NetApp, Inc.
Form 10-Q
December 02, 2016

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended October 28, 2016

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	77-0307520
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

495 East Java Drive,

Sunnyvale, California 94089

(Address of principal executive offices, including zip code)

(408) 822-6000

(Registrant’s telephone number, including area code)

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

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

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

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

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

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

As of November 18, 2016, there were 275,377,627 shares of the registrant's common stock, $0.001 par value, outstanding.

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TRADEMARKS

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PART I — FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

NETAPP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except par value)

(Unaudited)

	October 28, 2016	April 29, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,113	$ 2,868
Short-term investments	2,244	2,435
Accounts receivable	547	813
Inventories	97	98
Other current assets	219	234
Total current assets	5,220	6,448
Property and equipment, net	949	937
Goodwill	1,676	1,676
Other intangible assets, net	158	180
Other non-current assets	759	796
Total assets	$ 8,762	$ 10,037
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 253	$ 254
Accrued expenses	620	765
Short-term loan	—	849
Short-term deferred revenue and financed unearned services revenue	1,655	1,794
Total current liabilities	2,528	3,662
Long-term debt	1,492	1,490
Other long-term liabilities	407	413
Long-term deferred revenue and financed unearned services revenue	1,546	1,591
Total liabilities	5,973	7,156
Commitments and contingencies (Note 15)		

Stockholders' equity:		
Common stock and additional paid-in capital, $0.001 par value, (276 and 281 shares issued and outstanding as of October 28, 2016 and April 29, 2016, respectively)	2,830	2,912
Retained earnings	—	—
Accumulated other comprehensive loss	(41)	(31)
Total stockholders' equity	2,789	2,881
Total liabilities and stockholders' equity	$ 8,762	$ 10,037

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 28, 2016	October 30, 2015	October 28, 2016	October 30, 2015
Revenues:				
Product	$710	$ 815	$1,370	$ 1,479
Software maintenance	242	233	483	481
Hardware maintenance and other services	388	397	781	820
Net revenues	1,340	1,445	2,634	2,780
Cost of revenues:				
Cost of product	376	408	735	753
Cost of software maintenance	7	9	15	19
Cost of hardware maintenance and other services	128	144	258	308
Total cost of revenues	511	561	1,008	1,080
Gross profit	829	884	1,626	1,700
Operating expenses:				
Sales and marketing	418	448	847	940
Research and development	200	216	407	460
General and administrative	69	74	137	153
Restructuring and other charges	—	1	—	28
Total operating expenses	687	739	1,391	1,581
Income from operations	142	145	235	119
Other income (expense), net	—	(1)	(1)	3
Income before income taxes	142	144	234	122
Provision for income taxes	33	30	61	38
Net income	$109	$ 114	$173	$ 84
Net income per share:				
Basic	$0.39	$ 0.39	$0.62	$ 0.28
Diluted	$0.38	$ 0.39	$0.61	$ 0.28
Shares used in net income per share calculations:				
Basic	278	294	278	299
Diluted	284	296	283	302
Cash dividends declared per share	$0.190	$ 0.180	$0.380	$ 0.360

See accompanying notes to condensed consolidated financial statements.

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NETAPP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

(Unaudited)

.	Three Months Ended		Six Months Ended	
	October 28, 2016	October 30, 2015	October 28, 2016	October 30, 2015
Net income	$ 109	$ 114	$ 173	$ 84
Other comprehensive income (loss):				
Foreign currency translation adjustments	(5)	(1)	(11)	(2)
Defined benefit obligations:				
Reclassification adjustments related to defined benefit obligations	1	1	1	2
Unrealized gains (losses) on available-for-sale securities:				
Unrealized holding losses arising during the period	(5)	—	(2)	(9)
Reclassification adjustments for gains included in net income	—	(1)	—	(1)
Unrealized gains (losses) on cash flow hedges:				
Unrealized holding gains (losses) arising during the period	—	(1)	3	(3)
Reclassification adjustments for (gains) losses included in net income	(1)	1	(1)	2
Other comprehensive loss	(10)	(1)	(10)	(11)
Comprehensive income	$ 99	$ 113	$ 163	$ 73

See accompanying notes to condensed consolidated financial statements.

