SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A
AMENDMENT NO. 1

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED APRIL 24, 1998

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

NETWORK APPLIANCE, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

CALIFORNIA	77-0307520
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

2770 SAN TOMAS EXPRESSWAY
SANTA CLARA, CALIFORNIA 95051
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICE, INCLUDING ZIP CODE)

(408) 367-3000
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT: None

TITLE OF EACH CLASS	NAME OF EXCHANGE ON WHICH REGISTERED
none	none

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:
Common Stock (no par value)

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 a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of voting stock held by non-affiliates of the Registrant, as of May 31, 1998, was $984,774,626 (based on the closing price for shares of the Registrant's common stock as reported by the Nasdaq National Market for the last trading day prior to that date). Shares of common stock held by each executive officer, director, and holder of 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

On May 31, 1998, 33,802,814 shares of the Registrant's common stock, no par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information called for by Part III is incorporated by reference to the definitive Proxy Statement for the Annual Meeting of Shareholders to be held October 8, 1998, which will be filed with the Securities and Exchange Commission not later than 120 days after April 24, 1998.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The section of this Annual Report on Form 10-K titled "Item 1. Business," beginning on page 2, discusses risk factors in numerous places, including the section titled "Other Factors Affecting the Company" and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"). MD&A should also be read in conjunction with the audited, consolidated financial statements and the notes thereto included in the section titled "Item 8. Financial Statements and Supplementary Data."

RESULTS OF OPERATIONS

The following table sets forth certain consolidated statements of income data as a percentage of net sales for the periods indicated:

	YEARS ENDED APRIL 30,		
	1998	1997	1996
Net Sales	100.0%	100.0%	100.0%
Cost of Sales	40.7	40.8	44.1
Gross margin	59.3	59.2	55.9
Operating Expenses:			
Sales and marketing	25.7	26.0	27.3
Research and development	10.0	9.6	10.2
General and administrative	3.9	4.4	5.5
Purchased in-process technology and related compensation charge	--	11.3	--
Litigation settlement	--	4.6	--
Total operating expenses	39.6	55.9	43.0
Income from Operations	19.7	3.3	12.9
Other Income, net	0.5	1.0	1.3
Income before Income Taxes	20.2	4.3	14.2
Provision for Income Taxes	7.6	4.0	--
Net income	12.6%	0.3%	14.2%

FISCAL 1998 COMPARED TO FISCAL 1997

Net Sales -- Net sales increased to $166.2 million in fiscal 1998 from $93.3 million in fiscal 1997, an increase of 78.0%. The increase in net sales was principally attributable to a higher volume of filers shipped. The increase in unit shipments resulted primarily from the Company's expansion of its direct sales force and the introduction of new products during June and July 1997, particularly the enterprise-class NetApp F630, the NetApp F520 and the NetApp F230. Net sales for fiscal 1998 were also positively impacted by a shift in product mix toward higher-end systems, primarily due to the introduction of new products, leading to higher average selling prices for filers than in the previous fiscal year. Net sales also grew as a result of increased multiprotocol system shipments, the licensing of multiprotocol software to pre-existing customers and increased service and software subscription revenues due to a growing installed base.

International net sales (including U.S. exports) were $37.8 million and $16.1 million, for fiscal 1998 and 1997, respectively. The increase in international net sales was primarily a result of European sales growth due to increased headcount in the direct sales force over the prior fiscal year and to the introduction of the new products in June and July 1997.

There can be no assurance that the Company's net sales will continue to increase in absolute dollars or at the rate at which they have grown in recent fiscal periods.

Gross Margin -- Gross margin remained relatively flat increasing slightly to 59.3% of net sales for fiscal 1998 compared to 59.2% of net sales for fiscal 1997. This increase in gross margin was primarily attributable to the increase in product volume, lower costs of key components, increased manufacturing efficiencies and by

the sale of the Company's new product with cost-reduced designs first introduced in June and July 1997. Gross margin was also favorably impacted by the licensing of multiprotocol software and by growth in software subscription and service revenues due to a growing installed base. Factors contributing to gross margin growth were partially offset by the sale of 4 gigabyte drives at reduced prices in fiscal 1998.

The Company's gross margin has been and will continue to be affected by a variety of factors, including competition, product configuration, direct versus indirect sales, the mix and average selling prices of products, new product introductions and enhancements and the cost of components and manufacturing labor. In particular, the Company's gross margin varies based upon the configuration of systems that are sold and whether they are sold directly or through indirect channels. Highly configured systems typically generate lower overall gross margin percentages due to greater disk drive and memory content.

Sales and Marketing -- Sales and marketing expenses consist primarily of salaries, commissions, advertising and promotional expenses and customer service and support costs. Sales and marketing expenses increased 76.3% to $42.8 million in fiscal 1998, compared to $24.3 million in fiscal 1997. These expenses were 25.7% and 26.0% of net revenues for fiscal 1998 and 1997, respectively. The increase in absolute dollars was primarily related to the expansion of the Company's sales and marketing organization, including growth in the domestic and international direct sales forces and increased commission expenses. During the quarter ended January 23, 1998, the Company launched an advertising campaign which contributed to absolute dollar growth in sales and marketing expenses for fiscal 1998. The Company expects to continue to increase its sales and marketing expenses in an effort to expand domestic and international markets, introduce new products, establish and expand new distribution channels and increase product and company awareness. The Company believes that its continued growth and profitability is dependent in part on the successful expansion of its international operations, and therefore, has committed significant resources to international sales.

Research and Development -- Research and development expenses consist primarily of salaries and benefits and prototype expenses. Research and development expenses increased 85.6% to $16.6 million in fiscal 1998, compared to $9.0 million in the prior fiscal year. These expenses represented 10.0% and 9.6% of net sales in fiscal 1998 and 1997, respectively, and increased as a result of headcount growth, prototyping expenses associated with the development of new products and ongoing support of current and future product development and enhancement efforts. The Company believes that significant investments in research and development will be required to remain competitive and expects that such expenditures will continue to increase in absolute dollars.

General and Administrative -- General and administrative expenses were $6.5 million in fiscal 1998, compared to $4.1 million in fiscal 1997, an increase of 57.9%. These expenses represented 3.9% and 4.4% of net sales for such periods and increased in absolute dollars primarily as a result of headcount growth, increased professional services fees and an increase to the allowance for bad debt. The Company believes that its general and administrative expenses will increase in absolute dollars as the Company continues to build its infrastructure.

Litigation Settlement -- See discussion in MD&A section titled "Fiscal 1997 Compared to Fiscal 1996."

Purchased In-Process Technology and Related Compensation Charge -- See discussion in MD&A section titled "Fiscal 1997 Compared to Fiscal 1996."

Other Income, Net -- Other income, net, was $0.9 million and $1.0 million in fiscal 1998 and 1997, respectively. Other income, net, decreased over the corresponding period of the prior year due primarily to foreign currency exchange losses recorded in fiscal 1998.

Provision for Income Taxes -- The Company's effective tax rate for fiscal 1998 was 37.5% compared to 93.8% for fiscal 1997. The fiscal 1997 tax rate was primarily affected by the one-time charge to operations of $7.4 million for the write-off of purchased in-process research and development related to the IMC acquisition which was not deductible for income tax purposes. Excluding the net effect of the IMC acquisition, the fiscal 1997 effective tax rate would have been 35%. The higher effective tax rate in fiscal 1998, compared to the fiscal 1997 effective tax rate, exclusive of the IMC acquisition, relates to increased earnings, which reduce the impact of research and development and other tax credits on the effective tax rate. Additionally, fiscal 1997

included a benefit for the reversal of a valuation allowance previously provided against deferred tax assets which did not occur in fiscal 1998. As of April 30, 1998 and 1997, a valuation allowance was deemed unnecessary as Company management determined that it is more likely than not that the net deferred tax asset is realizable.

