

NetApp, Inc.  
Form 10-Q  
March 01, 2010

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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 29, 2010**  
**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 has submitted electronically and posted on its corporate Web site, 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

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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):

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 24, 2010
Common Stock	344,642,084

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## TRADEMARKS

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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 thousands)  
(Unaudited)

	<b>January 29, 2010</b>	<b>April 24, 2009</b>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 1,975,826	\$ 1,494,153
Short-term investments	1,257,445	1,110,053
Accounts receivable, net of allowances of \$2,077 and \$3,068 at January 29, 2010 and April 24, 2009, respectively	457,536	446,537
Inventories	72,048	61,104
Prepaid expenses and other assets	143,950	119,887
Short-term deferred income taxes	110,596	207,050
Total current assets	4,017,401	3,438,784
<b>Property and Equipment, Net</b>	797,961	807,923
<b>Goodwill</b>	680,986	680,986
<b>Intangible Assets, Net</b>	30,024	45,744
<b>Long-Term Investments and Restricted Cash</b>	72,824	127,317
<b>Long-Term Deferred Income Taxes and Other Assets</b>	369,438	283,625
	\$ 5,968,634	\$ 5,384,379
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 139,145	\$ 137,826
Accrued compensation and related benefits	269,816	204,168
Other accrued liabilities	201,186	190,315
Accrual for GSA settlement		128,715
Income taxes payable	6,803	4,732
Deferred revenue	1,064,579	1,013,569
Total current liabilities	1,681,529	1,679,325
<b>1.75% Convertible Senior Notes Due 2013</b>	1,089,496	1,054,717
<b>Other Long-Term Obligations</b>	140,255	164,499
<b>Long-Term Deferred Revenue</b>	730,374	701,649

	3,641,654	3,600,190
<b>Commitments and Contingencies (Note 16)</b>		
<b>Stockholders' Equity:</b>		
Common stock (448,799 and 436,565 shares issued at January 29, 2010 and April 24, 2009, respectively)	449	437
Additional paid-in capital	3,391,875	3,115,796
Treasury stock at cost (104,325 shares at January 29, 2010 and April 24, 2009)	(2,927,376)	(2,927,376)
Retained earnings	1,855,711	1,600,490
Accumulated other comprehensive income (loss)	6,321	(5,158)
 Total stockholders' equity	 2,326,980	 1,784,189
	\$ 5,968,634	\$ 5,384,379

See accompanying notes to condensed consolidated financial statements.

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**NETAPP, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share amounts)  
(Unaudited)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>January 29, 2010</b>	<b>January 23, 2009</b>	<b>January 29, 2010</b>	<b>January 23, 2009</b>
<b>Revenues:</b>				
Product	\$ 618,955	\$ 528,198	\$ 1,622,349	\$ 1,646,489
Software entitlements and maintenance	170,863	156,546	505,968	453,680
Service	221,832	189,599	631,321	554,581
GSA settlement		(128,000)		(128,000)
Net revenues	1,011,650	746,343	2,759,638	2,526,750
<b>Cost of Revenues:</b>				
Cost of product	253,907	252,327	665,576	762,437
Cost of software entitlements and maintenance	2,944	2,320	9,162	6,765
Cost of service	113,259	98,480	314,186	301,528
Total cost of revenues	370,110	353,127	988,924	1,070,730
Gross margin	641,540	393,216	1,770,714	1,456,020
<b>Operating Expenses:</b>				
Sales and marketing	324,768	291,634	927,036	898,786
Research and development	129,329	122,662	392,000	373,509
General and administrative	58,079	51,048	174,569	151,523
Restructuring and other charges	68	18,955	2,743	18,955
Merger termination proceeds, net			(41,120)	
Total operating expenses	512,244	484,299	1,455,228	1,442,773
<b>Income (Loss) from Operations</b>	129,296	(91,083)	315,486	13,247
<b>Other Income (Expenses), Net:</b>				
Interest income	7,464	12,799	23,060	45,894
Interest expense	(18,226)	(17,674)	(55,343)	(44,993)
Gain (loss) on investments, net	733	(1,691)	3,446	(26,926)
Other expenses, net	(1,369)	(1,249)	(3,587)	(3,717)
Total other expenses, net	(11,398)	(7,815)	(32,424)	(29,742)
<b>Income (Loss) Before Income Taxes</b>	117,898	(98,898)	283,062	(16,495)
<b>Provision (Benefit) for Income Taxes</b>	10,018	(17,275)	27,841	(12,648)

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<b>Net Income (Loss)</b>	\$ 107,880	\$ (81,623)	\$ 255,221	\$ (3,847)
<b>Net Income (Loss) per Share:</b>				
Basic	\$ 0.32	\$ (0.25)	\$ 0.76	\$ (0.01)
Diluted	\$ 0.30	\$ (0.25)	\$ 0.73	\$ (0.01)
<b>Shares Used in Net Income (Loss) per Share Calculations:</b>				
Basic	341,439	329,026	337,478	330,067
Diluted	360,321	329,026	349,438	330,067

See accompanying notes to condensed consolidated financial statements.



