

NetApp, Inc.
Form 10-Q
February 25, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended January 23, 2015

or

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

For the transition period from _____ to _____

Commission File Number 000-27130

NetApp, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

495 East Java Drive,

Sunnyvale, California 94089

(Address of principal executive offices, including zip code)

(408) 822-6000

(Registrant's telephone number, including area code)

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

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

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

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

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

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

As of February 11, 2015, there were 311,757,916 shares of the registrant's common stock, \$0.001 par value, outstanding.

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PART I — FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

NETAPP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except par value)

(Unaudited)

	January 23, 2015	April 25, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,539.7	\$2,291.0
Short-term investments	2,712.8	2,712.3
Accounts receivable, net of allowances of \$0.8 and \$1.7 as of January 23, 2015 and April 25, 2014, respectively	666.3	855.9
Inventories	117.8	122.4
Other current assets	518.0	489.7
Total current assets	6,554.6	6,471.3
Property and equipment, net	1,050.7	1,108.8
Goodwill	1,031.3	988.1
Other intangible assets, net	105.0	121.5
Other non-current assets	493.1	529.5
Total assets	\$ 9,234.7	\$9,219.2
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 194.2	\$247.0
Accrued compensation and benefits	282.6	407.8
Other current liabilities	335.1	386.0
Short-term deferred revenue	1,679.4	1,653.8
Total current liabilities	2,491.3	2,694.6
Long-term debt	1,494.7	995.5
Other long-term liabilities	310.4	296.2
Long-term deferred revenue	1,430.3	1,446.4
Total liabilities	5,726.7	5,432.7
Commitments and contingencies (Note 15)		

Stockholders' equity:

Common stock, \$0.001 par value, (311.6 and 324.5 shares issued and

outstanding as of January 23, 2015 and April 25, 2014, respectively)	0.3	0.3
Additional paid-in capital	3,452.2	3,776.0
Retained earnings	69.8	1.1
Accumulated other comprehensive income (loss)	(14.3) 9.1
Total stockholders' equity	3,508.0	3,786.5
Total liabilities and stockholders' equity	\$ 9,234.7	\$9,219.2

See accompanying notes to condensed consolidated financial statements.

NETAPP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	January 23,	January 24,	January 23,	January 24,
	2015	2014	2015	2014
Revenues:				
Product	\$929.5	\$ 1,015.0	\$2,741.2	\$ 2,901.1
Software entitlements and maintenance	226.6	227.0	672.1	687.3
Service	395.2	368.0	1,169.7	1,087.7
Net revenues	1,551.3	1,610.0	4,583.0	4,676.1
Cost of revenues:				
Cost of product	419.6	450.7	1,215.6	1,323.9
Cost of software entitlements and maintenance	9.4	7.7	26.2	22.7
Cost of service	144.9	149.3	443.2	452.4
Total cost of revenues	573.9	607.7	1,685.0	1,799.0
Gross profit	977.4	1,002.3	2,898.0	2,877.1
Operating expenses:				
Sales and marketing	474.8	475.9	1,443.0	1,423.2
Research and development	229.9	230.3	686.9	686.6
General and administrative	70.2	69.4	213.2	207.3
Restructuring and other charges	—	—	—	49.5
Total operating expenses	774.9	775.6	2,343.1	2,366.6
Income from operations	202.5	226.7	554.9	510.5
Other income (expense), net:				
Interest income	8.6	7.9	25.0	26.4
Interest expense	(11.1)	(6.7)	(31.0)	(29.7)
Other income (expense), net	0.1	1.7	(0.2)	6.9
Total other income (expense), net	(2.4)	2.9	(6.2)	3.6
Income before income taxes	200.1	229.6	548.7	514.1
Provision for income taxes	23.3	37.5	123.7	73.6
Net income	\$176.8	\$ 192.1	\$425.0	\$ 440.5
Net income per share:				
Basic	\$0.57	\$ 0.57	\$1.34	\$ 1.28
Diluted	\$0.56	\$ 0.55	\$1.31	\$ 1.25
Shares used in net income per share calculations:				
Basic	311.6	339.4	317.8	343.7
Diluted	317.1	346.2	323.3	351.7
Cash dividends declared per share	\$0.165	\$ 0.150	\$0.495	\$ 0.450

See accompanying notes to condensed consolidated financial statements.

NETAPP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

(Unaudited)

	Three Months		Nine Months Ended	
	Ended January 2015	Ended January 24, 2014	January 2015	January 24, 2014
Net income	\$176.8	\$ 192.1	\$425.0	\$ 440.5
Other comprehensive income (loss):				
Foreign currency translation adjustments	(16.1)	(2.7)	(26.9)	0.9
Defined benefit obligations:				
Defined benefit obligation adjustments	—	0.1	1.6	0.3
Income tax effect on defined benefit obligations	—	—	(0.5)	—
Reclassification adjustments for actuarial net losses				
included in net income	0.1	—	0.3	—
Unrealized gains (losses) on available-for-sale securities:				
Unrealized holding gains (losses) arising during the period	(0.4)	1.6	(1.7)	(2.4)
Income tax effect on unrealized holding (gains) losses	0.1	0.1	0.3	1.1
Reclassification adjustments for gains included in				
net income	(0.3)	—	(0.1)	(1.1)
Unrealized gains (losses) on cash flow hedges:				
Unrealized holding gains (losses) arising during the period	17.4	1.5	13.1	(2.0)
Reclassification adjustments for (gains) losses included in				
net income	(15.7)	(0.2)	(9.5)	1.2
Other comprehensive income (loss)	(14.9)	0.4	(23.4)	(2.0)
Comprehensive income	\$161.9	\$ 192.5	\$401.6	\$ 438.5

See accompanying notes to condensed consolidated financial statements.

NETAPP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Nine Months Ended January 23, 2015	January 24, 2014
Cash flows from operating activities:		
Net income	\$ 425.0	\$ 440.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	234.6	252.0
Stock-based compensation	196.1	205.8
Deferred income taxes	2.1	(30.9)
Excess tax benefit from stock-based compensation	(53.8)	(33.4)
Other non-cash items, net	27.5	8.5
Changes in assets and liabilities, net of acquisitions of businesses:		
Accounts receivable	186.7	213.4
Inventories	4.6	21.3
Other operating assets	10.3	78.3
Accounts payable	(45.9)	(69.8)
Accrued compensation and other current liabilities	(162.1)	(94.5)
Deferred revenue	34.4	(27.0)
Other operating liabilities	12.0	15.9
Net cash provided by operating activities	871.5	980.1

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Cash flows from investing activities:		
Purchases of investments	(1,431.5)	(701.3)
Maturities, sales and collections of investments	1,473.1	1,464.0
Purchases of property and equipment	(138.1)	(165.4)
Acquisitions of businesses	(84.6)	—
Other investing activities, net	2.5	2.6
Net cash provided by (used in) investing activities	(178.6)	599.9
Cash flows from financing activities:		
Issuance of common stock under employee stock plans	145.6	191.8
Repurchase of common stock and forward contract	(918.9)	(1,507.0)
Excess tax benefit from stock-based compensation	53.8	33.4
Repayment of debt	—	(1,264.9)
Issuance of long-term debt, net	494.7	—