

NetApp, Inc.  
Form 10-Q  
December 02, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended October 30, 2015

or

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

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

Commission File Number 000-27130

NetApp, Inc.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

495 East Java Drive,

Sunnyvale, California 94089

(Address of principal executive offices, including zip code)

(408) 822-6000

(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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

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

As of November 18, 2015, there were 292,344,148 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)

	October 30, 2015	April 24, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,198	\$ 1,922
Short-term investments	2,616	3,404
Accounts receivable	587	779
Inventories	125	146
Other current assets	555	522
Total current assets	6,081	6,773
Property and equipment, net	1,004	1,030
Goodwill	1,027	1,027
Other intangible assets, net	51	90
Other non-current assets	472	481
Total assets	\$ 8,635	\$ 9,401
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 226	\$ 284
Accrued expenses	618	701
Short-term deferred revenue and financed unearned services revenue	1,609	1,724
Total current liabilities	2,453	2,709
Long-term debt	1,489	1,487
Other long-term liabilities	269	318
	1,437	1,473

Long-term deferred  
revenue and financed  
unearned services  
revenue

Total liabilities	5,648	5,987
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Commitments and  
contingencies (Note 15)

Stockholders' equity:

Common stock and  
additional paid-in  
capital, \$0.001 par  
value, (292 and 306  
shares issued and  
outstanding as of  
October 30, 2015 and  
April 24, 2015,  
respectively)

	3,022	3,385
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Retained earnings	—	53
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Accumulated other comprehensive loss	(35 )	(24 )
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Total stockholders' equity	2,987	3,414
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Total liabilities and stockholders' equity	\$ 8,635	\$ 9,401
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See accompanying notes to condensed consolidated financial statements.

NETAPP, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	October 30,	October 24,	October 30,	October 24,
	2015	2014	2015	2014
Revenues:				
Product	\$815	\$929	\$1,479	\$1,812
Software maintenance	233	225	481	446
Hardware maintenance and other services	397	389	820	774
Net revenues	1,445	1,543	2,780	3,032
Cost of revenues:				
Cost of product	408	402	753	796
Cost of software maintenance	9	9	19	17
Cost of hardware maintenance and other services	144	149	308	298
Total cost of revenues	561	560	1,080	1,111
Gross profit	884	983	1,700	1,921
Operating expenses:				
Sales and marketing	448	488	940	968
Research and development	216	229	460	457
General and administrative	74	73	153	143
Restructuring and other charges	1	—	28	—
Total operating expenses	739	790	1,581	1,568
Income from operations	145	193	119	353
Other income (expense), net	(1 )	(4 )	3	(4 )
Income before income taxes	144	189	122	349
Provision for income taxes	30	29	38	101
Net income	\$114	\$160	\$84	\$248
Net income per share:				
Basic	\$0.39	\$0.50	\$0.28	\$0.77
Diluted	\$0.39	\$0.49	\$0.28	\$0.76
Shares used in net income per share calculations:				
Basic	294	318	299	321
Diluted	296	323	302	326
Cash dividends declared per share	\$0.180	\$0.165	\$0.360	\$0.330

See accompanying notes to condensed consolidated financial statements.





NETAPP, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In millions)

(Unaudited)

	Three Months Ended October 30,		Six Months Ended October 24,	
	2015	2014	2015	2014
Net income	\$114	\$160	\$84	\$248
Other comprehensive income (loss):				
Foreign currency translation adjustments	(1 )	(10 )	(2 )	(11 )
Defined benefit obligations:				
Defined benefit obligation adjustments	—	—	—	2
Reclassification adjustments related to defined benefit obligations	1	—	2	—
Unrealized gains (losses) on available-for-sale securities:				
Unrealized holding gains (losses) arising during the period	—	1	(9 )	(1 )
Reclassification adjustments for gains included in net income	(1 )	—	(1 )	—
Unrealized gains (losses) on cash flow hedges:				
Unrealized holding losses arising during the period	(1 )	(3 )	(3 )	(4 )
Reclassification adjustments for losses included in net income	1	4	2	6
Other comprehensive loss	(1 )	(8 )	(11 )	(8 )
Comprehensive income	\$113	\$152	\$73	\$240

See accompanying notes to condensed consolidated financial statements.

NETAPP, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Six Months Ended	
	October 30,	October 24,
	2015	2014
Cash flows from operating activities:		
Net income	\$84	\$248
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	136	155
Stock-based compensation	136	130
Deferred income taxes	(79 )	(2 )
Excess tax benefit from stock-based compensation	(4 )	(49 )
Other non-cash items, net	31	52
Changes in assets and liabilities:		
Accounts receivable	189	222
Inventories	21	15
Other operating assets	59	23
Accounts payable	(60 )	(32 )
Accrued expenses	(88 )	(136 )
Deferred revenue and financed unearned services revenue	(137 )	(45 )
Other operating liabilities	(14 )	16
Net cash provided by operating activities	274	597
Cash flows from investing activities:		
Purchases of investments	(886 )	(603 )
Maturities, sales and collections of investments	1,674	964
Purchases of property and equipment	(84 )	(109 )
Other investing activities, net	—	(1 )
Net cash provided by investing activities	704	251
Cash flows from financing activities:		
Issuance of common stock under employee stock award plans	25	71
Repurchase of common stock	(613 )	(719 )
Excess tax benefit from stock-based compensation	4	49
Issuance of long-term debt, net	—	495
Dividends paid	(107 )	(105 )
Other financing activities, net	(3 )	(4 )
Net cash used in financing activities	(694 )	(213 )
Effect of exchange rate changes on cash and cash equivalents	(8 )	(21 )
Net increase in cash and cash equivalents	276	614

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Cash and cash equivalents:

Beginning of period	1,922	2,291
End of period	\$2,198	\$2,905

See accompanying notes to condensed consolidated financial statements.

NETAPP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Description of Business and Significant Accounting Policies

NetApp, Inc. (we, us, or the Company) provides software, systems and services to manage and store computer data. We enable enterprises, service providers, governmental organizations, and partners to envision, deploy and evolve their information technology environments and to reduce costs and risk while driving growth and success for their organizations.

Basis of Presentation and Preparation

Our fiscal year is reported on a 52- or 53-week year ending on the last Friday in April. An additional week is included in the first fiscal quarter approximately every six years to realign fiscal months with calendar months. Fiscal year 2016, ending on April 29, 2016, is a 53-week year, with 14 weeks in its first quarter and 13 weeks in each subsequent quarter. Fiscal year 2015, which ended on April 24, 2015, was a 52-week year, with 13 weeks in each of its 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 (loss) 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 and in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. 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 24, 2015 contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on June 12, 2015. The results of operations for the three and six months ended October 30, 2015 are not necessarily indicative of the operating results to be expected for the full fiscal year or future operating periods.

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

There have been no significant changes in our significant accounting policies as of and for the six months ended October 30, 2015, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended April 24, 2015.

2. Recent Accounting Standards Not Yet Effective

In August 2015, the Financial Accounting Standards Board (FASB) issued an update that deferred the effective date of the new guidance they previously issued in May 2014 related to the recognition and reporting of revenue that establishes a comprehensive new revenue recognition model designed to depict the transfer of goods or services to a customer in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. The guidance allows for the use of either the full or modified retrospective transition method. This new standard will be effective for us beginning April 28, 2018, although adoption as of the original effective date of April 29, 2017 is permitted. We are currently evaluating the impact of this new standard on our consolidated financial statements, as well as which transition method and adoption date we intend to use.

## 3. Statements of Cash Flows Additional Information

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

	Six Months Ended October 30, 24,	
	2015	2014
Non-cash Investing Activities:		
Capital expenditures incurred but not paid	\$15	\$ 9
Acquisition of software through long-term financing	\$—	\$ 12
Supplemental Cash Flow Information:		
Income taxes paid, net of refunds	\$94	\$ 69
Interest paid	\$20	\$ 12

## 4. Purchased Intangible Assets, Net

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

	October 30, 2015			April 24, 2015		
	Gross Assets	Accumulated Amortization	Net Assets	Gross Assets	Accumulated Amortization	Net Assets
Developed technology	\$304	\$ (255)	\$ 49	\$313	\$ (225)	\$ 88
Customer contracts/relationships	5	(3)	2	5	(3)	2
Other purchased intangibles	1	(1)	—	3	(3)	—
Total purchased intangible assets	\$310	\$ (259)	\$ 51	\$321	\$ (231)	\$ 90

During the six months ended October 30, 2015, we recorded a charge of \$11 million to fully impair developed technology related to our fiscal 2013 acquisition of CacheIQ as a result of our discontinued use of such technology. The impairment charge is included in accumulated amortization in the table above.

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

Three Months Ended	Six Months Ended	Statement of Operations
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	October 30, 2015	October 24, 2014	October 30, 2015	October 24, 2014	Classifications
Developed technology	\$ 14	\$ 14	\$ 28	\$ 29	Cost of revenues
Customer contracts/relationships	—	—	—	—	Operating expenses
Total	\$ 14	\$ 14	\$ 28	\$ 29	

As of October 30, 2015, future amortization expense related to purchased intangible assets is as follows (in millions):

Fiscal Year	Amount
Remainder of 2016	\$ 27
2017	10
2018	6
2019	5
2020	3
Total	\$ 51

5. Balance Sheet Details

Cash and cash equivalents (in millions):

	October 30, 2015	October April 24, 2015
Cash	\$ 2,075	\$ 1,666
Cash equivalents	123	256
Cash and cash equivalents	\$ 2,198	\$ 1,922

## Inventories (in millions):

	October	
	30,	April 24,
	2015	2015
Purchased components	\$ 35	\$ 36
Finished goods	90	110
Inventories	\$ 125	\$ 146

## Other current assets (in millions):

	October	
	30,	April 24,
	2015	2015
Prepaid expenses and other current assets	\$ 250	\$ 268
Deferred tax assets	305	254
Other current assets	\$ 555	\$ 522

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

	October	
	30,	April 24,
	2015	2015
Land	\$265	\$265
Buildings and improvements	606	607
Leasehold improvements	107	107
Computer, production, engineering and other equipment	765	754
Computer software	369	372
Furniture and fixtures	86	85
Construction-in-progress	51	33
	2,249	2,223
Accumulated depreciation and amortization	(1,245)	(1,193 )
Property and equipment, net	\$1,004	\$ 1,030

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

April 24,



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October 2015  
30,

	2015	
Deferred tax assets	\$ 281	\$ 256
Other assets	191	225
Other non-current assets	\$ 472	\$ 481

Accrued expenses (in millions):

	October	
	30,	April 24,
	2015	2015
Accrued compensation and benefits	\$ 281	\$ 359
Product warranty liability	53	58
Other current liabilities	284	284
Accrued expenses	\$ 618	\$ 701

## 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 October 30,		Six Months Ended October 24,	
	2015	2014	2015	2014
Balance at beginning of period	\$81	\$ 104	\$86	\$ 110
Expense accrued during the period	13	9	22	19
Warranty costs incurred	(14)	(16 )	(28)	(32 )
Balance at end of period	\$80	\$ 97	\$80	\$ 97

	October 30,	April 24,
	2015	2015
Accrued expenses	\$ 53	\$ 58
Other long-term liabilities	27	28
Total warranty liabilities	\$ 80	\$ 86

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

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

	October 30,	April 24,
	2015	2015
Deferred product revenue	\$20	\$ 17
Deferred services revenue	2,913	3,075
Financed unearned services revenue	113	105
Total	\$ 3,046	\$ 3,197
Reported as:		
Short-term	\$ 1,609	\$ 1,724
Long-term	1,437	1,473

Total	\$3,046	\$3,197
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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 15 for additional information related to these arrangements.