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**NETAPP, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(Unaudited)

	<b>Nine Months Ended</b>	
	<b>January 29, 2010</b>	<b>January 23, 2009</b>
<b>Cash Flows from Operating Activities:</b>		
Net income (loss)	\$ 255,221	\$ (3,847)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	125,963	129,834
Stock-based compensation	122,087	98,597
Gain (loss) on investments	(2,429)	17,627
Asset impairment and write-offs	1,717	28,265
Allowance for doubtful accounts	248	1,903
Accretion of discount and issuance costs on notes	37,755	28,769
Deferred income taxes	(2,406)	(82,343)
Deferred rent	(2,839)	3,037
Tax benefit from stock-based compensation	(2,725)	40,937
Excess tax benefit from stock-based compensation	(1,027)	(34,928)
Changes in assets and liabilities:		
Accounts receivable	(7,946)	230,267
Inventories	(10,897)	(11,959)
Prepaid expenses and other assets	(27,305)	(463)
Accounts payable	(360)	(42,156)
Accrued compensation and related benefits	61,446	(6,094)
Other accrued liabilities	6,048	18,716
Accrual for GSA settlement	(128,715)	128,000
Income taxes payable	2,119	327
Long-term other liabilities	14,402	11,148
Deferred revenue	60,085	137,998
Net cash provided by operating activities	500,442	693,635
<b>Cash Flows used in Investing Activities:</b>		
Purchases of investments	(1,334,941)	(711,488)
Redemptions of investments	1,243,496	886,571
Reclassification from cash and cash equivalents to short-term investments		(597,974)
Change in restricted cash	(654)	(444)
Purchases of nonmarketable securities		(250)
Proceeds from nonmarketable securities	4,786	1,057
Purchases of property and equipment	(97,222)	(154,901)
Net cash used in investing activities	(184,535)	(577,429)

**Cash Flows from Financing Activities:**

Proceeds from sale of common stock related to employee stock transactions	169,379	73,418
Tax withholding payments reimbursed by employee stock transactions	(12,698)	(4,185)
Excess tax benefit from stock-based compensation	1,027	34,928
Proceeds from issuance of convertible notes		1,265,000
Payment of issuance costs		(26,581)
Sale of common stock warrants		163,059
Purchase of note hedges		(254,898)
Repayment of revolving credit facility		(172,600)
Repurchases of common stock		(399,981)
 Net cash provided by financing activities	 157,708	 678,160

**Effect of Exchange Rate Changes on Cash and Cash Equivalents** 8,058

Citadel Limited Partnership  
 131 S. Dearborn Street  
 32nd Floor  
 Chicago, Illinois 60603  
 Illinois limited partnership

Citadel Investment Group, L.L.C.  
 131 S. Dearborn Street  
 32nd Floor  
 Chicago, Illinois 60603  
 Delaware limited liability company

Kenneth Griffin  
 131 S. Dearborn Street  
 32nd Floor  
 Chicago, Illinois 60603  
 U.S. Citizen

Citadel Wellington LLC  
 c/o Citadel Investment Group, L.L.C.  
 131 S. Dearborn Street  
 32nd Floor  
 Chicago, Illinois 60603  
 Delaware limited liability company

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Citadel Kensington Global Strategies Fund Ltd.  
 c/o Citadel Investment Group, L.L.C.  
 131 S. Dearborn Street  
 32nd Floor  
 Chicago, Illinois 60603  
 Bermuda company

Citadel Equity Fund Ltd.  
 c/o Citadel Investment Group, L.L.C.  
 131 S. Dearborn Street  
 32nd Floor  
 Chicago, Illinois 60603  
 Cayman Islands company

Citadel Derivatives Group LLC  
 c/o Citadel Investment Group, L.L.C.  
 131 S. Dearborn Street  
 32nd Floor  
 Chicago, Illinois 60603  
 Delaware limited liability company

2(d) Title of Class of Securities:

**Class A Common Stock, par value \$0.001 per share**

2(e) CUSIP Number: **867652109**

Item 3 If this statement is filed pursuant to Rules 13d-1(b), or 13d-2(b) or (c), check whether the person filing is a:

