

NetApp, Inc.
Form 10-Q
November 26, 2013
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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 25, 2013

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 November 18, 2013, there were 340,818,219 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)**

	October 25, 2013	April 26, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,260.5	\$ 3,277.1
Short-term investments	3,012.2	3,675.5
Accounts receivable, net of allowances of \$2.4 million and \$4.2 million as of October 25, 2013 and April 26, 2013, respectively	590.4	800.9
Inventories	115.9	139.5
Other current assets	441.0	525.2
Total current assets	6,420.0	8,418.2
Property and equipment, net	1,142.9	1,170.9
Goodwill	988.1	988.1
Purchased intangible assets, net	150.9	180.6
Other non-current assets	495.5	484.6
Total assets	\$ 9,197.4	\$ 11,242.4

LIABILITIES AND STOCKHOLDERS EQUITY

Current liabilities:		
Accounts payable	\$ 223.8	\$ 259.7
Accrued compensation and related benefits	306.7	348.0
Other current liabilities	352.4	401.8
Current portion of long-term debt	0.0	1,257.8
Short-term deferred revenue	1,525.8	1,563.3
Total current liabilities	2,408.7	3,830.6
Long-term debt	995.0	994.6
Other long-term liabilities	267.2	253.5
Long-term deferred revenue	1,406.1	1,446.2
Total liabilities	5,077.0	6,524.9

Commitments and contingencies (Note 15)

Stockholders' equity:

Common stock, \$0.001 par value, (341.8 and 460.9 shares issued as of October 25, 2013 and April 26, 2013, respectively)	0.3	0.5
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Additional paid-in capital	3,998.3	4,738.9
Treasury stock, at cost (no shares and 104.3 shares as of October 25, 2013 and April 26, 2013, respectively)	0.0	(2,927.4)
Retained earnings	115.5	2,896.8
Accumulated other comprehensive income	6.3	8.7
Total stockholders' equity	4,120.4	4,717.5
Total liabilities and stockholders' equity	\$ 9,197.4	\$ 11,242.4

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		Six Months Ended	
	October 25, 2013	October 26, 2012	October 25, 2013	October 26, 2012
Revenues:				
Product	\$ 955.3	\$ 995.8	\$ 1,886.1	\$ 1,893.8
Software entitlements and maintenance	231.8	219.4	460.3	437.9
Service	362.8	326.0	719.7	654.1
Net revenues	1,549.9	1,541.2	3,066.1	2,985.8
Cost of revenues:				
Cost of product	423.3	477.3	873.2	929.5
Cost of software entitlements and maintenance	7.5	7.0	15.0	13.6
Cost of service	153.9	143.0	303.1	278.7
Total cost of revenues	584.7	627.3	1,191.3	1,221.8
Gross profit	965.2	913.9	1,874.8	1,764.0
Operating expenses:				
Sales and marketing	479.5	488.2	947.3	971.1
Research and development	228.2	223.8	456.3	445.2
General and administrative	69.5	66.6	137.9	132.2
Restructuring and other charges	1.1	0.0	49.5	0.0
Total operating expenses	778.3	778.6	1,591.0	1,548.5
Income from operations	186.9	135.3	283.8	215.5
Other income (expense), net:				
Interest income	8.5	11.0	18.5	21.8
Interest expense	(6.5)	(19.8)	(23.0)	(39.7)
Other income, net	3.3	1.2	5.2	4.3
Total other income (expense), net	5.3	(7.6)	0.7	(13.6)
Income before income taxes	192.2	127.7	284.5	201.9
Provision for income taxes	25.4	18.1	36.1	28.5
Net income	\$ 166.8	\$ 109.6	\$ 248.4	\$ 173.4
Net income per share:				
Basic	\$ 0.49	\$ 0.30	\$ 0.72	\$ 0.48