NETAPP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Six Months Ended	
	October 28, 2016	October 30, 2015
Cash flows from operating activities:		
Net income	$ 173	$ 84
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	117	136
Stock-based compensation	103	136
Deferred income taxes	28	(79)
Other non-cash items, net	(15)	27
Changes in assets and liabilities:		
Accounts receivable	264	189
Inventories	1	21
Other operating assets	49	59
Accounts payable	(13)	(60)
Accrued expenses	(138)	(88)
Deferred revenue and financed unearned services revenue	(179)	(137)
Other operating liabilities	(4)	(14)
Net cash provided by operating activities	386	274
Cash flows from investing activities:		
Purchases of investments	(795)	(886)
Maturities, sales and collections of investments	985	1,674
Purchases of property and equipment	(92)	(84)
Other investing activities, net	(1)	—
Net cash provided by investing activities	97	704
Cash flows from financing activities:		
Issuance of common stock under employee stock award plans	25	25
Repurchase of common stock	(292)	(613)
Repayment of short-term loan	(850)	—
Dividends paid	(105)	(107)
Other financing activities, net	(3)	1
Net cash used in financing activities	(1,225)	(694)
Effect of exchange rate changes on cash and cash equivalents	(13)	(8)
Net increase (decrease) in cash and cash equivalents	(755)	276
Cash and cash equivalents:		
Beginning of period	2,868	1,922

End of period	$2,113	$ 2,198

See accompanying notes to condensed consolidated financial statements.

NETAPP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Description of Business and Significant Accounting Policies

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

Basis of Presentation and Preparation

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

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company, and reflect all adjustments, consisting only of normal recurring adjustments, that are, in the opinion of management, necessary for the fair presentation of our financial position, results of operations, comprehensive income and cash flows for the interim periods presented. The statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information. Accordingly, these statements do not include all information and footnotes required by GAAP for annual consolidated financial statements, and should be read in conjunction with our audited consolidated financial statements as of and for the fiscal year ended April 29, 2016 contained in our Annual Report on Form 10-K. The results of operations for the three and six months ended October 28, 2016 are not necessarily indicative of the operating results to be expected for the full fiscal year or future operating periods.

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

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

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

The new standard eliminated the requirement to report excess tax benefits and certain tax deficiencies related to share-based payment transactions as additional paid-in capital. As a result, we recognized $17 million of tax deficiencies in our provision for income taxes, rather than additional paid–in capital, for the six months ended October 28, 2016.

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

There have been no other significant changes in our significant accounting policies as of and for the six months ended October 28, 2016, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended April 29, 2016.

2. Recent Accounting Standards Not Yet Effective

In May 2014, the FASB issued an accounting standards update related to the recognition and reporting of revenue that establishes a comprehensive new revenue recognition model designed to depict the transfer of goods or services to a customer in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. The guidance allows for the use of either the full or modified retrospective transition method. This new standard, as amended, will be effective for us in our first quarter of fiscal 2019, although adoption in our first quarter of fiscal 2018 is permitted. We are currently evaluating the impact of this new standard on our consolidated financial statements, as well as which transition method we intend to use and our planned adoption date.

In February 2016, the FASB issued an accounting standards update on financial reporting for leasing arrangements, including requiring lessees to recognize an operating lease with a term greater than one year on their balance sheets as a right-of-use asset and corresponding lease liability, measured at the present value of the lease payments. This new standard will be effective for us in our first quarter of fiscal 2020, although early adoption is permitted. Upon adoption, lessees must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. We are currently evaluating the impact of this new standard on our consolidated financial statements, as well as our planned adoption date.

In June 2016, the FASB issued an accounting standards update on the measurement of credit losses on financial instruments. The standard introduces a new model for measuring and recognizing credit losses on financial instruments, requiring financial assets measured at amortized cost basis to be presented at the net amount expected to be collected. It also requires that credit losses be recorded through an allowance for credit losses. This new standard will be effective for us in our first quarter of fiscal 2021, although early adoption in our first quarter of fiscal 2020 is permitted. Upon adoption, companies must apply a modified retrospective transition approach through a cumulative-effect adjustment to retained earnings, though a prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. We are currently evaluating the impact of this new standard on our consolidated financial statements, as well as our planned adoption date.