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

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

	Three Months Ended		Six Months Ended	
	October 30,	October 24,	October 30,	October 24,
	2015	2014	2015	2014
Interest income	\$11	\$ 8	\$24	\$ 16
Interest expense	(12)	(11 )	(23)	(20 )
Other income (expense), net	—	(1 )	2	—
Total other income (expense), net	\$(1 )	\$ (4 )	\$3	\$ (4 )

## 7. Financial Instruments and Fair Value Measurements

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

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

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

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

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

## Investments

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

	October 30, 2015			Estimated	April 24, 2015			Estimated
	Cost or	Gross			Cost or	Gross		
	Amortized	Unrealized	Fair	Amortized	Unrealized	Fair		
	Cost	Gains	Losses	Value	Cost	Gains	Losses	Value
Corporate bonds	\$1,614	\$ 3	\$ (2 )	\$ 1,615	\$2,249	\$ 9	\$ —	\$ 2,258
U.S. Treasury and government debt securities	927	1	(1 )	927	1,056	2	—	1,058
Foreign government debt securities	44	—	—	44	38	—	—	38
Commercial paper	44	—	—	44	20	—	—	20
Certificates of deposit	109	—	—	109	286	—	—	286
Mutual funds	34	—	—	34	32	—	—	32
Total debt and equity securities	\$2,772	\$ 4	\$ (3 )	\$ 2,773	\$3,681	\$ 11	\$ —	\$ 3,692

As of October 30, 2015, gross unrealized losses related to individual securities were not significant.

The following table presents the contractual maturities of our debt investments as of October 30, 2015 (in millions):

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	Amortized Cost	Fair Value
Due in one year or less	\$ 867	\$868
Due after one year through five years	1,871	1,871
	\$ 2,738	\$2,739

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

## Fair Value of Financial Instruments

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

	October 30, 2015		
	Total	Fair Value Measurements at Reporting Date Using Level	
		1	Level 2
Cash	\$2,075	\$2,075	\$—
Corporate bonds	1,615	—	1,615
U.S. Treasury and government debt securities	927	175	752
Foreign government debt securities	44	—	44
Commercial paper	44	—	44
Certificates of deposit	109	—	109
Total cash, cash equivalents and short-term investments	\$4,814	\$2,250	\$2,564
Other items:			
Mutual funds <sup>(1)</sup>	\$7	\$7	\$—
Mutual funds <sup>(2)</sup>	\$27	\$27	\$—
Foreign currency exchange contracts assets <sup>(1)</sup>	\$5	\$—	\$5
Long-term debt	\$(1,489)	\$—	\$(1,489)

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

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

Our Level 2 debt instruments are held by a custodian who prices some of the investments using standard inputs in various asset price models or obtains investment prices from third-party pricing providers that incorporate standard inputs in various asset price models. These pricing providers utilize the most recent observable market information in pricing these securities or, if specific prices are not available for these securities, use other observable inputs like market transactions involving identical or comparable securities. We review Level 2 inputs and fair value for reasonableness and the values may be further validated by comparison to multiple independent pricing sources. In addition, we review third-party pricing provider models, key inputs and assumptions and understand the pricing processes at our third-party providers in determining the overall reasonableness of the fair value of our Level 2 debt instruments. As of October 30, 2015 and April 24, 2015, we have not made any adjustments to the prices obtained from our third-party pricing providers.

## Fair Value of Long-Term Debt

The fair value of our long-term debt was based on observable market prices in a less active market. All of our debt obligations are categorized as Level 2 instruments.

## 8. Financing Arrangements

## Long-Term Debt

The following table summarizes information relating to our long-term debt (in millions, except interest rates):

	October 30, 2015		April 24, 2015	
	Effective Interest		Effective Interest	
	Amount	Rate	Amount	Rate
2.00% Senior Notes Due 2017	\$750	2.25 %	\$750	2.25 %
3.375% Senior Notes Due 2021	500	3.54 %	500	3.54 %
3.25% Senior Notes Due 2022	250	3.43 %	250	3.43 %
Total principal amount	1,500		1,500	
Less:				
Unamortized discount	(4 )		(5 )	
Unamortized issuance costs	(7 )		(8 )	
Total long-term debt	\$1,489		\$1,487	

## Senior Notes

In June 2014, we issued \$500 million par value of 3.375% Senior Notes due June 15, 2021, and received proceeds of approximately \$495 million, net of discount and issuance costs. Our 2.00% Senior Notes and 3.25% Senior Notes, with a par value of \$750 million and \$250 million, respectively, were issued in December 2012. We collectively refer to such long-term debt as our Senior Notes. Interest on our Senior Notes is paid semi-annually on June 15 and December 15. Our Senior Notes, which are unsecured, unsubordinated obligations, rank equally in right of payment with any 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 sale and lease-back transactions; and to consolidate, merge or sell all or substantially all of our assets. As of October 30, 2015, we were in compliance with all covenants associated with the Senior Notes.

As of October 30, 2015, our aggregate future principal debt maturities are as follows (in millions):

Fiscal Year	Amount
2018	\$ 750
Thereafter	750
Total	\$ 1,500

## Credit Facility

In December 2012, we entered into a credit agreement with a syndicated group of lenders that is scheduled to expire on December 21, 2017 and provides for an unsecured \$250 million revolving credit facility that is comprised of revolving loans, Eurocurrency loans and/or swingline loans. The credit facility includes a \$100 million foreign currency sub-facility, a \$50 million letter of credit sub-facility and a \$10 million swingline sub-facility available on same-day notice. Available borrowings under the credit facility are reduced by the amount of any outstanding borrowings on the sub-facilities. We may also, subject to certain requirements, request an increase in the facility up to an additional \$100 million and request two additional one-year extensions, subject to certain conditions. The proceeds from the facility may be used by us for general corporate purposes.

Borrowings under the facility, except for swingline loans, accrue interest in arrears at an alternate base rate as defined in the credit agreement or, at our option, an adjusted London Interbank Offered Rate (LIBOR) plus in each case, a spread (based on our public debt ratings and the type of loan) ranging from 0.2% to 1.2%. Swingline borrowings accrue interest at an alternate base rate. In addition, we are required to pay fees to maintain the credit facility, whether or not we have outstanding borrowings. The facility contains financial covenants requiring us to maintain a maximum leverage ratio of not more than 3.0:1.0 and a minimum interest coverage ratio of not less than 3.5:1.0. The facility contains customary affirmative and negative covenants, including covenants that limit our ability to incur debt secured by liens on assets or indebtedness of our subsidiaries and to consolidate, merge or sell all or substantially all of our assets. As of October 30, 2015, no borrowings were outstanding under the facility and we were in compliance with all covenants associated with the facility.

## Other Long-Term Financing Arrangements

The following presents the amounts due under other long-term financing arrangements (in millions):



	October 30,	April 24,
	2015	2015
Other long-term financing arrangements	\$ 12	\$ 16
Less: current portion	(7 )	(10 )
Non-current portion of other long-term financing arrangements	\$ 5	\$ 6

## 9. Stockholders' Equity

## Equity Incentive Awards

As of October 30, 2015, we have outstanding certain equity incentive awards (awards), which include stock options, restricted stock units (RSUs), including time-based RSUs and performance-based RSUs (PBRsUs), and Employee Stock Purchase Plan (ESPP) awards.

## Stock Options

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

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding as of April 24, 2015	12	\$ 37.74		
Exercised	(1 )	\$ 22.89		
Forfeited and expired	(2 )	\$ 38.99		
Outstanding as of October 30, 2015	9	\$ 38.90	2.86	\$ 12
Vested and expected to vest as of October 30, 2015	9	\$ 38.95	2.76	\$ 12
Exercisable as of October 30, 2015	7	\$ 39.54	2.29	\$ 11

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):

	Six Months Ended October 30, 2015		October 30, 2014	
	2015	2014	2015	2014
Intrinsic value of exercises	\$ 8	\$ 38		
Proceeds received from exercises	\$ 19	\$ 65		
Fair value of options vested	\$ 7	\$ 19		

## Restricted Stock Units

In the six months ended October 30, 2015, we granted PBRsUs to certain of our executives, all of which were outstanding at the end of the period. Each PBRsU has performance-based vesting criteria (in addition to the service

based vesting criteria) such that the PBRSU cliff-vests at the end of either an approximate two year or three year performance period, which began on the date specified in the grant agreement and ends the last day of fiscal 2017 or 2018, respectively. The number of shares of common stock that will be issued to settle the PBRsUs at the end of the applicable performance and service period will range from 0% to 200% of a target number of shares originally granted, and will depend upon our Total Stockholder Return (TSR) as compared to an index TSR (each expressed as a growth rate percentage) calculated as of the applicable period end date. The fair values of the PBRsUs were fixed at grant date using a Monte Carlo simulation model and the related aggregate compensation cost of \$20 million is being recognized, adjusted for forfeitures, over the shorter of the remaining applicable performance or service periods.

RSUs are converted into common stock upon vesting. Time-based RSUs generally vest with only service-based criteria at 25% annually over four years, except for the PBRsUs described above and 4 million time-based RSUs granted in the six months ended October 30, 2015, which will vest at 50% annually over two years.