FISCAL 1997 COMPARED TO FISCAL 1996

Net Sales -- Net sales increased by 100% to $93.3 million in fiscal 1997 from $46.6 million in fiscal 1996. This increase was attributable to an increased shipping volume of filers and related peripheral devices and higher average selling prices of filers. The increase in filer shipments resulted primarily from the Company's expansion of its domestic and international direct sales force, growth of the Company's domestic and international indirect sales channel, increased market acceptance of the Company's products and the introduction of the NetApp F540. The higher average selling prices resulted primarily from the introduction of the enterprise-class NetApp F540 and the shipment of a greater number of units directly to end users, who generally purchase more highly configured systems at higher average selling prices than resellers. Net sales also increased as a result of the introduction of multiprotocol systems and the licensing of multiprotocol software to pre-existing customers.

Gross Margin -- Gross margin increased to 59.2% in fiscal 1997 from 55.9% in fiscal 1996. This increase in gross margin was primarily attributable to the increase in product volume in fiscal 1997, lower costs of key components and increased manufacturing efficiencies. Gross margin also increased over the prior fiscal year as a result of licensing multiprotocol software and increases in software subscription revenue due to a larger installed base. These factors offset the effect of increased sales of highly configured systems during fiscal 1997, which generally generate lower gross margins per system due to higher disk drive content.

Sales and Marketing -- Sales and marketing expenses increased 90.6% to $24.3 million in fiscal 1997 from $12.7 million in fiscal 1996. These expenses were 26.0% and 27.3% of net sales in fiscal 1997 and 1996, respectively. The increase in absolute dollars was primarily related to the expansion of the Company's sales and marketing organization, particularly the increase in the direct sales force, and increased commission expenses related to higher sales volumes.

Research and Development -- Research and development expenses increased 88.3% to $9.0 million in fiscal 1997 from $4.8 million in fiscal 1996. These expenses represented 9.6% and 10.2% of net sales in fiscal 1997 and 1996, respectively, and increased in absolute dollars primarily as a result of increased headcount, prototyping expenses associated with the development of new products and the support of the current and future product development and enhancement efforts.

General and Administrative -- General and administrative expenses were $4.1 million in fiscal 1997, compared to $2.6 million in fiscal 1996, an increase of 60.4%. These expenses represented 4.4% and 5.5%, respectively, of net sales for such periods. In fiscal 1997, the Company continued its investments in additional staffing, facilities expansion and related occupancy costs necessary to manage and support the Company's growth. Professional fees also increased from fiscal 1996 to fiscal 1997. The growth in professional fees was primarily related to increases in general legal fees, investor relation activities and accounting related services.

Purchased In-Process Technology and Related Compensation Charge -- On March 17, 1997, the Company acquired all outstanding shares and options to purchase shares of IMC common stock by issuing 374,046 shares of the Company's common stock and options to purchase shares of the Company's common stock. In connection with the acquisition, intangible assets of $8.4 million were acquired, of which $7.4 million was reflected as a one-time charge to operations for the write-off of in-process research and development that had not reached technological feasibility and, in management's opinion, had no probable alternative future use. The remaining intangible assets of $1.0 million, consisting of existing technology and goodwill, are included in other assets in the accompanying consolidated balance sheets and are being amortized over their estimated useful lives of five years.

Certain key employees of IMC who continued as employees of the Company were also granted vested options to purchase shares of the Company's common stock at a discount to the market price of the

Company's common stock immediately preceding the acquisition. In connection with the granting of these options, the Company recorded a compensation charge of $3.2 million in the fourth quarter of fiscal 1997.

The acquisition was accounted for as a purchase and, accordingly, the results of operations of IMC from the date of acquisition forward have been included in the Company's consolidated financial statements. IMC results of operations included in the Company's consolidated financial statements for fiscal 1997 were not significant. See Note 4 of Notes to Consolidated Financial Statements for pro forma financial information.

Litigation Settlement -- In July 1994, the Company and certain of its former employees were named as defendants in a lawsuit which alleged that one of the Company's founders, who left the Company in March 1995, misappropriated confidential information prior to the Company's founding in April 1992. In August 1996, the Company entered into a settlement with the plaintiff which resulted in a charge to earnings of $4.3 million in the first quarter of fiscal 1997, which included a $3.5 million payment to the plaintiffs and $0.8 million of legal fees. As the payment released the Company from all liabilities associated with the case, the Company has no future obligations to the plaintiffs. The Company denies any wrongdoing on its part or on the part of the founder.

Other Income, Net -- Other income, net, was $1.0 million and $0.6 million in fiscal 1997 and 1996, respectively. In both of these periods, other income, net, represented less than 2% of net sales. Other income, net, increased in fiscal 1997 due primarily to interest income earned over four quarters of fiscal 1997 on the net proceeds of $25.7 million from the Company's November 1995 initial public offering ("IPO") compared to interest earnings on IPO proceeds over two quarters for fiscal 1996.

Provision for Income Taxes -- The fiscal 1997 income tax provision was $3.8 million (effective rate of 93.8%). The fiscal 1997 tax rate was primarily affected by the one-time charge to operations of $7.4 million for the write-off of purchased in-process research and development related to the IMC acquisition which was not deductible for income tax purposes. Excluding the net effect of the IMC acquisition, the effective tax rate would have been 35%. As of April 30, 1997, a valuation allowance was deemed unnecessary as Company management determined that it is more likely than not that the net deferred tax asset is realizable.

In fiscal 1996, the Company's federal and state income tax liabilities were offset by the realization of a portion of its net deferred tax assets. The Company recognized a benefit for its net deferred tax assets to the extent that they were recoverable through tax refunds in the event of future net operating losses. The Company recorded a valuation allowance for the balance of its net deferred tax assets as a result of uncertainty regarding realization of the assets, including the limited operating history of the Company.

LIQUIDITY AND CAPITAL RESOURCES

As of April 30, 1998, compared to the April 30, 1997 balances, the Company's cash, cash equivalents and short-term investments increased by $19.7 million to $48.1 million. Working capital increased by $27.7 million to $69.6 million, impacted primarily by increases in accounts receivable, cash and cash equivalents and short-term investments, partially offset by increases in accounts payable, deferred revenue, accrued compensation and benefits and other accrued liabilities. The Company generated cash from operating activities totaling $22.7 million and $6.3 million in fiscal 1998 and fiscal 1997, respectively. Net cash provided by operating activities in fiscal 1998 principally related to net income of $21.0 million, depreciation and amortization which are non-cash expenses and increases in current liabilities, partially offset by increases in accounts receivable, prepaid expenses and other and deferred income taxes.

The Company used $8.0 million and $7.1 million of cash during fiscal 1998 and 1997, respectively, to purchase property and equipment. In addition, the Company used $3.9 million in both fiscal 1998 and fiscal 1997 for net short-term investment purchases. Financing activities provided $6.9 million and $1.7 million during fiscal 1998 and 1997, respectively. The increase in cash provided by financing activities in fiscal 1998 compared to the prior fiscal year was due to an increased quantity of stock options exercised at a higher average exercise price.

In June 1998, the Company executed an agreement to acquire 5.9 acres of land in Sunnyvale, California and the accompanying 127,000 square foot building. Under terms of the agreement, the Company paid

$5.0 million of the $33.8 million purchase price as a nonrefundable deposit. The agreement allows the Company to assign its rights and obligations to a third-party entity should the Company decide to enter into an operating lease. It is the Company's intent to assign its rights and obligations to a third-party entity and enter into an operating lease, provided the Company can obtain satisfactory leasing terms.

