NetApp, Inc.
Form 10-Q
March 07, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended January 29, 2016

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	77-0307520
(State or other jurisdiction of incorporation or organization)	(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)

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 x 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 x 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 x	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 x

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 17, 2016, there were 289,082,898 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 29, 2016	April 24, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,495	$ 1,922
Short-term investments	2,528	3,404
Accounts receivable	585	779
Inventories	102	146
Other current assets	354	522
Total current assets	6,064	6,773
Property and equipment, net	873	1,030
Goodwill	1,027	1,027
Other intangible assets, net	37	90
Other non-current assets	784	481
Total assets	$ 8,785	$ 9,401
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 175	$ 284
Accrued expenses	617	701
Short-term deferred revenue and financed unearned services revenue	1,684	1,724
Total current liabilities	2,476	2,709
Long-term debt	1,490	1,487
Other long-term liabilities	269	318
Long-term deferred revenue and financed unearned services revenue	1,441	1,473
Total liabilities	5,676	5,987
Commitments and contingencies (Note 16)		
Stockholders' equity:		
	3,099	3,385

Common stock and additional paid-in capital, $0.001 par value, (291 and 306 shares issued and outstanding as of January 29, 2016 and April 24, 2015, respectively)		
Retained earnings	51	53
Accumulated other comprehensive loss	(41)	(24)
Total stockholders' equity	3,109	3,414
Total liabilities and stockholders' equity	$ 8,785	$ 9,401

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 29, 2016	January 23, 2015	January 29, 2016	January 23, 2015
Revenues:				
Product	$750	$929	$2,229	$2,741
Software maintenance	234	226	715	672
Hardware maintenance and other services	402	396	1,222	1,170
Net revenues	1,386	1,551	4,166	4,583
Cost of revenues:				
Cost of product	381	420	1,134	1,216
Cost of software maintenance	9	9	28	26
Cost of hardware maintenance and other services	141	145	449	443
Total cost of revenues	531	574	1,611	1,685
Gross profit	855	977	2,555	2,898
Operating expenses:				
Sales and marketing	418	475	1,358	1,443
Research and development	200	230	660	687
General and administrative	70	70	223	213
Restructuring and other charges	—	—	28	—
Acquisition-related expense	2	—	2	—
Total operating expenses	690	775	2,271	2,343
Income from operations	165	202	284	555
Other income (expense), net	(2)	(2)	1	(6)
Income before income taxes	163	200	285	549
Provision for income taxes	10	23	48	124
Net income	$153	$177	$237	$425
Net income per share:				
Basic	$0.52	$0.57	$0.80	$1.34
Diluted	$0.52	$0.56	$0.79	$1.31
Shares used in net income per share calculations:				
Basic	293	312	297	318
Diluted	296	317	300	323
Cash dividends declared per share	$0.180	$0.165	$0.540	$0.495

See accompanying notes to condensed consolidated financial statements.

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NETAPP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In millions)

(Unaudited)

.	Three Months Ended		Nine Months Ended	
	January 29, 2016	January 23, 2015	January 29, 2016	January 23, 2015
Net income	$153	$ 177	$237	$ 425
Other comprehensive income (loss):				
Foreign currency translation adjustments	(5)	(16)	(7)	(27)
Defined benefit obligations:				
Defined benefit obligation adjustments	—	—	—	2
Reclassification adjustments related to defined benefit obligations	—	—	2	—
Unrealized gains (losses) on available-for-sale securities:				
Unrealized holding losses arising during the period	(2)	(1)	(11)	(2)
Reclassification adjustments for gains included in net income	—	—	(1)	—
Unrealized gains (losses) on cash flow hedges:				
Unrealized holding gains arising during the period	3	17	—	13
Reclassification adjustments for gains included in net income	(2)	(15)	—	(9)
Other comprehensive loss	(6)	(15)	(17)	(23)
Comprehensive income	$147	$ 162	$220	$ 402

See accompanying notes to condensed consolidated financial statements.