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Diluted	\$ 0.48	\$ 0.30	\$ 0.70	\$ 0.47
Shares used in net income per share calculations:				
Basic	340.7	362.0	345.8	364.1
Diluted	349.1	368.2	354.5	369.7
Cash dividends declared per share	\$ 0.15	\$ 0.00	\$ 0.30	\$ 0.00

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		Six Months Ended	
	October 25, 2013	October 26, 2012	October 25, 2013	October 26, 2012
Net income	\$ 166.8	\$ 109.6	\$ 248.4	\$ 173.4
Other comprehensive income (loss):				
Foreign currency translation adjustments	4.8	3.6	3.6	(1.6)
Defined benefit obligation adjustments	0.1	0.1	0.2	0.2
Unrealized gains (losses) on available-for-sale securities:				
Unrealized holding gains (losses) arising during the period	4.4	2.5	(4.0)	6.6
Income tax effect on unrealized holding gains (losses)	0.0	0.2	1.0	(0.3)
Reclassification adjustments for gains included in net income	(1.0)	(0.5)	(1.1)	(0.6)
Unrealized gains (losses) on cash flow hedges:				
Unrealized holding gains (losses) arising during the period	(3.1)	(5.5)	(3.5)	0.9
Reclassification adjustments for (gains) losses included in net income	2.4	2.6	1.4	(1.9)
Other comprehensive income (loss)	7.6	3.0	(2.4)	3.3
Comprehensive income	\$ 174.4	\$ 112.6	\$ 246.0	\$ 176.7

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended	
	October 25, 2013	October 26, 2012
Cash flows from operating activities:		
Net income	\$ 248.4	\$ 173.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	168.4	169.1
Stock-based compensation	133.9	144.2
Accretion of discount and issuance costs on debt	8.8	28.7
Deferred income taxes	(8.4)	(50.0)
Excess tax benefit from stock-based compensation	(9.5)	(43.6)
Other non-cash items, net	(16.5)	38.3
Changes in assets and liabilities:		
Accounts receivable	209.3	212.9
Inventories	23.6	(51.7)
Other operating assets	92.9	(16.9)
Accounts payable	(40.8)	13.9
Accrued compensation and other current liabilities	(102.4)	(15.9)
Deferred revenue	(67.6)	(42.6)
Other operating liabilities	8.2	5.8
Net cash provided by operating activities	648.3	565.6
Cash flows from investing activities:		
Purchases of investments	(476.1)	(1,243.0)
Maturities, sales and collections of investments	1,148.2	1,336.4
Purchases of property and equipment	(107.5)	(129.0)
Other investing activities, net	3.4	2.8
Net cash provided by (used in) investing activities	568.0	(32.8)
Cash flows from financing activities:		
Issuance of common stock under employee stock plans	123.9	45.1
Repurchase of common stock and forward contract	(1,000.0)	(348.3)
Excess tax benefit from stock-based compensation	9.5	43.6
Repayment of long-term debt	(1,264.9)	0.0
Dividends paid	(102.7)	0.0
Other financing activities, net	(5.7)	(0.3)
Net cash used in financing activities	(2,239.9)	(259.9)
Effect of exchange rate changes on cash and cash equivalents	7.0	(5.9)
Net increase (decrease) in cash and cash equivalents	(1,016.6)	267.0
Cash and cash equivalents:		
Beginning of period	3,277.1	1,549.8

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End of period	\$ 2,260.5	\$ 1,816.8
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See accompanying notes to condensed consolidated financial statements.

Table of Contents**NETAPP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****1. The Company**

Headquartered in Sunnyvale, California, NetApp, Inc. (we, us, or the Company) is a supplier of enterprise storage and data management software and hardware products and services. Our solutions help global enterprises meet information technology challenges such as managing storage growth, assuring secure and timely information access, protecting data and controlling costs by providing innovative solutions that simplify the complexity associated with managing corporate data.

2. Condensed Consolidated Financial Statements

Fiscal Year Our fiscal year is reported on a 52- or 53-week year ending on the last Friday in April. The first and second quarters of fiscal 2014 and 2013 were each 13-week periods.

