

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 26, 2018

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.)

1395 Crossman Avenue,
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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

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

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

As of February 14, 2018, there were 267,922,708 shares of the registrant's common stock, \$0.001 par value, outstanding.

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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 26, 2018	April 28, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,974	\$ 2,444
Short-term investments	2,645	2,477
Accounts receivable	754	731
Inventories	98	163
Other current assets	295	383
Total current assets	<u>6,766</u>	<u>6,198</u>
Property and equipment, net	741	799
Goodwill	1,739	1,684
Other intangible assets, net	106	131
Other non-current assets	435	681
Total assets	<u>\$ 9,787</u>	<u>\$ 9,493</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 458	\$ 347
Accrued expenses	739	782
Commercial paper notes	632	500
Current portion of long-term debt	—	749
Short-term deferred revenue and financed unearned services revenue	1,719	1,744
Total current liabilities	<u>3,548</u>	<u>4,122</u>
Long-term debt	1,540	744
Other long-term liabilities	973	249
Long-term deferred revenue and financed unearned services revenue	1,550	1,598
Total liabilities	<u>7,611</u>	<u>6,713</u>
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Common stock and additional paid-in capital, \$0.001 par value; 268 and 269 shares issued and outstanding as of January 26, 2018 and April 28, 2017, respectively	2,707	2,769
Retained earnings (accumulated deficit)	(489)	40
Accumulated other comprehensive loss	(42)	(29)
Total stockholders' equity	<u>2,176</u>	<u>2,780</u>
Total liabilities and stockholders' equity	<u>\$ 9,787</u>	<u>\$ 9,493</u>

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 26, 2018	January 27, 2017	January 26, 2018	January 27, 2017
Revenues:				
Product	\$ 920	\$ 784	\$ 2,450	\$ 2,154
Software maintenance	237	240	711	723
Hardware maintenance and other services	366	380	1,109	1,161
Net revenues	<u>1,523</u>	<u>1,404</u>	<u>4,270</u>	<u>4,038</u>
Cost of revenues:				
Cost of product	468	435	1,238	1,170
Cost of software maintenance	6	7	19	22
Cost of hardware maintenance and other services	108	111	336	369
Total cost of revenues	<u>582</u>	<u>553</u>	<u>1,593</u>	<u>1,561</u>
Gross profit	<u>941</u>	<u>851</u>	<u>2,677</u>	<u>2,477</u>
Operating expenses:				
Sales and marketing	423	381	1,268	1,228
Research and development	193	181	580	588
General and administrative	72	64	209	201
Restructuring charges	—	52	—	52
Gain on sale of properties	(218)	(10)	(218)	(10)
Total operating expenses	<u>470</u>	<u>668</u>	<u>1,839</u>	<u>2,059</u>
Income from operations	<u>471</u>	<u>183</u>	<u>838</u>	<u>418</u>
Other income (expense), net	14	—	25	(1)
Income before income taxes	<u>485</u>	<u>183</u>	<u>863</u>	<u>417</u>
Provision for income taxes	991	37	1,058	98
Net income (loss)	<u>\$ (506)</u>	<u>\$ 146</u>	<u>\$ (195)</u>	<u>\$ 319</u>
Net income (loss) per share:				
Basic	<u>\$ (1.89)</u>	<u>\$ 0.53</u>	<u>\$ (0.72)</u>	<u>\$ 1.15</u>
Diluted	<u>\$ (1.89)</u>	<u>\$ 0.52</u>	<u>\$ (0.72)</u>	<u>\$ 1.13</u>
Shares used in net income (loss) per share calculations:				
Basic	<u>268</u>	<u>274</u>	<u>269</u>	<u>277</u>
Diluted	<u>268</u>	<u>281</u>	<u>269</u>	<u>282</u>
Cash dividends declared per share	<u>\$ 0.20</u>	<u>\$ 0.19</u>	<u>\$ 0.60</u>	<u>\$ 0.57</u>

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	January 26, 2018	January 27, 2017	January 26, 2018	January 27, 2017
Net income (loss)	\$ (506)	\$ 146	\$ (195)	\$ 319
Other comprehensive income (loss):				
Foreign currency translation adjustments	(5)	(3)	3	(14)
Defined benefit obligations:				
Defined benefit obligation adjustments	—	25	—	25
Reclassification adjustments related to defined benefit obligations	(1)	—	(2)	1
Income tax effect	—	(10)	1	(10)
Unrealized gains (losses) on available-for-sale securities:				
Unrealized holding gains (losses) arising during the period	(17)	(8)	(15)	(10)
Unrealized gains (losses) on cash flow hedges:				
Unrealized holding gains arising during the period	—	5	—	8
Reclassification adjustments for gains included in net income	—	(5)	—	(6)
Other comprehensive income (loss)	(23)	4	(13)	(6)
Comprehensive income (loss)	\$ (529)	\$ 150	\$ (208)	\$ 313

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	January 26, 2018	January 27, 2017
Cash flows from operating activities:		
Net income (loss)	\$ (195)	\$ 319
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	150	173
Stock-based compensation	125	149
Deferred income taxes	258	73
Gain on sale of properties	(218)	(10)
Other items, net	(8)	(8)
Changes in assets and liabilities, net of acquisitions of businesses:		
Accounts receivable	(8)	208
Inventories	65	(27)
Other operating assets	28	16
Accounts payable	115	13
Accrued expenses	58	(121)
Deferred revenue and financed unearned services revenue	(102)	(148)
Long-term taxes payable	723	(16)
Other operating liabilities	(7)	-
Net cash provided by operating activities	<u>984</u>	<u>621</u>
Cash flows from investing activities:		
Purchases of investments	(1,262)	(1,383)
Maturities, sales and collections of investments	1,084	1,385
Purchases of property and equipment	(97)	(137)
Proceeds from sale of properties	210	—
Acquisitions of businesses, net of cash acquired	(75)	—
Other investing activities, net	(1)	2
Net cash used in investing activities	<u>(141)</u>	<u>(133)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee stock award plans	157	112
Payments for taxes related to net share settlement of stock awards	(67)	(42)
Repurchase of common stock	(450)	(576)
Proceeds from issuance of commercial paper notes, net	132	392
Issuance of long-term debt, net	795	—
Repayment of short-term loan	—	(850)
Repayment of long-term debt	(750)	—
Dividends paid	(161)	(157)
Other financing activities, net	(6)	(7)
Net cash used in financing activities	<u>(350)</u>	<u>(1,128)</u>
Effect of exchange rate changes on cash and cash equivalents	37	(15)
Net increase (decrease) in cash and cash equivalents	530	(655)
Cash and cash equivalents:		
Beginning of period	2,444	2,868
End of period	<u>\$ 2,974</u>	<u>\$ 2,213</u>

See accompanying notes to condensed consolidated financial statements.

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

1. Description of Business and Significant Accounting Policies

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

Basis of Presentation and Preparation

Our fiscal year is reported on a 52- or 53-week year ending on the last Friday in April. An additional week is included in the first fiscal quarter approximately every six years to realign fiscal months with calendar months. Fiscal years 2018 and 2017, ending on April 27, 2018, and April 28, 2017, respectively, are each 52-week years, with 13 weeks in each of their quarters.

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company, and reflect all adjustments, consisting only of normal recurring adjustments, that are, in the opinion of management, necessary for the fair presentation of our financial position, results of operations, comprehensive income 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 28, 2017 contained in our Annual Report on Form 10-K. The results of operations for the three and nine months ended January 26, 2018 are not necessarily indicative of the operating results to be expected for the full fiscal year or future operating periods.

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

There have been no significant changes in our significant accounting policies as of and for the nine months ended January 26, 2018, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended April 28, 2017.

2. Recent Accounting Standards Not Yet Effective

Revenue from Contracts with Customers

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. We will adopt this new standard, as amended, on its effective date in the first quarter of fiscal 2019.

Preliminarily, we plan to adopt the standard using the full retrospective method to restate each prior reporting period presented. Our ability to adopt this standard using the full retrospective method is dependent upon system readiness, for both revenue and commissions, and the completion of the analysis of information necessary to restate prior period financial statements and disclosures. We are continuing to assess the impact of this standard on our financial position, results of operations and related disclosures and have not yet determined whether the effect will be material. We do not expect that the adoption of this standard will have a material impact on our operating cash flows. Additionally, as we continue to assess the new standard along with industry trends and additional interpretive guidance, we may adjust our implementation plan accordingly.

We believe that the new standard will impact the following policies and disclosures:

- in arrangements containing software, revenue deferred for the undelivered elements will be based on a relative fair value allocation, generally resulting in more software arrangement revenue being recognized earlier;

- removal of the current limitation on contingent revenue for multiple element arrangements, such as that related to the delivery of additional items or meeting other specified performance conditions, may result in revenue being recognized earlier;
- estimation of variable consideration for arrangements with contract terms such as rights of return, potential penalties and acceptance clauses;
- required disclosures, including information about the transaction price allocated to remaining performance obligations and expected timing of revenue recognition; and
- accounting for deferred commissions, including costs that qualify for deferral and the amortization period.

We do not expect that the new standard will result in substantive changes in our deliverables or the amounts of revenue allocated between multiple deliverables, with the exception of the items discussed above.

Leases

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 in the assessment phase to determine the adoption methodology and are evaluating the impact of this new standard on our consolidated financial statements and disclosures. We expect that most of our operating lease commitments will be subject to the new standard and recognized as lease liabilities and right-of-use assets upon adoption, which will increase the total assets and total liabilities we report.

Credit Losses on Financial Instruments

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

Income Taxes on Intra-Entity Transfers of Assets

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 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.

Derecognition of Non-Financial Assets

In February 2017, the FASB issued an accounting standards update that amends guidance on how entities account for the derecognition of a nonfinancial asset or an in substance nonfinancial asset that is not a business. The guidance allows for the use of either the full or modified retrospective transition method. This new standard will be effective for us in our first quarter of fiscal 2019, although early adoption is permitted. We are currently evaluating the impact of this new standard on our consolidated financial statements.

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

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 26, 2018	January 27, 2017
Non-cash Investing and Financing Activities:		
Capital expenditures incurred but not paid	\$ 19	\$ 13
Non-cash extinguishment of sale-leaseback financing obligations	\$ 130	\$ 19
Supplemental Cash Flow Information:		
Income taxes paid, net of refunds	\$ 51	\$ 90
Interest paid	\$ 45	\$ 43

4. Business Combinations

On August 4, 2017, we acquired all of the outstanding shares of Greencloud ehf., a privately-held provider of cloud management software based in Iceland, for \$51 million in cash, of which we preliminarily allocated \$10 million to developed technology, \$38 million to goodwill, and the remainder to other assets.

On June 15, 2017, we acquired all of the outstanding shares of Plexistor Ltd., a privately-held provider of software defined memory architecture based in Israel, for \$24 million in cash, of which we allocated \$6 million to developed technology, \$17 million to goodwill, and the remainder to other assets.

5. Goodwill and Purchased Intangible Assets, Net

Goodwill activity is summarized as follows (in millions):

Balance as of April 28, 2017	\$ 1,684
Additions	55
Balance as of January 26, 2018	<u>\$ 1,739</u>

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

	January 26, 2018			April 28, 2017		
	Gross Assets	Accumulated Amortization	Net Assets	Gross Assets	Accumulated Amortization	Net Assets
Developed technology	\$ 164	\$ (71)	\$ 93	\$ 148	\$ (44)	\$ 104
Customer contracts/relationships	43	(30)	13	43	(19)	24
Other purchased intangibles	9	(9)	—	9	(6)	3
Total purchased intangible assets	<u>\$ 216</u>	<u>\$ (110)</u>	<u>\$ 106</u>	<u>\$ 200</u>	<u>\$ (69)</u>	<u>\$ 131</u>

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

	Three Months Ended		Nine Months Ended		Statements of Operations Classification
	January 26, 2018	January 27, 2017	January 26, 2018	January 27, 2017	
Developed technology	\$ 10	\$ 8	\$ 27	\$ 21	Cost of revenues
Customer contracts/relationships	3	4	11	11	Operating expenses
Other purchased intangibles	1	1	3	3	Operating expenses
Total	<u>\$ 14</u>	<u>\$ 13</u>	<u>\$ 41</u>	<u>\$ 35</u>	

As of January 26, 2018, future amortization expense related to purchased intangible assets is as follows (in millions):

Fiscal Year	Amount
Remainder of 2018	\$ 12
2019	47
2020	31
2021	16
Total	<u>\$ 106</u>

6. Balance Sheet Details

Cash and cash equivalents (in millions):

	January 26, 2018	April 28, 2017
Cash	\$ 2,563	\$ 2,275
Cash equivalents	411	169
Cash and cash equivalents	<u>\$ 2,974</u>	<u>\$ 2,444</u>

Inventories (in millions):

	January 26, 2018	April 28, 2017
Purchased components	\$ 22	\$ 28
Finished goods	76	135
Inventories	<u>\$ 98</u>	<u>\$ 163</u>

Property and equipment, net (in millions):

	January 26, 2018	April 28, 2017
Land	\$ 106	\$ 132
Buildings and improvements	576	612
Leasehold improvements	94	93
Computer, production, engineering and other equipment	726	741
Computer software	358	353
Furniture and fixtures	99	90
Construction-in-progress	26	26
	1,985	2,047
Accumulated depreciation and amortization	(1,244)	(1,248)
Property and equipment, net	<u>\$ 741</u>	<u>\$ 799</u>

As of April 28, 2017, we had classified certain land and buildings located in Sunnyvale, California, previously reported as property and equipment as assets held-for-sale and included their book value of \$118 million in other current assets in the condensed consolidated balance sheets. On September 8, 2017, we entered into an agreement to sell these properties for a total of \$306 million, through two separate and independent closings. On December 7, 2017, the first closing occurred and we consummated the sale of properties with a net book value of \$66 million for cash proceeds of \$210 million, resulting in a gain, net of direct selling costs, of \$142 million.

The remaining properties, consisting of land with a net book value of \$52 million, continue to be classified as assets held-for-sale as of January 26, 2018. We will consummate the sale of these properties, and receive cash proceeds of \$96 million, upon the occurrence of the second closing, which is expected to occur within the next 12 months. That closing is subject to due diligence, certain termination rights and customary closing conditions, including local governmental approval of the subdivision of a land parcel.

Other non-current assets (in millions):

	January 26, 2018	April 28, 2017
Deferred tax assets	\$ 289	\$ 525
Other assets	146	156
Other non-current assets	<u>\$ 435</u>	<u>\$ 681</u>

Accrued expenses (in millions):

	January 26, 2018	April 28, 2017
Accrued compensation and benefits	\$ 347	\$ 340
Sale-leaseback financing obligations	—	130
Product warranty liabilities	26	33
Other current liabilities	366	279
Accrued expenses	<u>\$ 739</u>	<u>\$ 782</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 26, 2018	January 27, 2017	January 26, 2018	January 27, 2017
Balance at beginning of period	\$ 44	\$ 54	\$ 50	\$ 70
Expense accrued during the period	3	4	11	9
Warranty costs incurred	(6)	(8)	(20)	(29)
Balance at end of period	<u>\$ 41</u>	<u>\$ 50</u>	<u>\$ 41</u>	<u>\$ 50</u>

	January 26, 2018	April 28, 2017
Accrued expenses	\$ 26	\$ 33
Other long-term liabilities	15	17
Total warranty liabilities	<u>\$ 41</u>	<u>\$ 50</u>

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

Other long-term liabilities (in millions):

	January 26, 2018	April 28, 2017
Liability for uncertain tax positions	\$ 303	\$ 148
Income taxes payable	569	—
Product warranty liabilities	15	17
Other liabilities	86	84
Other long-term liabilities	<u>\$ 973</u>	<u>\$ 249</u>

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

	January 26, 2018	April 28, 2017
Deferred product revenue	\$ 113	\$ 124
Deferred services revenue	3,014	2,999
Financed unearned services revenue	142	219
Total	<u>\$ 3,269</u>	<u>\$ 3,342</u>
Reported as:		
Short-term	\$ 1,719	\$ 1,744
Long-term	1,550	1,598
Total	<u>\$ 3,269</u>	<u>\$ 3,342</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.