In June 1998, the Company signed a 25-year operating lease requiring annual lease payments of $3.1 million, commencing in October 1999, for a 6.2 acre plot in Sunnyvale, California. In connection with executing the operating lease agreement, the Company also signed an option agreement to purchase the 6.2 acres of land. Under terms of the option agreement, the Company paid a $4.5 million nonrefundable deposit. The option allows the Company to purchase the land, within a 90-day period, commencing in December 1999 at a purchase price of $23.7 million and its rights and obligations under this agreement may be assigned to third parties. It is the Company's intent to assign its purchase option to a third-party entity and to enter into an operating lease with the third-party entity, provided the Company can obtain satisfactory leasing terms.

In July 1998, the Company negotiated a $5.0 million unsecured revolving credit facility with a domestic commercial bank. Under terms of the credit facility which expires in July 1999, the Company must maintain various financial covenants. Any borrowings under this agreement bear interest at either LIBOR plus 1% or at the Lender's "prime" lending rate, such rate determined at the discretion of the Company. As of July 17, 1998, there were no borrowings under the credit facility.

Excluding the commitments related to the aforementioned properties which the Company intends to assign to a third party and then establish operating leases, the Company currently has no significant commitments other than commitments under operating leases. The Company believes that its existing liquidity and capital resources, including the $5.0 million line of credit, are sufficient to fund its operations for at least the next twelve months.

YEAR 2000 ISSUE

The "Year 2000 Issue" refers to computer programs which use two digits rather than four to define a given year and which therefore might read a date using "00" as the year 1900 rather than the year 2000. The Company is currently assessing the impact the Year 2000 Issue will have on its internal information systems. The Company believes that the majority of its current products are Year 2000 compliant and that new products are being designed to the Year 2000 compliant. The Company is currently performing extended testing. The Company does not anticipate that addressing the Year 2000 Issue for its internal information systems and current and future products will have a material adverse impact on its operations, financial results or cash flows. However, there can be no assurance that these costs will not be greater than anticipated, or that corrective actions undertaken will be completed before any Year 2000 problems could occur. The Year 2000 Issue could lower demand for the Company's products while increasing the Company's costs. These combining factors, while not quantified, could have a material adverse impact on the Company's business, operating results, financial condition and cash flows.

The Company has key relationships with certain suppliers. If these suppliers fail to adequately address the Year 2000 Issue for the products they provide the Company, this could have a material adverse impact on the Company's business, operating results, financial condition or cash flows. The Company is still assessing the effect the Year 2000 Issue will have on its suppliers and, at this time, cannot determine the impact it will have.

RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1997, the Financial Accounting Standards Board issued two new statements of financial accounting standards ("SFAS"). SFAS No. 130, "Reporting Comprehensive Income", requires that an enterprise report, by major components and as a single total, the change in its net assets from nonowner sources during the period. SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information", establishes annual and interim reporting standards for an enterprise's business segments and related disclosures about its products, services, geographic areas and major customers. The Company has not yet identified its SFAS No. 131 reporting segments. Adoption of these statements will not impact the

Company's consolidated financial position, results of operations or cash flows. Both statements are effective for the Company's fiscal year 1999.

In October 1997, the American Institute of Certified Public Accountants issued Statement of Position ("SOP") No. 97-2, "Software Revenue Recognition." This statement provides guidance on applying generally accepted accounting principles in recognizing revenue on software transactions. SOP No. 97-2 is effective for transactions entered into during the Company's fiscal year 1999 and thereafter. The Company does not expect that the adoption of this statement will materially impact the Company's financial position, results of operations or cash flows.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Network Appliance, Inc.:

We have audited the accompanying consolidated balance sheets of Network Appliance, Inc. and its subsidiaries as of April 30, 1998 and 1997, and the related consolidated statements of income, shareholders' equity (deficit) and cash flows for each of the three years in the period ended April 30, 1998. Our audits also included the financial statement schedule listed in Item 14(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Network Appliance, Inc. and its subsidiaries as of April 30, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended April 30, 1998 in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ DELOITTE & TOUCHE LLP

San Jose, California
May 8, 1998 (July 17, 1998 as to Note 11)

NETWORK APPLIANCE, INC.

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	APRIL 30, 1998	APRIL 30, 1997
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 37,315	$21,520
Short-term investments	10,800	6,916
Accounts receivable, net of allowances of $811 in 1998 and $330 in 1997	34,313	13,911
Inventories	8,707	9,920
Prepaid expenses and other	2,524	1,253
Deferred taxes	5,280	3,100
Total current assets	98,939	56,620
PROPERTY AND EQUIPMENT, NET	12,217	9,238
OTHER ASSETS	4,580	3,083
	$115,736	$68,941
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term obligations	$ 17	$ 21
Accounts payable	10,024	4,394
Income taxes payable	1,782	1,023
Accrued compensation and related benefits	8,485	4,666
Other accrued liabilities	4,201	2,280
Deferred revenue	4,799	2,317

Total current liabilities	29,308	14,701
LONG-TERM OBLIGATIONS	163	211
COMMITMENTS AND CONTINGENCIES (NOTES 3 AND 11)		
SHAREHOLDERS' EQUITY:		
Preferred stock, no par value; 5,000 shares authorized; shares outstanding: none in 1998 and 1997	--	--
Common stock, no par value; 110,000 shares authorized; shares outstanding: 33,648 in 1998 and 32,832 in 1997	66,422	54,707
Deferred stock compensation	(498)	(54)
Retained earnings (accumulated deficit)	20,341	(624)
Total shareholders' equity	86,265	54,029
	$115,736	$68,941

See notes to consolidated financial statements.

NETWORK APPLIANCE, INC.

CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEARS ENDED APRIL 30,		
	1998	1997	1996
NET SALES	$166,163	$93,333	$46,632
COST OF SALES	67,549	38,061	20,557
Gross margin	98,614	55,272	26,075
OPERATING EXPENSES:			
Sales and marketing	42,779	24,268	12,735
Research and development	16,649	8,968	4,762
General and administrative	6,528	4,134	2,578
Purchased in-process technology and related compensation charge	--	10,519	--
Litigation settlement	--	4,300	--
Total operating expenses	65,956	52,189	20,075
INCOME FROM OPERATIONS	32,658	3,083	6,000
OTHER INCOME (EXPENSE):			
Interest income	1,097	1,048	668
Interest and other expense	(208)	(88)	(68)
Total other income	889	960	600
INCOME BEFORE INCOME TAXES	33,547	4,043	6,600
PROVISION FOR INCOME TAXES	12,582	3,793	--
NET INCOME	$ 20,965	$ 250	$ 6,600
NET INCOME PER SHARE:			
Basic	$ 0.65	$ 0.01	$ 0.37
Diluted	$ 0.58	$ 0.01	$ 0.21
SHARES USED IN PER SHARE CALCULATION:			
Basic	32,457	30,489	17,997
Diluted	35,951	34,402	31,468

See notes to consolidated financial statements.