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

	Number of Shares	Weighted- Average Grant Date Fair Value
Outstanding as of April 24, 2015	13	\$ 36.58
Granted	6	\$ 31.32
Vested	(4 )	\$ 37.70
Forfeited	(2 )	\$ 35.32
Outstanding as of October 30, 2015	13	\$ 34.13

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

	Six Months Ended October 30, 24,	
	2015	2014
Shares withheld for taxes	1	1
Fair value of shares withheld	\$44	\$ 43

Employee Stock Purchase Plan

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

	Six Months Ended October 30, 24,	
	2015	2014
Shares issued under the ESPP	2	2
Proceeds from issuance of shares	\$50	\$ 49

Stock-Based Compensation Expense

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

	Three Months Ended October 30, 24,		Six Months Ended October 30, 24,	
	2015	2014	2015	2014
Cost of product revenues	\$1	\$ 2	\$3	\$ 3
Cost of hardware maintenance and other services revenues	4	3	10	8
Sales and marketing	26	30	57	57
Research and development	18	22	44	43
General and administrative	10	11	22	19
Total stock-based compensation expense	\$59	\$ 68	\$136	\$ 130

As of October 30, 2015, total unrecognized compensation expense related to our equity awards was \$381 million, which is expected to be recognized on a straight-line basis over a weighted-average remaining service period of 2.0 years.

Total income tax benefit associated with employee stock transactions and recognized in stockholders' equity were as follows (in millions):

	Six Months Ended October 30, 24,	
	2015	2014
Income tax benefit associated with employee stock transactions	\$33	\$ 58

#### Stock Repurchase Program

As of October 30, 2015, 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.

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The following table summarizes activity related to this program for the six months ended October 30, 2015 (in millions, except per share amounts):

Number of shares repurchased	19
Average price per share	\$31.70
Aggregate purchase price	\$613
Remaining authorization at end of period	\$1,847

The aggregate purchase price of our stock repurchases for the six months ended October 30, 2015 consisted of \$613 million of open market purchases, of which \$499 million and \$114 million was allocated to additional paid-in capital and retained earnings, respectively.

Since the May 13, 2003 inception of our stock repurchase program through October 30, 2015, we repurchased a total of 233 million shares of our common stock at an average price of \$33.33 per share, for an aggregate purchase price of \$7.8 billion.

### Dividends

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

	Six Months Ended October 30, 2015	
	2015	2014
Dividends per share declared	\$0.360	\$0.330
Dividend payments allocated to additional paid-in capital	\$84	\$52
Dividend payments allocated to retained earnings	\$23	\$53

On November 18, 2015, we declared a cash dividend of \$0.18 per share of common stock, payable on January 20, 2016 to holders of record as of the close of business on January 8, 2016. The timing and amount of future dividends will depend on market conditions, corporate business and financial considerations and regulatory requirements. All dividends declared have been determined by us to be legally authorized under the laws of the state in which we are incorporated.

### Retained Earnings

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

Balance as of April 24, 2015	\$53
Net income	84
Repurchases of common stock	(114)
Dividends	(23 )

Balance as of October 30, 2015 \$—

## Accumulated Other Comprehensive Income (Loss)

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

	Foreign	Defined	Unrealized Gains (Losses) on Available- for-Sale Securities	Unrealized Gains (Losses) on Derivative Instruments	Total
	Currency Translation Adjustments	Benefit Obligation Adjustments			
Balance as of April 24, 2015	\$ (23 )	\$ (13 )	\$ 11	\$ 1	\$(24 )
OCI before reclassifications, net of tax	(2 )	—	(9 )	(3 )	(14 )
Amounts reclassified from AOCI, net of tax	—	2	(1 )	2	3
Total OCI	(2 )	2	(10 )	(1 )	(11 )
Balance as of October 30, 2015	\$ (25 )	\$ (11 )	\$ 1	\$ —	\$(35 )

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

	Three Months Ended October 30, 2015		Six Months Ended October 24, 2015		Statements of Operations Location
	2015 Amounts Reclassified from AOCI	2014	2015 Amounts Reclassified from AOCI	2014	
Recognized losses on defined benefit obligations	\$ 1	\$ —	\$ 2	\$ —	Operating expenses
Realized gains on available-for-sale securities	(1 )	—	(1 )	—	Other income (expense), net
Realized losses on cash flow hedges	1	4	2	6	Net revenues
Total reclassifications	\$ 1	\$ 4	\$ 3	\$ 6	

## 10. Derivatives and Hedging Activities

We use derivative instruments to manage exposures to foreign currency risk. Our primary objective in holding derivatives is to reduce the volatility of earnings and cash flows associated with changes in foreign currency exchange rates. The program is not designated for trading or speculative purposes. Our derivatives expose us to credit risk to the extent that the counterparties may be unable to meet the terms of the agreement. We seek to mitigate such risk by limiting our counterparties to major financial institutions. In addition, the potential risk of loss with any one counterparty resulting from this type of credit risk is monitored on an ongoing basis. We also have in place master netting arrangements to mitigate the credit risk of our counterparties and to potentially reduce our losses due to counterparty nonperformance. We present our derivative instruments as net amounts in our condensed consolidated balance sheets. The gross and net fair value amounts of such instruments were not material as of October 30, 2015 and April 24, 2015. We did not recognize any gains and losses in earnings due to hedge ineffectiveness for any period presented. All contracts have a maturity of less than six months.

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

	October 30, 2015	April 24, 2015
Cash Flow Hedges		
Forward contracts purchased	\$ 137	\$ 94
Balance Sheet Contracts		



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Forward contracts sold	\$ 159	\$ 160
Forward contracts purchased	\$ 311	\$ 231

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

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

	Three Months Ended October 30, 2015		Six Months Ended October 30, 2015	
	2015	2014	2015	2014
	Loss Recognized into Income		Loss Recognized into Income	
Foreign currency exchange contracts	\$ —	\$ (1 )	\$ (7 )	\$ (2 )

#### 11. Restructuring and Other Charges

In May 2015, we initiated a realignment designed to drive efficiency, eliminate cost and redirect resources to our highest return activities, resulting in a reduction of our global workforce of approximately 3%, as well as other restructuring related activities. These activities were substantially completed in the second quarter of fiscal 2016. Restructuring charges consisted primarily of employee severance-related costs.

Activities related to this plan are summarized as follows (in millions):

	Six Months Ended October 30, 2015 Employee Severance Related Costs Other Total		
Balance at beginning of period	\$—	\$ —	\$—
Net charges	25	3	28
Cash payments	(22)	(1 )	(23 )
Balance at end of period	\$3	\$ 2	\$ 5

The liability for our restructuring plan is included in accrued expenses in our condensed consolidated balance sheets.

## 12. Income Taxes

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

	Six Months Ended October October 30, 24, 2015 2014	
Effective tax rates	31.1 %	28.8 %

Our effective tax rates reflect the impact of a significant amount of our earnings being taxed in foreign jurisdictions at rates below the U.S. statutory tax rate. In addition, our effective tax rates for the six months ended October 30, 2015 and October 24, 2014 were impacted by adjustments related to income tax audits as discussed below.

In June 2015, the Internal Revenue Service (IRS) signed a closing agreement on transfer pricing arrangements and, in October 2015, completed the examination of our fiscal 2008 to 2010 income tax returns. During the three and six months ended October 30, 2015, we recorded discrete charges of \$10 million and \$23 million, respectively, attributable to transfer pricing and other audit settlements and the related re-measurement of uncertain tax positions for tax years subject to future audits.

In July 2014, the IRS completed the examination of our fiscal 2005 to 2007 income tax returns upon approval by the Joint Committee of Taxation. During the six months ended October 24, 2014, we recorded a discrete charge of \$47 million attributable to the audit settlements and related re-measurements of uncertain tax positions for tax years subject to future audits.

In October 2014, the United Kingdom's tax authority concluded the examination of our fiscal 2009 to 2012 UK income tax returns. We recorded a \$1 million income tax benefit for the net impact of the audit adjustments and related release

of uncertain tax positions.

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

	Six Months Ended October	
	30, 2015	24, 2014
Balance at beginning of period	\$272	\$ 236
Additions based on tax positions related to the current year	7	13
Additions for tax positions of prior years	20	99
Decreases for tax positions of prior years	(38 )	(19 )
Settlements	(52 )	(54 )
Balance at end of period	\$209	\$ 275

As of October 30, 2015, we had \$209 million of gross unrecognized tax benefits, of which \$158 million has been recorded in other long-term liabilities. Unrecognized tax benefits of \$148 million, including penalties, interest and indirect benefits, would affect our provision for income taxes if recognized.

We are currently undergoing income tax audits in the United States (U.S.) and several foreign tax jurisdictions. Transfer pricing calculations are key issues under audits in various jurisdictions, and are often subject to dispute and appeals. The IRS has concluded the examination of our income tax returns for our fiscal years through 2010. We expect the IRS to commence the examination of subsequent years within the next twelve months.

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. The Danish High Court hearing has not yet occurred.

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.

On July 27, 2015, in *Altera Corp. v. Commissioner*, the U.S. Tax Court issued an opinion related to the treatment of stock-based compensation expense in an intercompany cost-sharing arrangement. A final decision has yet to be issued by the Tax Court due to other outstanding issues related to the case. At this time, the U.S. Department of the Treasury has not withdrawn the requirement to include stock-based compensation from its regulations. Due to the uncertainty surrounding the status of the current regulations, questions related to the scope of potential benefits, and the risk of the Tax Court's decision being overturned upon appeal, we have not recorded any benefit as of October 30, 2015. We will continue to monitor ongoing developments and potential impacts to our financial statements.

### 13. Net Income per Share

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

	Three Months Ended October 30,		Six Months Ended October 24,	
	2015	2014	2015	2014
<b>Numerator:</b>				
Net income	\$ 114	\$ 160	\$ 84	\$ 248
<b>Denominator:</b>				
Shares used in basic computation	294	318	299	321
Dilutive impact of employee equity award plans	2	5	3	5
Shares used in diluted computation	296	323	302	326
<b>Net Income per Share:</b>				
Basic	\$ 0.39	\$ 0.50	\$ 0.28	\$ 0.77
Diluted	\$ 0.39	\$ 0.49	\$ 0.28	\$ 0.76

We have excluded 19 million and 7 million weighted-average shares of common stock potentially issuable under employee equity award plans in the three months ended October 30, 2015 and October 24, 2014, respectively, and 14 million and 8 million shares of common stock potentially issuable under employee equity award plans in the six months ended October 30, 2015 and October 24, 2014, respectively, from the diluted net income per share calculations as their effect would have been anti-dilutive.

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

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

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

	Three Months Ended		Six Months Ended	
	October 30,	October 24,	October 30,	October 24,
	2015	2014	2015	2014
United States, Canada and Latin America (Americas)	\$819	\$906	\$1,564	\$1,737
Europe, Middle East and Africa (EMEA)	430	438	845	883
Asia Pacific (APAC)	196	199	371	412
Net revenues	\$1,445	\$1,543	\$2,780	\$3,032

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Americas revenues consist of sales to Americas commercial and U.S. public sector markets. Sales to customers inside the U.S. were \$743 million and \$817 million during the three months ended October 30, 2015 and October 24, 2014, respectively, and were \$1,408 million and \$1,563 million during the six months ended October 30, 2015 and October 24, 2014, respectively.

