NetApp, Inc.
Form 10-Q
August 29, 2017
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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 July 28, 2017

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 000-27130

NetApp, Inc.

(Exact name of registrant as specified in its charter)

Delaware	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, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

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

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

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 August 16, 2017, there were 269,757,582 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)

	July 28, 2017	April 28, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$2,951	$2,444
Short-term investments	2,370	2,477
Accounts receivable	518	731
Inventories	143	163
Other current assets	316	383
Total current assets	6,298	6,198
Property and equipment, net	799	799
Goodwill	1,701	1,684
Other intangible assets, net	124	131
Other non-current assets	677	681
Total assets	$9,599	$9,493
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$289	$347
Accrued expenses	653	782
Commercial paper notes	894	500
Current portion of long-term debt	749	749
Short-term deferred revenue and financed unearned services revenue	1,702	1,744
Total current liabilities	4,287	4,122
Long-term debt	745	744
Other long-term liabilities	250	249
Long-term deferred revenue and financed unearned services revenue	1,549	1,598
Total liabilities	6,831	6,713
Commitments and contingencies (Note 16)		

Stockholders' equity:		
Common stock and additional paid-in capital, $0.001 par value; 270 and 269 shares issued and outstanding as of July 28, 2017 and April 28, 2017, respectively	2,771	2,769
Retained earnings	10	40
Accumulated other comprehensive loss	(13)	(29)
Total stockholders' equity	2,768	2,780
Total liabilities and stockholders' equity	$9,599	$9,493

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	
	July 28, 2017	July 29, 2016
Revenues:		
Product	$723	$660
Software maintenance	234	241
Hardware maintenance and other services	368	393
Net revenues	1,325	1,294
Cost of revenues:		
Cost of product	371	359
Cost of software maintenance	7	8
Cost of hardware maintenance and other services	113	130
Total cost of revenues	491	497
Gross profit	834	797
Operating expenses:		
Sales and marketing	425	429
Research and development	193	207
General and administrative	68	68
Total operating expenses	686	704
Income from operations	148	93
Other income (expense), net	5	(1)
Income before income taxes	153	92
Provision for income taxes	17	28
Net income	$136	$64
Net income per share:		
Basic	$0.50	$0.23
Diluted	$0.49	$0.23
Shares used in net income per share calculations:		
Basic	270	279
Diluted	278	282
Cash dividends declared per share	$0.20	$0.19

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	
	July 28, 2017	July 29, 2016
Net income	$ 136	$ 64
Other comprehensive income (loss):		
Foreign currency translation adjustments	10	(6)
Unrealized gains on available-for-sale securities:		
Unrealized holding gains arising during the period	6	3
Unrealized gains on cash flow hedges:		
Unrealized holding gains arising during the period	—	3
Other comprehensive income (loss)	16	—
Comprehensive income	$ 152	$ 64

See accompanying notes to condensed consolidated financial statements.

NETAPP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Three Months Ended	
	July 28, 2017	July 29, 2016
Cash flows from operating activities:		
Net income	$136	$64
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	51	60
Stock-based compensation	48	52
Deferred income taxes	2	19
Other items, net	5	(7)
Changes in assets and liabilities, net of acquisition of business:		
Accounts receivable	218	311
Inventories	20	17
Other operating assets	71	32
Accounts payable	(58)	(30)
Accrued expenses	(135)	(198)
Deferred revenue and financed unearned services revenue	(107)	(83)
Other operating liabilities	(1)	(9)
Net cash provided by operating activities	250	228
Cash flows from investing activities:		
Purchases of investments	(275)	(285)
Maturities, sales and collections of investments	387	598
Purchases of property and equipment	(36)	(36)
Acquisition of business, net of cash acquired	(24)	—
Other investing activities, net	5	(1)
Net cash provided by investing activities	57	276
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee stock award plans	48	42
Payments for taxes related to net share settlement of stock awards	(57)	(33)
Repurchase of common stock	(150)	(175)
Proceeds from issuance of commercial paper notes, net	394	—
Repayment of short-term loan	—	(850)
Dividends paid	(54)	(53)
Other financing activities, net	—	(2)
Net cash provided by (used in) financing activities	181	(1,071)

Effect of exchange rate changes on cash and cash equivalents	19	(7)
Net increase (decrease) in cash and cash equivalents	507	(574)
Cash and cash equivalents:		
Beginning of period	2,444	2,868
End of period	$2,951	$2,294

See accompanying notes to condensed consolidated financial statements.