NETWORK APPLIANCE, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
(IN THOUSANDS)

	SERIES A CONVERTIBLE PREFERRED STOCK		COMMON STOCK		DEFERRED STOCK COMPENSATION	RETAINED EARNINGS (ACCUMULATED DEFICIT)	TOTAL
	SHARES	AMOUNT	SHARES	AMOUNT			
BALANCES, APRIL 30, 1995......	2,374	$ 1,340	10,132	$ 211	--	$(7,474)	$(5,923)
Exercise of stock options.....	--	--	2,875	274	--	--	274
Exercise of warrants..........	--	--	719	708	--	--	708
Issuance of common stock in connection with the Company's initial public offering....................	--	--	4,310	25,714	--	--	25,714
Repurchase of common stock....	--	--	(429)	(68)	--	--	(68)
Conversion of Series A preferred stock into common stock.......................	(2,374)	(1,340)	2,374	1,340	--	--	--
Conversion of Series B and C preferred stock into common stock.......................	--	--	12,299	11,354	--	--	11,354
Deferred stock compensation...	--	--	--	515	(515)	--	--
Amortization of deferred stock compensation................	--	--	--	--	132	--	132
Income tax benefit from employee stock transactions................	--	--	--	238	--	--	238
Net income....................	--	--	--	--	--	6,600	6,600
BALANCES, APRIL 30, 1996......	--	--	32,280	40,286	(383)	(874)	39,029
Issuance of common stock......	--	--	583	1,730	--	--	1,730
Repurchase of common stock....	--	--	(376)	(52)	--	--	(52)
Amortization of deferred stock compensation................	--	--	--	--	85	--	85
Reversal of deferred stock compensation due to employee termination.................	--	--	--	(244)	244	--	--
Income tax benefit from employee stock transactions................	--	--	--	2,487	--	--	2,487
Common stock issued for IMC acquisition.................	--	--	345	7,350	--	--	7,350
Compensation charge for IMC acquisition.................	--	--	--	3,150	--	--	3,150
Net income....................	--	--	--	--	--	250	250
BALANCES, APRIL 30, 1997......	--	--	32,832	54,707	(54)	(624)	54,029
Issuance of common stock......	--	--	827	6,937	--	--	6,937
Repurchase of common stock....	--	--	(11)	(1)	--	--	(1)
Deferred stock compensation...	--	--	--	714	(714)	--	--
Amortization of deferred stock compensation................	--	--	--	--	270	--	270
Income tax benefit from employee stock transactions................	--	--	--	4,065	--	--	4,065
Net income....................	--	--	--	--	--	20,965	20,965
BALANCES, APRIL 30, 1998......	--	--	33,648	$66,422	$(498)	$20,341	$86,265

See notes to consolidated financial statements.

NETWORK APPLIANCE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEARS ENDED APRIL 30,		
	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 20,965	$ 250	$ 6,600
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,548	2,866	1,386
Purchased in-process technology and related compensation charge	--	10,519	--
Provision for doubtful accounts	481	--	110
Deferred income taxes	(1,749)	(2,794)	(2,100)
Deferred rent	(36)	(69)	87
Changes in assets and liabilities:			
Accounts receivable	(20,883)	(8,573)	(2,270)
Inventories	1,213	(5,095)	(1,181)
Prepaid expenses and other	(1,484)	(1,031)	(525)
Accounts payable	5,626	2,295	(1,415)
Accrued compensation and related benefits	3,819	2,636	1,065
Income taxes payable	4,823	3,010	500
Other accrued liabilities	1,921	338	876
Deferred revenue	2,482	1,917	370
Net cash provided by operating activities	22,726	6,269	3,503
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(7,971)	(7,124)	(4,281)
Redemptions of short-term investments	11,166	13,836	--
Purchases of short-term investments	(15,050)	(17,770)	(2,982)
Other assets	(2,000)	--	--
Cash acquired from IMC purchase	--	11	--
Net cash used in investing activities	(13,855)	(11,047)	(7,263)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of long-term debt	--	--	1,250
Repayments of long-term obligations	(12)	(17)	(1,272)
Payments for repurchase of common stock	(1)	(52)	(68)
Proceeds from sale of common stock, net	6,937	1,730	26,696
Net cash provided by financing activities	6,924	1,661	26,606
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,795	(3,117)	22,846
CASH AND CASH EQUIVALENTS:			
Beginning of year	21,520	24,637	1,791
End of year	$ 37,315	$ 21,520	$24,637

See notes to consolidated financial statements.

NETWORK APPLIANCE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLAR AND SHARE AMOUNTS IN THOUSANDS, EXCEPT PER-SHARE DATA)

1. THE COMPANY

Network Appliance, Inc., incorporated in the state of California in April 1992, and its subsidiaries (the "Company") operate in a single industry segment and are involved in the design, manufacturing, marketing and support of high performance network data storage devices which provide fast, simple, reliable and cost-effective file service for data-intensive network environments.

2. SIGNIFICANT ACCOUNTING POLICIES

Fiscal Year -- Although the Company operates on a 52-week or 53-week year ending on the last Friday in April, for presentation purposes the Company has indicated in the accompanying consolidated financial statements that its fiscal year end is April 30. Fiscal 1998, 1997 and 1996 were 52-week years. Fiscal 1999 will be a 53-week fiscal year.

Basis of Presentation -- The consolidated financial statements include the Company and its wholly-owned subsidiaries. Intercompany accounts and transactions are eliminated in consolidation. Certain amounts from prior years have been reclassified to conform to current-year presentation. These reclassifications did not change previously reported total assets, liabilities, shareholders' equity or net income.

Cash and Cash Equivalents -- The Company considers all highly liquid debt investments with original maturities of three months or less to be cash equivalents.

Short-term Investments -- The Company's short-term investments consist of securities with original maturities ranging between three and six months. All of the Company's investments are classified as available-for-sale, and are stated at amortized cost, which approximates fair market value. Short-term investments consist of $10,800 and $6,916 of municipal securities as of April 30, 1998, and April 30, 1997, respectively. No short-term investments were sold during any of the periods presented.

Inventories -- Inventories are stated at the lower of cost (first-in, first-out basis) or market. Inventories consist of the following:

	APRIL 30,	
	1998	1997
Purchased components	$4,494	$6,775
Work in process	1,889	1,524
Finished goods	2,324	1,621
	$8,707	$9,920

Property and Equipment -- Property and equipment is stated at cost and is depreciated on a straight-line basis over estimated useful lives which range from two to five years. Leasehold improvements are amortized over their estimated useful lives or the life of the lease, whichever is shorter. Property and equipment consists of the following:

	APRIL 30,	
	1998	1997
Computers, related equipment and purchased software	$16,979	$11,011
Furniture and fixtures	1,962	1,221
Leasehold improvements	2,782	1,520
	21,723	13,752
Accumulated depreciation and amortization	(9,506)	(4,514)
	$12,217	$ 9,238

Revenue Recognition -- The Company recognizes revenue and records estimated product return and warranty reserves upon shipment if no material obligations remain outstanding and the collectibility of receivables is deemed to be probable. Service and software subscription revenues are recognized over the terms of the related contractual periods. Combined service and software subscription revenues were less than 10% of net sales for all of the periods presented.

Advertising Costs -- Advertising costs are charged to operations when incurred. Advertising expenses for fiscal 1998, 1997 and 1996 were aproximately $1,000, $100 and $25, respectively.

Software Development Costs -- The Company capitalizes eligible computer software development costs, which include software enhancement costs, upon the establishment of technological feasibility, which occurs upon the completion of a working model. Software development costs capitalized have not been significant.

Foreign Currency Translation -- The functional currency of the Company's foreign subsidiaries is the U.S. dollar. Accordingly, all monetary assets and liabilities are translated at the current exchange rate at the end of the year, nonmonetary assets and liabilities are translated at historical rates and net sales and expenses are translated at average exchange rates in effect during the period. Transaction gains and losses, which are included in other income (expense) in the accompanying consolidated statements of income, have not been significant.

Certain Significant Risks and Uncertainties -- The preparation of financial statements in conformity with generally accepted accounting principles 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 period. Such management estimates include the allowance for doubtful accounts receivable, inventory reserves, various accruals and warranty reserves. Actual results could differ from those estimates.