7. Other income (expense), net

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

	Three Months Ended		Nine Months Ended	
	January 26, 2018	January 27, 2017	January 26, 2018	January 27, 2017
Interest income	\$ 20	\$ 10	\$ 55	\$ 31
Interest expense	(17)	(12)	(47)	(39)
Other income, net	11	2	17	7
Total other income (expense), net	<u>\$ 14</u>	<u>\$ —</u>	<u>\$ 25</u>	<u>\$ (1)</u>

8. 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 26, 2018				April 28, 2017			
	Cost or Amortized Cost	Gross Unrealized		Estimated Fair Value	Cost or Amortized Cost	Gross Unrealized		Estimated Fair Value
		Gains	Losses			Gains	Losses	
Corporate bonds	\$ 1,888	\$ 3	\$ (14)	\$ 1,877	\$ 1,535	\$ 3	\$ (2)	\$ 1,536
U.S. Treasury and government debt securities	520	—	(4)	516	629	1	(2)	628
Foreign government debt securities	12	—	—	12	21	—	—	21
Commercial paper	544	—	—	544	362	—	—	362
Certificates of deposit	107	—	—	107	99	—	—	99
Mutual funds	33	—	—	33	31	—	—	31
Total debt and equity securities	<u>\$ 3,104</u>	<u>\$ 3</u>	<u>\$ (18)</u>	<u>\$ 3,089</u>	<u>\$ 2,677</u>	<u>\$ 4</u>	<u>\$ (4)</u>	<u>\$ 2,677</u>

As of January 26, 2018 and April 28, 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 26, 2018 (in millions):

	Amortized Cost	Fair Value
Due in one year or less	\$ 1,215	\$ 1,215
Due after one year through five years	1,195	1,185
Due after five years through ten years	661	656
	<u>\$ 3,071</u>	<u>\$ 3,056</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 26, 2018		
	Total	Fair Value Measurements at Reporting Date Using	
		Level 1	Level 2
Cash	\$ 2,563	\$ 2,563	\$ —
Corporate bonds	1,877	—	1,877
U.S. Treasury and government debt securities	516	260	256
Foreign government debt securities	12	—	12
Commercial paper	544	—	544
Certificates of deposit	107	—	107
Total cash, cash equivalents and short-term investments	<u>\$ 5,619</u>	<u>\$ 2,823</u>	<u>\$ 2,796</u>
Other items:			
Mutual funds (1)	\$ 7	\$ 7	\$ —
Mutual funds (2)	\$ 26	\$ 26	\$ —
Foreign currency exchange contracts assets (1)	\$ 3	\$ —	\$ 3
Foreign currency exchange contracts liabilities (3)	\$ (13)	\$ —	\$ (13)

(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 26, 2018 and April 28, 2017, we have not made any adjustments to the prices obtained from our third-party pricing providers.

Fair Value of Debt

As of January 26, 2018 and April 28, 2017, the fair value of our long-term debt was approximately \$1,551 million and \$1,520 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.

9. Financing Arrangements

Long-Term Debt

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

	January 26, 2018		April 28, 2017	
	Amount	Effective Interest Rate	Amount	Effective Interest Rate
2.00% Senior Notes Due December 2017	\$ —	N/A	\$ 750	2.25%
2.00% Senior Notes Due September 2019	400	2.32%	—	N/A
3.375% Senior Notes Due June 2021	500	3.54%	500	3.54%
3.25% Senior Notes Due December 2022	250	3.43%	250	3.43%
3.30% Senior Notes Due September 2024	400	3.42%	—	N/A
Total principal amount	1,550		1,500	
Unamortized discount and issuance costs	(10)		(7)	
Total senior notes	1,540		1,493	
Less: Current portion of long-term debt	—		(749)	
Total long-term debt	<u>\$ 1,540</u>		<u>\$ 744</u>	

N/A - Not applicable

Senior Notes

In September 2017, we issued \$400 million aggregate principal amount of 2.00% Senior Notes due on September 27, 2019 and \$400 million aggregate principal amount of 3.30% Senior Notes due on September 29, 2024, for which we received total proceeds of approximately \$795 million, net of discount and issuance costs. On November 3, 2017, we extinguished our 2.00% Senior Notes due December 2017 for an aggregate redemption price of \$751 million, plus accrued and unpaid interest.

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

We may redeem the Senior Notes in whole or in part, at any time at our option at specified redemption prices. In addition, upon the occurrence of certain change of control triggering events, we may be required to repurchase the Senior Notes under specified terms. The Senior Notes also include covenants that limit our ability to incur debt secured by liens on assets or on shares of stock or indebtedness of our subsidiaries; to engage in certain sale and lease-back transactions; and to consolidate, merge or sell all or substantially all of our assets. As of January 26, 2018, we were in compliance with all covenants associated with the Senior Notes.

As of January 26, 2018, our aggregate future principal debt maturities are as follows (in millions):

Fiscal Year	Amount
2020	\$ 400
2022	500
Thereafter	650
Total	<u>\$ 1,550</u>

Commercial Paper Program and Credit Facility

We have a commercial paper program (the Program), under which we may issue unsecured commercial paper notes. Amounts available under the Program, as amended on July 17, 2017, may be borrowed, repaid and re-borrowed, with the aggregate face or principal amount of the notes outstanding under the Program at any time not to exceed \$1.0 billion. The maturities of the notes can vary, but may not exceed 397 days from the date of issue. The notes are sold under customary terms in the commercial paper market and may be issued at a discount from par or, alternatively, may be sold at par and bear interest at rates dictated by market conditions at the time of their issuance. The proceeds from the issuance of the notes are used for general corporate purposes. As of January 26, 2018, we had commercial paper notes outstanding with an aggregate principal amount of \$632 million, a weighted-average interest rate of 1.81% and maturities ranging from 17 days to 46 days. As of April 28, 2017, we had commercial paper notes outstanding with an aggregate principal amount of \$500 million, a weighted-average interest rate of 1.26% and maturities ranging from 7 days to 38 days.

In connection with the Program, we have a senior unsecured credit agreement with a syndicated group of lenders that expires on December 10, 2021. The credit agreement, as amended on July 17, 2017, provides a \$1.0 billion revolving unsecured credit facility, with a \$50 million letter of credit sub-facility, that serves as a back-up for the Program. Proceeds from the facility may also be used for general corporate purposes to the extent that the credit facility exceeds the outstanding debt issued under the Program. The credit agreement includes options that allow us to request an increase in the facility of up to an additional \$300 million and to extend its maturity date for two additional one-year periods, both subject to certain conditions. As of January 26, 2018 we were in compliance with all associated covenants in this agreement. No amounts were drawn against this facility during any of the periods presented.

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 through December 31, 2017. These properties did not qualify for sale-leaseback accounting and as a result they were accounted for as financing transactions. In December 2017, we terminated the leases and recorded a non-cash sale of properties with a net book value of \$54 million, the extinguishment of \$130 million in financing obligations, and a gain of \$76 million. As of January 26, 2018, there are no balances remaining on our condensed consolidated balance sheets associated with this sale-leaseback arrangement.

10. Stockholders' Equity

Equity Incentive Awards

As of January 26, 2018, we have certain equity incentive awards (awards) outstanding, 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 28, 2017	4	\$ 35.76		
Exercised	(2)	\$ 36.44		
Outstanding as of January 26, 2018	2	\$ 33.24	3.35	\$ 49
Exercisable as of January 26, 2018	1	\$ 37.57	2.62	\$ 34

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 26, 2018	January 27, 2017
Intrinsic value of exercises	\$ 29	\$ 18
Proceeds received from exercises	\$ 72	\$ 33
Fair value of options vested	\$ 6	\$ 12

Restricted Stock Units

In the nine months ended January 26, 2018, we granted PBRsUs to certain of our executives. Each PBRsU has performance-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 the second or third fiscal year, respectively, following the grant date. 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 \$20 million is being recognized over the shorter of the remaining applicable performance or service periods.

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

	Number of Shares	Weighted- Average Grant Date Fair Value
Outstanding as of April 28, 2017	11	\$ 28.81
Granted	4	\$ 38.96
Vested	(5)	\$ 31.08
Forfeited	(1)	\$ 29.06
Outstanding as of January 26, 2018	<u>9</u>	<u>\$ 32.10</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 26, 2018	January 27, 2017
Shares withheld for taxes	2	2
Fair value of shares withheld	\$ 67	\$ 42

Employee Stock Purchase Plan

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

	Nine Months Ended	
	January 26, 2018	January 27, 2017
Shares issued under the ESPP	4	4
Proceeds from issuance of shares	\$ 85	\$ 80

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 26, 2018	January 27, 2017	January 26, 2018	January 27, 2017
Cost of product revenues	\$ —	\$ 1	\$ 2	\$ 3
Cost of hardware maintenance and other services revenues	3	3	8	10
Sales and marketing	16	20	53	64
Research and development	11	14	38	46
General and administrative	8	8	24	26
Total stock-based compensation expense	<u>\$ 38</u>	<u>\$ 46</u>	<u>\$ 125</u>	<u>\$ 149</u>
Income tax benefit for stock-based compensation	<u>\$ 5</u>	<u>\$ 10</u>	<u>\$ 23</u>	<u>\$ 30</u>

As of January 26, 2018, total unrecognized compensation expense related to our equity awards was \$239 million, which is expected to be recognized on a straight-line basis over a weighted-average remaining service period of 2.2 years.

Stock Repurchase Program

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 26, 2018 (in millions, except per share amounts):

Number of shares repurchased		10
Average price per share	\$	46.37
Aggregate purchase price	\$	450
Remaining authorization at end of period	\$	344

The aggregate purchase price of our stock repurchases for the nine months ended January 26, 2018 consisted of \$450 million of open market purchases, of which \$224 million and \$226 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 26, 2018, we repurchased a total of 279 million shares of our common stock at an average price of \$33.31 per share, for an aggregate purchase price of \$9.3 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 26, 2018	January 27, 2017
Dividends per share declared	\$ 0.60	\$ 0.57
Dividend payments allocated to additional paid-in capital	\$ 53	\$ 88
Dividend payments allocated to retained earnings (accumulated deficit)	\$ 108	\$ 69

On February 14, 2018, we declared a cash dividend of \$0.20 per share of common stock, payable on April 25, 2018 to holders of record as of the close of business on April 6, 2018. 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 (Accumulated Deficit)

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

Balance as of April 28, 2017	\$	40
Net loss		(195)
Repurchases of common stock		(226)
Dividends		(108)
Balance as of January 26, 2018	\$	(489)

Accumulated Other Comprehensive Income (Loss)

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

	Foreign Currency Translation Adjustments	Defined Benefit Obligation Adjustments	Unrealized Gains (Losses) on Available- for-Sale Securities	Total
Balance as of April 28, 2017	\$ (29)	\$ —	\$ —	\$ (29)
Other comprehensive income, net of tax	3	(1)	(15)	(13)
Balance as of January 26, 2018	\$ (26)	\$ (1)	\$ (15)	\$ (42)

The amounts reclassified out of accumulated other comprehensive income (loss) are as follows (in million s):

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>		<u>Statements of Operations Classification</u>
	<u>January 26, 2018</u>	<u>January 27, 2017</u>	<u>January 26, 2018</u>	<u>January 27, 2017</u>	
	<u>Amounts Reclassified from AOCI</u>		<u>Amounts Reclassified from AOCI</u>		
Recognized (gains) losses on defined benefit obligations	\$ (1)	\$ —	\$ (2)	\$ 1	Operating expenses
Realized gains on cash flow hedges	—	(5)	—	(6)	Net revenues
Total reclassifications	<u>\$ (1)</u>	<u>\$ (5)</u>	<u>\$ (2)</u>	<u>\$ (5)</u>	

11. Derivatives and Hedging Activities

We use derivative instruments to manage exposures to foreign currency risk. Our primary objective in holding derivatives is to reduce the volatility of earnings and cash flows associated with changes in foreign currency exchange rates. The maximum length of time over which forecasted foreign currency denominated revenues are hedged is six months. The program is not designated for trading or speculative purposes. Our derivatives expose us to credit risk to the extent that the counterparties may be unable to meet the terms of our agreements with them. We seek to mitigate such risk by limiting our counterparties to major financial institutions. In addition, the potential risk of loss with any one counterparty resulting from this type of credit risk is monitored on an ongoing basis. We also have in place master netting arrangements to mitigate the credit risk of our counterparties and to potentially reduce our losses due to counterparty nonperformance. We present our derivative instruments as net amounts in our condensed consolidated balance sheets. The gross and net fair value amounts of such instruments were not material as of January 26, 2018 or April 28, 2017. We did not recognize any gains or 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):

	<u>January 26, 2018</u>	<u>April 28, 2017</u>
Balance Sheet Contracts		
Forward contracts sold	\$ 125	\$ 165
Forward contracts purchased	\$ 531	\$ 257

As of January 26, 2018 and April 28, 2017, there were no instruments designated as cash flow hedges outstanding.

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

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

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>January 26, 2018</u>	<u>January 27, 2017</u>	<u>January 26, 2018</u>	<u>January 27, 2017</u>
	<u>Gain (Loss) Recognized into Income</u>		<u>Gain (Loss) Recognized into Income</u>	
Foreign currency exchange contracts	\$ (12)	\$ 2	\$ (13)	\$ 8

12. Restructuring Charges

Management has previously approved several restructuring actions to streamline our business, eliminate costs and redirect resources to our highest return activities, including the March 2016 Plan and the November 2016 Plan, under which we reduced our global workforce by approximately 11%, and 6%, respectively. We completed all workforce related activities under these plans as of the end of fiscal 2017. Charges related to our restructuring plans consisted primarily of employee severance-related costs. The remaining balance as of January 26, 2018 principally relates to lease obligations that will be paid over their remaining terms.

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

	Nine Months Ended January 26, 2018	Nine Months Ended January 27, 2017
	November 2016 Plan	March 2016 Plan
Balance at beginning of period	\$ 13	\$ 45
Cash payments	(7)	(45)
Balance at end of period	\$ 6	\$ —

13. Income Taxes

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

	Nine Months Ended	
	January 26, 2018	January 27, 2017
Effective tax rates	122.6%	23.5%

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 United States (U.S.) statutory tax rate. The differences in effective tax rates for the nine months ended January 26, 2018 and January 27, 2017 were primarily related to the impacts of recent U.S. tax reform and the sale of certain buildings and land in Sunnyvale, California.

On December 22, 2017, the 2017 Tax Reform Reconciliation Act, originally referred to as the Tax Cuts and Jobs Act (“TCJA”) was enacted into law and is effective for the third quarter of our fiscal 2018. The TCJA made significant changes to the U.S. corporate income tax system including a reduction of the U.S. federal corporate income tax rate, the imposition of a one-time transition tax on deferred foreign earnings, and a shift to a modified territorial tax regime. ASC 740, Income Taxes, requires that the impact on income taxes due to a change in legislation be recognized in the period of enactment. Given the timing and pace of regulatory guidance, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin 118, which allows for the recording of provisional amounts related to U.S. tax reform and subsequent related adjustments during a measurement period.

As of January 26, 2018, we have not fully completed the accounting for the tax impacts of the TCJA and have recorded provisional tax charges based on reasonable estimates for the transition tax on our total post-1986 foreign earnings and profits (“E&P”), and for the remeasurement of deferred tax assets and liabilities based on the new corporate tax rate. The TCJA also includes provisions for a global minimum tax on intangible low-taxed income (“GMT”) of foreign subsidiaries, a base erosion anti-abuse tax on certain intercompany payments, and beneficial tax treatment for foreign derived intangible income. These provisions will be effective for us beginning in our fiscal 2019. We will continue to refine provisional balances and make adjustments during the measurement period based on the issuance of further regulatory guidance, changes in interpretations, and the collection and analysis of additional information; these adjustments could be material to our financial statements. The provisional amounts recorded during the current quarter are explained below.

The TCJA decreased the U.S. federal corporate tax rate from 35% to 21% as of January 1, 2018. For fiscal 2018, this decrease results in a blended statutory tax rate of 30.5%. As a result of the tax rate change, we remeasured our deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future periods and recorded a \$117 million discrete tax expense for the quarter. The final remeasurement impact could vary from the provisional amount if actual future activities impacting deferred tax balances differ from our estimates.

The TCJA imposes a mandatory, one-time transition tax on accumulated foreign E&P not previously subject to U.S. income tax at a rate of 15.5% on earnings to the extent of foreign cash and other liquid assets, and 8% on the remaining earnings. During the quarter, we recorded a \$739 million discrete tax expense for the estimated U.S. federal and state income tax impacts of the transition tax. Our estimates may change with further guidance from U.S. federal and state tax authorities or other regulatory bodies, our fourth quarter activities, and additional analyses that we expect to complete during the measurement period, with respect to various components of the computations. We intend to make the election to pay the one-time transition tax over a period of eight years.

Under the TCJA, the GMT provision taxes foreign income in excess of a deemed return on tangible assets of foreign corporations. Under U.S. GAAP, companies are allowed to make an accounting policy election to either (i) account for GMT as a component of tax expense in the period in which a company is subject to the rules (the “period cost method”), or (ii) account for GMT in a company’s measurement of deferred taxes (the “deferred method”). Because of the complexity of the new tax rules, we are continuing to evaluate this provision and the application of ASC 740 and have not yet made an accounting policy election.

As a part of the provisional estimates recorded during the quarter, we considered the impacts of the TCJA and reviewed our projected global cash requirements, and have determined that certain historical and future foreign earnings will no longer be indefinitely reinvested.

During the quarter ended January 26, 2018, we also recorded a \$72 million discrete tax expense related to the sale of certain buildings and land in Sunnyvale, California. The expense partially relates to gains triggered by the termination of a fiscal 2016 sale-leaseback arrangement. The remainder of the expense relates to the sale of buildings and land in the current quarter.