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

	October 30, 2015	April 24, 2015
U.S.	\$ 665	\$ 596
International	4,149	4,730
Total	\$ 4,814	\$ 5,326

With the exception of property and equipment, we do not identify or allocate our long-lived assets by geographic area. The following table presents property and equipment information for geographic areas based on the physical location of the assets (in millions):

	October 30, 2015	April 24, 2015
U.S.	\$ 890	\$ 927
International	114	103
Total	\$ 1,004	\$ 1,030

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

	Three Months Ended October 30, 2015		Six Months Ended October 30, 2015		October 24, 2014	
Arrow Electronics, Inc.	22%	24%	22%	23%	22%	23%
Avnet, Inc.	19%	17%	18%	17%	19%	17%

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

	October 30, 2015	April 24, 2015

Arrow Electronics, Inc.	12	%	14	%
Avnet, Inc.	14	%	16	%

## 15. 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 \$204 million as of October 30, 2015.

### Purchase Orders and Other Commitments

In the ordinary course of business, we make commitments to third-party contract manufacturers to manage manufacturer lead times and meet product forecasts, and to other parties to purchase various key components used in the manufacture of our products. A significant portion of our reported purchase commitments arising from these agreements consist of firm, non-cancelable, and unconditional commitments. As of October 30, 2015, we had \$262 million in non-cancelable purchase commitments for inventory. We record a liability for firm, non-cancelable and unconditional purchase commitments for quantities in excess of our future demand forecasts consistent with the valuation of our excess and obsolete inventory. As of October 30, 2015 and April 24, 2015, such liability amounted to \$12 million and \$17 million, respectively, and is included in accrued expenses in our condensed consolidated balance sheets. To the extent that such forecasts are not achieved, our commitments and associated accruals may change.

In addition to inventory commitments with contract manufacturers and component suppliers, we have open purchase orders and contractual obligations associated with our ordinary course of business for which we have not yet received goods or services. As of October 30, 2015, we had \$36 million in construction related obligations and \$172 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 \$72 million and \$89 million of receivables during the six months ended October 30, 2015 and October 24, 2014, 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 October 30, 2015 and April 24, 2015, the aggregate amount by which such contingencies exceeded the associated deferred revenue was not significant. To date, we have not experienced material losses under our lease financing programs or other financing arrangements.

We have entered into service contracts with certain of our end-user customers that are supported by third-party financing arrangements. If a service contract is terminated as a result of our non-performance under the contract or our failure to comply with the terms of the financing arrangement, we could, under certain circumstances, be required to acquire certain assets related to the service contract or to pay the aggregate unpaid financing payments under such arrangements. As of October 30, 2015, 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. No accrual has been recorded as of October 30, 2015 related to such matters as they are not probable and/or reasonably estimable.





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

This section and other parts of this Form 10-Q contain forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Forward-looking statements also can be identified by words such as "future," "anticipates," "believes," "estimates," "expects," "intends," "will," "would," "could," "can," "may," and similar terms. Forward-looking statements are not guarantees of future performance and the actual results of NetApp, Inc. ("we," "us," or the "Company") may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Part II, Item 1A of this Form 10-Q under the heading "Risk Factors," which are incorporated herein by reference. The following discussion should be read in conjunction with our 2015 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

## Financial Results and Key Performance Metrics Overview

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

	Three Months Ended		Six Months Ended	
	October 30,	October 24,	October 30,	October 24,
	2015	2014	2015	2014
Net revenues	\$1,445	\$1,543	\$2,780	\$3,032
Gross profit	\$884	\$983	\$1,700	\$1,921
Gross profit margin percentage	61 %	64 %	61 %	63 %
Income from operations	\$145	\$193	\$119	\$353
Income from operations as a percentage of net revenues	10 %	13 %	4 %	12 %
Net income	\$114	\$160	\$84	\$248
Diluted net income per share	\$0.39	\$0.49	\$0.28	\$0.76
Operating cash flows	\$145	\$381	\$274	\$597

	October 30,	April 24,
	2015	2015
Deferred revenue and financed unearned services revenue	\$3,046	\$3,197
Days sales outstanding (DSO)	37	46

## 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 2015 Form 10-K. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the estimate that are reasonably possible could materially impact the financial statements. There have been no material changes to the critical accounting policies and estimates as filed in such report.

## New Accounting Standards

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

## Results of Operations

Our fiscal year is reported on a 52- or 53-week year that ends on the last Friday in April. Fiscal year 2016, ending April 29, 2016, is a 53-week year, with its first quarter spanning 14 weeks and each subsequent quarter spanning 13 weeks. Fiscal year 2015, ended April 24, 2015, was a 52-week year, and each of its quarters spanned 13 weeks. Unless otherwise stated, references to particular years, quarters, months and periods refer to the Company's fiscal years ended in April and the associated quarters, months and periods of those fiscal years.

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

	Three Months Ended		Six Months Ended	
	October 30, 2015	October 24, 2014	October 30, 2015	October 24, 2014
<b>Revenues:</b>				
Product	56 %	60 %	53 %	60 %
Software maintenance	16	15	17	15
Hardware maintenance and other services	27	25	29	26
Net revenues	100	100	100	100
<b>Cost of revenues:</b>				
Cost of product	28	26	27	26
Cost of software maintenance	1	1	1	1
Cost of hardware maintenance and other services	10	10	11	10
Gross profit	61	64	61	63
<b>Operating expenses:</b>				
Sales and marketing	31	32	34	32
Research and development	15	15	17	15
General and administrative	5	5	6	5
Restructuring and other charges	—	—	1	—
Total operating expenses	51	51	57	52
Income from operations	10	13	4	12
Other income (expense), net	—	—	—	—
Income before income taxes	10	12	4	12
Provision for income taxes	2	2	1	3
Net income	8 %	10 %	3 %	8 %

Percentages may not add due to rounding

## Discussion and Analysis of Results of Operations

### Overview

Net revenues for the second quarter and first six months of fiscal 2016 were \$1,445 million, reflecting a decrease of \$98 million, or 6%, and \$2,780 million, reflecting a decrease of \$252 million, or 8%, respectively, compared to the corresponding periods of the prior year. Revenues for the second quarter and six months of fiscal 2016 were negatively impacted by foreign exchange rate changes, higher discounting and unfavorable product mix.

Gross profit as a percentage of net revenues decreased 3 and 2 percentage points during the second quarter and first six months of fiscal 2016, respectively, compared to the corresponding periods of the prior year, reflecting the factors discussed above.

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Sales and marketing, research and development, and general and administrative expenses for the second quarter and first six months of fiscal 2016 totaled \$738 million, or 51% as a percentage of net revenues, and \$1,553 million, or 56% as a percentage of net revenues, respectively, compared to \$790 million, or 51% as a percentage of net revenues, and \$1,568 million, or 52% as a percentage of net revenues, respectively, for the corresponding periods of the prior year. The decrease in expenses in dollars was primarily due to the favorable impact of foreign exchange rate fluctuations and cost containment initiatives, partially offset in the first six months of fiscal 2016 by the additional week in the first quarter of fiscal 2016. In addition, such expenses as a percentage of net revenues were unfavorably impacted by lower revenues in the second quarter and first six months of fiscal 2016 compared to the corresponding periods in the prior year.

Net Revenues (in millions, except percentages):

	Three Months Ended			Six Months Ended		
	October 30, 2015	October 24, 2014	% Change	October 30, 2015	October 24, 2014	% Change
Net revenues	\$1,445	\$1,543	(6)%	\$2,780	\$3,032	(8)%

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The decrease in net revenues for the second quarter of fiscal 2016 was due to a \$114 million decrease in product revenues, partially offset by a \$16 million increase in the aggregate of software maintenance and hardware maintenance and other services revenues. Product revenues comprised 56% of net revenues for the second quarter of fiscal 2016, compared to 60% for the corresponding period of the prior year.

The decrease in net revenues for the first six months of fiscal 2016 was due to a \$333 million decrease in product revenues, partially offset by an \$81 million increase in the aggregate of software maintenance and hardware maintenance and other services revenues. Product revenues comprised 53% of net revenues for the first six months of fiscal 2016, compared to 60% for the corresponding period of the prior year.

Sales through our indirect channels represented 77% of net revenues for each of the second quarter and first six months of fiscal 2016, compared to 79% and 78% of net revenues for the corresponding periods of the prior year.

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

	Three Months Ended		Six Months Ended		
	October 30, 2015		October 30, 2014		
	2015	2014	2015	2014	%
Arrow Electronics, Inc.	22%	24%	22%	23%	%
Avnet, Inc.	19%	17%	18%	17%	%

Product Revenues (in millions, except percentages):

	Three Months Ended			Six Months Ended		
	October 30, 2015			October 30, 2014		
	2015	2014	% Change	2015	2014	% Change
Product revenues	\$815	\$929	(12)%	\$1,479	\$1,812	(18)%

Product revenues consist of sales of configured systems, which include bundled hardware and software products, and non-configured products, which consist primarily of add-on storage, original equipment manufacturer (OEM) products and add-on hardware and software products.

Total configured system revenues of \$523 million decreased by \$35 million, or 6%, for the second quarter of fiscal 2016, compared to the corresponding period of the prior year. Revenues decreased in the entry level and mid-range FAS systems platforms, but increased in the high end FAS and the E-series systems platforms. Total configured systems unit volume increased 9% due to unit volume increases in all systems platforms reflecting higher demand for our newer products. Average selling prices (ASPs) for the entry level and mid-range FAS systems platforms decreased and were partially offset by increases in the high end FAS and E-Series systems platforms. The overall ASP for configured systems decreased due to foreign exchange impacts, higher discounting due to competitive pressures and unfavorable product mix.

Non-configured product revenues of \$292 million decreased by \$79 million, or 21%, during the second quarter of fiscal 2016, compared to the corresponding period of the prior year. This decrease was primarily due to a decrease in OEM product revenues of \$41 million, or 36%, reflecting changing business dynamics of our OEM customers, and a decrease in add-on storage revenue of \$39 million, or 26%, reflecting lower average pricing for add-on storage equipment and unfavorable product mix.

Total configured system revenues of \$917 million decreased by \$167 million, or 15%, for the first six months of fiscal 2016, compared to the corresponding period of the prior year. Revenues decreased in all FAS systems platforms, but increased in E-series systems platforms. Total configured systems unit volume decreased 4%, due to a decrease in unit volume across all FAS system platforms, partially offset by a unit volume increase in E-series systems platforms. These changes in unit volume reflect the impact to our business of a storage technology industry in transition as customers drive IT transformation to take advantage of new technologies and architectures, while planning their journey to the hybrid cloud. In addition, the decline in product revenues reflects the transition from products based on our older Data ONTAP 7-mode technology to products based on clustered Data ONTAP technology. Overall ASPs decreased for all configured systems platforms due to foreign exchange impacts, higher discounting due to competitive pressures and unfavorable product mix.