Basis of Presentation 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 and in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. 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 26, 2013 contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on June 17, 2013. The results of operations for the three and six months ended October 25, 2013 are not necessarily indicative of the operating results to be expected for the full fiscal year or future operating periods.

3. Significant Accounting Policies

There have been no significant changes in our significant accounting policies as of and for the six months ended October 25, 2013, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended April 26, 2013.

Recent Accounting Standards Not Yet Effective In July 2013, the Financial Accounting Standards Board issued an accounting standard update providing presentation requirements for unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a similar tax credit carryforward exists. This accounting standard update will be effective for us beginning in our first quarter of fiscal 2015 and is not expected to have a significant impact on our consolidated financial statements.

Use of Estimates 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.

4. Statements of Cash Flows

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

Six Months Ended	
October 25, October 26,	
2013	2012

Non-cash Investing and Financing Activities:

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Reclassification of equity component of Convertible Notes	\$ 0.0	\$ 62.6
Acquisition of property and equipment outstanding in accounts payable	\$ 27.1	\$ 20.0
Acquisition of software through long-term financing	\$ 11.4	\$ 0.8
Supplemental Cash Flow Information:		
Income taxes paid, net of refunds	\$ 26.5	\$ 26.5
Interest paid, net of capitalized interest	\$ 23.2	\$ 11.3

Table of Contents**5. Purchased Intangible Assets, Net**

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

	October 25, 2013			April 26, 2013		
	Gross Assets	Accumulated Amortization	Net Assets	Gross Assets	Accumulated Amortization	Net Assets
Developed technology	\$ 283.0	\$ (134.0)	\$ 149.0	\$ 312.4	\$ (134.9)	\$ 177.5
Customer contracts/relationships	9.6	(8.7)	0.9	54.7	(53.1)	1.6
Trademarks and trade names	2.9	(2.2)	0.7	9.9	(8.9)	1.0
Covenants not to compete	1.6	(1.3)	0.3	2.2	(1.7)	0.5
Total purchased intangible assets	\$ 297.1	\$ (146.2)	\$ 150.9	\$ 379.2	\$ (198.6)	\$ 180.6

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

	Three Months Ended		Six Months Ended		Statements of Operations Classifications
	October 25, 2013	October 26, 2012	October 25, 2013	October 26, 2012	
Developed technology	\$ 14.3	\$ 14.0	\$ 28.6	\$ 27.9	Cost of revenues
Customer contracts/relationships	0.3	6.3	0.7	12.6	Operating expenses
Trademarks and trade names	0.1	1.0	0.2	2.0	Operating expenses
Covenants not to compete	0.2	0.2	0.3	0.4	Operating expenses
	\$ 14.9	\$ 21.5	\$ 29.8	\$ 42.9	

As of October 25, 2013, future amortization expense related to purchased intangible assets is as follows (in millions):

Fiscal Year	Amount
Remainder of 2014	\$ 29.5
2015	57.8
2016	53.6
2017	6.7
2018	3.3
Total	\$ 150.9

6. Balance Sheet Details

Cash and cash equivalents (in millions):

	October 25, 2013	April 26, 2013
Cash	\$ 2,088.8	\$ 1,634.7

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Cash equivalents		171.7	1,642.4
Cash and cash equivalents	\$	2,260.5	\$ 3,277.1

Inventories (in millions):

		October 25, 2013	April 26, 2013
Purchased components	\$	10.8	\$ 16.3
Finished goods		105.1	123.2
Inventories	\$	115.9	\$ 139.5

Other current assets (in millions):

		October 25, 2013	April 26, 2013
Prepaid expenses and other current assets	\$	192.3	\$ 262.6
Short-term restricted cash		7.7	8.9
Deferred tax assets		241.0	253.7
Other current assets	\$	441.0	\$ 525.2