NETAPP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Nine Months Ended	
	January 29, 2016	January 23, 2015
Cash flows from operating activities:		
Net income	$237	$425
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	202	235
Stock-based compensation	199	196
Deferred income taxes	(104)	2
Excess tax benefit from stock-based compensation	(5)	(54)
Other non-cash items, net	35	28
Changes in assets and liabilities, net of acquisitions of businesses:		
Accounts receivable	190	187
Inventories	44	5
Other operating assets	82	10
Accounts payable	(113)	(46)
Accrued expenses	(78)	(162)
Deferred revenue and financed unearned services revenue	(52)	34
Other operating liabilities	(8)	12
Net cash provided by operating activities	629	872
Cash flows from investing activities:		
Purchases of investments	(1,169)	(1,432)
Maturities, sales and collections of investments	2,048	1,473
Purchases of property and equipment	(125)	(138)
Acquisitions of businesses	—	(85)
Other investing activities, net	(1)	3
Net cash provided by (used in) investing activities	753	(179)
Cash flows from financing activities:		
Issuance of common stock under employee stock award plans	70	146
Repurchase of common stock	(698)	(919)
Excess tax benefit from stock-based compensation	5	54
Issuance of long-term debt, net	—	495
Dividends paid	(159)	(157)
Other financing activities, net	(8)	(8)
Net cash used in financing activities	(790)	(389)
Effect of exchange rate changes on cash and cash equivalents	(19)	(55)

Net increase in cash and cash equivalents	573	249
Cash and cash equivalents:		
Beginning of period	1,922	2,291
End of period	$2,495	$2,540

See accompanying notes to condensed consolidated financial statements.

NETAPP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Description of Business and Significant Accounting Policies

NetApp, Inc. (we, us, or the Company) provides software, systems and services to manage and store computer data. We enable enterprises, service providers, governmental organizations, and partners to envision, deploy and evolve their information technology environments and to reduce costs and risk while driving growth and success for their organizations.

Basis of Presentation and Preparation

Our fiscal year is reported on a 52- or 53-week year ending on the last Friday in April. An additional week is included in the first fiscal quarter approximately every six years to realign fiscal months with calendar months. Fiscal year 2016, ending on April 29, 2016, is a 53-week year, with 14 weeks in its first quarter and 13 weeks in each subsequent quarter. Fiscal year 2015, which ended on April 24, 2015, was a 52-week year, with 13 weeks in each of its quarters.

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 (loss) 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 24, 2015 contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on June 12, 2015. The results of operations for the three and nine months ended January 29, 2016 are not necessarily indicative of the operating results to be expected for the full fiscal year or future operating periods.

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.

During the three months ended January 29, 2016, we adopted an accounting standard that simplified the presentation of deferred taxes by requiring deferred tax assets and liabilities to be classified as noncurrent in a classified statement of financial position. We have adopted this accounting standard prospectively. Accordingly, the prior period amounts in our condensed consolidated balance sheets within this Quarterly Report on Form 10-Q were not adjusted to conform to the new accounting standard. The adoption of this accounting standard was not material to our condensed consolidated financial statements.

There have been no significant changes in our significant accounting policies as of and for the nine months ended January 29, 2016, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended April 24, 2015.

2. Recent Accounting Standards Not Yet Effective

In August 2015, the Financial Accounting Standards Board (FASB) issued an update that deferred the effective date of the new guidance they previously issued in May 2014 related to the recognition and reporting of revenue that establishes a comprehensive new revenue recognition model designed to depict the transfer of goods or services to a customer in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. The guidance allows for the use of either the full or modified retrospective transition method. This new standard will be effective for us beginning April 28, 2018, although adoption as of the original effective date of April 29, 2017 is permitted. We are currently evaluating the impact of this new standard on our consolidated financial statements, as well as which transition method and adoption date we intend to use.