Non-configured product revenues of \$563 million decreased \$165 million, or 23%, for the first six months of fiscal 2016, compared to the corresponding period of the prior year. This decrease was primarily due to a decrease in OEM product revenues of \$79 million, or 34%, and a decrease in add-on storage revenue of \$102 million, or 33% each reflecting the factors discussed above.



Software Maintenance Revenues (in millions, except percentages):

	Three Months Ended			Six Months Ended		
	October		%	October		%
	30,	24,		30,	24,	
	2015	2014	Change	2015	2014	Change
Software maintenance revenues	\$233	\$225	4 %	\$481	\$446	8 %

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

The fluctuations in software maintenance revenues reflect fluctuations in the aggregate contract value of the installed base under software maintenance contracts, which is recognized as revenue ratably over the terms of the underlying contracts. Software maintenance contract revenues for the first six months of fiscal 2016 were also favorably impacted by the additional week of deferred revenue amortization in the first quarter of fiscal 2016.

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

	Three Months Ended			Six Months Ended		
	October		%	October		%
	30,	24,		30,	24,	
	2015	2014	Change	2015	2014	Change
Hardware maintenance and other services revenues	\$397	\$389	2 %	\$820	\$774	6 %

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

Hardware maintenance contract revenues were \$326 million and \$311 million for the second quarters of fiscal 2016 and 2015, respectively, reflecting an increase of 5% due to an increase in the installed base and aggregate contract values under hardware maintenance contracts, and higher levels of shorter term contract renewals from our existing contract base, which resulted in a lower weighted average maintenance contract term. Professional services and educational and training services revenues were \$71 million and \$78 million in aggregate for the second quarters of fiscal 2016 and 2015, respectively.

Hardware maintenance contract revenues were \$672 million and \$614 million for first six months of fiscal 2016 and 2015, respectively, reflecting an increase of 9% due to the factors discussed above, as well as the favorable impact of an additional week of deferred revenue amortization. Professional services and educational and training services revenues aggregated to \$148 million and \$161 million for the first six months of fiscal 2016 and 2015, respectively.

Revenues by Geographic Area:

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	Three Months Ended October 30,		Six Months Ended October 30,		
	2015	2014	2015	2014	
United States, Canada and Latin America (Americas)	57%	59%	56%	57%	%
Europe, Middle East and Africa (EMEA)	30%	28%	30%	29%	%
Asia Pacific (APAC)	14%	13%	13%	14%	%

Percentages may not add due to rounding

Americas revenues consist of sales to Americas commercial and United States public sector (USPS) markets. Our Americas revenues decreased in the second quarter and first six months of fiscal 2016 compared to the corresponding periods in the prior year, due to a decrease in sales to the USPS markets.

#### Cost of Revenues

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

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

	Three Months Ended			Six Months Ended		
	October			October		
	30,	24,	%	30,	24,	%
	2015	2014	Change	2015	2014	Change
Cost of product revenues	\$408	\$ 402	1	% \$753	\$ 796	(5 )%

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

	Three	Six
	Months	Months
	Ended	Ended
	Fiscal	Fiscal
	2016 to	2016 to
	Fiscal	Fiscal
	2015	2015
	Percentage	Percentage
	Change	Change
	Points	Points
Materials costs	1	(7 )
Warranty	1	—
Excess and obsolete inventory	—	2
Other	(1 )	—
Total change	1	(5 )

Cost of product revenues represented 50% and 51% of product revenues for the second quarter and first six months of fiscal 2016, respectively, compared to 43% and 44% of product revenues for the corresponding periods of the prior year.

Materials costs represented 86% of product costs for each of the second quarters of fiscal 2016 and 2015, respectively. Materials costs increased slightly in the second quarter of fiscal 2016 compared to the corresponding period of the prior year, as a result of a 9% increase in configured systems unit volume. Increases in average materials costs for high end FAS and E-series systems platforms were offset by decreases in average materials costs for entry level and mid-level FAS series systems platforms, resulting in a slight increase in overall standard materials costs for configured systems. Product materials costs were favorably impacted by a decrease in materials costs on OEM and add-on storage revenues, reflecting lower sales levels and changes in mix in the second quarter of fiscal 2016 compared to the prior year.

Materials costs represented 83% and 86% of product costs for the first six months of fiscal 2016 and 2015, respectively. Materials costs decreased \$57 million in the first six months of fiscal 2016 compared to the corresponding period of the prior year. Materials costs were impacted by a 4% unit volume decrease in configured systems. Increases in average materials costs for entry level and high end FAS systems platforms, partially offset by decreases in average materials costs for mid-level FAS and E-series systems platforms, reflected higher component costs of new product offerings. Overall materials unit costs increased due to the factors above, as well as changes in our product mix. Product materials costs were favorably impacted by a decrease in materials costs on OEM and

add-on storage revenues, reflecting lower sales levels and changes in mix in the first six months of fiscal 2016 compared to the prior year. The decrease in aggregate materials costs was partially offset by a \$5 million increase in write-downs of excess and obsolete inventory in the first six months of fiscal 2016 compared to the corresponding period of the prior year.

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

	Three Months Ended			Six Months Ended		
	October		% Change	October		% Change
	2015	2014		2015	2014	
Cost of software maintenance revenues	\$9	\$ 9	—%	\$19	\$ 17	12 %

Cost of software maintenance revenues did not change significantly during the second quarter and first six months of fiscal 2016 compared to the corresponding periods of the prior year. Cost of software maintenance revenues represented 4% of software maintenance revenues for each of the second quarters and first six months of fiscal 2016 and 2015.

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

	Three Months Ended			Six Months Ended		
	October		% Change	October		% Change
	2015	2014		2015	2014	
Cost of hardware maintenance and other services revenues	\$144	\$ 149	(3 )%	\$308	\$ 298	3 %

Cost of hardware maintenance and other services revenues decreased during the second quarter of fiscal 2016 compared to the corresponding period of the prior year, primarily due to lower spares and contracted services costs. Costs of hardware maintenance and other services revenues increased during the first six months of fiscal 2016 due to higher salaries and benefits and an asset impairment charge recorded in the first quarter of fiscal 2016, partially offset by lower spares and contracted services costs.

## Operating Expenses

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

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

Total compensation costs included in operating expenses decreased \$27 million, or 6%, for the second quarter of fiscal 2016 compared to the corresponding period of the prior year primarily due to lower salaries and stock-based compensation expenses, reflecting a 3% decrease in average headcount, and the favorable impact of foreign exchange rate fluctuations.

Total compensation costs included in operating expenses increased \$27 million, or 3%, for the first six months of fiscal 2016 compared to the corresponding period of the prior year, reflecting higher salaries and related benefits expenses due to the additional week in the first quarter of fiscal 2016, partially offset by the favorable impact of foreign exchange rate fluctuations.

Sales and Marketing (in millions, except percentages):

	Three Months Ended October			Six Months Ended October		
	30,	24,	%	30,	24,	%
	2015	2014	Change	2015	2014	Change
Sales and marketing expenses	\$448	\$ 488	(8 )%	\$940	\$ 968	(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 2016 to Fiscal 2015 Percentage Change Points	Six Months Ended Fiscal 2016 to Fiscal 2015 Percentage Change Points
Compensation costs	(4 )	—
Commissions	(1 )	(1 )
Outside services	(1 )	(1 )
Facilities and IT support costs	(2 )	(1 )
Total change	(8 )	(3 )

The decrease in compensation costs for the second quarter of fiscal 2016 compared to the corresponding period of the prior year was primarily due to lower salaries, stock-based compensation expense and other compensation-related costs attributable in part to the favorable impact of foreign exchange rate fluctuations. Compensation costs for the first six months of fiscal 2016 did not vary significantly from those of the corresponding period in the prior year. The decrease in commissions expense for the second quarter and first six months of fiscal 2016 reflects lower bookings achievement compared to the corresponding periods of the prior year. The decrease in outside services expense reflects lower spending levels on contractors and projects. Facilities and IT support costs decreased primarily due to cost containment efforts.

Research and Development (in millions, except percentages):

	Three Months Ended			Six Months Ended		
	October		%	October		%
	30,	24,		30,	24,	
	2015	2014	Change	2015	2014	Change
Research and development expenses	\$216	\$ 229	(6 )%	\$460	\$ 457	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 2016 to Fiscal 2015 Percentage Change Points	Six Months Ended Fiscal 2016 to Fiscal 2015 Percentage Change Points
Compensation costs	(4 )	2
Depreciation	(1 )	(1 )
Facilities and IT support costs	(1 )	—
Total change	(6 )	1

The decrease in compensation costs for the second quarter of fiscal 2016 compared to the corresponding period of the prior year was primarily due to lower salaries and stock-based compensation expenses, reflecting lower average headcount, partially offset by higher average salaries per employee. The increase in compensation costs in the first six months of fiscal 2016 was primarily due to higher salaries and related benefits expenses and other compensation-related costs as a result of the extra week in the first quarter of fiscal 2016, partially offset by lower average headcount. Depreciation expense decreased primarily due to certain equipment becoming fully depreciated in prior periods. Facilities and IT support costs decreased for the second quarter of fiscal 2016 compared to the second quarter of the prior year primarily due to cost containment efforts.

General and Administrative (in millions, except percentages):

	Three Months Ended			Six Months Ended		
	October	October	%	October	October	%
	30,	24,		30,	24,	
	2015	2014	Change	2015	2014	Change
General and administrative expenses	\$74	\$73	1 %	\$153	\$143	7 %

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	Six
	Months	Months
	Ended	Ended
	Fiscal	Fiscal
	2016 to	2016 to
	Fiscal	Fiscal
	2015	2015
	Percentage	Percentage
	Change	Change
	Points	Points
Compensation costs	(1 )	9
Professional and legal fees and outside services	4	—
Facilities and IT support costs	(2 )	(2 )
Total change	1	7

The decrease in compensation costs for the second quarter of fiscal 2016 compared to the second quarter of the prior year was primarily due to lower incentive compensation costs and stock-based compensation expense. The increase in compensation costs for the first six months of fiscal 2016 compared to the corresponding period of the prior year was primarily due to higher stock-based compensation and salaries and related benefit expenses due to the additional week in the first quarter of fiscal 2016. The increase in professional and legal fees and outside services expense for the second quarter of fiscal 2016 compared to the corresponding period of the prior year was primarily due to higher spending levels on consulting fees. Facilities and IT support costs decreased primarily due to cost containment efforts.