As of January 26, 2018, we had \$338 million of gross unrecognized tax benefits, and \$303 million has been recorded in other long-term liabilities inclusive of penalties, interest and indirect benefits. Unrecognized tax benefits of \$284 million, including penalties, interest and indirect benefits, would affect our provision for income taxes if recognized. As result of the U.S. tax reform, we recorded \$113 million of gross unrecognized tax benefits.

We are currently undergoing federal income tax audits in the 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 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 Court of Justice of the European Union where it was heard before the court in October 2017. We expect the court to issue their opinion and judgment by the end of fiscal 2018.

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.

14. Net Income (Loss) per Share

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

	Three Months Ended		Nine Months Ended	
	January 26, 2018	January 27, 2017	January 26, 2018	January 27, 2017
Numerator:				
Net income (loss)	\$ (506)	\$ 146	\$ (195)	\$ 319
Denominator:				
Shares used in basic computation	268	274	269	277
Dilutive impact of employee equity award plans	—	7	—	5
Shares used in diluted computation	268	281	269	282
Net Income (Loss) per Share:				
Basic	\$ (1.89)	\$ 0.53	\$ (0.72)	\$ 1.15
Diluted	\$ (1.89)	\$ 0.52	\$ (0.72)	\$ 1.13

Potential shares from outstanding employee equity awards totaling 15 million and 4 million for the three months ended January 26, 2018 and January 27, 2017, respectively, and 17 million and 8 million for the nine months ended January 26, 2018 and January 27, 2017, respectively, were excluded from the diluted net income (loss) per share calculations as their inclusion would have been anti-dilutive.

15. Segment, Geographic, and Significant Customer Information

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

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

	Three Months Ended		Nine Months Ended	
	January 26, 2018	January 27, 2017	January 26, 2018	January 27, 2017
United States, Canada and Latin America (Americas)	\$ 823	\$ 767	\$ 2,345	\$ 2,271
Europe, Middle East and Africa (EMEA)	487	460	1,319	1,243
Asia Pacific (APAC)	213	177	606	524
Net revenues	\$ 1,523	\$ 1,404	\$ 4,270	\$ 4,038

Americas revenues consist of sales to Americas commercial and U.S. public sector markets. Sales to customers inside the U.S. were \$739 million and \$684 million during the three months ended January 26, 2018 and January 27, 2017, respectively, and were \$2,115 million and \$2,047 million during the nine months ended January 26, 2018 and January 27, 2017, 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 26, 2018	April 28, 2017
U.S.	\$ 562	\$ 425
International	5,057	4,496
Total	\$ 5,619	\$ 4,921

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 26, 2018	April 28, 2017
U.S.	\$ 548	\$ 593
International	193	206
Total	\$ 741	\$ 799

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 26, 2018	January 27, 2017	January 26, 2018	January 27, 2017
Arrow Electronics, Inc.	22%	22%	23%	21%
Tech Data Corporation (previously presented as Avnet, Inc.)	19%	20%	19%	20%

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

	January 26, 2018	April 28, 2017
Arrow Electronics, Inc.	11%	15%
Tech Data Corporation (previously presented as Avnet, Inc.)	11%	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 \$198 million as of January 26, 2018.

Purchase Orders and Other Commitments

In the ordinary course of business, we make commitments to third-party contract manufacturers to manage manufacturer lead times and meet product forecasts, and to other parties to purchase various key components used in the manufacturing of our products. A significant portion of our reported purchase commitments arising from these agreements consists of firm, non-cancelable, and unconditional commitments. As of January 26, 2018, we had \$387 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 26, 2018 and April 28, 2017, such liability amounted to \$11 million and \$10 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 26, 2018, we had \$15 million in construction related obligations and \$222 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 \$62 million and \$142 million of receivables during the nine months ended January 26, 2018 and January 27, 2017, 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. We defer revenue associated with these advance payments until the related refund rights expire and we perform the services. As of January 26, 2018 and April 28, 2017, 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 26, 2018, we have not been required to make any payments under these arrangements, and we believe the likelihood of having to acquire a material amount of assets or make payments under these arrangements is remote. The portion of the financial arrangement that represents unearned services revenue is included in deferred revenue and financed unearned services revenue in our condensed consolidated balance sheets.

Legal Contingencies

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

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

Although management at present believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not materially harm our financial position, results of operations, cash flows, or overall trends, legal proceedings are subject to inherent uncertainties, and unfavorable rulings or other events could occur. Unfavorable resolutions could include significant monetary damages. In addition, in matters for which injunctive relief or other conduct remedies are sought, unfavorable resolutions could include an injunction or other order prohibiting us from selling one or more products at all or in particular ways or requiring other remedies. An unfavorable outcome may result in a material adverse impact on our business, results of operations, financial position, and overall trends. No material accrual has been recorded as of January 26, 2018 related to such matters.

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

This section and other parts of this Form 10-Q contain forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Forward-looking statements also can be identified by words such as “future,” “anticipates,” “believes,” “estimates,” “expects,” “intends,” “will,” “would,” “could,” “can,” “may,” and similar terms. Forward-looking statements are not guarantees of future performance and the actual results of NetApp, Inc. (“we,” “us,” or the “Company”) may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Part II, Item 1A of this Form 10-Q under the heading “Risk Factors,” which are incorporated herein by reference. The following discussion should be read in conjunction with our fiscal year 2017 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 the data authority for hybrid cloud environments. We provide a full range of hybrid cloud data services that simplify management of applications and data across cloud and on-premises environments to accelerate digital transformations. Together with our partners, we empower global organizations to unleash the full potential of their data to expand customer touchpoints, foster greater innovation, and optimize their operations.

Our Data Fabric approach simplifies and integrates data management across cloud and on-premises to accelerate digital transformation, enabling our customers to manage, secure and protect their data from on-premises to public to hybrid clouds, all at the scale needed to accommodate the exponential data growth of the digital world. It delivers consistent and integrated data management services and applications for data visibility and insights, data access and control, and data protection and security.

We focus on delivering an exceptional customer experience to become their preferred data partner. Our products and solutions portfolio empowers customers to harness the power of the hybrid cloud, build a next-generation data center, and modernize storage through data management. We will continue to extend our cloud integration and hybrid cloud leadership by expanding our product offerings and services to match customer needs across the cloud and on-premises.

Our unified scale-out fabric-attached storage (FAS) platform is designed to meet the demanding requirements of shared infrastructures and cloud environments. Our FAS storage platform uses the NetApp Data ONTAP storage operating system to deliver integrated data protection, comprehensive data management, and built-in efficiency software for virtualized, shared infrastructures, cloud computing, and mixed workload business applications. Our E-Series high-performance storage area network platform is designed to meet demanding performance and capacity requirements of dedicated workloads, while retaining simplicity and an optimized price to performance ratio. Our SolidFire All-Flash Arrays deliver fully automated agility and guaranteed application performance at web scale so customers can achieve the next-generation data center.

Flash plays a key role in customers' digital transformation efforts as they seek to gain advantage through greater speed, responsiveness and value from key business applications, while lowering total cost of ownership. All-flash array technology is the de facto choice for primary application workloads as customers seek performance and economic benefits by replacing hard disk installations. With our all-flash array portfolio, including our AFF-Series, EF-Series and SolidFire SF-Series products, we enable customers to modernize storage and data management to boost performance in their traditional data centers, while mapping out their move to a hybrid cloud.

Our hybrid flash storage serves customers who want the option to deploy the speed of flash storage where they need it while using more affordable hard disk drives to address capacity requirements. Our hybrid arrays include the FAS series of unified storage systems and the E-Series of block storage offerings.

We group our products by "Strategic" and "Mature" solutions. Strategic solutions include Clustered ONTAP, 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.

In addition to our products, we provide a variety of services including software maintenance, hardware maintenance and other services including professional services, global support solutions, and customer education and training to help customers most effectively manage their data.

Financial Results and Key Performance Metrics Overview

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

	Three Months Ended		Nine Months Ended	
	January 26, 2018	January 27, 2017	January 26, 2018	January 27, 2017
Net revenues	\$ 1,523	\$ 1,404	\$ 4,270	\$ 4,038
Gross profit	\$ 941	\$ 851	\$ 2,677	\$ 2,477
Gross profit margin percentage	62%	61%	63%	61%
Income from operations	\$ 471	\$ 183	\$ 838	\$ 418
Income from operations as a percentage of net revenues	31%	13%	20%	10%
Net income (loss)	\$ (506)	\$ 146	\$ (195)	\$ 319
Diluted net income (loss) per share	\$ (1.89)	\$ 0.52	\$ (0.72)	\$ 1.13
Operating cash flows	\$ 420	\$ 235	\$ 984	\$ 621
			January 26, 2018	April 28, 2017
Deferred revenue and financed unearned services revenue		\$	3,269	\$ 3,342
Cash conversion cycle (days)			(11)	15

Stock Repurchase Program and Dividend Activity

During the first nine months of fiscal 2018, we repurchased 10 million shares of our common stock at an average price of \$46.37 per share, for an aggregate of \$450 million. We also declared cash dividends of an aggregate of \$0.60 per share in that period, for which we paid an aggregate of \$161 million.

Senior Notes Redemption

On November 3, 2017, we extinguished our 2.00% Senior Notes due December 2017 for an aggregate cash redemption price of \$751 million, plus accrued and unpaid interest.

Real Estate Transactions

On September 8, 2017, we entered into an agreement to sell certain land and buildings for a total of \$306 million, through two separate and independent closings. On December 7, 2017, the first closing date, we consummated the sale of properties with a net book value of \$66 million for cash proceeds of \$210 million, resulting in a gain, net of direct selling costs, of \$142 million.

In fiscal 2016, we entered into a sale-leaseback arrangement of certain of our land and buildings. The arrangement did not qualify for sale-leaseback accounting and instead was accounted for as a financing transaction. In December 2017, we terminated the leases and recorded a non-cash sale of properties with a net book value of \$54 million, the extinguishment of \$130 million in financing obligations, and a gain of \$76 million.

Tax Reform

On December 22, 2017, the 2017 Tax Reform Reconciliation Act, originally referred to as the Tax Cuts and Jobs Act (TCJA), was enacted into law. This tax reform legislation contains several key tax provisions that affected us, including a one-time mandatory transition tax on accumulated foreign earnings and a reduction of the U.S. corporate income tax rate to 21% effective January 1, 2018, among others. Our GAAP net loss in the third quarter and first nine months of fiscal 2018 includes a one-time tax reform-related provisional charge of \$856 million.

Critical Accounting Policies and Estimates

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

The summary of our significant accounting policies is included under Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations of our fiscal 2017 Form 10-K. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the estimate that are reasonably possible could materially impact the financial statements. There have been no material changes to the critical accounting policies and estimates as filed in such report, except with respect to Income Taxes. As a part of the provisional estimates recorded during the quarter in response to the enactment of the TCJA, we considered the impacts of the act, reviewed our projected global cash requirements, and determined that certain historical and future foreign earnings will no longer be indefinitely reinvested, in contrast to our previous policy. Refer to Note 13 – Income Taxes of the Notes to Condensed Consolidated Financial Statements for additional details.

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 years 2018 and 2017, ending April 27, 2018 and April 28, 2017, are each 52-week years, with 13 weeks in each of their quarters. Unless otherwise stated, references to particular years, quarters, months and periods refer to the Company’s fiscal years ended in April and the associated quarters, months and periods of those fiscal years.

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

	Three Months Ended		Nine Months Ended	
	January 26, 2018	January 27, 2017	January 26, 2018	January 27, 2017
Revenues:				
Product	60 %	56 %	57 %	53 %
Software maintenance	16	17	17	18
Hardware maintenance and other services	24	27	26	29
Net revenues	100	100	100	100
Cost of revenues:				
Cost of product	31	31	29	29
Cost of software maintenance	—	—	—	1
Cost of hardware maintenance and other services	7	8	8	9
Gross profit	62	61	63	61
Operating expenses:				
Sales and marketing	28	27	30	30
Research and development	13	13	14	15
General and administrative	5	5	5	5
Restructuring charges	—	4	—	1
Gain on sale of properties	(14)	(1)	(5)	—
Total operating expenses	31	48	43	51
Income from operations	31	13	20	10
Other income (expense), net	1	—	1	—
Income before income taxes	32	13	20	10
Provision for income taxes	65	3	25	2
Net income (loss)	(33) %	10 %	(5) %	8 %

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 2018 were \$1,523 million and \$4,270 million, respectively, reflecting an increase of \$119 million, or 8%, and \$232 million, or 6%, respectively, compared to the corresponding periods of the prior year, reflecting higher product revenues, partially offset by lower hardware maintenance and other services revenues.

Gross profit as a percentage of net revenues for the third quarter and the first nine months of fiscal 2018 increased by one percentage point and one and a half percentage points, respectively, compared to the corresponding periods in fiscal 2017, reflecting higher margins on product revenues. Gross profit margins on product revenues increased four and a half percentage points in the third quarter of fiscal 2018 and four percentage points in the first nine months of fiscal 2018 compared to the corresponding periods of fiscal 2017, primarily due to an increase in average selling price (ASP) and, to a lesser extent, the favorable impact of foreign exchange rate fluctuations.

Sales and marketing, research and development, and general and administrative expenses for the third quarter of fiscal 2018 totaled \$688 million. This represented 45% of net revenues, consistent with the third quarter of fiscal 2017. In the first nine months of fiscal 2018, sales and marketing, research and development, and general and administrative expenses totaled \$2,057 million, or 48% of net revenues, representing a decrease of two percentage points compared to the corresponding period of fiscal 2017, primarily due to higher net revenues in the current year coupled with lower average headcount as a result of our restructuring plans and other cost reduction initiatives.

Net Revenues (in millions, except percentages):

	Three Months Ended			Nine Months Ended		
	January 26, 2018	January 27, 2017	% Change	January 26, 2018	January 27, 2017	% Change
Net revenues	\$ 1,523	\$ 1,404	8%	\$ 4,270	\$ 4,038	6%

The increase in net revenues for the third quarter and first nine months of fiscal 2018 compared to the corresponding periods of fiscal 2017 was primarily due to an increase in product revenues of \$136 million and \$296 million, respectively, partially offset by a decrease in hardware maintenance and other services revenues of \$14 million and \$52 million, respectively. Product revenues as a percentage of net revenues increased four and a half percentage points in the third quarter of fiscal 2018 and four percentage points in the first nine months of fiscal 2018 compared to the corresponding periods of fiscal 2017.

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

	Three Months Ended		Nine Months Ended	
	January 26, 2018	January 27, 2017	January 26, 2018	January 27, 2017
Arrow Electronics, Inc.	22%	22%	23%	21%
Tech Data Corporation (previously presented as Avnet, Inc.)	19%	20%	19%	20%

Product Revenues (in millions, except percentages):

	Three Months Ended			Nine Months Ended		
	January 26, 2018	January 27, 2017	% Change	January 26, 2018	January 27, 2017	% Change
Product revenues	\$ 920	\$ 784	17%	\$ 2,450	\$ 2,154	14%

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 70% of product revenues in the third quarter and first nine months of fiscal 2018, compared to 65% and 64% in the corresponding periods of the prior year. Product revenues from mature solutions represented 30% of product revenues in the third quarter and first nine months of fiscal 2018, compared to 35% and 36% in the corresponding periods of the prior year.

Total product revenues from strategic solutions totaled \$647 million in the third quarter of fiscal 2018 reflecting a 26% increase from \$512 million in the third quarter of fiscal 2017. This increase was primarily due to a 5% increase in unit volume of Clustered ONTAP systems and an increase in ASP driven by sales of our All-Flash FAS products. Total product revenue from mature solutions totaled \$273 million in the third quarter of fiscal 2018, relatively flat compared to \$272 million in the third quarter of fiscal 2017. A decrease in unit volume of 7-mode systems resulting from the movement of customer demand from older products to our newer products was offset by an 11% increase in add-on hardware, storage and related OS revenues. Product revenues from both strategic and mature solutions were favorably impacted by foreign exchange rate fluctuations in the third quarter of fiscal 2018 compared to the third quarter of fiscal 2017.

Total product revenues from strategic solutions totaled \$1,704 million in the first nine months of fiscal 2018 reflecting a 24% increase from \$1,375 million in the first nine months of fiscal 2017. This increase was primarily due to a 7% increase in unit volume of Clustered ONTAP systems and an increase in ASP driven by sales of our All-Flash FAS products. Total product revenue from

mature solutions totaled \$ 746 million in the first nine months of fiscal 2018 reflecting a 4 % de crease from \$ 779 million in the first nine months of fiscal 2017. This de crease was primarily due to a 69 % de crease in unit volume of 7-mode systems , and a 10 % de crease in OEM revenues, partially offset by a n 11 % in crease in add-on hardware , storage and related OS revenues .