In October 2016, the FASB issued an accounting standards update that requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This amends current GAAP which prohibits recognition of current and deferred income taxes for all types of intra-entity asset transfers until the asset has been sold to an outside party. This new standard will be effective for us in our first fiscal quarter of fiscal 2019, although early adoption in our first quarter of fiscal 2018 is permitted. Upon adoption, companies must apply a modified retrospective transition approach through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. We are currently evaluating the impact of this new standard on our consolidated financial statements, as well as our planned adoption date.

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 28,	October 30,

	2016	2015
Non-cash Investing Activities:		
Capital expenditures incurred but not paid	$ 35	$ 15
Supplemental Cash Flow Information:		
Income taxes paid, net of refunds	$ 70	$ 94
Interest paid	$ 23	$ 20

4. Purchased Intangible Assets, Net

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

	October 28, 2016			April 29, 2016		
	Gross Assets	Accumulated Amortization	Net Assets	Gross Assets	Accumulated Amortization	Net Assets
Developed technology	$148	$ (28)	$ 120	$403	$ (289)	$ 114
Customer contracts/relationships	43	(11)	32	46	(7)	39
Other purchased intangibles	9	(3)	6	10	(2)	8
Total intangible assets subject to amortization	200	(42)	158	459	(298)	161
In-process research and development	—	—	—	19	—	19
Total purchased intangible assets	$200	$ (42)	$ 158	$478	$ (298)	$ 180

As of October 28, 2016, the in-process research and development project related to the SolidFire acquisition had been completed, and the associated intangible asset was included in developed technology.

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

	Three Months Ended		Six Months Ended		Statement of Operations
	October 28, 2016	October 30, 2015	October 28, 2016	October 30, 2015	Classifications
Developed technology	$ 7	$ 14	$ 13	$ 28	Cost of revenues
Customer contracts/relationships	3	—	7	—	Operating expenses
Other purchased intangibles	1	—	2	—	Operating expenses
Total	$ 11	$ 14	$ 22	$ 28	

As of October 28, 2016, future amortization expense related to purchased intangible assets subject to amortization is as follows (in millions):

Fiscal Year	Amount
Remainder of 2017	$ 26
2018	49
2019	42
2020	26
2021	15
Total	$ 158

5. Balance Sheet Details

Cash and cash equivalents (in millions):

	October 28, 2016	April 29, 2016
Cash	$ 1,876	$ 2,714
Cash equivalents	237	154
Cash and cash equivalents	$ 2,113	$ 2,868

Inventories (in millions):

	October 28, 2016	April 29, 2016
Purchased components	$ 10	$ 10
Finished goods	87	88
Inventories	$ 97	$ 98

Property and equipment, net (in millions):

	October 28, 2016	April 29, 2016
Land	$215	$215
Buildings and improvements	605	605
Leasehold improvements	107	106
Computer, production, engineering and other equipment	749	751
Computer software	352	352
Furniture and fixtures	88	88
Construction-in-progress	135	74
	2,251	2,191
Accumulated depreciation and amortization	(1,302)	(1,254)
Property and equipment, net	$949	$937

Other non-current assets (in millions):

	October 28, 2016	April 29, 2016
Deferred tax assets	$ 590	$ 621
Other assets	169	175
Other non-current assets	$ 759	$ 796

Accrued expenses (in millions):

	October 28, 2016	April 29, 2016
Accrued compensation and benefits	$ 288	$ 371
Product warranty liability	36	48
Other current liabilities	296	346
Accrued expenses	$ 620	$ 765

Product warranty liabilities:

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

	Three Months Ended		Six Months Ended	
	October 28, 2016	October 30, 2015	October 28, 2016	October 30, 2015
Balance at beginning of period	$ 61	$ 81	$ 70	$ 86
Expense accrued during the period	1	13	5	22
Warranty costs incurred	(8)	(14)	(21)	(28)
Balance at end of period	$ 54	$ 80	$ 54	$ 80