3. Statements of Cash Flows Additional Information

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

	Nine Months Ended	
	January 29, 2016	January 23, 2015
Non-cash Investing Activities:		
Capital expenditures incurred but not paid	$14	$ 12
Acquisition of software through long-term financing	$—	$ 12
Supplemental Cash Flow Information:		
Income taxes paid, net of refunds	$113	$ 89
Interest paid	$40	$ 33

4. Business Combinations

On October 27, 2014, we completed the acquisition of certain assets related to Riverbed Technology, Inc.'s SteelStore product line for $79 million in cash. The SteelStore product line supports leading backup applications and cloud providers so that customers have a choice in how they extend their existing data protection infrastructure into the cloud.

In addition, on the same date, we acquired certain intangible assets from a privately-held software developer for $6 million in cash.

Following are the fair values of net assets acquired as of the closing date (in millions):

Tangible net assets	$14
Finite-lived intangible assets	32
Goodwill	39
Total purchase price	$85

The results of operations related to these acquisitions have been included in our condensed consolidated statements of operations from the acquisition date. Pro forma results of operations have not been presented because the acquisitions were not material to our results of operations.

5. Purchased Intangible Assets, Net

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

	January 29, 2016			April 24, 2015		
	Gross Assets	Accumulated Amortization	Net Assets	Gross Assets	Accumulated Amortization	Net Assets
Developed technology	$304	$ (268)	$ 36	$313	$ (225)	$ 88
Customer contracts/relationships	5	(4)	1	5	(3)	2
Other purchased intangibles	1	(1)	—	3	(3)	—
Total purchased intangible assets	$310	$ (273)	$ 37	$321	$ (231)	$ 90

During the nine months ended January 29, 2016, we recorded a charge of $11 million to fully impair developed technology related to our fiscal 2013 acquisition of CacheIQ as a result of our discontinued use of such technology. The impairment charge is included in accumulated amortization in the table above.

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

	Three Months Ended		Nine Months Ended		Statement of Operations Classifications
	January 29, 2016	January 23, 2015	January 29, 2016	January 23, 2015	
Developed technology	$13	$ 18	$41	$ 47	Cost of revenues
Customer contracts/relationships	1	1	1	1	Operating expenses
Total	$14	$ 19	$42	$ 48	

As of January 29, 2016, future amortization expense related to purchased intangible assets is as follows (in millions):

Fiscal Year	Amount
Remainder of 2016	$ 13
2017	10
2018	6
2019	5
2020	3
Total	$ 37

6. Balance Sheet Details

Cash and cash equivalents (in millions):

	January 29, 2016	April 24, 2015
Cash	$ 2,347	$ 1,666
Cash equivalents	148	256
Cash and cash equivalents	$ 2,495	$ 1,922

Inventories (in millions):

	January 29, 2016	April 24, 2015
Purchased components	$ 25	$ 36
Finished goods	77	110
Inventories	$ 102	$ 146

Other current assets (in millions):

	January 29, 2016	April 24, 2015

Prepaid expenses and other current assets	$ 354	$ 268
Deferred tax assets	—	254
Other current assets	$ 354	$ 522

Property and equipment, net (in millions):

	January 29, 2016	April 24, 2015
Land	$ 181	$ 265
Buildings and improvements	543	607
Leasehold improvements	103	107
Computer, production, engineering and other equipment	751	754
Computer software	351	372
Furniture and fixtures	83	85
Construction-in-progress	63	33
	2,075	2,223
Accumulated depreciation and amortization	(1,202)	(1,193)
Property and equipment, net	$ 873	$ 1,030

During the three months ended January 29, 2016, we reported certain land and buildings previously reported as property and equipment, net as assets held-for-sale because we expect to sell them within the next twelve months. The net carrying value of these assets was $117 million as of January 29, 2016 and is included in other current assets in the condensed consolidated balance sheets.