Software Maintenance Revenues (in millions, except percentages):

	Three Months Ended			Nine Months Ended		
	January 26, 2018	January 27, 2017	% Change	January 26, 2018	January 27, 2017	% Change
Software maintenance revenues	\$ 237	\$ 240	(1)%	\$ 711	\$ 723	(2)%

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 26, 2018	January 27, 2017	% Change	January 26, 2018	January 27, 2017	% Change
Hardware maintenance and other services revenues	\$ 366	\$ 380	(4)%	\$ 1,109	\$ 1,161	(4)%

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

Hardware maintenance contract revenues were \$299 million and \$903 million for the third quarter and first nine months of fiscal 2018, respectively, compared to \$313 million and \$952 million for the corresponding periods of the prior year. The decreases in the current year were primarily due to lower contract renewal rates, and a decline in ASP on executed contracts.

Professional services and educational and training services revenues were \$67 million and \$206 million for the third quarter and first nine months of fiscal 2018, respectively, compared to \$67 million and \$209 million for the corresponding periods of the prior year.

Revenues by Geographic Area:

	Three Months Ended		Nine Months Ended	
	January 26, 2018	January 27, 2017	January 26, 2018	January 27, 2017
United States, Canada and Latin America (Americas)	54%	55%	55%	56%
Europe, Middle East and Africa (EMEA)	32%	33%	31%	31%
Asia Pacific (APAC)	14%	13%	14%	13%

Percentages may not add due to rounding

Americas revenues consist of sales to Americas commercial and U.S. public sector 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 2018 compared to the third quarter and first nine months of fiscal 2017.

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 26, 2018	January 27, 2017	% Change	January 26, 2018	January 27, 2017	% Change
Cost of product revenues	\$ 468	\$ 435	8%	\$ 1,238	\$ 1,170	6%

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

	Three Months Ended Fiscal 2018 to Fiscal 2017 Percentage Change Points	Nine Months Ended Fiscal 2018 to Fiscal 2017 Percentage Change Points
Materials costs	9	5
Excess and obsolete inventory	(1)	—
Other	—	1
Total change	<u>8</u>	<u>6</u>

Cost of product revenues represented 51% of product revenues for the third quarter and first nine months of fiscal 2018, compared to 55% and 54% for the third quarter and first nine months of fiscal 2017, respectively. Materials costs represented 91% and 90% of product costs for the third quarter and first nine months of fiscal 2018, respectively, compared to 90% and 91% in the third quarter and first nine months of fiscal 2017, respectively.

Materials costs increased \$37 million and \$57 million in the third quarter and first nine months of fiscal 2018, respectively, compared to the corresponding periods of the prior year, primarily due to higher unit volume of Clustered ONTAP systems.

Average unit materials costs for Clustered ONTAP systems increased slightly in the third quarter and first nine months of fiscal 2018 compared to the corresponding periods of the prior year.

An increase in ASP for strategic systems resulted in higher margins for strategic products in the third quarter and first nine months of fiscal 2018 compared to the third quarter and first nine months of fiscal 2017. Margins in the third quarter of fiscal 2018 were also favorably impacted by fluctuations in foreign exchange rates. Margins for mature products were relatively consistent in the third quarter and first nine months of fiscal 2018 compared to the corresponding periods of the prior year.

Cost of product revenues in the third quarter of fiscal 2018 compared to the third quarter of fiscal 2017 were favorably impacted by a \$5 million decrease in charges for excess and obsolete inventory.

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

	Three Months Ended			Nine Months Ended		
	January 26, 2018	January 27, 2017	% Change	January 26, 2018	January 27, 2017	% Change
Cost of software maintenance revenues	\$ 6	\$ 7	(14)%	\$ 19	\$ 22	(14)%

Cost of software maintenance revenues was relatively flat in the third quarter and first nine months of fiscal 2018 compared to the corresponding periods of fiscal 2017 and represented 3% of software maintenance revenues for all periods presented.

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

	Three Months Ended			Nine Months Ended		
	January 26, 2018	January 27, 2017	% Change	January 26, 2018	January 27, 2017	% Change
Cost of hardware maintenance and other services revenues	\$ 108	\$ 111	(3)%	\$ 336	\$ 369	(9)%

Cost of hardware maintenance and other services revenues decreased \$3 million, or 3%, for the third quarter of fiscal 2018 compared to the third quarter of fiscal 2017, and decreased \$33 million, or 9%, for the first nine months of fiscal 2018 compared to the first nine months of fiscal 2017, primarily due to the favorable impact of cost savings initiatives. Costs represented 30% of hardware maintenance and other services revenues in the third quarter and first nine months of fiscal 2018, compared to 29% and 32% in the third quarter and first nine months of fiscal 2017, 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 increased by \$ 26 million, or 7 % in the third quarter of fiscal 2018 compared to the corresponding period in the prior year primarily due to higher incentive compensation expense , reflecting stronger operating performance against goals , and, to a lesser extent, the unfavorable impact of foreign exchange rate fluctuations .

Total compensation costs included in operating expenses decreased by \$6 million, or 1% in the first nine months of fiscal 2018 compared to the corresponding period in the prior year reflecting a decrease of 3% in average headcount, partially offset by higher incentive compensation expense.

Sales and Marketing (in millions, except percentages):

	Three Months Ended			Nine Months Ended		
	January 26, 2018	January 27, 2017	% Change	January 26, 2018	January 27, 2017	% Change
Sales and marketing expenses	\$ 423	\$ 381	11%	\$ 1,268	\$ 1,228	3%

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

	Three Months Ended Fiscal 2018 to Fiscal 2017 Percentage Change Points	Nine Months Ended Fiscal 2018 to Fiscal 2017 Percentage Change Points
Compensation costs	4	1
Commissions	6	2
Other	1	—
Total change	11	3

The increase in commissions expense reflects higher performance against sales goals, while the increase in compensation costs reflects a combination of higher average salaries due to merit increases, higher incentive compensation expense, and the unfavorable impact of foreign exchange rate fluctuations.

Research and Development (in millions, except percentages):

	Three Months Ended			Nine Months Ended		
	January 26, 2018	January 27, 2017	% Change	January 26, 2018	January 27, 2017	% Change
Research and development expenses	\$ 193	\$ 181	7%	\$ 580	\$ 588	(1)%

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

	Three Months Ended Fiscal 2018 to Fiscal 2017 Percentage Change Points	Nine Months Ended Fiscal 2018 to Fiscal 2017 Percentage Change Points
Compensation costs	6	(1)
Development projects and outside services	4	1
Depreciation	(2)	(1)
Facilities and IT support costs	(1)	(1)
Other	—	1
Total change	7	(1)

The increase in compensation costs for the third quarter of fiscal 2018 compared to the third quarter of fiscal 2017 was attributable to a 3% increase in average headcount and stronger operating performance against goals, which resulted in higher salaries, benefits and incentive compensation expense. Compensation costs for the first nine months of fiscal 2018 decreased slightly compared to the corresponding period of fiscal 2017 due to slightly lower salaries, benefits and stock-based compensation expenses resulting from a 4% decrease in average headcount. Development projects and outside services increased as a result of higher spending on materials and services associated with engineering activities to develop new products and enhance existing products. Depreciation expense decreased primarily due to certain equipment becoming fully depreciated by the end of fiscal 2017, and facilities and IT support costs decreased primarily due to cost containment efforts.

General and Administrative (in millions, except percentages):

	Three Months Ended			Nine Months Ended		
	January 26, 2018	January 27, 2017	% Change	January 26, 2018	January 27, 2017	% Change
General and administrative expenses	\$ 72	\$ 64	13%	\$ 209	\$ 201	4%

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 2018 to Fiscal 2017 Percentage Change Points	Nine Months Ended Fiscal 2018 to Fiscal 2017 Percentage Change Points
Compensation costs	1	(5)
Professional and legal fees and outside services	7	5
Facilities and IT support costs	2	3
Other	3	1
Total change	13	4

Compensation costs for the third quarter of fiscal 2018 increased slightly compared to the corresponding period of fiscal 2017 as a result of higher incentive compensation expense, partially offset by a slight decrease in average headcount. Compensation costs for the first nine months of fiscal 2018 were favorably impacted by lower salaries, benefits and stock-based compensation expenses compared to the corresponding period of fiscal 2017 due to an 11% decrease in average headcount, partially offset by higher incentive compensation expense. The increase in professional and legal fees and outside services expense in the third quarter and first nine months of fiscal 2018 was primarily due to higher spending levels on projects and outside services, while the increase in facilities and IT support costs was primarily due to an increase in spending on IT projects.

Restructuring Charges (in millions, except percentages):

	Three Months Ended			Nine Months Ended		
	January 26, 2018	January 27, 2017	% Change	January 26, 2018	January 27, 2017	% Change
Restructuring charges	\$ —	\$ 52	NM	\$ —	\$ 52	NM

NM – Not Meaningful

Management has previously approved several restructuring actions to streamline our business, eliminate costs and redirect resources to our highest return activities, including the March 2016 Plan and the November 2016 Plan, under which we reduced our global workforce by approximately 11% and 6%, respectively. We completed all workforce related activities under these plans as of the end of fiscal 2017. See Note 12 – Restructuring Charges of the Notes to Condensed Consolidated Financial Statements for more details regarding our restructuring plans.

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

	Three Months Ended			Nine Months Ended		
	January 26, 2018	January 27, 2017	% Change	January 26, 2018	January 27, 2017	% Change
Gain on sale of properties	\$ (218)	\$ (10)	NM	\$ (218)	\$ (10)	NM

NM – Not Meaningful

On September 8, 2017, we entered into an agreement to sell certain properties previously classified as assets held-for-sale for a total of \$306 million, through two separate and independent closings. On December 7, 2017, the date of the first closing, we consummated the sale of properties with a net book value of \$66 million for cash proceeds of \$210 million, resulting in a gain, net of direct selling costs, of \$142 million.

During the third quarter of fiscal 2018, our continuing involvement with 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 \$ 76 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 26, 2018	January 27, 2017	% Change	January 26, 2018	January 27, 2017	% Change
Interest income	\$ 20	\$ 10	100%	\$ 55	\$ 31	77%
Interest expense	(17)	(12)	42%	(47)	(39)	21%
Other income, net	11	2	450%	17	7	143%
Total	\$ 14	\$ —	NM	\$ 25	\$ (1)	NM

NM - Not Meaningful

Interest income increased in the third quarter and the first nine months of fiscal 2018 compared to the corresponding periods of the prior year, primarily due to a shift in our investment portfolio to higher-yielding investments.

Interest expense increased in the third quarter and the first nine months of fiscal 2018 primarily as a result of our commercial paper program, which began in the third quarter of fiscal 2017, and the September 2017 issuance of \$800 million aggregate principal amount of Senior Notes which have a higher weighted average interest rate than the \$750 million aggregate principal amount of Senior Notes extinguished in November 2017.

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

	Three Months Ended			Nine Months Ended		
	January 26, 2018	January 27, 2017	% Change	January 26, 2018	January 27, 2017	% Change
Provision for income taxes	\$ 991	\$ 37	2,578%	\$ 1,058	\$ 98	980%

Our effective tax rate for the third quarter of fiscal 2018 was 204.3% compared to an effective tax rate of 20.2% for the third quarter of fiscal 2017. Our effective tax rate for the first nine months of fiscal 2018 was 122.6% compared to an effective tax rate of 23.5% for the corresponding period of fiscal 2017. Our effective tax rates increased for the third quarter and first nine months of fiscal 2018 compared to the corresponding periods in the prior year, primarily as a result of the impact of U.S. tax reform and the sale of certain buildings and land in Sunnyvale, California, which resulted in aggregate discrete tax charges of \$856 million and \$72 million, respectively. Our fiscal 2017 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. See Note 13 – Income Taxes of the Notes to Condensed Consolidated Financial Statements for additional information.

As of January 26, 2018, we had \$338 million of gross unrecognized tax benefits. Unrecognized tax benefits of \$284 million, including penalties, interest and indirect benefits, would affect our provision for income taxes if recognized, and \$303 million has been recorded in other long-term liabilities. As result of the U.S. tax reform, we recorded \$113 million of associated gross unrecognized tax benefits.

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

(In millions, except percentages)	January 26, 2018	April 28, 2017
Cash, cash equivalents and short-term investments	\$ 5,619	\$ 4,921
Principal amount of debt	\$ 2,182	\$ 2,000
Debt as a percentage of stockholders' equity	100%	72%

The following is a summary of our cash flow activities :

(In millions)	Nine Months Ended	
	January 26, 2018	January 27, 2017
Net cash provided by operating activities	\$ 984	\$ 621
Net cash used in investing activities	(141)	(133)
Net cash used in financing activities	(350)	(1,128)
Effect of exchange rate changes on cash and cash equivalents	37	(15)
Net increase (decrease) in cash and cash equivalents	\$ 530	\$ (655)

Cash Flows

As of January 26, 2018, our cash, cash equivalents and short-term investments were \$5.6 billion, an increase of \$0.7 billion from April 28, 2017. The increase was primarily due to \$795 million of net proceeds from the issuance of long-term debt, \$210 million in proceeds from the sale of properties, \$132 million in proceeds from the issuance of commercial paper notes, net of repayments, and \$984 million of cash provided by operating activities, partially offset by \$750 million paid to redeem our Senior Notes due in December 2017, \$450 million paid for the repurchase of our common stock and \$161 million used for the payment of dividends. Working capital increased by \$1.1 billion to \$3.2 billion as of January 26, 2018 compared to April 28, 2017 primarily due to an increase in cash, cash equivalents and short term investments that was primarily attributable to proceeds from the sale of properties, proceeds from the issuance of commercial paper, net of repayment, and net cash provided by operating activities.

Cash Conversion Cycle

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

(In days)	Three Months Ended		
	January 26, 2018	April 28, 2017	January 27, 2017
Days sales outstanding (1)	45	45	39
Days inventory outstanding (2)	15	26	21
Days payables outstanding (3)	(72)	(56)	(42)
Cash conversion cycle (4)	(11)	15	17

Days may not add due to rounding

- (1) Days sales outstanding, referred to as DSO, calculates the average collection period of our receivables. DSO is based on ending accounts receivable and net revenue for each period. DSO is calculated by dividing accounts receivable by average net revenue per day for the current quarter (91 days for each of the quarters presented above). The increase in DSO for the third quarter of fiscal 2018 compared to the third quarter of fiscal 2017 was due to differences in the timing of shipments to certain customers.
- (2) Days inventory outstanding, referred to as DIO, measures the average number of days from procurement to sale of our products. DIO is based on ending inventory and cost of revenues for each period. DIO is calculated by dividing ending inventory by average cost of revenues per day for the current quarter. DIO for the third quarter of fiscal 2018 decreased compared to the fourth quarter of fiscal 2017 due to lower levels of purchased components, primarily solid state drives, on hand at the end of the current quarter. Additionally, it decreased compared to the third quarter of fiscal 2017 as a result of increased product sales in the third quarter of fiscal 2018.
- (3) Days payables outstanding, referred to as DPO, calculates the average number of days our payables remain outstanding before payment. DPO is based on ending accounts payable and cost of revenues for each period. DPO is calculated by dividing accounts payable by average cost of revenues per day for the current quarter. DPO for the third quarter of fiscal 2018 increased compared to the fourth and third quarters of fiscal 2017, primarily as a result of improved vendor payables management and an extension of payment terms with our suppliers.
- (4) The cash conversion cycle is the sum of DSO and DIO less DPO. Items which may cause the cash conversion cycle in a particular period to differ include, but are not limited to, changes in business mix, changes in payment terms (including extended payment terms from suppliers), the extent of shipment linearity, seasonal trends and the timing of revenue recognition and inventory purchases within the period.

Cash Flows from Operating Activities

During the first nine months of fiscal 2018, we generated cash from operating activities of \$984 million, reflecting a net loss of \$195 million, adjusted by non-cash depreciation and amortization of \$150 million, stock-based compensation of \$125 million, a deferred income tax provision of \$258 million, and a gain on sale of properties of \$218 million, compared to \$621 million of cash generated from operating activities during the first nine months of fiscal 2017.

Changes in assets and liabilities in the first nine months of fiscal 2018 included the following:

- *Accounts payable* increased \$115 million, primarily due to improved vendor payables management and an extension of payment terms with our suppliers during fiscal 2018.

- *Deferred revenue and financed unearned services revenue* decreased \$ 102 million, primarily due to a decrease in deferred software and hardware maintenance contract revenues reflecting lower contract renewal rates and a decline in ASP on executed contracts .
- *Long-term taxes payable* increased \$723 million primarily due to a one-time transition tax liability recorded during the third quarter of fiscal 2018 as a result of the impact of U.S. tax reform, which will be paid over a period of eight years.

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 2018, we paid \$178 million for the purchases of investments, net of maturities and sales, and paid \$97 million for capital expenditures, while 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. Additionally, during the first nine months of fiscal 2018, we paid \$75 million to acquire two privately-held companies, and received proceeds of \$210 million from the sale of properties.

Cash Flows from Financing Activities

During the first nine months of fiscal 2018, we generated \$795 million in cash from the issuance of long-term debt, \$132 million in cash from issuances of commercial paper notes, net of repayments, and used \$450 million for the repurchase of 10 million shares of our common stock, \$161 million for the payment of dividends, and \$750 million to redeem our Senior Notes due in December 2017. During the first nine months of fiscal 2017, we generated \$392 million in cash from issuances of commercial paper notes, net of repayments, and used \$850 million to repay our short-term loan, \$576 million for the repurchase of common stock, and \$157 million for the payment of dividends.