October 28, April 29,

	2016	2016
Accrued expenses	$ 36	$ 48
Other long-term liabilities	18	22
Total warranty liabilities	$ 54	$ 70

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 28, 2016	April 29, 2016
Deferred product revenue	$ 64	$ 68
Deferred services revenue	2,928	3,100
Financed unearned services revenue	209	217
Total	$ 3,201	$ 3,385
Reported as:		
Short-term	$ 1,655	$ 1,794
Long-term	1,546	1,591
Total	$ 3,201	$ 3,385

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 28, 2016	October 30, 2015	October 28, 2016	October 30, 2015
Interest income	$ 10	$ 11	$ 21	$ 24
Interest expense	(12)	(12)	(27)	(23)
Other income, net	2	—	5	2
Total other income (expense), net	$ —	$ (1)	$ (1)	$ 3

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 28, 2016				April 29, 2016			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate bonds	$1,234	$ 4	$ (1)	$ 1,237	$1,370	$ 5	$ (1)	$ 1,374
U.S. Treasury and government debt securities	669	1	(1)	669	878	2	—	880
Foreign government debt securities	27	—	—	27	35	—	—	35
Commercial paper	476	—	—	476	202	—	—	202
Certificates of deposit	72	—	—	72	98	—	—	98
Mutual funds	32	—	—	32	30	—	—	30
Total debt and equity securities	$2,510	$ 5	$ (2)	$ 2,513	$2,613	$ 7	$ (1)	$ 2,619

As of October 28, 2016, gross unrealized losses related to individual securities were not significant.

The following table presents the contractual maturities of our debt investments as of October 28, 2016 (in millions):

	Amortized Cost	Fair Value
Due in one year or less	$ 1,149	$1,150
Due after one year through five years	1,329	1,331
	$ 2,478	$2,481

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 28, 2016		
		Fair Value Measurements at Reporting Date Using	
	Total	Level 1	Level 2
Cash	$1,876	$1,876	$—
Corporate bonds	1,237	—	1,237
U.S. Treasury and government debt securities	669	215	454
Foreign government debt securities	27	—	27
Commercial paper	476	—	476
Certificates of deposit	72	—	72
Total cash, cash equivalents and short-term investments	$4,357	$2,091	$2,266
Other items:			
Mutual funds (1)	$6	$6	$—
Mutual funds (2)	$26	$26	$—
Foreign currency exchange contracts assets (1)	$7	$—	$7
Foreign currency exchange contracts liabilities (3)	$(2)	$—	$(2)

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

Our Level 2 debt instruments are held by a custodian who prices some of the investments using standard inputs in various asset price models or obtains investment prices from third-party pricing providers that incorporate standard

inputs in various asset price models. These pricing providers utilize the most recent observable market information in pricing these securities or, if specific prices are not available for these securities, use other observable inputs like market transactions involving identical or comparable securities. We review Level 2 inputs and fair value for reasonableness and the values may be further validated by comparison to multiple independent pricing sources. In addition, we review third-party pricing provider models, key inputs and assumptions and understand the pricing processes at our third-party providers in determining the overall reasonableness of the fair value of our Level 2 debt instruments. As of October 28, 2016 and April 29, 2016, we have not made any adjustments to the prices obtained from our third-party pricing providers.

Fair Value of Long-Term Debt

As of October 28, 2016 and April 29, 2016, the fair value of our long-term debt was approximately $1,533 million and $1,519 million, respectively. The fair value of our long-term debt was based on observable market prices in a less active market. 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 28, 2016		April 29, 2016	
	Amount	Effective Interest Rate	Amount	Effective Interest Rate
2.00% Senior Notes Due December 2017	$750	2.25 %	$750	2.25 %
3.375% Senior Notes Due June 2021	500	3.54 %	500	3.54 %
3.25% Senior Notes Due December 2022	250	3.43 %	250	3.43 %
Total principal amount	1,500		1,500	
Unamortized discount and issuance costs	(8)		(10)	
Total long-term debt	$1,492		$1,490	

Senior Notes

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

We may redeem the Senior Notes in whole or in part, at any time at our option at specified redemption prices. In addition, upon the occurrence of certain change of control triggering events, we may be required to repurchase the Senior Notes under specified terms. The Senior Notes also include covenants that limit our ability to incur debt secured by liens on assets or on shares of stock or indebtedness of our subsidiaries; to engage in certain sale and lease-back transactions; and to consolidate, merge or sell all or substantially all of our assets. As of October 28, 2016, we were in compliance with all covenants associated with the Senior Notes.

