

NetApp, Inc.
Form 10-Q
March 02, 2009

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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 January 23, 2009
- 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 0-27130

NetApp, Inc.

(Exact name of registrant as specified in its charter)

Delaware

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

77-0307520

*(IRS Employer
Identification No.)*

**495 East Java Drive,
Sunnyvale, California 94089**

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code:

(408) 822-6000

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 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. (Check one):

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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 (a 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.

Class	Outstanding at February 25, 2009
Common Stock	330,743,315

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

	January 23, 2009	April 25, 2008
	(In thousands	Unaudited)
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,708,200	\$ 936,479
Short-term investments	752,669	227,911
Accounts receivable, net of allowances of \$4,193 at January 23, 2009, and \$2,439 at April 25, 2008	344,437	582,110
Inventories	82,159	70,222
Prepaid expenses and other assets	118,365	120,561
Short-term restricted cash	2,281	2,953
Short-term deferred income taxes	153,901	127,197
Total current assets	3,162,012	2,067,433
Property and Equipment, Net	705,153	693,792
Goodwill	680,054	680,054
Intangible Assets, Net	51,495	90,075
Long-Term Investments and Restricted Cash	199,392	331,105
Long-Term Deferred Income Taxes and Other Assets	391,634	208,529
	\$ 5,189,740	\$ 4,070,988
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	\$ 122,924	\$ 178,233
Accrued compensation and related benefits	185,011	202,929
Other accrued liabilities	159,925	154,331
GSA contingency accrual	128,000	
Income taxes payable	6,389	6,245
Deferred revenue	960,729	872,364
Total current liabilities	1,562,978	1,414,102
Revolving Credit Facilities		172,600
1.75% Convertible Senior Notes Due 2013	1,265,000	
Other Long-Term Obligations	165,687	146,058

Long-Term Deferred Revenue	668,682	637,889
	3,662,347	2,370,649
Commitments and Contingencies (Note 13)		
Stockholders Equity:		
Common stock (434,914 shares issued at January 23, 2009, and 429,080 shares issued at April 25, 2008)	435	429
Additional paid-in capital	2,909,696	2,690,629
Treasury stock at cost (104,325 shares at January 23, 2009, and 87,365 shares at April 25, 2008)	(2,927,376)	(2,527,395)
Retained earnings	1,547,364	1,535,903
Accumulated other comprehensive income (loss)	(2,726)	773
Total stockholders equity	1,527,393	1,700,339
	\$ 5,189,740	\$ 4,070,988

See accompanying notes to unaudited condensed consolidated financial statements.

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NETAPP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		Nine Months Ended	
	January 23,	January 25,	January 23,	January 25,
	2009	2008	2009	2008
	(In thousands, except per share amounts			Unaudited)
Revenues:				
Product	\$ 528,198	\$ 608,138	\$ 1,646,489	\$ 1,612,864
Software entitlements and maintenance	156,546	125,568	453,680	350,628
Service	189,599	150,297	554,581	401,944
Reserve for GSA contingency	(128,000)		(128,000)	
Net revenues	746,343	884,003	2,526,750	2,365,436
Cost of Revenues:				
Cost of product	252,327	256,842	762,437	673,121
Cost of software entitlements and maintenance	2,320	2,560	6,765	6,558
Cost of service	98,480	85,299	301,528	245,253
Total cost of revenues	353,127	344,701	1,070,730	924,932
Gross margin	393,216	539,302	1,456,020	1,440,504
Operating Expenses:				
Sales and marketing	291,634	279,114	898,786	779,131
Research and development	122,662	111,717	373,509	327,237
General and administrative	51,048	42,787	151,523	123,743
Restructuring and other charges	18,955		18,955	
Total operating expenses	484,299	433,618	1,442,773	1,230,111
Income (Loss) from Operations	(91,083)	105,684	13,247	210,393
Other Income (Expenses), Net:				
Interest income	12,799	16,964	45,894	50,295
Interest expense	(7,238)	(3,639)	(19,355)	(6,130)
Gain (loss) on investments, net	(1,691)	(1,005)	(26,926)	12,614
Other income (expense), net	(1,249)	(619)	(3,717)	443
Total other income (expense), net	2,621	11,701	(4,104)	57,222
Income (Loss) Before Income Taxes	(88,462)	117,385	9,143	267,615
Provision (Benefit) for Income Taxes	(13,070)	15,562	(2,318)	47,697
Net Income (Loss)	\$ (75,392)	\$ 101,823	\$ 11,461	\$ 219,918

Net Income (Loss) per Share:

Basic	\$ (0.23)	\$ 0.30	\$ 0.03	\$ 0.62
Diluted	\$ (0.23)	\$ 0.29	\$ 0.03	\$ 0.60

Shares Used in Net Income per Share

Calculations:

Basic	329,026	344,275	330,067	354,799
Diluted	329,026	352,780	335,070	365,290

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**NETAPP, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Nine Months Ended	
	January 23, 2009	January 25, 2008
	(In thousands)	Unaudited)
Cash Flows from Operating Activities:		
Net income	\$ 11,461	\$ 219,918
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	106,171	83,921
Amortization of intangible assets and patents	23,663	20,431
Stock-based compensation	98,597	113,077
Net loss (gain) on investments	3,674	(12,614)
Impairment on investments	13,953	
Asset impairment and other write-off	26,165	
Net loss on disposal of equipment	2,100	828
Allowance for doubtful accounts	1,903	355
Deferred income taxes	(71,480)	(79,704)
Deferred rent	3,037	632
Income tax benefit from stock-based compensation	40,404	85,356
Excess tax benefit from stock-based compensation	(34,928)	(47,107)
Changes in assets and liabilities:		
Accounts receivable	230,267	86,509
Inventories	(11,959)	(5,184)
Prepaid expenses and other assets	2,668	19,476
Accounts payable	(42,156)	(33,865)
Accrued compensation and related benefits	(6,094)	(5,022)
Other accrued liabilities	18,716	4,829
GSA contingency accrual	128,000	
Income taxes payable	327	(41,014)
Other liabilities	11,148	67,747
Deferred revenue	137,998	237,016
Net cash provided by operating activities	693,635	715,585
Cash Flows from Investing Activities:		
Purchases of investments	(711,488)	(929,983)
Redemptions of investments	407,774	1,138,701
Partial redemptions of Reserve Primary Fund	478,797	
Reclassification from cash and cash equivalents to short-term investments	(597,974)	
Change in restricted cash	(444)	(1,400)
Proceeds from sales of marketable securities		18,256
Proceeds from sales of nonmarketable securities	1,057	898
Purchases of property and equipment	(154,901)	(124,847)

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Purchases of nonmarketable securities	(250)	(4,235)
Purchase of businesses, net of cash acquired		211
Net cash provided by (used in) investing activities	(577,429)	97,601
Cash Flows from Financing Activities:		
Proceeds from sale of common stock related to employee stock transactions	73,418	100,187
Tax withholding payments reimbursed by restricted stock	(4,185)	(5,851)
Excess tax benefit from stock-based compensation	34,928	47,107
Proceeds from revolving credit facility		262,754
Proceeds from issuance of convertible notes	1,265,000	
Payment of financing costs	(26,581)	
Sale of common stock warrants	163,059	
Purchase of note hedge		