The Company is subject to certain risks, including without limitation risks relating to history of operating losses, fluctuating operating results, customer and market acceptance of new products, dependence on new products, rapid technological change, litigation, dependence on growth in the network file server market, expansion of international operations, product concentration, changing product mix, competition, recent management additions, management of expanding operations, dependence on high-quality components, dependence on proprietary technology, intellectual property rights, dependence on key personnel, volatility of stock price, shares eligible for future sale, effect of certain anti-takeover provisions and dilution and the Year 2000 Issue.

Concentration of Credit Risk -- Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents, short-term investments and accounts receivable. Cash, cash equivalents and short-term investments consist primarily of municipal securities, cash accounts held at various banks and a money market fund held at a single financial institution. The Company sells its products primarily to large organizations in different industries and geographies. Credit risk is further mitigated by the Company's credit evaluation process and limited payment terms. The Company does not require collateral or other security to support accounts receivable. The Company maintains an allowance for potential credit losses.

Net Income Per Share -- The Company has adopted the provisions of Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS 128"), effective in the third quarter of fiscal 1998. SFAS 128 requires the presentation of basic and diluted net income per share. Basic net income per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for that period. Diluted net income per share is computed giving effect to all dilutive potential shares that were outstanding during the period. Dilutive potential common shares consist of incremental common shares subject to repurchase, common shares issuable upon exercise of stock options and warrants and convertible preferred stock. All prior-period net income (loss) per-share amounts have been restated to comply with SFAS 128 as well as the two-for-one stock split (See Note 5).

The following is a reconciliation of the numerators and denominators of the basic and diluted net income per share computations for the periods presented:

	YEARS ENDED APRIL 30,		
	1998	1997	1996
NET INCOME (NUMERATOR):			
Net Income, basic and diluted	$20,965	$ 250	$ 6,600
SHARES (DENOMINATOR):			
Weighted average common shares outstanding	33,200	32,329	20,948
Weighted average common shares outstanding subject to repurchase	(743)	(1,840)	(2,951)
Shares used in basic computation	32,457	30,489	17,997
Weighted average common shares outstanding subject to repurchase	743	1,840	2,951
Common shares issuable upon exercise of stock options and warrants	2,751	2,073	2,269
Convertible preferred stock	--	--	8,251
Shares used in diluted computation	35,951	34,402	31,468
NET INCOME PER SHARE:			
Basic	$ 0.65	$ 0.01	$ 0.37
Diluted	$ 0.58	$ 0.01	$ 0.21

Statements of Cash Flows -- Supplemental cash flow and noncash investing and financing activities are as follows:

	YEARS ENDED APRIL 30,		
	1998	1997	1996
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	$ --	$ --	$ 60
Income taxes paid	9,402	3,809	1,362
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Deferred stock compensation	714	(244)	515
Conversion of preferred stock into common stock	--	--	12,694
Income tax benefit from employee stock transactions	4,065	2,487	238
Common stock issued for IMC acquisition	--	7,350	--
Deferred stock compensation charge for IMC acquisition	--	3,150	--

Stock-Based Compensation -- The Company accounts for stock-based awards to employees using the intrinsic value method in accordance with APB No. 25, "Accounting for Stock Issued to Employees."

Accounting for Long-Lived Assets -- Effective May 1, 1996, the Company adopted Financial Accounting Standards Board Statement No. 121 ("SFAS 121") "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," which requires the Company to review the impairment of long-lived assets, certain identifiable intangibles and goodwill related to those assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The adoption of SFAS 121 had no impact on the Company's financial condition or results of operations.

Recently Issued Accounting Standards -- In June 1997, the Financial Accounting Standards Board issued two new statements of financial accounting standards ("SFAS"). SFAS No. 130, "Reporting Comprehensive Income", requires that an enterprise report, by major components and as a single total, the change in its net assets from nonowner sources during the period. SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information", establishes annual and interim reporting standards for an enterprise's business segments and related disclosures about its products, services, geographic areas and change in its net assets from nonowner sources during the period. SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information", establishes annual and interim reporting standards for major customers. The Company has not yet identified its SFAS No. 131 reporting segments. Adoption of these statements will not impact the Company's consolidated financial position, results of operations or cash flows. Both statements are effective for the Company's fiscal year 1999.

In October 1997, the American Institute of Certified Public Accountants issued Statement of Position ("SOP") No. 97-2, "Software Revenue Recognition". This statement provides guidance on applying generally accepted accounting principles in recognizing revenue on software transactions. SOP No. 97-2 is effective for transactions entered into during the Company's fiscal year 1999 and thereafter. The Company does not expect that the adoption of this statement will materially impact the Company's financial position, results of operations or cash flows.

3. COMMITMENTS

The Company leases its main facility under operating leases that expire through fiscal 2003. Sales offices of the Company are also leased under operating leases which expire through fiscal 2013. The Company is responsible for certain maintenance costs, taxes and insurance under the leases. Future minimum annual lease payments as of April 30, 1998, are as follows:

YEARS ENDING APRIL 30,	
1999	$ 4,249
2000	3,323
2001	1,049
2002	886
2003	707
Thereafter	2,185
Total lease payments	$12,399

Rent expense was $4,278, $1,195 and $755 for the years ended April 30, 1998, 1997 and 1996, respectively. Rent expense under certain Company facility leases is recognized on a straight-line basis over the term of the lease. The difference between the amounts paid and the amounts expensed is classified as long-term obligations in the accompanying consolidated balance sheets.

The total of minimum rental payments to be received through 1999 under non-cancelable subleases is $1,268 as of April 30, 1998.

4. ACQUISITION

On March 17, 1997, the Company acquired all outstanding shares and options to purchase shares of IMC common stock by issuing 374 shares of the Company's common stock and options to purchase shares of the Company's common stock. The purchase price related to the common stock and options to purchase shares of the Company's common stock was $7,350. IMC was founded in 1996 to develop and commercialize Internet/intranet proxy caching software.

Certain key employees of IMC who continued as employees of the Company were also granted vested options to purchase shares of the Company's common stock at a discount to the market price of the Company's common stock immediately preceding the acquisition. In connection with the granting of discounted options to purchase shares of the Company's common stock, the Company recorded a compensation expense of $3,150 in the fourth quarter of fiscal 1997. The Company also recorded a deferred income tax benefit of $1,304, primarily related to the compensation charge.

The acquisition was accounted for as a purchase and, accordingly, the results of operations of IMC from the date of acquisition forward have been included in the Company's consolidated financial statements. In connection with the acquisition, intangible assets of $8,362 were acquired, of which $7,369 was reflected as a one-time charge to operations for the write-off of purchased in-process research and development that had not reached technological feasibility and, in management's opinion, had no probable alternative future use. The $10,519 combined one-time charge for purchased in-process technology and compensation expense has been reflected in the Company's fiscal 1997 consolidated statement of income within operating expenses. The remaining intangible assets of $993, consisting of existing technology and goodwill, are included in other assets

in the accompanying consolidated balance sheets and are being amortized over their estimated useful lives of five years.