Table of Contents*Property and equipment, net (in millions):*

	October 25, 2013	April 26, 2013
Land and land improvements	\$ 265.7	\$ 265.5
Buildings and building improvements	540.8	534.8
Leasehold improvements	101.8	100.3
Computer, production, engineering and other equipment	747.8	714.0
Software	430.1	422.6
Furniture and fixtures	84.9	82.2
Construction-in-progress	39.6	19.9
	2,210.7	2,139.3
Accumulated depreciation and amortization	(1,067.8)	(968.4)
Property and equipment, net	\$ 1,142.9	\$ 1,170.9

Software includes capitalized internal-use software development costs with a net book value as follows (in millions):

	October 25, 2013	April 26, 2013
Computer software	\$ 138.6	\$ 162.5

Other non-current assets (in millions):

	October 25, 2013	April 26, 2013
Auction rate securities	\$ 39.5	\$ 42.0
Deferred tax assets	211.8	200.4
Other assets	244.2	242.2
Other non-current assets	\$ 495.5	\$ 484.6

Short-term and long-term deferred revenue (in millions):

	October 25, 2013	April 26, 2013
Product	\$ 26.9	\$ 15.7
Software entitlements and maintenance and service	2,905.0	2,993.8
Total	\$ 2,931.9	\$ 3,009.5

Reported as:			
Short-term	\$	1,525.8	\$ 1,563.3
Long-term		1,406.1	1,446.2
Total	\$	2,931.9	\$ 3,009.5

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 our 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.

Table of Contents**Investments**

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

	October 25, 2013 Gross Unrealized				April 26, 2013 Gross Unrealized			
	Cost or Amortized Cost	Gains	Losses	Estimated Fair Value	Cost or Amortized Cost	Gains	Losses	Estimated Fair Value
Corporate bonds	\$ 2,558.6	\$ 10.8	\$ (0.9)	\$ 2,568.5	\$ 3,132.8	\$ 14.9	\$ (0.6)	\$ 3,147.1
U.S. Treasury and government debt securities	278.2	0.4	0.0	278.6	392.8	0.9	0.0	393.7
Commercial paper	151.7	0.0	0.0	151.7	178.5	0.0	0.0	178.5
Certificates of deposit	185.0	0.1	0.0	185.1	135.4	0.1	0.0	135.5
Money market funds	0.0	0.0	0.0	0.0	1,463.1	0.0	0.0	1,463.1
Auction rate securities	41.9	0.0	(2.4)	39.5	44.2	0.5	(2.7)	42.0
Equity funds	31.6	0.0	0.0	31.6	28.3	0.0	0.0	28.3
Total debt and equity securities	\$ 3,247.0	\$ 11.3	\$ (3.3)	\$ 3,255.0	\$ 5,375.1	\$ 16.4	\$ (3.3)	\$ 5,388.2

The unrealized losses on our available-for-sale investments were caused by market value declines as a result of the economic environment, as well as fluctuations in market interest rates. Because the declines in market value are attributable to changes in market conditions and not credit quality, and because we have currently concluded that we neither intend to sell nor is it more likely than not that we will be required to sell these investments prior to a recovery of par value, we do not consider these investments to be other-than temporarily impaired as of October 25, 2013.

The following table presents the contractual maturities of our debt investments as of October 25, 2013 (in millions):

	Amortized Cost	Fair Value
Due in one year or less	\$ 1,130.1	\$ 1,131.9
Due in one through five years	1,871.7	1,880.3
Due after ten years*	41.9	39.5
	\$ 3,043.7	\$ 3,051.7

* Consists of auction rate securities (ARS) which have contractual maturities of greater than 10 years.