NETAPP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Description of Business and Significant Accounting Policies

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

Basis of Presentation and Preparation

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

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company, and reflect all adjustments, consisting only of normal recurring adjustments, that are, in the opinion of management, necessary for the fair presentation of our financial position, results of operations, comprehensive income and cash flows for the interim periods presented. The statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information. Accordingly, these statements do not include all information and footnotes required by GAAP for annual consolidated financial statements, and should be read in conjunction with our audited consolidated financial statements as of and for the fiscal year ended April 28, 2017 contained in our Annual Report on Form 10-K. The results of operations for the three months ended July 28, 2017 are not necessarily indicative of the operating results to be expected for the full fiscal year or future operating periods.

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

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

2. Recent Accounting Standards Not Yet Effective

Revenue from Contracts with Customers

In May 2014, the FASB issued an accounting standards update related to the recognition and reporting of revenue that establishes a comprehensive new revenue recognition model designed to depict the transfer of goods or services to a customer in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. The guidance allows for the use of either the full or modified retrospective transition method. We expect to adopt this new standard, as amended, on its effective date in the first quarter of fiscal 2019.

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

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

- removal of the current limitation on contingent revenue for multiple element arrangements, such as that related to the delivery of additional items or meeting other specified performance conditions, may result in revenue being recognized earlier;

- estimation of variable consideration for arrangements with contract terms such as rights of return, potential penalties and acceptance clauses;
- required disclosures, including information about the transaction price allocated to remaining performance obligations and expected timing of revenue recognition; and
- accounting for deferred commissions, including costs that qualify for deferral and the amortization period.

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

Leases

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

Credit Losses on Financial Instruments

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

Income Taxes on Intra-Entity Transfers of Assets

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

Derecognition of Non-Financial Assets

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

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

3. Statements of Cash Flows Additional Information

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

	Three Months Ended	
	July 28, 2017	July 29, 2016
Non-cash Investing Activities:		
Capital expenditures incurred but not paid	$18	$ 38
Supplemental Cash Flow Information:		
Income taxes paid, net of refunds	$22	$ 62
Interest paid	$21	$ 23

4. Business Combination

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

5. Goodwill and Purchased Intangible Assets, Net

Goodwill activity is summarized as follows (in millions):

Balance as of April 28, 2017	$1,684
Additions	17
Balance as of July 28, 2017	$1,701

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

	July 28, 2017			April 28, 2017		
	Gross Assets	Accumulated Amortization	Net Assets	Gross Assets	Accumulated Amortization	Net Assets
Developed technology	$154	$ (52)	$ 102	$148	$ (44)	$ 104
Customer contracts/relationships	43	(23)	20	43	(19)	24
Other purchased intangibles	9	(7)	2	9	(6)	3
Total purchased intangible assets	$206	$ (82)	$ 124	$200	$ (69)	$ 131

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

	Three Months Ended July 28, 2017	July 29, 2016	Statements of Operations Classification
Developed technology	$ 8	$ 6	Cost of revenues
Customer contracts/relationships	4	4	Operating expenses
Other purchased intangibles	1	1	Operating expenses
Total	$ 13	$ 11	

As of July 28, 2017, future amortization expense related to purchased intangible assets is as follows (in millions):

Fiscal Year	Amount
Remainder of 2018	$ 38
2019	44
2020	27
2021	15
Total	$ 124

6. Balance Sheet Details

Cash and cash equivalents (in millions):

	July 28, 2017	April 28, 2017
Cash	$2,630	$2,275
Cash equivalents	321	169
Cash and cash equivalents	$2,951	$2,444

Inventories (in millions):