In connection with the acquisition, net assets acquired were as follows:

Current assets	$ 21
Property and equipment, net	46
Intangible assets, including purchased in-process technology	8,362
Current liabilities assumed	(1,079)
Net assets acquired	$ 7,350

The following unaudited pro forma information shows the results of operations for the two fiscal years ended April 30, 1997 as if the IMC acquisition had occurred at the beginning of each period presented and at the purchase price established in March 1997. The results are not necessarily indicative of what would have occurred had the acquisition actually been made at the beginning of each of the respective periods presented or of future operations of the combined companies. The pro forma results for fiscal 1997 combine the Company's results of operations for the fiscal year ended April 30, 1997 with the results of IMC for the period from inception (May 6, 1996) through the date of acquisition and include the $10,519 charge for purchased in-process technology and the related compensation charge, as well as the related tax benefits, and the straight-line amortization of intangible assets over a period of five years. The pro forma results for fiscal 1996 reflect the Company's actual results of operations for that year less the amortization of intangible assets related to the acquisition:

	YEARS ENDED APRIL 30,	
	1997	1996
Net Sales	$93,552	$46,632
Net Income (Loss)	(390)	6,401
Net Income (Loss) per Share, Basic	(0.01)	0.35
Net Income (Loss) per Share, Diluted	(0.01)	0.20

5. SHAREHOLDERS' EQUITY

Initial Public Offering -- In November 1995, the Company completed its initial public offering of 4,310 shares of its common stock. Net proceeds from the offering were $25,714. In conjunction with the offering, all outstanding shares of preferred stock automatically converted into common stock. In addition, the Company issued 362 shares of common stock upon the exercise of Series A preferred warrants, and 357 shares of common stock upon the exercise of Series C preferred warrants. The Company received total proceeds of $708 from the exercise of these warrants.

Preferred Stock -- The Company's Board of Directors has the authority to issue up to 5,000 shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the shareholders.

Stock Split -- On November 11, 1997, the Board of Directors approved a two-for-one stock split of the Company's common stock which was effective December 18, 1997. Share and per share data for all periods presented herein have been adjusted to give effect to the split.

Stock Option Plans -- The Company adopted the 1993 Stock Option/Stock Issuance Plan (the "1993 Plan") in April 1993. In September 1995, the Company adopted the 1995 Stock Incentive Plan (the "1995 Plan"). The 1995 Plan replaced the 1993 Plan, and provides for the grant of options and the issuance of common stock under terms substantially the same as those provided under the 1993 Plan, except that the 1995 Plan does not allow for the exercise of options prior to vesting. Accordingly, all options and shares issued under the 1993 Plan were incorporated into the 1995 Plan upon the effectiveness of the Company's initial public offering.

Under the 1995 Plan, the Board of Directors may grant to employees, directors and consultants options to purchase shares of the Company's common stock. The exercise price for an incentive stock option and a nonqualified stock option cannot be less than 100% and 85%, respectively, of the fair market value of the Company's common stock as determined by the Board of Directors on the date of grant. Options granted under the 1995 Plan generally vest at a rate of 25% on the first anniversary of the vesting commencement date and then ratably over the following 36 months. Options expire as determined by the Board of Directors, but not more than ten years after the date of grant.

In April 1997, the Board of Directors adopted the Special Non-Officer Stock Option Plan (the "Non-Officer Plan")which provides for the grant of options and the issuance of common stock under terms substantially the same as those provided under the 1995 Plan, except that the Non-Officer Plan allows only for the issuance of nonqualified options to non-officer employees. A summary of the combined activity under the Company's stock option plans and agreements is as follows:

	SHARES AVAILABLE FOR GRANT	OUTSTANDING OPTIONS	
		NUMBER OF SHARES	WEIGHTED AVERAGE
Balances, April 30, 1995	336	2,777	$ 0.07
Shares reserved for plan	6,500	--	--
Options granted (weighted average fair value of $1.60)	(3,586)	3,586	4.23
Options exercised	--	(2,875)	0.11
Options canceled	295	(295)	1.01
Balances, April 30, 1996 (196 options exercisable)	3,545	3,193	4.63
Shares reserved for IMC acquisition	258	--	--
Options granted (weighted average fair value of $6.59)	(3,338)	3,338	14.84
Options exercised	--	(418)	1.65
Options canceled	474	(474)	5.35
Balances, April 30, 1997 (1,997 options exercisable)	939	5,639	10.83
Shares reserved for plan	4,000	--	--
Options granted (weighted average fair value of $9.12)	(2,724)	2,724	23.51
Options exercised	--	(620)	8.46
Options canceled	574	(574)	13.81
Balances, April 30, 1998 (2,506 options exercisable)	2,789	7,169	$15.58

Options for the purchase of 1,873 shares of common stock were vested as of April 30, 1998. Unvested common shares issued under the 1993 Plan of 310 as of April 30, 1998 are subject to repurchase by the Company.

Additional information regarding options outstanding as of April 30, 1998 is as follows:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AT APRIL 30, 1998	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
$ 0.05 - $ 0.07	181	6.15	$ 0.06	181	$ 0.06
0.10 - 0.14	127	6.95	0.13	111	0.13
1.00 - 1.50	181	7.38	1.33	162	1.32
2.25 - 3.00	115	7.32	2.64	115	2.64
3.60 - 4.05	674	7.46	3.83	674	3.83
5.50 - 5.90	410	8.17	5.68	258	5.55
10.88 - 15.75	2,303	8.58	13.90	715	13.57
17.00 - 25.38	2,183	9.02	20.42	290	18.95
25.63 - 33.58	995	9.69	29.78	--	0.00
$ 0.05 - $33.58	7,169	8.60	$15.58	2,506	$ 7.88

Employee Stock Purchase Plan -- Under the Employee Stock Purchase Plan, employees are entitled to purchase shares of the Company's common stock at 85% of the fair market value at certain specified dates. Of the 700 shares authorized to be issued under this plan, 335 shares were available for issuance at April 30, 1998 and 201 and 164 shares were issued in fiscal 1998 and 1997, respectively, at a weighted average price of $8.41 and $6.33, respectively.

Pro Forma Information -- As discussed in Note 2, the Company continues to account for its stock-based awards using the intrinsic value method in accordance with Accounting Principles Board No. 25, "Accounting for Stock Issued to Employees" and its related interpretations. Accordingly, no compensation expense has been recognized in the financial statements for employee stock arrangements with the exception of $270, $85 and $132 in fiscal 1998, 1997 and 1996, respectively, which consists of the amortization of deferred stock compensation related to the granting of nonqualified stock options at exercise prices below market.

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123") requires the disclosure of pro forma net income and net income per share had the Company adopted the fair value method as of the beginning of fiscal 1996. Under SFAS 123, the fair value of stock-awards to employees is calculated through the use of option pricing models, even though such models were developed to estimate the fair value of freely tradeable, fully transferable options without vesting restrictions, which significantly differ from the Company's stock option awards. These models also require subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values. The Company's calculations were made using the Black-Scholes option pricing model with the following weighted average assumptions:

	YEARS ENDED APRIL 30,		
	1998	1997	1996
Expected life (in years)	2.94	2.90	3.01
Risk-free interest rate	6.00%	6.06%	5.89%
Volatility	50%	50%	50%
Expected dividend	--	--	--

The Company's calculations are based on a multiple option valuation approach and forfeitures are recognized as they occur. If the computed fair values of the fiscal 1998, 1997 and 1996 awards had been amortized to expense over the vesting period of the awards, pro forma net income (loss) and net income (loss) per share would have been as follows:

	YEARS ENDED APRIL 30,		
	1998	1997	1996
Net income (loss)	$8,677	$(4,661)	$5,824
Net income (loss) per share, basic	0.27	(0.15)	0.32
Net income (loss) per share, diluted	0.24	(0.15)	0.19

However, the impact of outstanding non-vested stock options granted prior to fiscal 1996 has been excluded from the pro forma calculations; accordingly, the fiscal 1998, 1997 and 1996 pro forma adjustments are not indicative of future period pro forma adjustments, when the calculation will apply to all applicable stock options.

Deferred Stock Compensation -- In May 1995, the Company issued stock options for the purchase of 1,063 shares of common stock at $0.14 per share. The Company recognized $515 of deferred compensation in May 1995 equal to the difference between the option price as determined by the Board of Directors and $0.63 (the deemed fair value for financial reporting purposes) for each option. The Company is amortizing the deferred compensation expense ratably over the four-year period in which the options vest.