- (a)  Broker or dealer registered under Section 15 of the Exchange Act;
- (b)  Bank as defined in Section 3(a)(6) of the Exchange Act;
- (c)  Insurance company as defined in Section 3(a)(19) of the Exchange Act;
- (d)  Investment company registered under Section 8 of the Investment Company Act;
- (e)  An investment adviser in accordance with Rule 13d-1(b)(1)(ii)(E);
- (f)  An employee benefit plan or endowment fund in accordance with Rule 13d-1(b)(1)(ii)(F);

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- (g)  A parent holding company or control person in accordance with Rule 13d-1(b)(1)(ii)(G);
- (h)  A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act;
- (i)  A church plan that is excluded from the definition of an investment company under Section 3(c)(14) of the Investment Company Act;
- (j)  Group, in accordance with Rule 13d-1(b)(1)(ii)(J).

If this statement is filed pursuant to Rule 13d-1(c), check this box.

Item 4 Ownership:

**CITADEL LIMITED PARTNERSHIP**

**CITADEL INVESTMENT GROUP, L.L.C.**

**KENNETH GRIFFIN**

**CITADEL WELLINGTON LLC**

**CITADEL KENSINGTON GLOBAL STRATEGIES FUND LTD.**

**CITADEL EQUITY FUND LTD.**

**CITADEL DERIVATIVES GROUP LLC**

(a) Amount beneficially owned:

570,019 shares

(b) Percent of Class:

Approximately 6.4% as of December 31, 2005.

(c) Number of shares as to which such person has:

(i) sole power to vote or to direct the vote:

0

(ii) shared power to vote or to direct the vote:

See Item 4(a) above.

(iii) sole power to dispose or to direct the disposition of:

0

(iv) shared power to dispose or to direct the disposition of:

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See Item 4(a) above.

Item 5                      Ownership of Five Percent or Less of a Class:  
Not Applicable.

Item 6                      Ownership of More than Five Percent on Behalf of Another Person:  
  
Not Applicable.

Item 7                      Identification and Classification of the Subsidiary which Acquired the Security Being Reported on by the Parent Holding Company:  
  
See Item 2 above.

Item 8                      Identification and Classification of Members of the Group:  
  
Not Applicable.

Item 9                      Notice of Dissolution of Group:  
  
Not Applicable.

Item 10                    Certification:

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

\* Mathew B. Hinerfeld is signing on behalf of Kenneth Griffin as attorney-in-fact pursuant to a power of attorney previously filed with the Securities and Exchange Commission on February 4, 2005, and hereby incorporated by reference herein. The power of attorney was filed as an attachment to a filing by Citadel Limited Partnership on Schedule 13G/A for Komag, Incorporated.

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After reasonable inquiry and to the best of its knowledge and belief, the undersigned certify that the information set forth in this statement is true, complete and correct.

Dated this 13th day of February, 2006

<b>KENNETH GRIFFIN</b>		<b>CITADEL KENSINGTON GLOBAL STRATEGIES FUND LTD.</b>	
By:	/s/ Matthew B. Hinerfeld		
	Matthew B. Hinerfeld, attorney-in-fact*	By:	Citadel Limited Partnership, its Portfolio Manager
<b>CITADEL INVESTMENT GROUP, L.L.C.</b>			
By:	/s/ Matthew B. Hinerfeld	By:	Citadel Investment Group, L.L.C., its General Partner
	Matthew B. Hinerfeld, Managing Director and Deputy General Counsel	By:	/s/ Matthew B. Hinerfeld Matthew B. Hinerfeld, Managing Director and Deputy General Counsel
<b>CITADEL LIMITED PARTNERSHIP</b>			
By:	Citadel Investment Group, L.L.C., its General Partner	<b>CITADEL EQUITY FUND LTD.</b>	
By:	/s/ Matthew B. Hinerfeld	By:	Citadel Limited Partnership, its Portfolio Manager
	Matthew B. Hinerfeld, Managing Director and Deputy General Counsel	By:	Citadel Investment Group, L.L.C., its General Partner
<b>CITADEL WELLINGTON LLC</b>			
By:	Citadel Limited Partnership, its Managing Member	By:	/s/ Matthew B. Hinerfeld Matthew B. Hinerfeld, Managing Director and Deputy General Counsel
By:	Citadel Investment Group, L.L.C., its General Partner	<b>CITADEL DERIVATIVES GROUP LLC</b>	
By:	/s/ Matthew B. Hinerfeld	By:	Citadel Limited Partnership, its Managing Member
	Matthew B. Hinerfeld, Managing Director and Deputy General Counsel	By:	Citadel Investment Group, L.L.C., its General Partner
		By:	/s/ Matthew B. Hinerfeld Matthew B. Hinerfeld, Managing Director and Deputy General Counsel