As of October 28, 2016, 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, as amended in February 2016, 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 $300 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 $50 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 28, 2016, no borrowings were outstanding under the facility and we were in compliance with all covenants associated with the facility.

Short-Term Loan

In February 2016, in connection with the SolidFire acquisition, we entered into a short-term loan of $870 million with a maturity of November 2, 2016. As of October 28, 2016, we have repaid the loan in full and have terminated the related loan agreement.

Sale-leaseback Transactions

In fiscal 2016, we entered into a sale-leaseback arrangement of certain of our land and buildings, under which we leased back certain of our properties rent free over lease terms ending at various dates ranging from March 31, 2017 to December 31, 2017, unless terminated early by us. Due to the existence of a prohibited form of continuing involvement, these properties did not qualify for sale-leaseback accounting and as a result they have been accounted for as financing transactions under lease accounting standards. Under the financing method, the assets will remain on our condensed consolidated balance sheets, and proceeds received by us from these transactions are reported as financing obligations. As of October 28, 2016, the balance of these financing obligations was $149 million. At the end of each respective leaseback period, or when our continuing involvement under the leaseback agreements ends, each transaction will be reported as a non-cash sale of land and buildings and extinguishment of financing obligations, and the difference between the then net book value of the properties and the unamortized balance of the financing obligations will be recognized as a gain on sale of properties.

9. Stockholders' Equity

Equity Incentive Awards

As of October 28, 2016, we have outstanding certain equity incentive awards (awards), which include stock options, restricted stock units (RSUs), including time-based RSUs and performance-based RSUs (PBRSUs), and Employee Stock Purchase Plan (ESPP) awards.

Stock Options

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

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding as of April 29, 2016	9	$ 34.01		
Exercised	(1)	$ 20.83		
Forfeited and expired	(2)	$ 39.23		
Outstanding as of October 28, 2016	6	$ 34.37	3.49	$ 32
Exercisable as of October 28, 2016	4	$ 39.88	2.42	$ 7

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 28,	October 30,
	2016	2015
Intrinsic value of exercises	$ 11	$ 8
Proceeds received from exercises	$ 20	$ 19
Fair value of options vested	$ 9	$ 7

Restricted Stock Units

In the six months ended October 28, 2016, we granted PBRSUs to certain of our executives. Each PBRSU has performance-based vesting criteria (in addition to the service based vesting criteria) such that the PBRSU cliff-vests at the end of either an approximate two year or three year performance period, which began on the date specified in the grant agreement and ends the last day of fiscal 2018 or 2019, respectively. The number of shares of common stock that will be issued to settle the PBRSUs at the end of the applicable performance and service period will range from 0% to 200% of a target number of shares originally granted, and will depend upon our Total Stockholder Return (TSR) as compared to an index TSR (each expressed as a growth rate percentage) calculated as of the applicable period end date. The fair values of the PBRSUs were fixed at grant date using a Monte Carlo simulation model and the related aggregate compensation cost of $15 million is being recognized over the shorter of the remaining applicable performance or service periods.

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

	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding as of April 29, 2016	13	$ 32.46
Granted	5	$ 24.10
Vested	(4)	$ 32.86
Forfeited	(2)	$ 32.50
Outstanding as of October 28, 2016	12	$ 28.59

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

	Six Months Ended	
	October 28, 2016	October 30, 2015
Shares withheld for taxes	1	1
Fair value of shares withheld	$ 36	$ 44

Employee Stock Purchase Plan

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

	Six Months Ended	
	October 28, 2016	October 30, 2015
Shares issued under the ESPP	2	2
Proceeds from issuance of shares	$ 42	$ 50