In fiscal 1998, the Company recorded $714 of deferred compensation, primarily related to the grant of stock options to certain highly compensated employees. Under terms of the 1995 Stock Option Plan, highly compensated employees as defined by Company's management are eligible to contribute between $15 to $75 in annual salary for the rights to be granted nonqualified stock options. The discount from fair market value which is equal to the amount of salary contributed has been recorded as deferred compensation expense. The Company is amortizing the deferred compensation expense ratably over a one-year period.

6. EMPLOYEE BENEFIT PLAN

The Company has established a 401(k) tax-deferred savings plan ("Savings Plan"). Employees meeting the eligibility requirements, as defined, may contribute specified percentages of their salaries. The Company contributed $202 and $119 for fiscal 1998 and 1997, respectively. The Company did not make any contributions to the Savings Plan in fiscal 1996.

7. INCOME TAXES

The provision for income taxes consists of the following:

	YEARS ENDED APRIL 30,		
	1998	1997	1996
CURRENT:			
Federal	$12,132	$ 5,062	$ 1,880
State	2,199	1,525	220
Total current	14,331	6,587	2,100
DEFERRED:			
Federal	(1,597)	(2,394)	(1,880)
State	(152)	(400)	(220)
Total deferred	(1,749)	(2,794)	(2,100)

Provision for income taxes	$12,582	$ 3,793	$ --

Deferred income taxes result from differences in the timing of certain expense items for tax and financial reporting purposes.

The provision for income taxes differs from the amount computed by applying the statutory federal income tax rate as follows:

	YEARS ENDED APRIL 30,		
	1998	1997	1996
Tax computed at federal statutory rate	$11,741	$1,415	$ 2,310
State income taxes, net of federal benefit	1,482	764	405
Non-deductible acquisition charges related to the IMC acquisition	--	2,904	--
Research and experimentation credit	(555)	(410)	(50)
Investment tax credit	--	--	(150)
Benefit of foreign sales corporation	(489)	(105)	--
Tax exempt interest	(281)	(184)	--
Change in valuation allowance	--	(673)	(2,510)
Business meal exclusion	100	45	--
Other	584	37	(5)
Provision for income taxes	$12,582	$3,793	$ --

The income tax benefits associated with dispositions from employee stock transactions reduced taxes currently payable by $4,291, $2,487 and $238, respectively, for fiscal 1998, 1997 and 1996.

Income before income taxes is as follows:

	YEARS ENDED APRIL 30,		
	1998	1997	1996
Domestic	$33,175	$3,983	$6,580
Foreign	372	60	20
Total	$33,547	$4,043	$6,600

Current net deferred tax assets are $5,280 and $3,100, as of April 30, 1998 and April 30, 1997, respectively. Non-current net deferred tax assets at April 30, 1998 and 1997 of $1,363 and $1,794, respectively, are included in other assets within the accompanying consolidated balance sheets. The components of the Company's net deferred tax assets are as follows:

	APRIL 30,	
	1998	1997
Reserves and accruals not currently deductible for tax purposes	$4,599	$2,662
Tax benefit of options issued in IMC acquisition	1,074	1,304
Net operating loss carryforwards	236	116

Depreciation	197	369
Deferred rent	66	80
Capitalized research and development costs	--	142
Other	471	221
Deferred tax assets	$6,643	$4,894

As of April 30, 1998, the Company had federal net operating loss carryforwards of approximately $674 available to offset future taxable income. These carryforwards expire in fiscal 2010.

8. OPERATIONS BY GEOGRAPHIC AREA AND SIGNIFICANT CUSTOMERS

The Company operates primarily in one industry segment: the design, manufacturing and marketing of high-performance network data storage devices.

The Company's European operations primarily consist of sales by its subsidiaries in the United Kingdom, France, Germany and Italy to either unaffiliated European customers or to independent distributors.

	YEARS ENDED APRIL 30,	
	1998	1997
NET SALES:		
North America	$138,379	$83,342
Europe	27,784	9,991
Total net sales	$166,163	$93,333
OPERATING INCOME:		
North America	$ 32,285	$ 3,023
Europe	373	60
Total operating income	$ 32,658	$ 3,083
IDENTIFIABLE ASSETS:		
North America	$105,601	$66,019
Europe	10,135	2,922
Total assets	$115,736	$68,941

North America revenues include export sales to Asia which amounted to less than 10% of total net sales for all periods presented. Sales, operating income and identifiable assets of the Company's foreign operations were less than 10% of the comparable amounts on a consolidated basis in fiscal 1996.

No customer accounted for 10% or more of net sales in fiscal 1998, 1997 or in fiscal 1996.

9. LITIGATION

The computer industry is characterized by frequent litigation regarding intellectual property rights. During fiscal 1995 a lawsuit of this nature was filed against the Company and two of its shareholders (the "Whipsaw Litigation"). During the first quarter of fiscal 1997, the Company settled the Whipsaw litigation and recorded a pre-tax expense of $4,300 ($3,500 in payments to the plaintiffs and $800 in legal fees). In connection with the settlement, the Whipsaw group released the Company from all liabilities.

10. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	YEAR ENDED APRIL 30, 1998			
	Q1	Q2	Q3	Q4
Net sales..................................	$33,420	$38,401	$43,984	$50,358
Gross margin...............................	19,850	22,655	26,104	30,005
Net income.................................	4,221	4,885	5,555	6,304
Net income per share, basic................	0.13	0.15	0.17	0.19
Net income per share, diluted..............	0.12	0.14	0.15	0.17

	YEAR ENDED APRIL 30, 1997			
	Q1	Q2	Q3	Q4
Net sales..................................	$18,460	$21,048	$24,845	$28,980
Gross margin...............................	10,867	12,466	14,729	17,210
Net income (loss)(1).......................	(491)	2,780	3,380	(5,419)
Net income (loss) per share, basic(1)......	(0.02)	0.09	0.11	(0.17)
Net income (loss) per share, diluted(1)....	(0.02)	0.08	0.10	(0.17)

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(1) The first quarter of fiscal 1997 includes the Whipsaw Litigation of $2,795 (net of taxes). See Note 9. The fourth quarter of fiscal 1997 includes the purchased in-process technology and compensation charge related to the IMC acquisition of $9,215 (net of taxes). See Note 4.

11. SUBSEQUENT EVENTS

In June 1998, the Company executed an agreement to acquire 5.9 acres of land in Sunnyvale, California and the accompanying 127,000 square foot building. Under terms of the agreement, the Company paid $5,000 of the $33,750 purchase price as a nonrefundable deposit. The agreement allows the Company to assign its rights and obligations to a third-party entity should the Company decide to enter into an operating lease. It is the Company's intent to assign its rights and obligations to a third-party entity and enter into an operating lease, provided the Company can obtain satisfactory leasing terms.

In June 1998, the Company signed a 25-year operating lease requiring annual lease payments of $3,084, commencing in October 1999, for a 6.2 acre plot in Sunnyvale, California. In connection with executing the operating lease agreement, the Company also signed an option agreement to purchase the 6.2 acres of land. Under terms of the option agreement, the Company paid a $4,500 nonrefundable deposit. The option allows the Company to purchase the land, within a 90-day period, commencing in December 1999 at a purchase price of $23,745 and its rights and obligations under this agreement may be assigned to third parties. It is the Company's intent to assign its purchase option to a third-party entity and to enter into an operating lease with the third-party entity, provided the Company can obtain satisfactory leasing terms.

In July 1998, the Company negotiated a $5,000 unsecured revolving credit facility with a domestic commercial bank. Under terms of the credit facility which expires in July 1999, the Company must maintain various financial covenants. Any borrowings under this agreement bear interest at either LIBOR plus 1% or at the Lender's "prime" lending rate, such rate determined at the discretion of the Company. As of July 17, 1998, there were no borrowings under the credit facility.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) List of Documents filed as part of this Annual Report on Form 10-K.