Key factors that could affect our cash flows include changes in our revenue mix and profitability, our ability to effectively manage our working capital, in particular, accounts receivable, accounts payable and inventories, the timing and amount of stock repurchases and payment of cash dividends, the impact of foreign exchange rate changes, our ability to effectively integrate acquired products, businesses and technologies and the timing of repayments of our debt. Based on past performance and our current business outlook, we believe that our sources of liquidity, including 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 26, 2018 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 26, 2018	April 28, 2017
Cash and cash equivalents	\$ 2,974	\$ 2,444
Short-term investments	2,645	2,477
Total	\$ 5,619	\$ 4,921

As of January 26, 2018 and April 28, 2017, \$5.0 billion and \$4.5 billion, respectively, of cash, cash equivalents and short-term investments were held by various foreign subsidiaries and were generally based in U.S. dollar-denominated holdings, while \$0.6 billion and \$0.4 billion, respectively, were available in the U.S. at the end of each period. Under the transition tax of the TCJA, we have treated all historical foreign earnings as taxable in the U.S. which resulted in a \$739 million discrete tax expense in the current quarter. As a part of the provisional estimates recorded during the quarter, we considered the impacts of the TCJA and reviewed our projected global cash requirements and have determined that certain historical and future foreign earnings will no longer be indefinitely reinvested.

Our principal liquidity requirements are primarily to meet our working capital needs, support ongoing business activities, fund research and development, meet capital expenditure needs, invest in critical or complementary technologies, 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 26, 2018.

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

Senior Notes

The following table summarizes the principal amount of our Senior Notes as of January 26, 2018 (in millions):

2.00% Senior Notes Due September 2019	\$	400
3.375% Senior Notes Due June 2021		500
3.25% Senior Notes Due December 2022		250
3.30% Senior Notes Due September 2024		400
Total	\$	<u>1,550</u>

Interest on the Senior Notes is payable semi-annually. For further information on the underlying terms, see Note 9 – Financing Arrangements of the Notes to Condensed Consolidated Financial Statements.

Commercial Paper Program and Credit Facility

We have a commercial paper program (the Program), under which we may issue unsecured commercial paper notes. On July 17, 2017 we amended the Program to increase the maximum amounts available that may be borrowed, repaid and re-borrowed to an aggregate face or principal amount of the notes outstanding of \$1.0 billion, as compared to \$600 million prior to the amendment. The maturities of the notes can vary, but may not exceed 397 days from the date of issue. The notes are sold under customary terms in the commercial paper market and may be issued at a discount from par or, alternatively, may be sold at par and bear interest at rates dictated by market conditions at the time of their issuance. The proceeds from the issuance of the notes are used for general corporate purposes. As of January 26, 2018, we had commercial paper notes outstanding with an aggregate principal amount of \$632 million, a weighted-average interest rate of 1.81% and maturities ranging from 17 days to 46 days.

In connection with the Program, we have a senior unsecured credit agreement that expires on December 10, 2021. The credit agreement, which was amended on July 17, 2017 provides a \$1.0 billion revolving unsecured credit facility that serves as a back-up for the Program. Proceeds from the facility may also be used for general corporate purposes, providing another potential source of liquidity to the extent that the credit facility exceeds the outstanding debt issued under the Program. The credit agreement also includes options that allow us to request an increase in the facility of up to an additional \$300 million and to extend its maturity date for two additional one-year periods, both subject to certain conditions. As of January 26, 2018, we were in compliance with all associated covenants in this agreement. No amounts were drawn against this facility during any of the periods presented.

Capital Expenditure Requirements

We expect to fund our capital expenditures, including our commitments related to facilities, equipment, operating leases and internal-use software development projects over the next few years through existing cash, cash equivalents, investments and cash generated from operations. The timing and amount of our capital requirements cannot be precisely determined and will depend on a number of factors, including future demand for products, changes in the network storage industry, hiring plans and our decisions related to the financing of our facilities and equipment requirements. We anticipate capital expenditures for the remainder of fiscal 2018 to be between \$50 million and \$100 million.

Dividends and Stock Repurchase Program

On February 14, 2018, we declared a cash dividend of \$0.20 per share of common stock, payable on April 25, 2018 to holders of record as of the close of business on April 6, 2018.

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 26, 2018, we repurchased a total of 279 million shares of our common stock at an average price of \$33.31 per share, for an aggregate purchase price of \$9.3 billion. As of January 26, 2018, the remaining authorized amount for stock repurchases under this program was \$0.3 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 26, 2018, future annual minimum lease payments under non-cancelable operating leases with an initial term in excess of one year totaled \$198 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 consists of firm, non-cancelable, and unconditional commitments. As of January 26, 2018, we had \$387 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 26, 2018, we had \$15 million in construction related obligations and \$222 million in other purchase obligations.

Unrecognized Tax Benefits

As of January 26, 2018, our liability for uncertain tax positions was \$303 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 through December 31, 2017. These properties did not qualify for sale-leaseback accounting and as a result they were accounted for as financing transactions. In December 2017, we terminated the leases and recorded a non-cash sale of properties with a net book value of \$54 million, the extinguishment of \$130 million in financing obligations, and a gain of \$76 million. As of January 26, 2018, there are no balances remaining on our condensed consolidated balance sheets associated with this sale-leaseback arrangement.

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 \$62 million and \$142 million of receivables during the first nine months of fiscal 2018 and fiscal 2017, 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 26, 2018 and April 28, 2017, 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 26, 2018, we have not been required to make any payments under these arrangements, and we believe the likelihood of having to acquire a material amount of assets or make payments under these arrangements is remote. The portion of the financial arrangement that represents unearned services revenue is included in deferred revenue and financed unearned services revenue in our condensed consolidated balance sheets.

Indemnification Agreements

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

Legal Contingencies

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Interest Rate Risk

Fixed Income Investments — As of January 26, 2018, we had fixed income debt investments of \$3.1 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 26, 2018 would have resulted in a decrease in the fair value of our fixed-income securities of approximately \$53 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 26, 2018, we have outstanding \$1.6 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 9 – Financing Arrangements of the Notes to Condensed Consolidated Financial Statements for more information.

Credit Facility — We are exposed to the impact of changes in interest rates in connection with our \$1.0 billion five-year revolving credit facility. Borrowings under the facility accrue interest at rates that vary based on certain market rates and our credit rating on our Senior Notes. Consequently, our interest expense would fluctuate with any changes in these market interest rates or in our credit rating if we were to borrow any amounts under the credit facility. As of January 26, 2018, 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 11 – Derivatives and Hedging Activities of the Notes to Condensed Consolidated Financial Statements for more information regarding our derivatives and hedging activities.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

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

Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of January 26, 2018, 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 2018 that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

The following descriptions of risk factors includes any material changes to, and supersedes the description of risk factors associated with, the Company's business previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended April 28, 2017 filed with the U.S. Securities and Exchange Commission (the "SEC") (the "2017 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 networked storage hardware market or if we are unable to keep pace with rapid industry, technological and market changes.

Our industry and the markets in which we compete have historically experienced significant growth due to the increase in the demand for storage and data management solutions by consumers, enterprises and government bodies around the world, and the resultant purchases of storage and data management solutions to address this demand. However, despite continued data growth, the networked storage hardware market experienced a decline in each of the last two calendar years due to a combination of customers delaying purchases in the face of technology transitions, increasing adoption of Cloud environments built on commodity hardware, increased storage efficiency, and changing economic and business environments. While customers are navigating through their IT transformations, which leverage modern architectures and hybrid cloud environments, they are also reducing IT budgets, looking for simpler solutions, and rethinking how they consume IT. This evolution is diverting spending towards transformational projects and architectures like flash, hybrid cloud, IT as a service, converged infrastructure, and software defined storage. Our business may be adversely impacted if we are unable to keep pace with rapid industry, technological or market changes or if our Data Fabric strategy is not accepted in the marketplace. As a result of these and other factors discussed in the report, our revenue may grow at a slower rate than in past periods, or may decline as it did in fiscal years 2015, 2016 and 2017, 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, services and solutions do not receive customer acceptance, our business, operating results and financial condition could suffer.

If we are unable to develop, introduce and gain market acceptance for new products 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 and related services. Due to the complexity of storage software, 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.

If we are unable, for technological, customer reluctance or other reasons, to develop, introduce and gain market acceptance for 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 ONTAP Cloud, 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 successfully manage the transition from older products and solutions, our ability to forecast the impact of customers' demand for new products and solutions or the products being replaced, and our ability to manage production capacity to meet the demand for new products. 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 and solutions 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 and solutions. If these risks are not managed effectively, we could experience material risks to our operations, financial condition and business model.

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

Our new consumption based business models may adversely affect our revenues and profitability.

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

As customer demand for our consumption model offerings increases, we could experience volatility in our reported revenues and operating results due to the differences in timing of revenue recognition between our hardware arrangements and software licenses, (that are generally recognized in full at the time of delivery), relative to our consumption model offering arrangements, (that are generally recognized ratably over the terms of the arrangement). We incur certain expenses associated with the infrastructure and marketing of our consumption model offerings in advance of our ability to recognize the revenues associated with these offerings.

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

Our business and sales models make revenues difficult to forecast. We sell to a variety of customers, 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, especially 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.

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 public cloud storage, SaaS and flash storage are driving significant changes in storage architectures and solution requirements. Cloud service providers provide customers storage as an operating expense, rather than as a 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, converged infrastructure and cloud storage offerings, we are competing in new segments with both traditional competitors and new competitors, particularly smaller emerging storage vendors. The longer-term potential and competitiveness of these emerging vendors remains to be determined. In cloud and converged infrastructure, we also compete with large well-established competitors.

For additional information regarding our competitors, see the section entitled "Competition" contained in Item 1 – Business of Part I of our fiscal 2017 Form 10-K. It is possible that new competitors or alliances among competitors might emerge and rapidly acquire significant market share or buying power. An increase in industry consolidation might result in stronger competitors that are better able to compete as full stack vendors for customers and achieve increased economies of scale in the supply chain. For example, in October 2016, Dell Inc. and EMC Corp. consummated their agreement to merge. Also in April 2017, HP Enterprise completed their

acquisition of Nimble Storage. In addition, current and potential competitors have established or might establish cooperative relationships among themselves or with third parties, including some of our partners or suppliers.

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

The continuing global economic uncertainty, political conditions and fiscal challenges in the United States (U.S.) and abroad have, among other things, limited our ability to forecast future demand for our products, contributed to increased periodic volatility in the computer, storage and networking industries at large, as well as the 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, which could cause harm to our operating results. Such conditions have resulted, and may in the future again result, in failure to meet our forecasted financial expectations and to achieve historical levels of revenue growth.

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

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

- Seasonality, such as our historical seasonal decline in revenues in the first quarter of our fiscal year and seasonal increase in revenues in the second quarter of our fiscal year, with the latter due in part to the impact of the U.S. federal government's September 30 fiscal year end on the timing of its orders; and
- Linearity, such as our historical intra-quarter bookings and revenue pattern in which a disproportionate percentage of each quarter's total bookings and related revenue occur in the last month of the quarter.

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 and discounting 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.

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 is located, and a significant portion of our revenues is 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 impacted by factors affecting our international operations including, among other things, local political or economic conditions, trade protection and export and import requirements, tariffs, local labor conditions, transportation costs, government spending patterns, acts of terrorism, international conflicts and natural disasters in areas with limited infrastructure. In 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 our employees, contractors and agents, as well as those companies to which we outsource certain of our business operations, will comply with these policies, procedures, laws and/or regulations. Any such violation could subject us to fines and other penalties, which could have a material adverse effect on our business, operating results and financial condition.

We could be subject to additional income tax liabilities.

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

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

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

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

Our effective tax rate could also be adversely affected by different and evolving interpretations of existing law or regulations, which in turn would negatively impact our operating and financial results as a whole. Additionally, our effective tax rate could also be adversely affected if there is a change in international operations, our tax structure and how our operations are managed and structured, and as a result, we could experience harm to our operating results and financial condition. The recent U.S. tax law changes enacted through the Tax Cuts and Jobs Act are subject to further interpretations from the U.S. federal and state governments and regulatory organizations, such as the Treasury Department and/or IRS. Changes to interpretations of the law could change the provisional tax

expense or accounting treatment of the \$739 million expense we have recorded in relation to the transition tax. We have elected to pay the transition tax over a period of eight years. As a result, our cash flows from operating activities will be adversely impacted until the additional tax provisions are paid in full.

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

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

In response to changes in market conditions and market demand for our products, we have in the past undertaken cost savings initiatives. For example, in May 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 hardware and software 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 cyber-attacks and security breaches have increased in recent years, and security industry experts and government officials have warned about the risks of hackers and cyberattacks targeting 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 or are enacting 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. In particular, our SaaS business could be subject to stricter obligations and greater fines under the impending enactment of the new European Data Protection Regulation on May 25, 2018.

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.

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 (renamed AltaVault) 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 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.

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

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

There are risks associated with our outstanding and future indebtedness.

As of January 26, 2018, we had \$1.6 billion aggregate principal amount of outstanding indebtedness for our senior notes that mature at specific dates in calendar years 2019, 2021, 2022 and 2024, and we had an aggregate of \$632 million of commercial paper

notes outstanding with maturities ranging from 17 to 46 days. We may incur additional indebtedness in the future under existing credit facilities and/or entering into new financing arrangements. We may fail to pay these or additional future obligations, as and when required. Specifically, if we are unable to generate sufficient cash flows from operations or to borrow sufficient funds in the future to service or refinance our debt, our business, operating results and financial condition will be harmed. Any downgrades from credit rating agencies such as Moody's Investors Service or Standard & Poor's Rating Services may adversely impact our ability to obtain additional financing or the terms of such financing and reduce the market capacity for our commercial paper. Furthermore, if prevailing interest rates or other factors result in higher interest upon any potential future financing, then interest expense related to the refinance indebtedness would increase.

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

We are exposed to 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 and data management industry may harm our business.

Emerging standards in the storage and data management markets may adversely affect the UNIX[®], Windows[®] 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. Such collateral consequences could have a material adverse impact on our business, operating results and financial condition.

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

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

origins of the minerals used in the products we sell. As the laws and regulations governing our products continue to expand and change, our costs are likely to rise, and the failure to comply with any such laws and regulations could subject us to business interruptions, litigation risks and reputational harm.

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

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

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

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, and any such infringement claims discussed above, could be time consuming, result in costly litigation, cause product shipment delays, require us to redesign our products, or require us to enter into royalty or licensing agreements, any of which could materially and adversely affect our operating results. Such royalty or licensing agreements, if required, may not be available on terms acceptable to us or at all.

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.

Our stock price is subject to volatility.

Our stock price is subject to changes in recommendations or earnings estimates by financial analysts, changes in investors' or analysts' valuation measures for our stock, changes in our capital structure, including issuance of additional debt, changes in our credit

ratings, our ability to pay dividends and to continue to execute our stock repurchase program as planned and market trends unrelated to our performance.

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

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

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

Purchases of equity securities

The following table provides information with respect to the shares of common stock repurchased by us during the three months ended January 26, 2018:

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 28, 2017 - November 24, 2017	—	\$ —	276,051	\$ 494
November 25, 2017 - December 22, 2017	1,482	\$ 57.38	277,533	\$ 409
December 23, 2017 - January 26, 2018	1,045	\$ 62.17	278,578	\$ 344
Total	2,527	\$ 59.36		

In May 2003, our Board of Directors approved a stock repurchase program. As of January 26, 2018, 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 26, 2018, we repurchased a total of 279 million shares of our common stock for an aggregate purchase price of \$9.3 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.

The following documents are filed as exhibits to this report.

Exhibit No	Description	Incorporation by Reference			
		Form	File No.	Exhibit	Filing Date
10.1	Third Amendment to Agreement of Purchase and Sale and Joint Escrow Instructions dated as of October 31, 2017, by and between the Company and Google LLC.	—	—	—	—
10.2	Fourth Amendment to Agreement of Purchase and Sale and Joint Escrow Instructions dated as of November 2, 2017, by and between the Company and Google LLC.	—	—	—	—
10.3	Fifth Amendment to Agreement of Purchase and Sale and Joint Escrow Instructions dated as of November 8, 2017, by and between the Company and Google LLC, successor by conversion to Google Inc.	—	—	—	—
10.4	Sixth Amendment to Agreement of Purchase and Sale and Joint Escrow Instructions dated as of November 10, 2017, by and between the Company and Google LLC.	—	—	—	—
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	—	—	—	—

SIGNATURE

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

NETAPP, INC.

(Registrant)

/s/ RONALD J. PASEK

Ronald J. Pasek

Executive Vice President and

Chief Financial Officer

Date: February 22, 2018

**THIRD AMENDMENT TO AGREEMENT OF PURCHASE AND SALE
AND JOINT ESCROW INSTRUCTIONS**

THIS THIRD AMENDMENT TO AGREEMENT OF PURCHASE AND SALE AND JOINT ESCROW INSTRUCTIONS (this “ **Amendment** ”) is dated as of October 31, 2017 by and between **NETAPP, INC., a Delaware corporation** (“ **Seller** ”), and **GOOGLE LLC, a Delaware limited liability company** (“ **Buyer** ”).