Stock-Based Compensation Expense

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

	Three Months Ended		Six Months Ended	
	October 28,	October 30,	October 28,	October 30,
	2016	2015	2016	2015
Cost of product revenues	$ 1	$ 1	$ 2	$ 3
Cost of hardware maintenance and other services revenues	3	4	7	10
Sales and marketing	21	26	44	57
Research and development	17	18	32	44
General and administrative	9	10	18	22
Total stock-based compensation expense	$ 51	$ 59	$ 103	$ 136

As of October 28, 2016, total unrecognized compensation expense related to our equity awards was $311 million, which is expected to be recognized on a straight-line basis over a weighted-average remaining service period of 2.1 years.

Stock Repurchase Program

As of October 28, 2016, our Board of Directors has authorized the repurchase of up to $9.6 billion of our common stock. Under this program, which we may suspend or discontinue at any time, we may purchase shares of our outstanding common stock through open market and privately negotiated transactions at prices deemed appropriate by our management.

The following table summarizes activity related to this program for the six months ended October 28, 2016 (in millions, except per share amounts):

Number of shares repurchased	11
Average price per share	$27.60
Aggregate purchase price	$292
Remaining authorization at end of period	$1,208

The aggregate purchase price of our stock repurchases for the six months ended October 28, 2016 consisted of $292 million of open market purchases, of which $127 million and $165 million were allocated to additional paid-in capital and retained earnings, respectively.

Since the May 13, 2003 inception of our stock repurchase program through October 28, 2016, we repurchased a total of 258 million shares of our common stock at an average price of $32.64 per share, for an aggregate purchase price of $8.4 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 28, 2016	October 30, 2015
Dividends per share declared	$0.38	$ 0.36
Dividend payments allocated to additional paid-in capital	$76	$ 84
Dividend payments allocated to retained earnings	$29	$ 23

On November 16, 2016, we declared a cash dividend of $0.19 per share of common stock, payable on January 25, 2017 to holders of record as of the close of business on January 6, 2017. The timing and amount of future dividends will depend on market conditions, corporate business and financial considerations and regulatory requirements. All dividends declared have been determined by us to be legally authorized under the laws of the state in which we are incorporated.

Retained Earnings

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

Balance as of April 29, 2016	$—
Cumulative-effect of new accounting principle	21
Net income	173
Repurchases of common stock	(165)

Dividends	(29)
Balance as of October 28, 2016	$—

Accumulated Other Comprehensive Income (Loss)

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

	Foreign Currency Translation Adjustments	Defined Benefit Obligation Adjustments	Unrealized Gains (Losses) on Available-for-Sale Securities	Unrealized Gains (Losses) on Derivative Instruments	Total
Balance as of April 29, 2016	$ (19)	$ (16)	$ 6	$ (2)	$ (31)
OCI before reclassifications, net of tax	(11)	—	(2)	3	(10)
Amounts reclassified from AOCI, net of tax	—	1	—	(1)	—
Total OCI	(11)	1	(2)	2	(10)
Balance as of October 28, 2016	$ (30)	$ (15)	$ 4	$ —	$ (41)

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

	Three Months Ended		Six Months Ended		
	October 28, 2016	October 30, 2015	October 28, 2016	October 30, 2015	
	Amounts Reclassified from AOCI		Amounts Reclassified from AOCI		Statements of Operations Location
Recognized losses on defined benefit obligations	$ 1	1	$ 1	$ 2	Operating expenses
Realized gains on available-for-sale securities	—	(1)	—	(1)	Other income (expense), net
Realized (gains) losses on cash flow hedges	(1)	1	(1)	2	Net revenues
Total reclassifications	$ —	$ 1	$ —	$ 3	

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 28, 2016 and April 29, 2016. We did not recognize any gains and losses in earnings due to hedge ineffectiveness for any period presented. All contracts have a maturity of less than six months.