	July 28, 2017	April 28, 2017
Purchased components	$59	$28
Finished goods	84	135
Inventories	$143	$163

Property and equipment, net (in millions):

	July 28, 2017	April 28, 2017
Land	$132	$132
Buildings and improvements	643	612
Leasehold improvements	95	93
Computer, production, engineering and other equipment	751	741
Computer software	352	353
Furniture and fixtures	94	90
Construction-in-progress	2	26
	2,069	2,047
Accumulated depreciation and amortization	(1,270)	(1,248)
Property and equipment, net	$799	$799

We have classified certain land and buildings previously reported as property and equipment as assets held-for-sale. The book value of these assets is $118 million and is included in other current assets in the condensed consolidated balance sheets.

Other non-current assets (in millions):

	July 28, 2017	April 28, 2017
Deferred tax assets	$523	$525
Other assets	154	156
Other non-current assets	$677	$681

Accrued expenses (in millions):

	July 28, 2017	April 28, 2017
Accrued compensation and benefits	$240	$340
Sale-leaseback financing obligations	130	130
Product warranty liabilities	29	33
Other current liabilities	254	279
Accrued expenses	$653	$782

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	
	July 28, 2017	July 29, 2016
Balance at beginning of period	$ 50	$ 70
Expense accrued during the period	1	4
Warranty costs incurred	(7)	(13)
Balance at end of period	$ 44	$ 61

	July 28, 2017	April 28, 2017
Accrued expenses	$ 29	$ 33
Other long-term liabilities	15	17
Total warranty liabilities	$ 44	$ 50

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):

	July 28, 2017	April 28, 2017
Deferred product revenue	$ 123	$ 124
Deferred services revenue	2,942	2,999
Financed unearned services revenue	186	219
Total	$ 3,251	$ 3,342
Reported as:		
Short-term	$ 1,702	$ 1,744
Long-term	1,549	1,598
Total	$ 3,251	$ 3,342

Deferred product revenue represents unrecognized revenue related to undelivered product commitments and other product deliveries that have not met all revenue recognition criteria. Deferred services revenue represents customer payments made in advance for services, which include software and hardware maintenance contracts and other services. Financed unearned services revenue represents undelivered services for which cash has been received under certain third-party financing arrangements. See Note 16 for additional information related to these arrangements.

7. Other income (expense), net

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

	Three Months Ended	
	July 28, 2017	July 29, 2016
Interest income	$ 16	$ 11
Interest expense	(13)	(15)
Other income, net	2	3
Total other income (expense), net	$ 5	$ (1)

8. Financial Instruments and Fair Value Measurements

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

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

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

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

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

Investments

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

	July 28, 2017				April 28, 2017			
	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	$1,600	$ 8	$ (1)	$ 1,607	$1,535	$ 3	$ (2)	$ 1,536
U.S. Treasury and government debt securities	557	—	(2)	555	629	1	(2)	628
Foreign government debt securities	21	—	—	21	21	—	—	21
Commercial paper	409	—	—	409	362	—	—	362
Certificates of deposit	99	—	—	99	99	—	—	99
Mutual funds	32	—	—	32	31	—	—	31
Total debt and equity securities	$2,718	$ 8	$ (3)	$ 2,723	$2,677	$ 4	$ (4)	$ 2,677

As of July 28, 2017 and April 28, 2017, gross unrealized losses related to individual securities were not significant.

The following table presents the contractual maturities of our debt investments as of July 28, 2017 (in millions):

	Amortized Cost	Fair Value
Due in one year or less	$ 1,227	$1,226
Due after one year through five years	1,157	1,159
Due after five years through ten years	297	301
Due after ten years	5	5
	$ 2,686	$2,691

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):