Fair Value of Financial Instruments

The following table summarizes our financial assets and liabilities measured at fair value on a recurring basis as of October 25, 2013 (in millions):

	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Total			

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Assets				
Corporate bonds	\$ 2,568.5	\$ 0.0	\$ 2,568.5	\$ 0.0
U.S. Treasury and government debt securities	278.6	176.4	102.2	0.0
Commercial paper	151.7	0.0	151.7	0.0
Certificates of deposit	185.1	0.0	185.1	0.0
Auction rate securities	39.5	0.0	0.0	39.5
Equity funds	31.6	31.6	0.0	0.0
Foreign currency contracts	1.2	0.0	1.2	0.0
Total	\$ 3,256.2	\$ 208.0	\$ 3,008.7	\$ 39.5
Liabilities				
Foreign currency contracts	\$ 4.4	\$ 0.0	\$ 4.4	\$ 0.0

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The following table summarizes the balance sheet classifications of our financial assets and liabilities measured at fair value on a recurring basis as of October 25, 2013 (in millions):

	Total	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash equivalents	\$ 171.7	\$ 0.0	\$ 171.7	\$ 0.0
Short-term investments	3,012.2	176.4	2,835.8	0.0
Other current assets	5.1	3.9	1.2	0.0
Other non-current assets	67.2	27.7	0.0	39.5
Total	\$ 3,256.2	\$ 208.0	\$ 3,008.7	\$ 39.5
Liabilities				
Other current liabilities	\$ 4.4	\$ 0.0	\$ 4.4	\$ 0.0

Level 2 investments are held by a custodian who prices some of the investments using standard inputs in various asset price models or obtains investment prices from a third-party pricing provider that incorporates standard inputs in various asset price models. 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 providers' 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 financial instruments. As of October 25, 2013, we have not made any adjustments to the prices obtained from our third-party pricing providers.

Quantitative information about our Level 3 fair value measurements is as follows (fair value in millions):

	Estimated Fair Value as of October 25, 2013	Valuation Techniques	Unobservable Inputs	Range (Weighted average)
ARS	\$ 39.5	Discounted cash flow	Time-to-economic maturity Liquidity risk premium, market credit spread and other factors	6.7 yrs. - 10.9 yrs. (8.3 yrs.) 1.7% - 3.6% (2.5%)
			Coupon rate	1.1% - 2.7% (1.9%)

Market comparable securities	Discount rate	2.2% - 9.2% (5.4%)
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All of our ARS are classified as other non-current assets and are backed by pools of student loans guaranteed by the U.S. Department of Education. We estimate the fair value of each individual ARS using an income (discounted cash flow) and market approach that incorporate both observable and unobservable inputs. Key inputs into the discounted cash flow analysis include the time-to-economic maturity, liquidity risk premium, market credit spread and other factors, and a coupon rate. The key input into the market approach is a discount rate. A significant increase (decrease) in the time-to-economic maturity, liquidity risk premium, market credit spread and other factors, coupon rate or discount rate could result in a significantly lower (higher) fair value estimate. We review the fair value of our Level 3 financial instruments for overall reasonableness by reviewing service provider pricing methodologies, key inputs and assumptions and by understanding the processes used by our third-party service provider. We will continue to monitor our ARS investments in light of the debt market environment and evaluate these investments for impairment and classification.

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The table below provides a reconciliation of the beginning and ending balance of our Level 3 ARS measured at fair value on a recurring basis using significant unobservable inputs (in millions):

	Three Months Ended		Six Months Ended	
	October 25, 2013	October 26, 2012	October 25, 2013	October 26, 2012
Balance at beginning of period	\$ 42.2	\$ 46.3	\$ 42.0	\$ 51.0
Total unrealized gains (losses), net included in other comprehensive income (loss)	(0.4)	0.2	(0.2)	0.5
Total realized gains included in earnings	0.7	0.0	0.7	0.0
Sales	(3.0)	0.0	(3.0)	0.0
Settlements	(0.0)	(0.0)	(0.0)	(5.0)
Balance at end of period	\$ 39.5	\$ 46.5	\$ 39.5	\$ 46.5

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Fair Value of Debt

As of October 25, 2013, the fair value of our 2.00% Senior Notes and 3.25% Senior Notes (collectively referred to as Senior Notes) was approximately \$989.6 million. The fair value of our debt w