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

	October 28, 2016	April 29, 2016
Cash Flow Hedges		
Forward contracts purchased	$ 127	$99

Balance Sheet Contracts		
Forward contracts sold	$ 189	$ 160
Forward contracts purchased	$ 281	$ 396

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

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

	Three Months Ended		Six Months Ended	
	October 28,	October 30,	October 28,	October 30,
	2016	2015	2016	2015
	Gain Recognized into Income		Gain (Loss) Recognized into Income	
Foreign currency exchange contracts	$ 2	$ —	$ 6	$ (7)

11. Restructuring and Other Charges

During fiscal 2016, management approved two restructuring actions to streamline our business, eliminate costs and redirect resources to our highest return activities. These actions consisted of the May 2015 Plan and the March 2016 Plan, under which we reduced our global workforce by an aggregate of approximately 14%. These plans have been completed as of October 28, 2016. Restructuring and other charges related to these plans consisted primarily of employee severance-related costs.

Activities related to the fiscal 2016 restructuring actions are summarized as follows (in millions):

	Six Months Ended October 28, 2016	Six Months Ended October 30, 2015
Balance at beginning of period	$ 45	$ —
Net charges	—	28
Cash payments	(42)	(23)
Balance at end of period	$ 3	$ 5

12. Income Taxes

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

	Six Months Ended	
	October 28, 2016	October 30, 2015
Effective tax rates	26.1 %	31.1 %

Our effective tax rates reflect the impact of a significant amount of our earnings, primarily income from our European operations which are headquartered in the Netherlands, being taxed in foreign jurisdictions at rates below the U.S. statutory tax rate. The differences in effective tax rates for the six months ended October 28, 2016 and October 30, 2015 were primarily a result of differences in year-to-date profits before tax and the impacts of discrete events as described below.

During the first quarter of fiscal 2017, we adopted a new accounting standard that simplifies stock-based compensation income tax accounting and presentation within the financial statements. During the six months ended October 28, 2016, we recorded discrete charges of $17 million following the post-adoption rules which require that all excess tax benefits and deficiencies from stock-based compensation be recognized as a component of income tax expense. See Note 1 – Description of Business and Significant Accounting Policies for more details regarding the adoption of this accounting standard.

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

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

	Six Months Ended	
	October 28,	October 30,
	2016	2015
Balance at beginning of period	$216	$ 272
Additions based on tax positions related to the current year	3	7
Additions for tax positions of prior years	5	20
Decreases for tax positions of prior years	—	(38)
Settlements	(12)	(52)
Balance at end of period	$212	$ 209

As of October 28, 2016, we had $212 million of gross unrecognized tax benefits, of which $154 million has been recorded in other long-term liabilities. Unrecognized tax benefits of $156 million, including penalties, interest and indirect benefits, would affect our provision for income taxes if recognized.

We are currently undergoing income tax audits in the United States (U.S.) and several foreign tax jurisdictions. Transfer pricing calculations are key issues under audits in various jurisdictions, and are often subject to dispute and appeals. The IRS has concluded the examination of our federal income tax returns for our fiscal years through 2010. The IRS commenced the examination of our federal income tax returns for our fiscal years 2012 and 2013 in August 2016.

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

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

13. Net Income per Share

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

	Three Months Ended		Six Months Ended	
	October 28, 2016	October 30, 2015	October 28, 2016	October 30, 2015
Numerator:				
Net income	$109	$ 114	$173	$ 84
Denominator:				
Shares used in basic computation	278	294	278	299
Dilutive impact of employee equity award plans	6	2	5	3
Shares used in diluted computation	284	296	283	302
Net Income per Share:				
Basic	$0.39	$ 0.39	$0.62	$ 0.28
Diluted	$0.38	$ 0.39	$0.61	$ 0.28

We have excluded 5 million and 19 million weighted-average shares of common stock potentially issuable under employee equity award plans in the three months ended October 28, 2016 and October 30, 2015, respectively, and 10 million and 14 million shares of common stock potentially issuable under employee equity award plans in the six months ended October 28, 2016 and October 30, 2015, 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 28, 2016	October 30, 2015	October 28, 2016	October 30, 2015
United States, Canada and Latin America (Americas)	$768	$ 819	$1,504	$ 1,564
Europe, Middle East and Africa (EMEA)	396	430	783	845
Asia Pacific (APAC)	176	196	347	371
Net revenues	$1,340			