1. The following consolidated financial statements of Network Appliance, Inc. are filed as part of this Form 10-K:

   Independent Auditors' Report
   Consolidated Balance Sheets -- April 30, 1998 and 1997
   Consolidated Statements of Income for the years ended April 30, 1998, 1997 and 1996
   Consolidated Statements of Shareholders' Equity (Deficit) for the years ended April 30, 1998, 1997 and 1996
   Consolidated Statements of Cash Flows for the years ended April 30, 1998, 1997 and 1996
   Notes to Consolidated Financial Statements

2. Financial Statement Schedule.

   The following financial statement schedule of the Company is filed in Part IV, Item 14(d) of this Annual Report on Form 10-K:

   Schedule II -- Valuation and Qualifying Accounts

   All other schedules have been omitted since the required information is not present in amounts sufficient to require submission of the schedule or because the information required is included in the consolidated financial statements or notes thereto.

3. Exhibits.

EXHIBIT NO.		DESCRIPTION
2.1(1)	--	Agreement and Plan of Reorganization, dated as of March 17, 1997, between the Registrant and IMC, a California corporation
2.2(1)	--	Agreement of Merger between the Registrant and IMC as filed with the California Secretary of State on March 17, 1997
3.1(2)	--	Restated Articles of Incorporation of the Company
3.2(3)	--	Bylaws of the Company
3.3(8)	--	Amendment to the Restated Articles of Incorporation of the Company, filed December 18, 1997
4.1(3)	--	Reference is made to Exhibits 3.1 and 3.2
4.2(3)	--	Specimen Common Stock certificate
4.3(3)	--	Amended and Restated Investors' Rights Agreement, dated September 23, 1994, among the Company and the investors and the founders named therein, as amended
4.4(3)	--	Amended and Restated Shareholders Agreement, dated September 23, 1994, among the Company and the employee holders and the Preferred Stock investors named therein
4.5(3)	--	Forms of Warrants to Purchase Shares of Series A and Series C Preferred Stock

EXHIBIT NO.		DESCRIPTION
10.1(3), (4)	--	Distributor Agreement, dated June 1, 1993, by and among the Company, Itochu Corporation and CTC Supply Sales
10.2(3)	--	Forms of Indemnification Agreements entered into between the Company and its directors and officers
10.3(3)	--	The Company's 1993 Stock Option/Stock Issuance Plan
10.4(3)	--	The Company's 1993 Stock Incentive Plan
10.5(3)	--	The Company's Employee Stock Purchase Plan
10.6(3)	--	Series C Preferred Stock and Common Stock and Warrant to Purchase Series C Preferred Stock Purchase Agreement, dated

September 23, 1994, among the Company and the purchasers named therein

10.7(3)	--	Office lease dated October 21, 1993, between the Company and Vanni Business Park General Partnership ("Vanni") and Office Lease Agreement, dated October 20, 1994, between the Company and Vanni
10.8(3)	--	Agreement dated June 19, 1995, between the Company and Imperial Bank, as amended, Promissory Note issued thereunder and ancillary documents
10.9(3)	--	Settlement Agreement and General Release, dated June 28, 1995, between the Company and Michael Malcolm
10.10(3)	--	Security and Loan Agreement, Credit Terms and Conditions and General Security Agreement between the Company and Imperial Bank, dated August 31, 1994, as amended
10.11(5)	--	Facility sublease, dated August 9, 1996, by and between S3, Inc. and the Registrant
10.12(6)	--	The Company's Amended 1995 Stock Incentive Plan
10.13(6)	--	The Company's Special Non-Officer Stock Option Plan
10.14(7)	--	Facility lease, dated August 18, 1997, by and between the McCandless -- San Tomas No. 2 and the Registrant
10.15	--	Agreement of Purchase and Sale, dated June 11, 1998, by and between 495 Java Drive Associates, L.P. and the Registrant
10.16	--	Operating lease agreement, dated June 11, 1998, by and between 475 Java Drive Associates L.P. and the Registrant
10.17	--	Purchase Option Agreement, dated June 11, 1998, by and between 475 Java Drive Associates L.P. and the Registrant
10.18	--	Line of credit agreement dated July 10, 1998, between the Company and Wells Fargo Bank, National Association
16.1(3)	--	Letter Regarding Change in Independent Auditors
21.1	--	Subsidiaries of the Company
23.1	--	Independent Auditors' Consent
24.1	--	Power of Attorney (see signature page)
27.1	--	Financial Data Schedule
27.2	--	Restated Financial Data Schedules
27.3	--	Restated Financial Data Schedules
27.4	--	Restated Financial Data Schedules

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(1) Previously filed as an exhibit with the Company's Form 8-K dated March 17, 1997.

(2) Previously filed as an exhibit with the Company's Annual Report on Form 10-K dated July 25, 1996.

(3) Previously filed as an exhibit to the Company's Registration Statement on Form S-1 (No. 33-97864).

(4) Confidential treatment requested as to certain portions of these exhibits.

(5) Previously filed as an exhibit with the Company's Quarterly Report on Form 10-Q dated March 7, 1997.

(6) Previously filed as an exhibit with the Company's Annual Report on Form 10-K dated July 23, 1997.

(7) Previously filed as an exhibit with the Company's Quarterly Report on Form 10-Q dated December 5, 1997.

(8) Previously filed as an exhibit with the Company's Quarterly Report on Form 10-Q dated March 6, 1998.

(b) Reports on Form 8-K.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on September 3, 1998.

NETWORK APPLIANCE, INC.

By: /s/ DANIEL J. WARMENHOVEN

Daniel J. Warmenhoven
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated:

SIGNATURES	TITLE	DATE
/s/ DANIEL J. WARMENHOVEN (Daniel J. Warmenhoven)	President and Chief Executive Officer, Director (Principal Executive Officer)	September 3, 1998
* (Donald T. Valentine)	Chairman of the Board, Director	September 3, 1998
* (Jeffry R. Allen)	Vice President Finance and Operations and Chief Financial Officer (Principal Financial and Accounting Officer)	September 3, 1998
* (Carol A. Bartz)	Director	September 3, 1998
* (Larry R. Carter)	Director	September 3, 1998
* (Michael R. Hallman)	Director	September 3, 1998
* (Robert T. Wall)	Director	September 3, 1998
*By /s/ DANIEL J. WARMENHOVEN (Daniel J. Warmenhoven)	President and Chief Executive Officer (Principal Executive Officer)	

NETWORK APPLIANCE, INC.

VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED APRIL 30, 1998, 1997 AND 1996
(IN THOUSANDS)

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	DEDUCTIONS	BALANCE AT END OF PERIOD
Allowance for doubtful account:				

1998	$ 330	$ 550	$ 69	$ 811
1997	330	--	--	330
1996	220	110	--	330
Excess and obsolescence inventory reserve:				
1998	$3,016	$1,302	$1,333	$2,985
1997	1,043	2,551	578	3,016
1996	345	698	--	1,043

EXHIBIT INDEX

EXHIBIT NO.		DESCRIPTION
23.1	--	Independent Auditors' Consent

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

To the Board of Directors and Shareholders of Network Appliance, Inc.:

We consent to the incorporation by reference in Registration Statement Nos. 33-99638, 333-25277 and 333-40307 on Form S-8 of our report dated May 8, 1998 (July 17, 1998 as to Note 11), appearing in this Annual Report on Form 10-K/A of Network Appliance, Inc. for the year ended April 30, 1998.

/s/ Deloitte & Touche LLP

San Jose, California
September 1, 1998