Other non-current assets (in millions):

	January 29, 2016	April 24, 2015
Deferred tax assets	$ 605	$ 256
Other assets	179	225
Other non-current assets	$ 784	$ 481

Accrued expenses (in millions):

	January 29, 2016	April 24, 2015
Accrued compensation and benefits	$ 274	$ 359
Product warranty liability	49	58
Other current liabilities	294	284
Accrued expenses	$ 617	$ 701

Product warranty liabilities:

Equipment and software systems sales include a standard product warranty. The following tables summarize the activity related to product warranty liabilities and their balances as reported in our condensed consolidated balance sheets (in millions):

	Three Months Ended		Nine Months Ended	
	January 29, 2016	January 23, 2015	January 29, 2016	January 23, 2015
Balance at beginning of period	$ 80	$ 97	$ 86	$ 110
Expense accrued during the period	5	3	27	22
Warranty costs incurred	(12)	(12)	(40)	(44)
Balance at end of period	$ 73	$ 88	$ 73	$ 88

	January 29, 2016	April 24, 2015

Accrued expenses	$ 49	$ 58
Other long-term liabilities	24	28
Total warranty liabilities	$ 73	$ 86

Warranty expense accrued during the period includes amounts accrued for systems at the time of shipment, adjustments for changes in estimated costs for warranties on systems shipped in the period and changes in estimated costs for warranties on systems shipped in prior periods.

Deferred revenue and financed unearned services revenue (in millions):

	January 29, 2016	April 24, 2015
Deferred product revenue	$ 48	$ 17
Deferred services revenue	2,905	3,075
Financed unearned services revenue	172	105
Total	$ 3,125	$ 3,197
Reported as:		
Short-term	$ 1,684	$ 1,724
Long-term	1,441	1,473
Total	$ 3,125	$ 3,197

Deferred product revenue represents unrecognized revenue related to undelivered product commitments and other product deliveries that have not met all revenue recognition criteria. Deferred services revenue represents customer payments made in advance for services, which include software and hardware maintenance contracts and other services. Financed unearned services revenue represents undelivered services for which cash has been received under certain third-party financing arrangements. See Note 16 for additional information related to these arrangements.

7. Other income (expense), net

Other income (expense), net consists of the following (in millions):

	Three Months Ended		Nine Months Ended	
	January 29, 2016	January 23, 2015	January 29, 2016	January 23, 2015
Interest income	$ 11	$ 9	$ 35	$ 25
Interest expense	(11)	(11)	(34)	(31)
Other expense, net	(2)	—	—	—
Total other income (expense), net	$ (2)	$ (2)	$ 1	$ (6)

8. 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 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.

Investments

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

	January 29, 2016				April 24, 2015			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate bonds	$1,496	$ 2	$ (4)	$ 1,494	$2,249	$ 9	$ —	$ 2,258
U.S. Treasury and government debt securities	1,019	1	—	1,020	1,056	2	—	1,058
Foreign government debt securities	39	—	—	39	38	—	—	38
Commercial paper	7	—	—	7	20	—	—	20
Certificates of deposit	116	—	—	116	286	—	—	286
Mutual funds	29	—	—	29	32	—	—	32
Total debt and equity securities	$2,706	$ 3	$ (4)	$ 2,705	$3,681	$ 11	$ —	$ 3,692

As of January 29, 2016, gross unrealized losses related to individual securities were not significant.

The following table presents the contractual maturities of our debt investments as of January 29, 2016 (in millions):

	Amortized Cost	Fair Value
Due in one year or less	$ 839	$839
Due after one year through five years	1,838	1,837
	$ 2,677	$2,676

Actual maturities may differ from the contractual maturities because borrowers may have the right to call or prepay certain obligations.