RECITALS

A. Buyer (as successor-in-interest to Google Inc.) and Seller entered into that certain Agreement of Purchase and Sale and Joint Escrow Instructions dated as of September 11, 2017 (the “ **Original Agreement** ”), as amended by that certain First Amendment to Agreement of Purchase and Sale and Joint Escrow Instructions dated as of October 2, 2017 (the “ **First Amendment** ”) and that certain Second Amendment to Agreement of Purchase and Sale and Joint Escrow Instructions dated as of October 25, 2017 (the “ **Second Amendment** ”), and together with the Original Agreement, the “ **Agreement** ”) with respect to certain real property, improvements and undeveloped land located in Sunnyvale, California (as more particularly described in the Agreement, the “ **Property** ”). All capitalized and undefined terms used in this Amendment shall have the meanings given to them in the Agreement.

B. Pursuant to the terms of the Purchase Agreement, the period of time (the “ **Property Approval Period** ”) for Buyer's due diligence inspection of the Property will expire on the Contingency Deadline, which is 5:00 pm (Pacific Time) on October 31, 2017.

C. Buyer and Seller have mutually agreed to modify the Agreement, all as more particularly set forth herein.

AGREEMENT

NOW THEREFORE, in consideration of the foregoing, and of the conditions, terms, covenants, and agreements set forth herein and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree that the Agreement is amended as follows:

1. **Recitals & References** . The Recitals set forth above are incorporated herein as though set forth in full herein. All references to the “Agreement” in this Amendment or in the Agreement shall mean the Agreement as amended by this Amendment.

2. **Contingency Deadline** . Notwithstanding anything to the contrary in the Agreement, the Contingency Deadline is hereby extended to expire at 5:00 pm (Pacific Time) on November 2, 2017.

3. **Full Force and Effect** . Except as modified by this Amendment, the terms and provisions of the Agreement are hereby ratified and confirmed and are and shall remain in full force and effect. Should any inconsistency arise between this Amendment and the Agreement as to the specific matters which are the subject of this Amendment, the terms and conditions of this Amendment shall control. This Amendment shall be construed to be a part of the Agreement and shall be deemed incorporated in the Agreement by this reference.

4. **Counterparts; Facsimile and Electronic Copy** . This Amendment may be executed in two (2) or more counterparts, each of which shall be an original, and all of which shall constitute one original of this Amendment. Signatures to this Amendment transmitted by telecopy or email shall be valid and effective to bind

the party so signing. Each party agrees to promptly deliver an execution original to this Amendment with its actual signature to the other party, but a failure to do so shall not affect the enforceability of this Amendment, it being expressly agreed that each party to this Amendment shall be bound by its own telecopied or emailed signature and shall accept the telecopied or emailed signature of the other party to this Amendment

5. **Entire Agreement** . The Agreement, as amended by this Amendment, constitutes the full and complete agreement and understanding between the parties hereto and shall supersede all prior communications, representations, understandings or agreements, if any, whether oral or written, concerning the subject matter contained in the Agreement, as so amended, and no provision of the Agreement, as so amended, may be modified, amended, waived or discharged, in whole or in party, except by a written instrument executed by all of the parties hereto.

6. **Governing Law** . This Amendment shall be governed by the laws of the State of California.

7. **Authority** . Each signatory of this Amendment represents hereby that he or she has the authority to execute and deliver the same on behalf of the party hereto for which such signatory is acting.

[SIGNATURE PAGE FOLLOWS]

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IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first above written.

SELLER:

**NETAPP, INC.,
a Delaware corporation**

By: /s/ Jeffrey Bergmann
Name: Jeffrey Bergmann
Title: Vice President, Tax & Treasury

BUYER:

**GOOGLE LLC,
a Delaware limited liability company**

By: /s/ David Radcliffe
Name: David Radcliffe
Title: Authorized Signatory

**FOURTH AMENDMENT TO AGREEMENT OF PURCHASE AND SALE
AND JOINT ESCROW INSTRUCTIONS**

THIS FOURTH AMENDMENT TO AGREEMENT OF PURCHASE AND SALE AND JOINT ESCROW INSTRUCTIONS (this “**Amendment**”) is dated as of November 2, 2017 by and between **NETAPP, INC., a Delaware corporation** (“**Seller**”), and **GOOGLE LLC, a Delaware limited liability company** (“**Buyer**”).

RECITALS

A. Buyer (as successor-in-interest to Google Inc., a Delaware corporation) and Seller entered into that certain Agreement of Purchase and Sale and Joint Escrow Instructions dated as of September 11, 2017 (the “**Original Agreement**”), as amended by that certain First Amendment to Agreement of Purchase and Sale and Joint Escrow Instructions dated as of October 2, 2017 (the “**First Amendment**”), and as further amended by that certain Second Amendment to Agreement of Purchase and Sale and Joint Escrow Instructions dated as of October 25, 2017 (the “**Second Amendment**”), and as further amended by that certain Third Amendment to Agreement of Purchase and Sale and Joint Escrow Instructions dated as of October 31, 2017 (the “**Third Amendment**”) and together with the First Amendment, the Second Amendment and the Original Agreement, the “**Agreement**”) with respect to certain real property, improvements and undeveloped land located in Sunnyvale, California (as more particularly described in the Agreement, the “**Property**”). All capitalized and undefined terms used in this Amendment shall have the meanings given to them in the Agreement.

B. Pursuant to the terms of the Purchase Agreement, the period of time (the “**Property Approval Period**”) for Buyer's due diligence inspection of the Property will expire on the Contingency Deadline, which is 5:00 pm (Pacific Time) on November 2, 2017.

C. Buyer and Seller have mutually agreed to modify the Agreement, all as more particularly set forth herein.

AGREEMENT

NOW THEREFORE, in consideration of the foregoing, and of the conditions, terms, covenants, and agreements set forth herein and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree that the Agreement is amended as follows:

1. **Recitals & References** . The Recitals set forth above are incorporated herein as though set forth in full herein. All references to the “Agreement” in this Amendment or in the Agreement shall mean the Agreement as amended by this Amendment.

2. **Contingency Deadline** . Notwithstanding anything to the contrary in the Agreement, the Contingency Deadline is hereby extended to expire at 5:00 pm (Pacific Time) on November 8, 2017.

3. **Full Force and Effect** . Except as modified by this Amendment, the terms and provisions of the Agreement are hereby ratified and confirmed and are and shall remain in full force and effect. Should any inconsistency arise between this Amendment and the Agreement as to the specific matters which are the subject of this Amendment, the terms and conditions of this Amendment shall control. This Amendment shall be construed to be a part of the Agreement and shall be deemed incorporated in the Agreement by this reference.

4. **Counterparts; Facsimile and Electronic Copy** . This Amendment may be executed in two (2) or more counterparts, each of which shall be an original, and all of which shall constitute one original of this Amendment. Signatures to this Amendment transmitted by telecopy or email shall be valid and effective to bind the party so signing. Each party agrees to promptly deliver an execution original to this Amendment with its actual signature to the other party, but a failure to do so shall not affect the enforceability of this Amendment, it being expressly agreed that each party to this Amendment shall be bound by its own telecopied or emailed signature and shall accept the telecopied or emailed signature of the other party to this Amendment

5. **Entire Agreement** . The Agreement, as amended by this Amendment, constitutes the full and complete agreement and understanding between the parties hereto and shall supersede all prior communications, representations, understandings or agreements, if any, whether oral or written, concerning the subject matter contained in the Agreement, as so amended, and no provision of the Agreement, as so amended, may be modified, amended, waived or discharged, in whole or in part, except by a written instrument executed by all of the parties hereto.

6. **Governing Law** . This Amendment shall be governed by the laws of the State of California.

7. **Authority** . Each signatory of this Amendment represents hereby that he or she has the authority to execute and deliver the same on behalf of the party hereto for which such signatory is acting.

[SIGNATURE PAGE FOLLOWS]

-2-

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first above written.

SELLER:

**NETAPP, INC.,
a Delaware corporation**

By: /s/ Jeffrey Bergmann
Name: Jeffrey Bergmann
Title: Vice President, Tax & Treasury

BUYER:

**GOOGLE LLC,
a Delaware limited liability company**

By: /s/ Mark Golan
Name: Mark Golan
Title: Authorized Signatory

**FIFTH AMENDMENT TO AGREEMENT OF PURCHASE AND SALE
AND JOINT ESCROW INSTRUCTIONS**

THIS FIFTH AMENDMENT TO AGREEMENT OF PURCHASE AND SALE AND JOINT ESCROW INSTRUCTIONS (this “**Amendment**”) is dated as of November 8, 2017 by and between **NETAPP, INC., a Delaware corporation** (“**Seller**”), and **GOOGLE LLC, a Delaware limited liability company** (“**Buyer**”).

RECITALS

A. Buyer (as successor-in-interest to Google Inc., a Delaware corporation) and Seller entered into that certain Agreement of Purchase and Sale and Joint Escrow Instructions dated as of September 11, 2017 (the “**Original Agreement**”), as amended by that certain First Amendment to Agreement of Purchase and Sale and Joint Escrow Instructions dated as of October 2, 2017 (the “**First Amendment**”), and as further amended by that certain Second Amendment to Agreement of Purchase and Sale and Joint Escrow Instructions dated as of October 25, 2017 (the “**Second Amendment**”), and as further amended by that certain Third Amendment to Agreement of Purchase and Sale and Joint Escrow Instructions dated as of October 31, 2017 (the “**Third Amendment**”), and as further amended by that certain Fourth Amendment to Agreement of Purchase and Sale and Joint Escrow Instructions dated as of November 2, 2017 (the “**Fourth Amendment**”, and together with the First Amendment, the Second Amendment, Third Amendment and the Original Agreement, the “**Agreement**”) with respect to certain real property, improvements and undeveloped land located in Sunnyvale, California (as more particularly described in the Agreement, the “**Property**”). All capitalized and undefined terms used in this Amendment shall have the meanings given to them in the Agreement.

B. Pursuant to the terms of the Purchase Agreement, the period of time (the “**Property Approval Period**”) for Buyer's due diligence inspection of the Property will expire on the Contingency Deadline, which is 5:00 pm (Pacific Time) on November 8, 2017.

C. Buyer and Seller have mutually agreed to modify the Agreement, all as more particularly set forth herein.

AGREEMENT

NOW THEREFORE, in consideration of the foregoing, and of the conditions, terms, covenants, and agreements set forth herein and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree that the Agreement is amended as follows:

1. **Recitals & References** . The Recitals set forth above are incorporated herein as though set forth in full herein. All references to the “Agreement” in this Amendment or in the Agreement shall mean the Agreement as amended by this Amendment.

2. **Contingency Deadline** . Notwithstanding anything to the contrary in the Agreement, the Contingency Deadline is hereby extended to expire at 5:00 pm (Pacific Time) on November 9, 2017.

3. **Full Force and Effect** . Except as modified by this Amendment, the terms and provisions of the Agreement are hereby ratified and confirmed and are and shall remain in full force and effect. Should any inconsistency arise between this Amendment and the Agreement as to the specific matters which are the subject of this Amendment, the terms and conditions of this Amendment shall control. This Amendment shall be construed to be a part of the Agreement and shall be deemed incorporated in the Agreement by this reference.

4. **Counterparts; Facsimile and Electronic Copy** . This Amendment may be executed in two (2) or more counterparts, each of which shall be an original, and all of which shall constitute one original of this Amendment. Signatures to this Amendment transmitted by telecopy or email shall be valid and effective to bind the party so signing. Each party agrees to promptly deliver an execution original to this Amendment with its actual signature to the other party, but a failure to do so shall not affect the enforceability of this Amendment, it being expressly agreed that each party to this Amendment shall be bound by its own telecopied or emailed signature and shall accept the telecopied or emailed signature of the other party to this Amendment

5. **Entire Agreement** . The Agreement, as amended by this Amendment, constitutes the full and complete agreement and understanding between the parties hereto and shall supersede all prior communications, representations, understandings or agreements, if any, whether oral or written, concerning the subject matter contained in the Agreement, as so amended, and no provision of the Agreement, as so amended, may be modified, amended, waived or discharged, in whole or in part, except by a written instrument executed by all of the parties hereto.

6. **Governing Law** . This Amendment shall be governed by the laws of the State of California.

7. **Authority** . Each signatory of this Amendment represents hereby that he or she has the authority to execute and deliver the same on behalf of the party hereto for which such signatory is acting.

[SIGNATURE PAGE FOLLOWS]

-2-

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first above written.

SELLER:

**NETAPP, INC.,
a Delaware corporation**

By: /s/ Jeffrey Bergmann
Name: Jeffrey Bergmann
Title: Vice President, Tax & Treasury

BUYER:

**GOOGLE LLC,
a Delaware limited liability company**

By: /s/ Mark Golan
Name: Mark Golan
Title: Vice President, Real Estate and Workplace Services, Bay Area

**SIXTH AMENDMENT TO AGREEMENT OF PURCHASE AND SALE
AND JOINT ESCROW INSTRUCTIONS**

THIS SIXTH AMENDMENT TO AGREEMENT OF PURCHASE AND SALE AND JOINT ESCROW INSTRUCTIONS (this “ **Amendment** ”) is dated as of November 10, 2017 by and between NETAPP, INC., a Delaware corporation (“ **Seller** ”), and GOOGLE LLC, a Delaware limited liability company (“ **Buyer** ”).

RECITALS

A. Buyer (as successor-in-interest to Google Inc., a Delaware corporation) and Seller entered into that certain Agreement of Purchase and Sale and Joint Escrow Instructions dated as of September 11, 2017 (the “ **Original Agreement** ”), as amended by that certain First Amendment to Agreement of Purchase and Sale and Joint Escrow Instructions dated as of October 2, 2017 (the “ **First Amendment** ”), and as further amended by that certain Second Amendment to Agreement of Purchase and Sale and Joint Escrow Instructions dated as of October 25, 2017 (the “ **Second Amendment** ”), and as further amended by that certain Third Amendment to Agreement of Purchase and Sale and Joint Escrow Instructions dated as of October 31, 2017 (the “ **Third Amendment** ”), and as further amended by that certain Fourth Amendment to Agreement of Purchase and Sale and Joint Escrow Instructions dated as of November 2, 2017 (the “ **Fourth Amendment** ”), and as further amended by that certain Fifth Amendment to Agreement of Purchase and Sale and Joint Escrow Instructions dated as of November 8, 2017 (the “ **Fifth Amendment** ”), and together with the First Amendment, the Second Amendment, the Third Amendment, the Fourth Amendment and the Original Agreement, the “ **Agreement** ”) with respect to certain real property, improvements and undeveloped land located in Sunnyvale, California (as more particularly described in the Agreement, the “ **Property** ”). All capitalized and undefined terms used in this Amendment shall have the meanings given to them in the Agreement.

B. Buyer and Seller wish to amend the Agreement to properly reflect the existence of two (2) Leases applicable to the Property and to include within the Agreement additional necessary provisions related to such leases.

C. Buyer desires to deliver the Approval Notice, and the parties agree that Buyer’s execution of this Amendment shall serve as Buyer’s Approval Notice pursuant to Section 4.1.2 of the Original Agreement.

AGREEMENT

NOW THEREFORE, in consideration of the foregoing, and of the conditions, terms, covenants, and agreements set forth herein and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree that the Agreement is amended as follows:

1. **Recitals & References** . The Recitals set forth above are incorporated herein as though set forth in full herein. All references to the “Agreement” in this Amendment or in the Agreement shall mean the Agreement as amended by this Amendment.

2. **Leases** . The following telecommunication leases apply to the Property: (i) that certain Communications Site Lease Agreement by and between Network Appliance, Inc., a Delaware corporation, predecessor-in-interest to Seller, as lessor, and T-Mobile USA, Inc (“ **T-Mobile** ”), as successor-in-interest to Pacific Bell Wireless, LLC, a Nevada limited liability company, d/b/a/ Cingular Wireless, as lessee, dated as of July 2, 2002, as amended by that certain First Amendment to the Communications Site Lease Agreement dated as of September 24, 2002 (as amended, the “ **T-Mobile Lease** ”), and (ii) that certain Structure Lease Agreement

-Exhibit P-

{2108-00079/00770738;}

by and between Network Appliance, Inc., a Delaware corporation, predecessor-in-interest to Seller, as landlord, and New Cingular Wireless PCS, LLC, a Delaware limited liability company, as tenant, dated as of October 23, 2012, as amended by that certain First Amendment to Structure Lease Agreement dated as of March 17, 2016 (collectively, the “**Leases**”).