Restructuring and other charges (in millions, except percentages):

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	Three Months Ended October 30, 24,			Six Months Ended October 30, 24,		
	2015	2014	% Change	2015	2014	% Change
Restructuring and other charges	\$ 1	\$ —	NM	\$ 28	\$ —	NM

NM – Not Meaningful

In May 2015, we committed to a realignment designed to drive efficiency, eliminate cost and redirect resources to highest return activities, resulting in a reduction of our global workforce of approximately 3%. The charges in the first six months of fiscal 2016 consist primarily of employee severance related costs recognized in connection with this plan. Such activities were substantially completed by the end of the second quarter of fiscal 2016. See Note 11 – Restructuring and Other Charges of the Notes to Condensed Consolidated Financial Statements for more details regarding our restructuring plan.

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

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

	Three Months Ended October 30, 24,			Six Months Ended October 30, 24,		
	2015	2014	% Change	2015	2014	% Change
Interest income	\$ 11	\$ 8	38 %	\$ 24	\$ 16	50 %
Interest expense	(12)	(11)	9 %	(23)	(20)	15 %
Net gains recognized on investments	—	—	NM	—	2	(100)%
Net gains (losses) on foreign currency activities	—	(1)	(100)%	2	(2)	NM
Total	\$(1)	\$(4)	(75)%	\$ 3	\$(4)	NM

NM – Not Meaningful



The increase in interest income for the second quarter and first six months of fiscal 2016, compared to the corresponding periods of the prior year, was primarily due to a shift in our investment portfolio to higher-yielding investments.

Interest expense, which includes the amortization of debt discount and issuance costs, is primarily related to our Senior Notes.

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

	Three Months Ended			Six Months Ended		
	October	October	%	October	October	%
	30,	24,	Change	30,	24,	Change
	2015	2014		2015	2014	
Provision for income taxes	\$30	\$ 29	3 %	\$38	\$ 101	(62 )%

Our effective tax rate for the second quarter of fiscal 2016 was 20.8% compared to an effective tax rate of 15.4% for the second quarter of the prior year. Our effective tax rate for the first six months of fiscal 2016 was 31.1% compared to an effective tax rate of 28.8% for the first six months of the prior year. Our effective tax rates reflect our corporate legal entity structure and the global nature of our business with a significant amount of our profits generated and taxed in foreign jurisdictions at rates below the U.S. statutory tax rate. The effective tax rates for all periods presented were favorably impacted by the geographic mix of profits. Our effective tax rates increased for the three and six months ended October 30, 2015 compared to the corresponding periods in the prior year primarily as a result of discrete charges related to audit adjustments and lower year-to-date pre-tax profits.

In June 2015, the IRS signed a closing agreement on transfer pricing arrangements and, in October 2015, completed the examination of our fiscal 2008 to 2010 income tax returns. During the three and six months ended October 30, 2015, we recorded discrete charges of \$10 million and \$23 million, respectively, attributable to transfer pricing and other audit settlements, and the related re-measurement of uncertain tax positions for tax years subject to future audits.

In July 2014, the IRS completed the examination of our fiscal 2005 to 2007 income tax returns upon approval by the Joint Committee of Taxation. During the first six months of fiscal 2015, we recorded a discrete charge of \$47 million attributable to the audit settlements and related re-measurements of uncertain tax positions for tax years subject to future audits.

In October 2014, the United Kingdom's tax authority concluded the examination of our fiscal 2009 to 2012 UK income tax returns. We recorded a \$1 million income tax benefit for the net impact of the audit adjustments and related release of uncertain tax positions.

As of October 30, 2015, we had \$209 million of gross unrecognized tax benefits, of which \$158 million has been recorded in other long-term liabilities. Unrecognized tax benefits of \$148 million, including penalties, interest and indirect benefits, would affect our provision for income taxes if recognized. See Note 12 – Income Taxes of the Notes to Condensed Consolidated Financial Statements for more details regarding our 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

	October 30,	April 24,
(In millions, except percentages)	2015	2015
Cash and cash equivalents and short-term investments	\$ 4,814	\$ 5,326
Principal amount of Senior Notes	\$ 1,500	\$ 1,500
Debt as a % of stockholders' equity	50 %	44 %

The following is a summary of our cash flows activities:

	Six Months Ended	
	October 30,	October 24,
(In millions)	2015	2014
Net cash provided by operating activities	\$ 274	\$ 597
Net cash provided by investing activities	704	251
Net cash used in financing activities	(694)	(213 )
Effect of exchange rate changes on cash and cash equivalents	(8 )	(21 )
Net increase in cash and cash equivalents	\$ 276	\$ 614

## Cash Flows

As of October 30, 2015, our cash, cash equivalents and short-term investments were \$4.8 billion, a decrease of \$0.5 billion from April 24, 2015. The decrease was primarily due to \$613 million in cash paid for the repurchase of our common stock and \$107 million in cash paid for the payment of dividends, partially offset by \$274 million of cash provided by operating activities in the first six months of fiscal 2016. Accounts receivable DSO were 37 days for the second quarter of fiscal 2016 compared to 46 days for the fourth quarter of fiscal 2015 and 37 for the second quarter of fiscal 2015 reflecting seasonal patterns of shipment linearity. Working capital decreased by \$436 million to \$3.6 billion as of October 30, 2015 primarily as a result of decreases in cash and cash equivalents and short-term investments and accounts receivable, partially offset by decreases in short-term deferred revenue and financed unearned services revenue and accrued expenses.

### Cash Flows from Operating Activities

During the first six months of fiscal 2016, we generated cash from operating activities of \$274 million, reflecting net income of \$84 million, adjusted by non-cash depreciation and amortization of \$136 million and stock-based compensation of \$136 million.

Changes in assets and liabilities during the first six months of fiscal 2016 included the following:

- Accounts receivable decreased \$189 million, primarily due to seasonal patterns in shipment linearity.
- Accrued compensation decreased \$78 million, primarily due to employee compensation payouts related to fiscal year 2015 commissions and incentive compensation plans.
- Deferred revenue and financed unearned services revenue decreased \$137 million, as a result of deferred revenue amortization for existing software and hardware maintenance contracts exceeding deferred revenue recorded for new contracts.

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

### Cash Flows from Investing Activities

During the first six months of fiscal 2016, we generated \$788 million from maturities and sales of investments, net of purchases, and paid \$84 million for capital expenditures, compared to \$361 million and \$109 million, respectively, for the corresponding period of the prior year.

### Cash Flows from Financing Activities

During the first six months of fiscal 2016, we used \$613 million for the repurchase of 19 million shares of our common stock and \$107 million for the payment of dividends, compared to \$719 million used for the repurchase of common stock and \$105 million for the payment of dividends for the corresponding period of the prior year.

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 and inventories, the timing and amount of stock repurchases and payment of cash dividends, the impact of foreign exchange rate changes, our ability to effectively integrate acquired products, businesses and technologies and the timing of repayments of our debt. Based on past performance and our current business outlook, we believe that our sources of liquidity, including potential future issuances of debt, equity or other securities, will satisfy our working capital needs, capital expenditures, investment requirements, stock repurchases, cash dividends, contractual obligations, commitments, principal and interest payments on our debt and other liquidity requirements associated with operations and meet our cash

requirements for at least the next 12 months. However, in the event our liquidity is insufficient, we may be required to curtail spending and implement additional cost saving measures and restructuring actions or enter into new financing arrangements. We cannot be certain that we will continue to generate cash flows at or above current levels or that we will be able to obtain additional financing, if necessary, on satisfactory terms, if at all.

#### Liquidity

Our principal sources of liquidity as of October 30, 2015 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):

	October 30,	April 24,
	2015	2015
Cash and cash equivalents	\$ 2,198	\$ 1,922
Short-term investments	2,616	3,404
<b>Total</b>	<b>\$ 4,814</b>	<b>\$ 5,326</b>

As of October 30, 2015 and April 24, 2015, \$4.1 billion and \$4.7 billion, respectively, of cash, cash equivalents and short-term investments were held by various foreign subsidiaries and were generally based in U.S. dollar-denominated holdings, while \$0.7 billion and \$0.6 billion, respectively, were available in the U.S. Most of the amounts held outside the U.S. can be repatriated to the U.S. but, under current law, would be subject to U.S. federal, state income and foreign withholding taxes. If we were to repatriate foreign earnings to fund cash requirements in the U.S., we would incur U.S. federal and state income taxes reduced by the current amount of our U.S. federal and state tax credit carryforwards. However, our intent is to keep these funds permanently reinvested outside of the U.S., and our current plans do not contemplate a need to repatriate them to fund our U.S. operations. Our principal liquidity requirements are primarily to meet our working capital needs, support ongoing business activities, fund research and development, meet capital expenditure needs, and invest in critical or complementary technologies, and service interest and principal payments on our debt.

The principal objectives of our investment policy are the preservation of principal and maintenance of liquidity. We attempt to mitigate default risk by investing in high-quality investment grade securities, limiting the time to maturity and monitoring the counter-parties and underlying obligors closely. We believe our cash equivalents and short-term investments are liquid and accessible. We are not aware of any significant deterioration in the fair value of our cash equivalents or investments from the values reported as of October 30, 2015.

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

#### Senior Notes

The following table summarizes the principal amount of our Senior Notes as of October 30, 2015 (in millions):

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

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

#### Credit Facility

Our credit facility, under which we may borrow up to \$250 million, provides another potential source of liquidity. The credit facility is an unsecured five-year revolving credit facility that terminates on December 21, 2017 if no extensions have been requested at that time, and contains financial covenants requiring us to maintain a maximum leverage ratio and a minimum interest coverage ratio. We may also, subject to certain requirements, request an increase in the facility up to an additional \$100 million and request two additional one-year extensions, subject to certain conditions. As of October 30, 2015, no borrowings were outstanding under the facility and we were in compliance with all covenants associated with the facility.

We may in the future offer an additional unspecified amount of debt, equity and other securities.

## 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 2016 to be between \$100 million and \$150 million.

## Dividends and Stock Repurchase Program

On November 18, 2015, we declared a cash dividend of \$0.18 per share of common stock, payable on January 20, 2015 to holders of record as of the close of business on January 8, 2015.

As of October 30, 2015, 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 October 30, 2015, we repurchased a total of 233 million shares of our common stock at an average price of \$33.33 per share, for an aggregate purchase price of \$7.8 billion. As of October 30, 2015, the remaining authorized amount for stock repurchases under this program was \$1.8 billion, with no termination date, which we plan to complete by May 2018, with the first \$1 billion expected to be purchased by the end of May 2016.