Fair Value of Financial Instruments

The following table summarizes our financial assets and liabilities measured at fair value on a recurring basis (in millions):

	January 29, 2016		
		Fair Value Measurements at Reporting Date Using	
	Total	Level 1	Level 2
Cash	$2,347	$2,347	$—
Corporate bonds	1,494	—	1,494
U.S. Treasury and government debt securities	1,020	325	695
Foreign government debt securities	39	—	39
Commercial paper	7	—	7
Certificates of deposit	116	—	116
Total cash, cash equivalents and short-term investments	$5,023	$2,672	$2,351
Other items:			
Mutual funds [1]	$5	$5	$—
Mutual funds [2]	$24	$24	$—
Foreign currency exchange contracts assets [1]	$5	$—	$5
Foreign currency exchange contracts liabilities [3]	$(1)	$—	$(1)
Long-term debt	$(1,492)	$—	$(1,492)

[1] Reported as other current assets in the condensed consolidated balance sheets
[2] Reported as other non-current assets in the condensed consolidated balance sheets
[3] Reported as accrued expenses in the condensed consolidated balance sheets

Our Level 2 debt instruments are held by a custodian who prices some of the investments using standard inputs in various asset price models or obtains investment prices from third-party pricing providers that incorporate standard inputs in various asset price models. These pricing providers utilize the most recent observable market information in pricing these securities or, if specific prices are not available for these securities, use other observable inputs like market transactions involving identical or comparable securities. 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 provider 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 debt instruments. As of January 29, 2016 and April 24, 2015, we have not made any adjustments to the prices obtained from our third-party pricing providers.

Fair Value of Long-Term Debt

The fair value of our long-term debt was based on observable market prices in a less active market. All of our debt obligations are categorized as Level 2 instruments.

9. Financing Arrangements

Long-Term Debt

The following table summarizes information relating to our long-term debt (in millions, except interest rates):

	January 29, 2016		April 24, 2015	
	Amount	Effective Interest Rate	Amount	Effective Interest Rate
2.00% Senior Notes Due 2017	$750	2.25 %	$750	2.25 %
3.375% Senior Notes Due 2021	500	3.54 %	500	3.54 %
3.25% Senior Notes Due 2022	250	3.43 %	250	3.43 %
Total principal amount	1,500		1,500	
Less:				
Unamortized discount	(4)		(5)	
Unamortized issuance costs	(6)		(8)	
Total long-term debt	$1,490		$1,487	

Senior Notes

In June 2014, we issued $500 million par value of 3.375% Senior Notes due June 15, 2021, and received proceeds of approximately $495 million, net of discount and issuance costs. Our 2.00% Senior Notes and 3.25% Senior Notes, with a par value of $750 million and $250 million, respectively, were issued in December 2012. We collectively refer to such long-term debt as our Senior Notes. Interest on our Senior Notes is paid semi-annually on June 15 and December 15. Our Senior Notes, which are unsecured, unsubordinated obligations, rank equally in right of payment with any future senior unsecured indebtedness.

We may redeem the Senior Notes in whole or in part, at any time at our option at specified redemption prices. In addition, upon the occurrence of certain change of control triggering events, we may be required to repurchase the Senior Notes under specified terms. The Senior Notes also include covenants that limit our ability to incur debt secured by liens on assets or on shares of stock or indebtedness of our subsidiaries; to engage in sale and lease-back transactions; and to consolidate, merge or sell all or substantially all of our assets. As of January 29, 2016, we were in compliance with all covenants associated with the Senior Notes.

As of January 29, 2016, our aggregate future principal debt maturities are as follows (in millions):

Fiscal Year	Amount
2018	$ 750
Thereafter	750
Total	$ 1,500

Credit Facility

In December 2012, we entered into a credit agreement with a syndicated group of lenders that is scheduled to expire on December 21, 2017 and provides for an unsecured $250 million revolving credit facility that is comprised of revolving loans, Eurocurrency loans and/or swingline loans. The credit facility includes a $100 million foreign currency sub-facility, a $50 million letter of credit sub-facility and a $10 million swingline sub-facility available on same-day notice. Available borrowings under the credit facility are reduced by the amount of any outstanding borrowings on the sub-facilities. We may also, subject to certain requirements, request an increase in the facility up to an additional $100 million and request two additional one-year extensions, subject to certain conditions. The proceeds from the facility may be used by us for general corporate purposes.

