

NetApp, Inc.
Form 10-Q
August 28, 2014
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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 25, 2014

or

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

For the transition period from _____ to _____
Commission File Number 000-27130

NetApp, Inc.

(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

77-0307520
(I.R.S. Employer

Identification No.)

495 East Java Drive,

Sunnyvale, California 94089

(Address of principal executive offices, including zip code)

(408) 822-6000

(Registrant's telephone number, including area code)

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

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

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

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

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

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

As of August 18, 2014, there were 319,256,006 shares of the registrant's common stock, \$0.001 par value, outstanding.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements (Unaudited)****NETAPP, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In millions, except par value)****(Unaudited)**

	July 25, 2014	April 25, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,031.6	\$ 2,291.0
Short-term investments	2,532.6	2,712.3
Accounts receivable, net of allowances of \$1.6 million and \$1.7 million as of July 25, 2014 and April 25, 2014, respectively	585.4	855.9
Inventories	104.2	122.4
Other current assets	494.3	489.7
Total current assets	6,748.1	6,471.3
Property and equipment, net	1,098.0	1,108.8
Goodwill	988.1	988.1
Purchased intangible assets, net	107.0	121.5
Other non-current assets	531.2	529.5
Total assets	\$ 9,472.4	\$ 9,219.2
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 183.1	\$ 247.0
Accrued compensation and related benefits	243.0	407.8
Other current liabilities	318.4	386.0
Short-term deferred revenue	1,656.4	1,653.8
Total current liabilities	2,400.9	2,694.6
Long-term debt	1,494.1	995.5
Other long-term liabilities	320.8	296.2
Long-term deferred revenue	1,419.9	1,446.4
Total liabilities	5,635.7	5,432.7
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Common stock, \$0.001 par value, (325.5 and 324.5 shares issued as of July 25, 2014 and April 25, 2014, respectively)	0.3	0.3
Additional paid-in capital	3,791.2	3,776.0

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Retained earnings	36.1	1.1
Accumulated other comprehensive income	9.1	9.1
Total stockholders' equity	3,836.7	3,786.5
Total liabilities and stockholders' equity	\$ 9,472.4	\$ 9,219.2

See accompanying notes to condensed consolidated financial statements.

Table of Contents**NETAPP, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(In millions, except per share amounts)****(Unaudited)**

	Three Months Ended	
	July 25, 2014	July 26, 2013
Revenues:		
Product	\$ 882.6	\$ 930.8
Software entitlements and maintenance	221.3	228.5
Service	385.3	356.9
Net revenues	1,489.2	1,516.2
Cost of revenues:		
Cost of product	394.2	449.9
Cost of software entitlements and maintenance	8.2	7.5
Cost of service	148.7	149.2
Total cost of revenues	551.1	606.6
Gross profit	938.1	909.6
Operating expenses:		
Sales and marketing	480.2	467.8
Research and development	228.0	228.1
General and administrative	70.0	68.4
Restructuring and other charges	0.0	48.4
Total operating expenses	778.2	812.7
Income from operations	159.9	96.9
Other income (expense), net:		
Interest income	8.3	10.0
Interest expense	(9.0)	(16.5)
Other income, net	0.5	1.9
Total other expense, net	(0.2)	(4.6)
Income before income taxes	159.7	92.3
Provision for income taxes	71.3	10.7
Net income	\$ 88.4	\$ 81.6
Net income per share:		
Basic	\$ 0.27	\$ 0.23

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Diluted	\$ 0.27	\$ 0.23
Shares used in net income per share calculations:		
Basic	323.5	350.9
Diluted	329.1	359.9
Cash dividends declared per share	\$ 0.165	\$ 0.150

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended	
	July 25, 2014	July 26, 2013
Net income	\$ 88.4	\$ 81.6
Other comprehensive income (loss):		
Foreign currency translation adjustments	(0.8)	(1.2)
Defined benefit obligations:		
Defined benefit obligation adjustments	1.5	0.1
Income tax effect on defined benefit obligations	(0.5)	0.0
Reclassification adjustment for actuarial net losses from defined benefit obligations into earnings	0.1	0.0
Unrealized gains (losses) on available-for-sale securities:		
Unrealized holding losses arising during the period	(1.8)	(8.4)
Income tax effect on unrealized holding gains	0.2	1.0
Reclassification adjustments for (gains) losses included in net income	0.2	(0.1)
Unrealized gains (losses) on cash flow hedges:		
Unrealized holding losses arising during the period	(0.6)	(0.4)
Reclassification adjustments for (gains) losses included in net income	1.7	(1.0)
Other comprehensive income (loss)	0.0	(10.0)
Comprehensive income	\$ 88.4	\$ 71.6

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended	
	July 25, 2014	July 26, 2013
Cash flows from operating activities:		
Net income	\$ 88.4	\$ 81.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	77.5	85.9
Stock-based compensation	62.3	66.3
Accretion of discount and issuance costs on debt	0.6	8.2
Deferred income taxes	8.2	(10.1)
Excess tax benefit from stock-based compensation	(42.6)	(0.1)
Other non-cash items, net	36.9	(25.3)
Changes in assets and liabilities:		
Accounts receivable	271.5	265.2
Inventories	18.1	22.9
Other operating assets	(13.1)	53.8
Accounts payable	(62.3)	(37.9)
Accrued compensation and other current liabilities	(227.1)	(175.4)
Deferred revenue	(26.5)	(54.3)
Other operating liabilities	23.6	5.0