	July 28, 2017		
		Fair Value Measurements at Reporting Date Using	
	Total	Level 1	Level 2
Cash	$2,630	$2,630	$—
Corporate bonds	1,607	—	1,607
U.S. Treasury and government debt securities	555	216	339
Foreign government debt securities	21	—	21
Commercial paper	409	—	409
Certificates of deposit	99	—	99
Total cash, cash equivalents and short-term investments	$5,321	$2,846	$2,475
Other items:			
Mutual funds (1)	$6	$6	$—
Mutual funds (2)	$26	$26	$—
Foreign currency exchange contracts assets (1)	$2	$—	$2
Foreign currency exchange contracts liabilities (3)	$(4)	$—	$(4)

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

Fair Value of Debt

As of July 28, 2017 and April 28, 2017, the fair value of our long-term debt was approximately $1,523 million and $1,520 million, respectively. The fair value of our long-term debt was based on observable market prices in a less active market. The fair value of our commercial paper notes approximated their carrying value. All of our debt obligations are categorized as Level 2 instruments.

9. Financing Arrangements

Long-Term Debt

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

	July 28, 2017		April 28, 2017	
	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	(6)		(7)	
Total senior notes	1,494		1,493	
Less: Current portion of long-term debt	(749)		(749)	
Total long-term debt	$745		$744	

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Senior Notes

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

We may redeem the Senior Notes in whole or in part, at any time at our option at specified redemption prices. In addition, upon the occurrence of certain change of control triggering events, we may be required to repurchase the Senior Notes under specified terms. The Senior Notes also include covenants that limit our ability to incur debt secured by liens on assets or on shares of stock or indebtedness of our subsidiaries; to engage in certain sale and lease-back transactions; and to consolidate, merge or sell all or substantially all of our assets. As of July 28, 2017, we were in compliance with all covenants associated with the Senior Notes.

As of July 28, 2017, our aggregate future principal debt maturities are as follows (in millions):

Fiscal Year	Amount
2018	$ 750
2022	500
Thereafter	250
Total	$ 1,500

Commercial Paper Program and Credit Facility

We have a commercial paper program (the Program), under which we may issue unsecured commercial paper notes. Amounts available under the Program, as amended on July 17, 2017, may be borrowed, repaid and re-borrowed, with the aggregate face or principal amount of the notes outstanding under the Program at any time not to exceed $1.0 billion. The maturities of the notes can vary, but may not exceed 397 days from the date of issue. The notes are sold under customary terms in the commercial paper market and may be issued at a discount from par or, alternatively, may be sold at par and bear interest at rates dictated by market conditions at the time of their issuance. The proceeds from the issuance of the notes are used for general corporate purposes. As of July 28, 2017, we had commercial paper notes outstanding with an aggregate principal amount of $895 million, a weighted-average interest rate of 1.45% and maturities ranging from 13 days to 56 days. As of April 28, 2017, we had commercial paper notes outstanding with an aggregate principal amount of $500 million, a weighted-average interest rate of 1.26% and maturities ranging from 7 days to 38 days.

In connection with the Program, we have a senior unsecured credit agreement with a syndicated group of lenders that expires on December 10, 2021. The credit agreement, as amended on July 17, 2017, provides a $1.0 billion revolving unsecured credit facility, with a $50 million letter of credit sub-facility, that serves as a back-up for the Program. Proceeds from the facility may also be used for general corporate purposes to the extent that the credit facility exceeds the outstanding debt issued under the Program. The credit agreement includes options that allow us to request an increase in the facility of up to an additional $300 million and to extend its maturity date for two additional one-year periods, both subject to certain conditions. As of July 28, 2017 we were in compliance with all associated covenants in this agreement. No amounts were drawn against this facility during any of the periods presented.

Sale-leaseback Transactions

In fiscal 2016, we entered into a sale-leaseback arrangement of certain of our land and buildings, under which we leased back certain of our properties rent free over lease terms ending at various dates ranging from March 31, 2017 to

December 31, 2017, unless terminated early by us. Due to the existence of a prohibited form of continuing involvement, these properties did not qualify for sale-leaseback accounting and as a result they have been accounted for as financing transactions under lease accounting standards. Under the financing method, until such time as the related leases are terminated, the assets will remain on our condensed consolidated balance sheets and proceeds received by us from these transactions are reported as financing obligations. As of July 28, 2017, the balance of the remaining financing obligations, which relate to properties whose leases we expect to terminate in December 2017, was $130 million. At the end of the leaseback period, or when our continuing involvement under the leaseback agreement ends, this transaction will be reported as a non-cash sale and extinguishment of financing obligations, and the difference between the then net book value of the properties and the unamortized balance of the financing obligations will be recognized as a gain.