Borrowings under the facility, except for swingline loans, accrue interest in arrears at an alternate base rate as defined in the credit agreement or, at our option, an adjusted London Interbank Offered Rate (LIBOR) plus in each case, a spread (based on our public debt ratings and the type of loan) ranging from 0.2% to 1.2%. Swingline borrowings accrue interest at an alternate base rate. In addition, we are required to pay fees to maintain the credit facility, whether or not we have outstanding borrowings. The facility contains financial covenants requiring us to maintain a maximum leverage ratio of not more than 3.0:1.0 and a minimum interest coverage ratio of not less than 3.5:1.0. The facility contains customary affirmative and negative covenants, including covenants that limit our ability to incur debt secured by liens on assets or indebtedness of our subsidiaries and to consolidate, merge or sell all or substantially all of our assets. As of January 29, 2016, no borrowings were outstanding under the facility and we were in compliance with all covenants associated with the facility.

Other Long-Term Financing Arrangements

The following presents the amounts due under other long-term financing arrangements (in millions):

	January 29, 2016	April 24, 2015
Other long-term financing arrangements	$ 8	$ 16
Less: current portion	(5)	(10)
Non-current portion of other long-term financing arrangements	$ 3	$ 6

10. Stockholders' Equity

Equity Incentive Awards

As of January 29, 2016, we have outstanding certain equity incentive awards (awards), which include stock options, restricted stock units (RSUs), including time-based RSUs and performance-based RSUs (PBRSUs), and Employee Stock Purchase Plan (ESPP) awards.

Stock Options

The following table summarizes information related to our stock options (in millions, except exercise price and contractual term):

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding as of April 24, 2015	12	$ 37.74		
Exercised	(1)	$ 21.15		
Forfeited and expired	(3)	$ 39.11		
Outstanding as of January 29, 2016	8	$ 39.68	2.64	$ 1
Vested and expected to vest as of January 29, 2016	8	$ 39.73	2.55	$ 1
Exercisable as of January 29, 2016	7	$ 40.29	2.17	$ 1

The aggregate intrinsic value represents the pre-tax difference between the exercise price of stock options and the quoted market price of our stock on that day for all in-the-money options.

Additional information related to our stock options is summarized below (in millions):

	Nine Months Ended January 29, 2016	January 23, 2015
Intrinsic value of exercises	$ 12	$ 61
Proceeds received from exercises	$ 24	$ 100
Fair value of options vested	$ 10	$ 26

Restricted Stock Units

In the nine months ended January 29, 2016, we granted PBRSUs to certain of our executives. Each PBRSU has performance-based vesting criteria (in addition to the service based vesting criteria) such that the PBRSU cliff-vests at the end of either an approximate two year or three year performance period, which began on the date specified in the grant agreement and ends the last day of fiscal 2017 or 2018, respectively. The number of shares of common stock that will be issued to settle the PBRSUs at the end of the applicable performance and service period will range from 0% to 200% of a target number of shares originally granted, and will depend upon our Total Stockholder Return (TSR) as compared to an index TSR (each expressed as a growth rate percentage) calculated as of the applicable period end date. The fair values of the PBRSUs were fixed at grant date using a Monte Carlo simulation model and the related aggregate compensation cost of $20 million is being recognized, adjusted for forfeitures, over the shorter of the remaining applicable performance or service periods.

RSUs are converted into common stock upon vesting. Time-based RSUs generally vest with only service-based criteria at 25% annually over four years, except for the PBRSUs described above and 4 million time-based RSUs granted in the nine months ended January 29, 2016, which will vest at 50% annually over two years.