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 October 30, 2015, future annual minimum lease payments under non-cancelable operating leases with an initial term in excess of one year totaled \$204 million.

### Purchase Orders and Other Commitments

In the ordinary course of business, we make commitments to our third-party contract manufacturers to manage manufacturer lead times and meet product forecasts, and to other parties to purchase various key components used in the manufacture of our products. A significant portion of our reported purchase commitments arising from these agreements consist of firm, non-cancelable, and unconditional commitments. As of October 30, 2015, we had \$262 million in non-cancelable purchase commitments for inventory. We record a liability for firm, non-cancelable and unconditional purchase commitments for quantities in excess of our future demand forecasts consistent with the valuation of our excess and obsolete inventory. As of October 30, 2015 and April 24, 2015, such liability amounted to \$12 million and \$17 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 construction related obligations associated with our ordinary course of business for which we have not received goods or services. As of October 30, 2015, we had \$36 million in construction related obligations and \$172 million in other purchase obligations.

### Unrecognized Tax Benefits

As of October 30, 2015, our liability for uncertain tax positions was \$146 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.

### Legal Contingencies

We are subject to various legal proceedings and claims which arise in the normal course of business. See further details on such matters in Note 15 – Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements.

### 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 \$72 million and \$89 million of receivables during the first six months of fiscal 2016 and fiscal 2015, 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 October 30, 2015 and April 24, 2015, the aggregate amount by which such contingencies exceeded the associated deferred revenue was not significant. To date, we have not experienced material losses under our lease financing programs or other financing arrangements.

We have entered into service contracts with certain of our end-user customers that are supported by third-party financing arrangements. If a service contract is terminated as a result of our non-performance under the contract or our failure to comply with the terms of the financing arrangement, we could, under certain circumstances, be required to acquire certain assets related to the service contract or to pay the aggregate unpaid payments under such arrangements. As of October 30, 2015, 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.

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

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

#### Market Risk and Market Interest Risk

**Investment and Interest Income** — As of October 30, 2015, we had debt investments of \$2.6 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 and certificates of deposit, are subject to interest rate and interest income risk and will decrease in value if market interest rates increase. Conversely, declines in interest rates, including the impact from lower credit spreads, could have a material adverse impact on interest income for our investment portfolio. A hypothetical 100 basis point increase in market interest rates from levels as of October 30, 2015 would have resulted in a decrease in the fair value of our fixed-income securities of approximately \$35 million. Volatility in market interest rates over time will cause variability in our interest income. We do not use derivative financial instruments in our investment portfolio.

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

**Debt** — As of October 30, 2015, we have outstanding \$1.5 billion aggregate principal amount of Senior Notes. We carry these instruments at face value less unamortized discount on our condensed consolidated balance sheets. Since these instruments bear interest at fixed rates, we have no financial statement risk associated with changes in interest rates. However, the fair value of these instruments fluctuates when interest rates change. See Note 8 – Financing Arrangements of the Notes to Condensed Consolidated Financial Statements for more information.

**Credit Facility** — We are exposed to the impact of changes in interest rates in connection with our \$250 million five-year revolving credit facility. Borrowings under the facility accrue interest at rates that vary based on certain market rates and our credit rating on our Senior Notes. Consequently, our interest expense would fluctuate with any changes in these market interest rates or in our credit rating if we were to borrow any amounts under the credit facility. As of October 30, 2015, no amounts were outstanding under the credit facility.

#### Foreign Currency Exchange Rate Risk

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

We do not enter into foreign currency exchange contracts for speculative or trading purposes. In entering into foreign currency exchange forward and option contracts, we have assumed the risk that might arise from the possible inability

of counterparties to meet the terms of the contracts. We attempt to limit our exposure to credit risk by executing foreign currency exchange contracts with creditworthy multinational commercial banks. All contracts have a maturity of less than six months. See Note 10 – Derivatives and Hedging Activities of the Notes to Condensed Consolidated Financial Statements for more information regarding our derivatives and hedging activities.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

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

Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of October 30, 2015, the end of the fiscal period covered by this Quarterly Report on Form 10-Q (the Evaluation Date). Based on this evaluation, our CEO and CFO concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that the information required to be disclosed in our SEC reports (i) is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) identified in connection with our evaluation that occurred during the second quarter of fiscal 2016 that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

None

Item 1A. Risk Factors.

The following descriptions of risk factors includes any material changes to, and supersedes the description of risk factors associated with the Company's business previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended April 24, 2015 filed with the U.S. Securities and Exchange Commission (the "SEC") (the "2015 Form 10-K") under the heading "Risk Factors." Our business, financial condition and operating results can be affected by a number of factors, whether currently known or unknown, including but not limited to those described below, any one or more of which could, directly or indirectly cause our actual results of operations and financial condition to vary materially from the past, or from anticipated future, results of operations and financial condition. Any of these factors, in whole or in part, could materially and adversely affect our business, financial condition, results of operations and common stock price

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

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

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

Our industry and the markets in which we compete have historically experienced significant growth due to the increase in the demand for storage solutions by consumers, enterprises and government bodies around the world, and the resultant purchases of storage solutions to address this demand. However, despite continued data growth, the storage market did not experience growth in calendar years 2013 and 2014 due to a combination of customers delaying purchases in the face of technology transitions, increased storage efficiency, and changing economic and business environments. Recent technology trends, such as the emergence of cloud storage, software as a service (SaaS), flash storage and converged architectures are driving significant changes in storage architectures and solution requirements. As a result of these and other factors discussed in the report, our revenue may grow at a slower rate than in past periods, or may decline as it did in fiscal years 2014 and 2015, on a year-over year basis. The future impact of these trends on both short-term and long-term growth patterns is uncertain. If the general historical rate of industry growth declines, if the growth rates of the specific markets in which we compete decline, and/or if the consumption

model of storage changes and our new and existing products and solutions do not receive customer acceptance, our business, operating results and financial condition could suffer.

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

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

We are currently devoting considerable effort and resources to develop, introduce and gain customer acceptance for our clustered Data ONTAP (cDOT)-based products. cDOT is our next generation storage operating system for our core products and represents a fundamental and revolutionary change to our solution architecture. Over time, our goal is to replace our Data ONTAP 7-Mode technology with cDOT and, consequently, we anticipate that a majority of our revenues will ultimately derive from cDOT. We face considerable challenges as we continue to develop and market cDOT, including, without limitation, cost and complexity associated with migrating customer data and applications from legacy systems to cDOT-based systems, developing additional features for cDOT currently available with Data ONTAP 7-Mode and potentially required by our customers, increasing sales of cDOT through our channel and maintaining service, support and customer relationships as we replace Data ONTAP 7-Mode with cDOT.

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

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

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

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

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

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

The continuing global economic uncertainty and political and fiscal challenges in the United States (U.S.) and abroad due to the financial and fiscal crises of recent years 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. Additionally, budgetary constraints and shifts in government spending priorities have caused, and may in the future again cause, governments, including the U.S. government, to decrease purchases of storage equipment. Consequently, we expect these concerns to challenge our business for the foreseeable future, and potentially cause harm to our operating results. Such conditions have resulted, and may in the future again result, in failure to meet our forecasted financial expectations and to achieve historical levels of revenue growth.

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

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

those matters, we face the following issues, which could impact our quarterly results:

·Seasonality, such as our historical seasonal decline in revenues in the first quarter of our fiscal year and seasonal increase in revenues in the second quarter of our fiscal year, with the latter due in part to the impact of the U.S. federal government's September 30 fiscal year end on the timing of its orders; and

·Linearity, such as our historical intra-quarter bookings and revenue pattern in which a disproportionate percentage of each quarter's total bookings and related revenue occur in the last month of the quarter.

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

Our gross margins vary.

Our gross margins reflect a variety of factors, including competitive pricing, component and product design, the volume and relative mix of product, software maintenance, hardware maintenance and other services revenues. Increased component costs,



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

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

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

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

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

The storage and data management markets are intensely competitive and are characterized by rapidly changing technology and fragmentation. We compete with many companies in the markets we serve. 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. Several of our key competitors have greater financial resources and offer a more diverse portfolio of products and services. By extending our flash and software-defined storage offerings, we are competing in new segments with both traditional competitors and new competitors, particularly smaller emerging storage vendors. The longer-term potential and competitiveness of these emerging vendors remains to be determined. In cloud and converged infrastructure, we also compete with large well-established competitors.

For information regarding our competitors, see the section entitled “Competition” contained in Item 1 – Business of Part I of our 2015 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 2015, Dell Inc. and EMC Corp. announced their agreement to merge. In addition, current and potential competitors have established or might establish cooperative relationships among themselves or with third parties, including some of our partners or suppliers.

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

Our growth strategy includes developing and maintaining strategic partnerships with major third-party software and hardware vendors to integrate our products into their products and also co-market our products with them. A number of these strategic partners are industry leaders that offer us expanded access to segments of the storage and data management markets. However, there is intense competition for attractive strategic partners, and these relationships

may not be exclusive, may not generate significant revenues and may be terminated on short notice. For instance, some of our partners are also partnering with our competitors, which may increase the availability of competing solutions and harm our ability to grow our relationships with those partners. Moreover, some of our partners, particularly large, more diversified technology companies, are also competitors, complicating our relationships. If we are unable to establish new partnerships or maintain existing partnerships, if our strategic partners favor their relationships with other vendors in the storage industry or if our strategic partners increasingly compete with us, we could experience lower than expected revenues, suffer delays in product development, or experience other harm to our business, operating results and financial condition.

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

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

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

A significant portion of our net revenues are generated through sales to a limited number of distributors. We generally do not enter into binding purchase commitments with our customers, resellers and distributors for extended periods of time, and thus we may not be able to continue to receive large, recurring orders from these customers, resellers or distributors. For example, our reseller agreements generally do not require minimum purchases, and our customers, resellers and distributors can stop purchasing and marketing our products at any time. In addition, unfavorable economic conditions may negatively impact the solvency of our customers, resellers and distributors or the ability of such customers, resellers and distributors to obtain credit to finance purchases of our products. If any of our key customers, resellers or distributors changes its pricing practices, reduces the size or frequency of its orders for our products, or stops purchasing our products altogether, our operating results and financial condition could be materially adversely impacted.

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

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

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

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

- Limited ability to control the quality, quantity and cost of our products or of their components;
- The potential for binding price or purchase commitments with our suppliers that are higher than market rates;
- Limited ability to adjust production volumes in response to our customers' demand fluctuations;
- Labor and political unrest at facilities we do not operate or own;
- Geopolitical disputes disrupting our supply chain;

·Business, legal compliance, litigation and financial concerns affecting our suppliers or their ability to manufacture and ship our products in the quantities, quality and manner we require; and

·Disruptions due to floods, earthquakes, storms and other natural disasters, particularly in countries with limited infrastructure and disaster recovery resources.