10. Stockholders' Equity

Equity Incentive Awards

As of July 28, 2017, we have certain equity incentive awards (awards) outstanding, which include stock options, restricted stock units (RSUs), including time-based RSUs and performance-based RSUs (PBRSUs), and Employee Stock Purchase Plan (ESPP) awards.

Stock Options

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

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding as of April 28, 2017	4	$ 35.76		
Outstanding as of July 28, 2017	4	$ 36.87	2.91	$ 34
Exercisable as of July 28, 2017	3	$ 41.07	2.18	$ 17

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):

	Three Months Ended July 28, 2017	July 29, 2016
Intrinsic value of exercises	$ 5	$ 3
Proceeds received from exercises	$ 6	$ 1
Fair value of options vested	$ 3	$ 5

Restricted Stock Units

In the three months ended July 28, 2017, we granted PBRSUs to certain of our executives. Each PBRSU has performance-based vesting criteria (in addition to the service based vesting criteria) such that the PBRSU cliff-vests at the end of either an approximate two year or three year performance period, which began on the date specified in the grant agreement and ends the last day of the second or third fiscal year, respectively, following the grant date. The number of shares of common stock that will be issued to settle the PBRSUs at the end of the applicable performance and service period will range from 0% to 200% of a target number of shares originally granted, and will depend upon our Total Stockholder Return (TSR) as compared to an index TSR (each expressed as a growth rate percentage) calculated as of the applicable period end date. The fair values of the PBRSUs were fixed at grant date using a Monte Carlo simulation model and the related aggregate compensation cost of $20 million is being recognized over the shorter of the remaining applicable performance or service periods.

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

	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding as of April 28, 2017	11	$ 28.81
Granted	4	$ 38.42
Vested	(4)	$ 31.06
Forfeited	(1)	$ 26.96
Outstanding as of July 28, 2017	10	$ 31.52

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):

	Three Months Ended	
	July 28, 2017	July 29, 2016
Shares withheld for taxes	1	1
Fair value of shares withheld	$57	$ 33

Employee Stock Purchase Plan

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

	Three Months Ended	
	July 28, 2017	July 29, 2016
Shares issued under the ESPP	2	2
Proceeds from issuance of shares	$42	$ 42

Stock-Based Compensation Expense

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

	Three Months Ended	
	July 28, 2017	July 29, 2016
Cost of product revenues	$1	$ 1
Cost of hardware maintenance and other services revenues	3	4
Sales and marketing	21	23
Research and development	15	15
General and administrative	8	9
Total stock-based compensation expense	$48	$ 52
Income tax benefit for stock-based compensation	$9	$ 9

As of July 28, 2017, total unrecognized compensation expense related to our equity awards was $304 million, which is expected to be recognized on a straight-line basis over a weighted-average remaining service period of 2.5 years.

Stock Repurchase Program

As of July 28, 2017, our Board of Directors has authorized the repurchase of up to $9.6 billion of our common stock. Under this program, which we may suspend or discontinue at any time, we may purchase shares of our outstanding common stock through open market and privately negotiated transactions at prices deemed appropriate by our management.

The following table summarizes activity related to this program for the three months ended July 28, 2017 (in millions, except per share amounts):

Number of shares repurchased	4
Average price per share	$40.56
Aggregate purchase price	$150
Remaining authorization at end of period	$644

The aggregate purchase price of our stock repurchases for the three months ended July 28, 2017 consisted of $150 million of open market purchases, of which $38 million and $112 million were allocated to additional paid-in capital and retained earnings, respectively.

Since the May 13, 2003 inception of our stock repurchase program through July 28, 2017, we repurchased a total of 273 million shares of our common stock at an average price of $32.94 per share, for an aggregate purchase price of $9.0 billion.