The following table summarizes information related to RSUs, including PBRSUs, (in millions, except for fair value):

	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding as of April 24, 2015	13	$ 36.58
Granted	6	$ 30.49
Vested	(5)	$ 37.67
Forfeited	(2)	$ 35.08
Outstanding as of January 29, 2016	12	$ 33.46

We primarily use the net share settlement approach upon vesting, where a portion of the shares are withheld as settlement of statutory employee withholding taxes, which decreases the shares issued to the employee by a corresponding value. The number and value of the shares netted for employee taxes are summarized in the table below (in millions):

	Nine Months Ended	
	January 29, 2016	January 23, 2015
Shares withheld for taxes	2	1
Fair value of shares withheld	$47	$ 51

Employee Stock Purchase Plan

The following table summarizes activity related to the purchase rights issued under the ESPP (in millions):

	Nine Months Ended	
	January 29, 2016	January 23, 2015
Shares issued under the ESPP	3	3
Proceeds from issuance of shares	$93	$ 97

Stock-Based Compensation Expense

Stock-based compensation expense is included in the condensed consolidated statements of operations as follows (in millions):

	Three Months Ended		Nine Months Ended	
	January 29, 2016	January 23, 2015	January 29, 2016	January 23, 2015
Cost of product revenues	$1	$ 2	$4	$ 5
Cost of hardware maintenance and other services revenues	5	4	15	12
Sales and marketing	27	30	84	87
Research and development	20	21	64	64
General and administrative	10	9	32	28
Total stock-based compensation expense	$63	$ 66	$199	$ 196

As of January 29, 2016, total unrecognized compensation expense related to our equity awards was $341 million, which is expected to be recognized on a straight-line basis over a weighted-average remaining service period of

1.9 years.

Total income tax benefit associated with employee stock transactions and recognized in stockholders' equity were as follows (in millions):

	Nine Months Ended	
	January 29, 2016	January 23, 2015
Income tax benefit associated with employee stock transactions	$37	$ 54

Stock Repurchase Program

As of January 29, 2016, our Board of Directors has authorized the repurchase of up to $9.6 billion of our common stock. Under this program, which we may suspend or discontinue at any time, we may purchase shares of our outstanding common stock through open market and privately negotiated transactions at prices deemed appropriate by our management.

The following table summarizes activity related to this program for the nine months ended January 29, 2016 (in millions, except per share amounts):

Number of shares repurchased	23
Average price per share	$30.75
Aggregate purchase price	$698
Remaining authorization at end of period	$1,762

The aggregate purchase price of our stock repurchases for the nine months ended January 29, 2016 consisted of $698 million of open market purchases, of which $534 million and $164 million was allocated to additional paid-in capital and retained earnings, respectively.

Since the May 13, 2003 inception of our stock repurchase program through January 29, 2016, we repurchased a total of 237 million shares of our common stock at an average price of $33.22 per share, for an aggregate purchase price of $7.9 billion.

Dividends

The following is a summary of our activities related to dividends on our common stock (in millions, except per share amounts):

	Nine Months Ended	
	January 29, 2016	January 23, 2015
Dividends per share declared	$0.540	$0.495
Dividend payments allocated to additional paid-in capital	$84	$52
Dividend payments allocated to retained earnings	$75	$105

On February 17, 2016, we declared a cash dividend of $0.18 per share of common stock, payable on April 27, 2016 to holders of record as of the close of business on April 8, 2016. The timing and amount of future dividends will depend on market conditions, corporate business and financial considerations and regulatory requirements. All dividends declared have been determined by us to be legally authorized under the laws of the state in which we are incorporated.

Retained Earnings

A reconciliation of retained earnings is as follows (in millions):

Balance as of April 24, 2015	$53
Net income	237
Repurchases of common stock	(164)
Dividends	