February 28, 2017