3. **Modifications to Agreement** . The Agreement shall be amended as follows:

a. **Purchase Price – Summary** . The Purchase Price, as defined in item 7 of the Summary of Basic Terms in the Original Agreement, is hereby deleted in its entirety and replaced with the following:

7. **Purchase Price**
(Section 2.1)

Three Hundred Five Million Eight Hundred Seventy-Five Thousand Two Hundred Forty and 00/100 Dollars (\$305,875,240.00) in the aggregate consisting of (i) Two Hundred Thirty-Two Million Nine Hundred Ninety-Three Thousand Five Hundred and 00/ 1 00 Dollars (\$232,993,500.00) for the Improved Property and a portion of the Google Common Lot applicable thereto, and (ii) Seventy-Two Million Eight Hundred Eighty-One Thousand Seven Hundred Forty and 00/100 Dollars (\$72,881,740.00) for the Unimproved Land and a portion of the Google Common Lot applicable thereto.

b. **First Closing Purchase Price – Summary** . The First Closing Purchase Price, as defined in item 8 of the Summary of Basic Terms in the Original Agreement, is hereby deleted in its entirety and replaced with the following:

8. **First Closing Purchase Price**
(Section 2.1)

Two Hundred Ten Million Two Hundred Seventy-Five Thousand Two Hundred Forty and 00/100 Dollars (\$210,275,240.00) in the aggregate consisting of (i) One Hundred Sixty Million One Hundred Seventy-Two Thousand Three Hundred Seventy-Seven and 00/100 Dollars (\$160,172,377.00) for the Improved Property and (ii) Fifty Million One Hundred Two Thousand Eight Hundred Sixty-Three and 00/100 Dollars (\$50,102,863.00) for the Unimproved Land.

c. **Second Closing Purchase Price – Summary** . The Second Closing Purchase Price, as defined in item 9 of the Summary of Basic Terms in the Original Agreement, is hereby deleted in its entirety and replaced with the following:

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{2108-00079/00770738;}

9. **Second Closing Purchase Price**
(Section 2.1)

Ninety-Five Million Six Hundred Thousand and 00/100 Dollars (\$95,600,000.00) in aggregate consisting of (i) Seventy-Two Million Eight

Hundred Twenty-One Thousand One Hundred Twenty-Three and 00/100 Dollars (\$7 2,821,123 .00) for the portion of the Google Common Lot applicable to the Improved Property and (ii) Twenty- Two Million Seven Hundred Seventy-Eight Thousand Eight Hundred Seventy-Seven and 00/100 Dollars (\$2 2,778,877 .00) for the portion of the Google Common Lot applicable to the Unimproved Land.

d. **Definition of Property – Recital A** . Recital A of the Original Agreement is hereby deleted in its entirety and replaced with the following:

“A. Seller desires to sell and convey to Buyer, and Buyer desires to purchase and acquire, all of Seller’s right, title and interest in and to the following:

i. The Improved Land and the Unimproved Land (collectively, the “ **Land** ”), the Google Common Lot, and all of Seller's interest in all rights, privileges, easements and appurtenances benefiting the Land, the Google Common Lot, and/or the Improvements (as defined below), including Seller's interest, if any, in all mineral and water rights and all easements, rights-of-way and other appurtenances used or connected with the beneficial use or enjoyment of the Land, the Google Common Lot and/or the Improvements (the Land, the Google Common Lot, the Improvements and all such rights, privileges, easements and appurtenances are sometimes collectively hereinafter referred to as the “ **Real Property** ”);

ii. The Buildings, associated parking and landscaped areas and all other improvements located on the Land and the Google Common Lot (the “ **Improvements** ”);

iii. All of Seller's interest as lessor or landlord in and to all leases, licenses and occupancy agreements covering the Land and Improvements, a list of which is attached hereto as Exhibit "I", (collectively, the “ **Leases** ”);

iv. All of Seller's interest under the Contracts (as defined in Section 4.1.1 below); provided that the following Contracts shall not be assigned to Buyer: (i) such Contracts as Seller desires to continue to maintain after the Closing in order for Seller to fulfill Seller’s obligations pursuant to the NetApp Lease (as defined in Section 5.1.6 below) provided that such Contracts shall be terminated with respect to the portion of the Property that will not be leased back to Seller pursuant to the NetApp Lease, (ii) any brokerage commission agreements (which Contracts shall be terminated by Seller effective as of the First Closing Date at Seller's sole cost), and (iii) other Contracts which, pursuant to the terms of this Agreement, shall be terminated by Seller (which Contracts shall be terminated by Seller effective as of the applicable Closing at Seller's sole cost);

v. All electric car charging stations and related infrastructure and appurtenances owned by Seller and used in the operation of, and located at, the Real Property, as listed in the Bill of Sale (as defined in Section 5.1.4) (collectively, the “ **Personal Property** ”); provided, however, that, except as provided otherwise below or in the NetApp Lease, all other tangible personal property, equipment, cabling, supplies, wall decorations, furniture (including, without limitation, all modular furniture systems and casegoods furniture), miscellaneous soft seating and task seating, AV systems, security systems, computer systems and related network infrastructure, and interior and exterior signage (except for signage infrastructure including footings and electrical circuits for lighted signs, which shall be left in place) (collectively, the “ **Excluded Personal Property** ”) shall be removed by Seller, at Seller’s sole cost and expense, prior to each Closing or as of the expiration or earlier termination of the NetApp

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Lease with respect to the portion of the Property that will be leased back to NetApp pursuant to the NetApp Lease, and Seller shall repair any damage caused by the removal of such Excluded Personal Property (including, without limitation, completing any patching and filling any holes caused by the removal); provided, further, that, notwithstanding anything to the contrary herein, Seller shall not be required to remove any cabling or wiring within the hardwall offices or other interior portions within Building 3 (the "**Surrendered Cabling**"), which Surrendered Cabling shall instead remain in Building 3 and be conveyed to Buyer as part of the First Closing Property at the First Closing; and

vi. To the extent assignable, all of Seller's interest in any intangible property rights in connection with the foregoing, contract rights, warranties, guaranties, licenses, permits, entitlements, governmental approvals and certificates of occupancy which apply to and/or benefit the Real Property, the Improvements, and/or the Personal Property (the "**Intangible Personal Property**"). Intangible Personal Property shall not include Seller's interest in (a) any cash, bank or other deposit accounts, (b) refunds of prepaid expenses including any unearned insurance premiums, (c) tax refunds for periods prior to each Closing (except to the extent amounts must be refunded to tenants under the Leases), (d) all insurance and other claims arising prior to the Effective Date, (e) any website maintained by Seller or its affiliates or the property manager, and (f) any trade name, service name, service mark or other proprietary or intellectual property belonging to Seller or its affiliates or the property manager. The Real Property, the Improvements, the Personal Property, Seller's interest under the Property Contracts, Seller's interest as lessor or landlord under the Leases, and the Intangible Personal Property are sometimes collectively hereinafter referred to as the "**Property**".

e. **Deletion of Exhibit "L"**. Exhibit "L" attached to the Original Agreement is hereby deleted and of no force and effect.

f. **Google Common Lot**. The size of the Google Common Lot referred to in item 5 of the Summary of Basic Terms and Section 3.2.3 of the Original Agreement is reduced from 704,077 square feet to 703,420 square feet. The reference in Section 3.2.3(a) to a Subdivision Problem existing if the Google Common Lot consists of less than 704,077 square feet of space is hereby modified to instead refer to 703,420 square feet of space. Seller shall modify the current proposed Subdivision Map to the extent necessary such that the Google Common Lot consists of at least 703,420 square feet.

g. **Revised CC&Rs – Section 3.2.4**. The following is hereby added to the end of Section 3.2.4 of the Original Agreement:

"The obligations of Buyer and Seller contained in this Section 3.2.4 shall expressly survive (i) the First Closing and/or (ii) any termination of this Agreement with respect to the Second Closing, provided that the First Closing has occurred prior to such termination. Buyer and Seller acknowledge and agree that a copy of the Revised CC&Rs, as agreed to by Buyer and Seller, is attached hereto as Exhibit "N"."

h. **Buyer's Obligation to Construct Temporary Parking to Address Parking Shortfall – Section 3.2.5**. The Original Agreement is hereby amended to include the following Section 3.2.5:

"3.2.5 Buyer's Obligation to Construct Temporary Parking to Address Parking Shortfall. Buyer and Seller acknowledge that the Buildings on the Property are currently required to be served by one thousand two hundred and thirty four (1,234) parking spaces in accordance with the requirements of the City and the Moffett Park Specific Plan. Notwithstanding the foregoing, Seller has proposed to provide nine hundred and seventy one (971) parking spaces located in the Buyer Area of Control (and the Google Common Lot) to serve the Buildings, and based on the required parking spaces set forth above, such reduced number of parking spaces allocated to the Buildings will result in a parking shortfall of at least two hundred sixty-three (263) parking spaces that are legally required to serve the Buildings

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(hereinafter, the "Parking Shortfall"). As a condition to the Closing, Seller shall re-stripe, at its sole cost and expense, the parking areas depicted in Exhibit "P" attached hereto to provide five (5) additional parking stalls to Buyer for its exclusive use in connection with the Property, including the Buildings (the "Additional Buyer Parking Spaces"). Seller shall ensure that such Additional Buyer Parking Spaces meet City parking stall dimension standards and any other requirements of applicable Governmental Regulations with respect thereto. In the event Seller fails to complete the Additional Buyer Parking Spaces in accordance with the terms of this Section on or before the date immediately preceding the First Closing Date, Buyer shall receive a credit against the First Closing Purchase Price in an amount equal to Thirty Thousand Dollars (\$30,000.00) for each such Additional Buyer Parking Space that Seller fails to complete on or before the date immediately preceding the First Closing Date. By way of example, if Seller fails to deliver all five (5) of the Additional Buyer Parking Spaces to Buyer in accordance with this Section, then Buyer shall be entitled to a credit against the First Closing Purchase Price in an amount equal to One Hundred Eighty Thousand Dollars (\$180,000.00). The amount of the Parking Shortfall set forth above shall be reduced by the number of Additional Buyer Parking Spaces that Seller delivers to Buyer on the First Closing Date pursuant to this Section. Accordingly, if Seller provides all five (5) of the Additional Buyer Parking Spaces to Buyer hereunder prior to the First Closing, the Parking Shortfall shall be reduced to be two hundred and fifty eight (258) parking spaces. Buyer agrees that, notwithstanding anything to the contrary set forth in the Agreement, including, but not limited to, Section 3.2.3 of the Original Agreement, the Parking Shortfall shall not be a Subdivision Problem. Buyer further agrees to design and construct, at Buyer's sole cost and expense, a sufficient number of parking spaces on the Unimproved Land and/or Buyer Area of Control to remedy the Parking Shortfall to the extent required in order for Seller to obtain the final approval and recordation of the Subdivision Map as further specified in the Revised CC&Rs. In addition, if following the First Closing, the Parking Shortfall increases either (a) in connection with the Subdivision Map Work (as defined in the Revised CC&Rs), (b) as a result of City comments or modification to the Subdivision Map or any other modifications required by Governmental Regulations, or (c) as a result of a Subdivision Condition, then Buyer shall be entitled to a credit against the Second Closing Purchase Price in an amount equal to Thirty Thousand Dollars (\$30,000.00) per each additional parking space by which the Parking Shortfall has been increased ; provided, however, in the event the Second Closing does not occur, Seller shall reimburse Buyer in the amount of \$30,000 per each parking space by which the Parking Shortfall has increased . Conversely, in the event the Parking Shortfall decreases as a result of the Subdivision Map Work, as a result of City comments or modification to the Subdivision Map or any other modifications required by Governmental Regulations, or as a result of a Subdivision Condition, then the Second Closing Purchase Price shall be increased by Thirty Thousand Dollars (\$30,000.00) for each additional parking stall which reduces the Parking Shortfall , provided, however, in the event the Second Closing does not occur, Buyer shall reimburse Seller in the amount of \$30,000 per each parking space by which the Parking Shortfall has decreased . Further provided however, in no event shall the amount of such increase in the Second Closing Purchase Price pursuant to this Section 3.2.5 exceed Seven Million Seven Hundred and Forty Thousand Dollars (\$7,740,000.00), the parking credit for a 258 space Parking Shortfall . It is understood and agreed by Buyer and Seller that Buyer shall not be entitled to any credit or reimbursement , such as the case may be, for a loss of any parking space(s) which causes an increase in the Parking Shortfall solely as a result of Buyer modifications to the Buyer Area of Control which are unrelated to the Subdivision Map Work and/or the processing and approval of the Subdivision Map. Furthermore, Seller shall not be entitled to an increase in Purchase Price or reimbursement, such as the case may be, for an increase in parking spaces which results in a decrease in the Parking Shortfall if the decrease is the direct result of Buyer modifications to the Buyer Area of Control which are unrelated to the Subdivision Map Work and/or the processing and approval of the Subdivision Map. The adjustments to the Purchase Price with respect to the Parking Shortfall as set forth in this section shall survive the First Closing and not be merged therein. "

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i. **Buyer's Review – Section 4.1**. The following is hereby added to the third paragraph of Section 4.1.1 of the Original Agreement:

“Buyer's right to review and investigate the physical condition of the Property shall include the right to discuss or otherwise inquire about matters related to the Leases with tenants under the Leases and other third parties during the Property Approval Period in accordance with this Section 4.1.1.”

j. **Conditions Precedent to Buyer's Obligation to Close**. Section 4.3.1 of the Original Agreement is hereby amended to include the following subsection (g) to the end of Section 4.3.1 of the Original Agreement:

“(g) **Additional Buyer Parking Spaces**. Seller shall re-stripe, at its sole cost and expense, the parking areas depicted in **Exhibit P** attached hereto to provide five (5) additional parking stalls to Buyer for its exclusive use in connection with the Property, including the Buildings (the “**Additional Buyer Parking Spaces**”), pursuant to the terms and conditions of Section 3.2.5 of this Agreement.”

k. **Buyer's Approval Notice – Section 4.4**. Section 4.4 of the Original Agreement is hereby deleted in its entirety and replaced with the following:

“4.4 **Failure of Conditions Precedent to Buyer's Obligations**. Buyer's obligation to close on the acquisition of the Property at each Closing pursuant to this Agreement is subject to the satisfaction of the relevant conditions precedent to such Closing for Buyer's benefit set forth in **Section 4.3**. If Buyer fails to timely provide a Buyer's Approval Notice, or if Buyer terminates this Agreement by notice to Seller because of the failure of the conditions precedent set forth in **Section 4.3**, then (a) Escrow Holder shall return the Deposit (less the Independent Consideration) and Second Closing Funds, if any, to Buyer (plus interest accrued on the Deposit and Second Closing Funds only while held by Escrow Holder) in accordance with Buyer's written instructions within five (5) business days following Buyer's delivery of a written termination notice to Seller and Escrow Holder, (b) Seller and Buyer shall each pay one-half (1/2) of any escrow cancellation fees or charges, and (c) except for Buyer's indemnity and Buyer's and Seller's confidentiality obligations under this Agreement and any other obligations which expressly survive termination of this Agreement, the parties shall have no further rights or obligations to one another under this Agreement.”

l. **Seller Deliveries to Escrow – Section 5.1**. Section 5.1 of the Original Agreement is hereby amended to include the following to the end of **Section 5.1** of the Original Agreement:

“5.1.9 **Assignment of Leases**. Two (2) counterparts of the Assignment of Leases in the form of **Exhibit "E"** attached hereto (the “**Lease Assignment**”) duly executed by Seller, pursuant to which Seller shall assign to Buyer all of Seller's right, title and interest in, under and to the Leases; and

“5.1.10 **Tenant Letter**. A letter signed by Seller addressed to the tenants under the Leases advising such tenants of the sale of the Property to Buyer and directing that all future rent payments and other charges under the Leases be forwarded to Buyer at an address to be supplied by Buyer. In addition, Seller shall provide all other notices required under the Lease (including without limitation, any notices required under the Leases with respect to the Subdivision Map) to the tenants under the Leases pursuant to the notice requirements under such Leases. Notwithstanding the foregoing, such letters and other required notices shall not be delivered through escrow with Escrow Holder but shall be sent directly by Seller to the tenants promptly following the Closing.”