Dividends

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

	Three Months Ended July 28, 2017	July 29, 2016
Dividends per share declared	$0.20	$ 0.19
Dividend payments allocated to additional paid-in capital	$—	$ 50
Dividend payments allocated to retained earnings	$54	$ 3

On August 16, 2017, we declared a cash dividend of $0.20 per share of common stock, payable on October 25, 2017 to holders of record as of the close of business on October 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 28, 2017	$40
Net income	136
Repurchases of common stock	(112)
Dividends	(54)
Balance as of July 28, 2017	$10

Accumulated Other Comprehensive Income (Loss)

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

	Foreign Currency Translation Adjustments	Unrealized Gains (Losses) on Available-	Total

		for-Sale Securities	
Balance as of April 28, 2017	$ (29)	$ —	$ (29)
Other comprehensive income, net of tax	10	6	16
Balance as of July 28, 2017	$ (19)	$ 6	$ (13)

11. Derivatives and Hedging Activities

We use derivative instruments to manage exposures to foreign currency risk. Our primary objective in holding derivatives is to reduce the volatility of earnings and cash flows associated with changes in foreign currency exchange rates. The maximum length of time over which forecasted foreign currency denominated revenues are hedged is six months. The program is not designated for trading or speculative purposes. Our derivatives expose us to credit risk to the extent that the counterparties may be unable to meet the terms of 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 July 28, 2017 or April 28, 2017. We did not recognize any gains or losses in earnings due to hedge ineffectiveness for any period presented. All contracts have a maturity of less than six months.

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

	July 28, 2017	April 28, 2017
Balance Sheet Contracts		
Forward contracts sold	$ 102	$ 165
Forward contracts purchased	$ 293	$ 257

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

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	
	July 28, 2017	July 29, 2016
	Gain (Loss) Recognized into Income	
Foreign currency exchange contracts	$ (2)	$ 4

12. Restructuring Charges

Management has previously approved several restructuring actions to streamline our business, eliminate costs and redirect resources to our highest return activities, including the March 2016 Plan and the November 2016 Plan, under which we reduced our global workforce by approximately 11%, and 6%, respectively. We completed all workforce related activities under these plans as of the end of fiscal 2017. Charges related to our restructuring plans consisted primarily of employee severance-related costs.

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

	Three Months Ended July 28, 2017	Three Months Ended July 29, 2016
	November 2016 Plan	March 2016 Plan
Balance at beginning of period	$ 13	$ 45
Cash payments	(4)	(36)
Balance at end of period	$ 9	$ 9

13. Income Taxes

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

	Three Months Ended	
	July 28, 2017	July 29, 2016
Effective tax rates	11.1 %	30.4 %

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 three months ended July 28, 2017 and July 29, 2016 were primarily a result of differences in discrete impacts related to stock-based compensation and differences in year-to-date profits before tax.

As of July 28, 2017, we had $220 million of gross unrecognized tax benefits, of which $156 million has been recorded in other long-term liabilities. Unrecognized tax benefits of $161 million, including penalties, interest and indirect benefits, would affect our provision for income taxes if recognized.

We are currently undergoing federal 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 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.

14. 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	
	July 28, 2017	July 29, 2016
Numerator:		
Net income	$136	$ 64
Denominator:		
Shares used in basic computation	270	279
Dilutive impact of employee equity award plans	8	3
Shares used in diluted computation	278	282
Net Income per Share:		
Basic	$0.50	$ 0.23
Diluted	$0.49	$ 0.23

Potential shares from outstanding employee equity awards totaling 2 million and 15 million for the three months ended July 28, 2017 and July 29, 2016, respectively, were excluded from the diluted net income per share calculations as their inclusion would have been anti-dilutive.

15. Segment, Geographic, and Significant Customer Information

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

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

	Three Months Ended	
	July 28, 2017	July 29, 2016
United States, Canada and Latin America (Americas)	$726	$ 736
Europe, Middle East and Africa (EMEA)	401	387
Asia Pacific (APAC)	198	171

Net revenues