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

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

A significant portion of our operations are located, and a significant portion of our revenues are derived, outside of the U.S. In addition, a substantial portion of our products are manufactured outside of the U.S., and we have research and development and service centers overseas. Accordingly, our business and our future operating results could be adversely affected by factors affecting our international operations, but not experienced in the U.S., including, among other things, local political or economic conditions, trade protection and export and import requirements, local labor conditions, transportation costs, government spending patterns, acts

of terrorism, international conflicts and natural disasters in areas with limited infrastructure. In addition, due to the global nature of our business, we are subject to complex legal and regulatory requirements in the U.S. and the foreign jurisdictions in which we operate and sell our products, including antitrust and anti-competition laws, rules and regulations, and regulations related to data privacy. We are also subject to the potential loss of proprietary information due to piracy, misappropriation, or laws that may be less protective of our intellectual property rights than U.S. laws. Such factors could have an adverse impact on our business, operating results and financial condition.

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

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

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

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

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

We receive significant tax benefits from sales to our non-U.S. customers. These benefits are contingent upon existing tax laws and regulations in the U.S. and in the countries in which our international operations are located. Future changes in domestic or international tax laws and regulations could adversely affect our ability to continue to realize these tax benefits. We have not provided for U.S. federal and state income taxes or foreign withholding taxes that may result from future remittances of undistributed earnings of foreign subsidiaries. President Obama and the U.S. Congress have called for comprehensive tax reform which, among other things, might change certain U.S. tax rules impacting the way U.S. based multinationals are taxed on foreign income. Additionally, on October 5, 2015, the Organisation for Economic Co-operation and Development (OECD), an international association of 34 countries, including the U.S., released the final reports from its Base Erosion and Profit Shifting (BEPS) Action Plans. The BEPS recommendations covered a number of issues, including country-by-country reporting, permanent establishment rules, transfer pricing rules and tax treaties. On October 21, 2015, the European Commission (EC) concluded its investigations into tax ruling practices of certain European Union (EU) member countries. The EC concluded that certain member countries had granted unlawful rulings that artificially reduced tax burdens and has ordered the recovery of the unpaid taxes. Future tax reform resulting from these developments may result in changes to long-standing tax principles, which could adversely affect our effective tax rate or result in higher cash tax

liabilities.

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

Our effective tax rate could also be adversely affected by different and evolving interpretations of existing law or regulations, which in turn would negatively impact our operating and financial results as a whole. Additionally, our effective tax rate could also be adversely affected if there is a change in international operations and how the operations are managed and structured. The price of our common stock could decline to the extent that our financial results are materially affected by an adverse change in our effective tax rate.

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

Our products are complex. We have experienced in the past, and expect to experience in the future, quality issues. Quality risk is most acute when we are introducing new products. Quality issues have and could again in the future cause customers to experience outages or disruptions in service, data loss or data corruption. If we fail to remedy a product defect, we may experience a failure of a product line, temporary or permanent withdrawal from a product or market, damage to our reputation, loss of revenue, inventory costs or product reengineering expenses and higher ongoing warranty and service costs, and these occurrences could have a material impact on our gross margins, business and operating results. In addition, we exercise little control over how our customers use or maintain our products, and in some cases improper usage or maintenance could impair the performance of our products, which could lead to a perception of a quality issue. Customers and we may experience losses that may result from or be 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 regularly monitor or review the information or content that our clients and their customers upload and store, and, therefore, we have no direct control over the substance of the information or content stored within our platforms. If our employees, or our clients, partners or their respective customers use our platforms for the transmission or storage of personally identifiable or other sensitive information and our security measures are breached as a result of third-party action, employee error, malfeasance, stolen or fraudulently obtained log-in credentials or otherwise, our reputation could be damaged, our business may be harmed and we could incur significant liabilities.

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

Many jurisdictions have enacted laws requiring companies to notify individuals of data security breaches involving certain types of personal data. These mandatory disclosures regarding security breaches often lead to widespread negative publicity. Moreover, the



risk of reputational harm may be magnified and/or distorted through the rapid dissemination of information over the Internet, including through news articles, blogs, chat rooms, and social media sites. Any security breach, whether actual or perceived, could harm our reputation, erode customer confidence in the effectiveness of our data security measures, negatively impact our ability to attract new customers, cause existing customers to elect not to renew their support contracts, or subject us to third-party lawsuits, regulatory fines or other action or liability, which could materially and adversely affect our business and operating results.

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

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

Our continued success depends, in part, on our ability to hire and retain qualified personnel and to preserve the key aspects of our corporate culture. Because our future success is dependent on our ability to continue to enhance and introduce new products, we are particularly dependent on our ability to hire and retain qualified engineers. In addition, to increase revenues, we will be required to develop a larger and more effective sales force and support infrastructure to achieve adequate customer coverage. Competition for qualified employees, particularly in Silicon Valley, is intense. The loss of the services of a significant number of our employees, or our inability to hire 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.

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

The U.S. government is an important customer for us. However, government demand is uncertain, as it is subject to political and budgetary fluctuations and constraints. Events such as the U.S. federal government shutdown in October 2013 and continued uncertainty regarding the U.S. budget and debt levels, have increased demand uncertainty for our products, and in our fiscal 2014 and the first six months of fiscal 2016 resulted in lower sales to these customers. 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.

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

As of October 30, 2015, \$4.1 billion of cash, cash equivalents and short-term investments was held by our foreign subsidiaries. Under current law, repatriation of this cash may trigger significant adverse tax consequences in the U.S. As a result, if the cash generated by our domestic operations is not sufficient to fund our domestic operations and our broader corporate initiatives, such as stock repurchases, dividends, acquisitions, and other strategic opportunities, and to service our outstanding indebtedness, we may need to raise additional funds through public or private debt or equity financings, or we may need to obtain new credit facilities to the

extent we choose not to repatriate our overseas cash. Such additional financing may not be available on terms favorable to us, or at all, and any new equity financings or offerings would dilute our current stockholders' ownership. Furthermore, lenders may not agree to extend us new, additional or continuing credit. If adequate funds are not available, or are not available on acceptable terms, we may be forced to repatriate our foreign-held cash and incur a significant tax expense. In any such case, our business, operating results or financial condition could be adversely impacted.

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 2013, March 2014 and May 2015 we executed restructuring events designed to focus our resources on key strategic initiatives and streamline our business. 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.

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.

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.

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

Our ability to pay quarterly dividends and to continue to execute our stock repurchase program as planned will be subject to, among other things, our financial condition and operating results, available cash and cash flows in the U.S.,

capital requirements, and other factors. Future dividends are subject to declaration by our Board of Directors, and our stock repurchase program does not obligate us to acquire any specific number of shares. If we fail to meet any expectations related to dividends and/or stock repurchases, the market price of our stock could decline significantly, and could have a material adverse impact on investor confidence. Additionally, price volatility of our stock over a given period may cause the average price at which we repurchase our own stock to exceed the stock's market price at a given point in time.

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 fiscal 2015, we acquired the SteelStore product line from Riverbed Technology, Inc. The benefits we expect to receive from this and other acquisitions depend on our ability to successfully conduct due diligence, negotiate the terms of the acquisition and integrate the acquired business. Any inaccuracy in our acquisition assumptions, any failure to uncover liabilities or risks associated with the acquisition, any failure to make the acquisition on favorable terms, or any failure to integrate the acquired business or assets as and when expected, 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.

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

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

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

We have Senior Notes outstanding as of October 30, 2015 in an aggregate principal amount of \$1.5 billion that mature at specific dates in calendar 2017, 2021 and 2022. We have also established a revolving credit facility under which we may borrow an aggregate amount outstanding at any time of \$250 million, under which we had no borrowings outstanding as of October 30, 2015. We may fail to pay these obligations, as and when required. Specifically, if we are unable to generate sufficient cash flows from operations or to borrow sufficient funds in the future to service or refinance our debt, our business, operating results and financial condition will be harmed.

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

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

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

Our failure to adjust to emerging standards in the storage industry may harm our business.

Emerging standards in the storage and data management markets may adversely affect the UNIX®, 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 and distract senior executives from managing our normal day-to-day operations. Such collateral consequences could have a material adverse impact on our business, operating results and financial condition.

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

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

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

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

We are subject to intellectual property infringement claims. We may, from time to time, receive claims that we are infringing third parties' intellectual property rights. Third parties may in the future claim infringement by us with respect to current or future products, patents, trademarks or other proprietary rights. We expect that companies in the network storage and data management markets will increasingly be subject to infringement claims as the number of products and competitors in our industry segment grows and the functionality of products in different industry segments overlaps. Any such claims could be time consuming, result in costly litigation, cause product shipment delays, require us to redesign our products, or require us to enter into royalty or licensing agreements, any of which could materially and adversely affect our operating results. Such royalty or licensing agreements, if required, may not be available on terms acceptable to us or at all.

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

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

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

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



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

## Purchases of equity securities

The following table provides information with respect to the shares of common stock repurchased by us during the three months ended October 30, 2015:

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)
August 1, 2015 - August 28, 2015	2,252	\$ 30.19	229,511	\$ 1,962
August 29, 2015 - September 25, 2015	2,167	\$ 30.98	231,678	\$ 1,895
September 26, 2015 - October 30, 2015	1,633	\$ 29.38	233,311	\$ 1,847
Total	6,052	\$ 30.26		

In May 2003, our Board of Directors approved a stock repurchase program. As of October 30, 2015, our Board of Directors has authorized the repurchase of up to \$9.6 billion of our common stock. Since inception of the program through October 30, 2015, we repurchased a total of 233 million shares of our common stock for an aggregate purchase price of \$7.8 billion. As of October 30, 2015, the remaining authorized amount for stock repurchases was \$1.8 billion. Under this program, we may purchase shares of our outstanding common stock through open market and privately negotiated transactions at prices deemed appropriate by our management. The stock repurchase program may be suspended or discontinued at any time.

## Item 3. Defaults upon Senior Securities.

None

## Item 4. Mine Safety Disclosures.

Not Applicable.

## Item 5. Other Information.

None

Item 6. Exhibits.

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

SIGNATURE

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

NETAPP, INC.  
(Registrant)

/s/ NICHOLAS R. NOVIELLO  
Nicholas R. Noviello  
Executive Vice President,

Finance and Operations and  
Chief Financial Officer  
Date: December 2, 2015

## EXHIBIT INDEX

Exhibit No	Description	Incorporation by Reference			
		Form	File No.	Exhibit	Filing Date
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	—	—	—	—