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m. **Buyer Deliveries to Escrow – Section 5.2**. Section 5.2 of the Original Agreement is hereby amended to include the following to the end of Section 5.2 of the Original Agreement:

“5.2.8 **Lease Assignment**. Two (2) counterparts of the Lease Assignment duly executed by Buyer.”

n. **Documents to Seller – Section 6.5.1**. Section 6.5.1 of the Original Agreement is deleted in its entirety and replaced with the following:

“6.5.1 At the First Closing, deliver to Seller one (1) set of originals of the Lease Assignment, the NetApp Lease, the Assignment of Contracts, the Bill of Sale and the General Assignment executed by Buyer and Seller and a conformed copy of the Recorded Deed for the First Closing Property and the Revised CC&Rs;”

o. **Documents to Buyer – Section 6.6.1**. Section 6.6.1 of the Original Agreement is deleted in its entirety and replaced with the following:

“6.6.1 At the First Closing, deliver to Buyer one (1) set of originals of the Lease Assignment, the Tax Certificates, the NetApp Lease, the Assignment of Contracts, the Bill of Sale and the General Assignment executed by Seller, a conformed copy of the Revised CC&Rs and recorded Deed for the First Closing Property, and, when issued, the Title Policy for the First Closing Property;”

p. **Ad Valorem Taxes – Section 8.1**. Section 8.1 of the Original Agreement is deleted in its entirety and replaced with the following:

“8.1 **Ad Valorem Taxes**. All real estate taxes and assessments attributable to the First Closing Property and the Second Closing Property will be prorated as of the First Closing Date and the Second Closing Date, respectively. Seller shall be charged with all such taxes up to, but not including, each Closing Date. If the applicable tax rate and assessments for the applicable Property have not been established for the tax year in which the applicable Closing occurs, the proration of real estate taxes, and assessments will be based upon the rate and assessments for the preceding year plus two percent (2%) with a post-closing reconciliation when the actual tax bills are available. Real property tax refunds and credits received after each Closing which are attributable to a fiscal tax year prior to such Closing shall belong to Seller (except to the extent such amounts must be refunded to the tenants under the Leases), and those which are attributable to the fiscal tax year in which each Closing occurs shall be prorated based upon the date of such Closing.”

q. **Lease Rentals**. Notwithstanding anything to the contrary set forth in the Agreement, all rents (including all accrued tax and operating expense pass-throughs), charges and revenue of any kind receivable from the Leases which are not delinquent as of the First Closing will be prorated at the First Closing. Seller will receive all rents (including all accrued tax and operating expense pass-throughs), charges and other revenue of any kind receivable from the Leases up to, but not including, the First Closing Date, and Buyer shall receive all such amounts from and after the First Closing Date. No proration will be made with respect to any rents of any kind receivable from the Leases for any period before the First Closing which are delinquent. All amounts collected by Buyer subsequent to the First Closing relating to rents which are delinquent will be promptly remitted to Seller; provided, however, all rents received by Buyer from any specific tenant under a Lease after the First Closing will be applied first to the rental period under such Lease in which the First Closing occurred, second to any current rental period under such Lease following the First Closing and third to satisfy delinquent rental obligations under such Lease for any period before the First Closing not prorated at the First Closing. In no event shall Seller be permitted to contact any tenants regarding delinquent rents. All amounts paid to Seller subsequent to the First Closing relating to rents which are due and owing for the period prior to

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the First Closing shall solely belong to Seller. All amounts paid to Seller subsequent to the First Closing relating to rents which are due and owing for the period after the First Closing shall belong to Buyer. Notwithstanding the foregoing, if any of such operating expenses and other charges and expenses are payable by tenants under the Leases (collectively, the "**Tenant Charges**") on an estimated basis, then the Tenant Charges for the period of time in the calendar year prior to the First Closing shall be reconciled against actual charges and expenses for such period, provided that such reconciliation shall not be performed until no later than one hundred twenty (120) days following the First Closing Date (the "**Reconciliation Period**"). Upon request therefor by Buyer, Seller shall deliver to Buyer any written materials in Seller's immediate possession regarding any Tenant Charges incurred by Seller and/or charged to the tenants pursuant to the Leases prior to the First Closing. In accordance with the terms of the Leases (and within the timeframes required thereunder), Buyer shall prepare such final reconciliation and forward the same to Seller for Seller's review and reasonable approval prior to sending the reconciliations to the tenants. If the final reconciliation shows that Seller owes tenants additional sums due to over-collection, Seller shall deliver such amount to Buyer within ten (10) days after receiving such final reconciliation from Buyer. If the final reconciliation (as reasonably approved by Seller as provided above) shows that Buyer owes Seller additional sums due to under-collection, Buyer shall pay such amount to Seller within ten (10) days after Buyer's receipt of the under-collected amounts from the tenants (which under-collected amounts Buyer shall use good faith efforts to collect in the ordinary course of business). Other than as set forth above, there shall not be any further reconciliation of such Tenant Charges after the final reconciliation thereof, the proration of such Tenant Charges pursuant to the final reconciliation being conclusively presumed to be accurate. After the final reconciliation of Tenant Charges is made by and between the parties, Buyer shall be solely liable and responsible to the tenants under the Leases for such reconciliation of Tenant Charges under the Leases. The foregoing covenants made by the parties with respect to the final reconciliation of the Tenant Charges shall survive the First Closing.

r. **Operating Expenses – Section 8.3**. Section 8.3 of the Original Agreement is deleted in its entirety and replaced with the following:

“8.3 Operating Expenses. With respect to the First Closing, all utility service charges for electricity, heat and air conditioning service, other utilities, elevator maintenance, common area maintenance, taxes other than real estate taxes such as rental taxes, other expenses incurred in operating the First Closing Property only that Seller customarily pays shall be prorated on an accrual basis so long as Seller has delivered written notice to Buyer at least five (5) business days prior to the Contingency Deadline of any such charges it intends to prorate. Seller shall pay all such expenses that accrue in connection with the First Closing Property prior to the First Closing Date, and Buyer shall pay all such expenses accruing on and after the First Closing Date with respect to the First Closing Property. All such expenses as to the Second Closing Property shall be paid by Buyer and Seller in accordance with the Revised CC&Rs. Seller and Buyer shall obtain billings and meter readings as of the First Closing Date (or shall make reasonable estimates of meter readings if same-day readings are not available) to aid in such prorations (if such utilities cannot be changed to Buyer's name on the First Closing Date). Insurance or any other operating expense refunds and credits received after the First Closing which are attributable to a time period prior to the First Closing shall belong to Seller (except to the extent such amounts must be refunded to the tenants under the Leases), and those which are attributable to a time period in which the Closing occurs shall be prorated based upon the date of the First Closing.”

s. **New Contracts and Leases – Section 9.1.2**. Section 9.1.2 of the Original Agreement is deleted in its entirety and replaced with the following:

“9.1.2 New Contracts and Leases. Between the Effective Date and the date which is three (3) business days prior to the expiration of the Property Approval Period, (i) Seller will keep Buyer informed of any new Contracts or Leases that are entered into by Seller or any amendments or modifications to the existing Contracts or Leases, which new Contracts or Leases or

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modifications will survive Closing or otherwise affect the use, operation or enjoyment of the Property after Closing (collectively, "New Contracts"), and (ii) Buyer shall have the right to object or consent to the terms or conditions of any such New Contracts or amendments or extensions thereto such consent not to be unreasonably withheld or delayed, except as provided below. Without limiting the generality of the foregoing, Seller will provide Buyer with copies of all New Contracts. Subsequent to the date which is three (3) business days prior to the expiration of the Property Approval Period, and continuing until each First Closing or Second Closing (provided the Agreement has not been terminated), Seller will not enter into any New Contracts associated with the First Closing Property or Second Closing Property, as applicable, without Buyer's prior written consent, which consent may be withheld in Buyer's sole discretion, and which consent will be deemed to have been denied by Buyer if Buyer does not notify Seller in writing to the contrary within three (3) business days after Seller provides written notice to Buyer of such New Contract; provided, however, that Seller shall be entitled to enter into any New Contracts at any time, without Buyer's prior written consent, if such New Contracts are terminable within thirty (30) days at no cost to Buyer and are terminated by Seller prior to the applicable Closing Date. Notwithstanding anything to the contrary set forth herein, from and after the Effective Date, Seller shall not enter into any leases, licenses or other similar occupancy agreements applicable to the Property, or any portion thereof, or modify or amend any of the Leases without Buyer's prior written consent, which consent may be withheld in Buyer's sole discretion."

t. Operation in the Ordinary Course – Section 9.2. Section 9.2 of the Original Agreement is deleted in its entirety and replaced with the following:

"9.2 Operation in the Ordinary Course. Subject to Section 9.1 above, from the Effective Date until each Closing, Seller shall (i) operate and manage the Property in the ordinary course and consistent with Seller's past practices (except for the subdivision of the Common Lot pursuant to the terms of this Agreement), (ii) perform when due, and otherwise comply with, all of Seller's material obligations and duties under the Leases and the Contracts, and (iii) perform alterations and construction work related to bi-furcating the Declarant Campus and the Google Campus (as defined in the Revised CC&Rs), along with subdivision line and relocation of the public storm drain in accordance with the Revised CC&Rs. Except for the Excluded Personal Property, and except as provided otherwise herein or in the NetApp Lease, none of the Personal Property shall be removed from the Real Property, unless replaced by unencumbered personal property of equal or greater utility and value. All Personal Property and Intangible Personal Property shall be conveyed to Buyer by Seller at Closing free from any liens, encumbrances or security interests of any kind or nature other than all such matters that the Title Policy may be subject to as set forth in Section 4.2.2, including, without limitation, the Permitted Title Matters."

u. Tenant Estoppels. Seller shall use commercially reasonable efforts to receive and deliver to Buyer estoppel certificates from all the tenants of the Real Property and Improvements. As used in this Agreement, "commercially reasonable efforts" shall not include any obligation to institute or threaten legal proceedings, to declare or threaten to declare any person in default, to incur any liabilities, to expend any monies, or to cause any other person to do any of the foregoing. Each estoppel certificate shall be substantially in the form attached as Exhibit "K" (or if Seller, after using commercially reasonable efforts to obtain certificates in such form, is unable to obtain the same, then in the form, if any, prescribed in or permitted by the applicable Lease or tenant); provided, however, that any provisions of the applicable estoppel certificates respecting defaults, defenses, disputes, environmental matters, claims, offsets, credits, abatements, concessions and recaptures against rent and other charges may be limited to the actual knowledge of the applicable tenant. Buyer's failure to object to any estoppel certificate (or any information or provision therein) by written notice to Seller given within five (5) business days after Buyer's receipt thereof (but not later than the First Closing Date) shall be deemed to constitute Buyer's acceptance and approval thereof. If an estoppel certificate (or a

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combination of estoppel certificates) will have a Material Adverse Effect, then notwithstanding anything to the contrary herein or the Original Agreement, Buyer shall have the right to terminate the Agreement and receive a refund of the Deposit, in which event, neither party shall have any further rights or obligations hereunder except for those obligations that expressly survive termination. Notwithstanding anything herein to the contrary, Seller's failure to obtain such estoppel certificates shall in no event be deemed a default by Seller hereunder or a failed condition that will entitle Buyer to terminate the Agreement and receive a refund of the Deposit, but in the event that Seller fails to obtain an estoppel certificate for any Lease on or before the Outside First Closing Date then, subject to the limitations of Section 16.4 of the Agreement, Seller shall indemnify Buyer and hold Buyer harmless from any and all costs, losses, damages or expenses of any kind or nature arising out of or resulting from any defaults by Seller that exist pursuant to such Lease as of the First Closing Date. Such indemnification obligation shall survive the First Closing and the Second Closing. In addition, Seller acknowledges that the T-Mobile Lease currently lacks a graphical depiction of the premises leased pursuant to the T-Mobile Lease and that Seller is currently seeking an amendment to the T-Mobile Lease clarifying the location of the premises. Seller agrees to indemnify, defend and hold Buyer harmless from and against any costs, damages, liabilities, losses, expenses, liens or claims (including, without limitation, reasonable attorneys' fees and costs), not to exceed Four Million Dollars (\$ 4,000,000.00), incurred by Buyer as a result of the T-Mobile Lease's failure to identify the premises; provided, however, that Buyer agrees that, notwithstanding anything to the contrary in the Agreement, Seller shall have the right, without need for Buyer's consent, to pursue T-Mobile, both prior and subsequent to the First Closing, in order to obtain an amendment, letter agreement or certificate from T-Mobile, in a form reasonably approved in writing by Buyer, confirming the location of the premises in a location generally consistent with the location thereof shown on construction drawings therefor already delivered to Buyer. Upon receipt of any such amendment, letter agreement or certificate in a form reasonably approved in writing by Buyer, Seller shall deliver a copy thereof to Buyer, at which time all of Seller's obligation to indemnify, defend and hold Buyer harmless from the T-Mobile's Lease's failure to identify the premises therein as provided above shall terminate. Subject to the terms of the preceding sentence, Seller's indemnity obligation set forth herein shall survive the First Closing and the Second Closing.

v. Seller's Representations Regarding Leases – Section 11.2. Section 11.2 of the Original Agreement is deleted in its entirety and replaced with the following:

“11.2 Leases. Other than the Leases in effect as of the Effective Date, which are listed on Exhibit "I" hereto, Seller is not currently a party to any other leases, licenses or other similar occupancy agreements with respect to the leasing or occupancy of the Real Property. Seller has delivered true, correct and complete copies of each of the Leases. Seller has no actual knowledge of and has neither given nor received any written notice of default with respect to the Leases. All leasing commissions due to brokers under the Leases, and all tenant improvement obligations, concessions and other tenant inducements, have been fully paid and satisfied by Seller and no such commissions, obligations, concessions or inducements become payable in the future. Seller has not collected or received any security deposits under the Leases.”

w. Seller's Representations Regarding Contracts – Section 11.6. Section 11.6 of the Original Agreement is deleted in its entirety and replaced with the following:

“11.6 Contracts. Attached hereto as Exhibit "J" is a true, correct and complete list of all management, service, supply, repair and maintenance agreements, equipment leases and all other contracts and agreements (excluding the Leases) with respect to or affecting the Property as of the Effective Date and at each Closing the contract list shall not include those Contracts being terminated pursuant to the provisions of this Agreement. True, correct and complete copies of all Contracts shall be provided to Buyer. Seller has no actual knowledge of and has neither given nor received any written notice of default with respect to any of the Contracts.”

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x. **NetApp Lease**. Buyer and Seller acknowledge and agree that a copy of the NetApp Lease, as agreed to by Buyer and Seller, is attached hereto as Exhibit "O".

y. **Notices – Section 14**. Section 14 of the Original Agreement is hereby amended to add the following at the end of such paragraph:

“In addition, within two (2) days of delivery of any notice given by Seller to Buyer under this Agreement which is transmitted through electronic mail, a copy of such notice shall also be sent to Buyer, in duplicate, by either of the methods provided in clauses (i) through (iii) of this Section 14. For purposes of notice, the addresses of the parties shall be as follows, provided that, any party, by written notice to the other in the manner herein provided, may designate an address different from that set forth below.”

Additionally, the notice address for Seller in the Original Agreement shall be deleted and replaced with the following:

NetApp, Inc.
1395 Crossman Avenue
Sunnyvale, California 94089
Attn: Mr. Jeff Bergmann
Email: jeff.bergmann@netapp.com

4. **Approval Notice**. Buyer and Seller hereby agree that Buyer’s execution of this Amendment shall serve as Buyer’s Approval Notice pursuant to Section 4.1.2 of the Original Agreement.

5. **Full Force and Effect**. Buyer and Seller hereby agree that, notwithstanding anything to the contrary in Section 4.1.2 of the Agreement, the Agreement is in full force and effect, and that except as modified by this Amendment, the terms and provisions of the Agreement are hereby ratified and confirmed and are and shall remain in full force and effect. Should any inconsistency arise between this Amendment and the Agreement as to the specific matters which are the subject of this Amendment, the terms and conditions of this Amendment shall control. This Amendment shall be construed to be a part of the Agreement and shall be deemed incorporated in the Agreement by this reference.

6. **Counterparts; Facsimile and Electronic Copy**. This Amendment may be executed in two (2) or more counterparts, each of which shall be an original, and all of which shall constitute one original of this Amendment. Signatures to this Amendment transmitted by telecopy or email shall be valid and effective to bind the party so signing. Each party agrees to promptly deliver an execution original to this Amendment with its actual signature to the other party, but a failure to do so shall not affect the enforceability of this Amendment, it being expressly agreed that each party to this Amendment shall be bound by its own telecopied or emailed signature and shall accept the telecopied or emailed signature of the other party to this Amendment

7. **Entire Agreement**. The Agreement, as amended by this Amendment, constitutes the full and complete agreement and understanding between the parties hereto and shall supersede all prior communications, representations, understandings or agreements, if any, whether oral or written, concerning the subject matter contained in the Agreement, as so amended, and no provision of the Agreement, as so amended, may be modified, amended, waived or discharged, in whole or in part, except by a written instrument executed by all of the parties hereto.

8. **Governing Law**. This Amendment shall be governed by the laws of the State of California.

9. **Authority**. Each signatory of this Amendment represents hereby that he or she has the authority to execute and deliver the same on behalf of the party hereto for which such signatory is acting.

[SIGNATURE PAGE FOLLOWS]

-Exhibit P-

{2108-00079/00770738;}

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first above written.

SELLER:

**NETAPP, INC.,
a Delaware corporation**

By: /s/ Jeffrey Bergmann
Name: Jeffrey Bergmann
Title: Vice President, Tax & Treasury

BUYER:

**GOOGLE LLC,
a Delaware limited liability company**

By: /s/ David Radcliffe
Name: David Radcliffe
Title: Authorized Signatory

-Exhibit P-

{2108-00079/00770738;}

**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 22, 2018

**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

Ronald J. Pasek

Executive Vice President and Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

Date: February 22, 2018

**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 26, 2018 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 22, 2018

**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 26, 2018 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

Ronald J. Pasek

Executive Vice President and Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

Date: February 22, 2018