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 25, 2002

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)

DELAWARE	77-0307520
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(IRS EMPLOYER IDENTIFICATION NO.)

495 EAST JAVA DRIVE,
SUNNYVALE, CALIFORNIA 94089
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES, INCLUDING ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (408) 822-6000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X]   No [ ]

Number of shares outstanding of the registrant's common stock, $.001 par value, as of the latest practicable date.

CLASS	OUTSTANDING AT JANUARY 25, 2002
Common Stock............	333,857,492

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NETWORK APPLIANCE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	JANUARY 25, 2002	APRIL 30, 2001
	(UNAUDITED)	**
ASSETS		

CURRENT ASSETS:		
Cash and cash equivalents	$ 215,485	$ 271,931
Short-term investments	188,099	92,094
Accounts receivable, net	139,026	186,956
Inventories	27,395	22,504
Prepaid expenses and other	22,470	25,745
Deferred income taxes	37,258	36,287
Total current assets	629,733	635,517
RESTRICTED CASH	251,031	193,747
PROPERTY AND EQUIPMENT, NET	95,661	103,238
INTANGIBLE ASSETS, NET	63,832	79,510
OTHER ASSETS	16,119	24,240
	$ 1,056,376	$ 1,036,252

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts payable	$ 35,038	$ 64,892
Income taxes payable	17,680	21,844
Accrued compensation and related benefits	32,883	50,523
Other accrued liabilities	42,516	23,198
Deferred revenue	64,705	58,316
Total current liabilities	192,822	218,773
LONG-TERM DEFERRED REVENUE	25,425	12,882
LONG-TERM OBLIGATIONS	330	149
Total liabilities	218,577	231,804
STOCKHOLDERS' EQUITY:		
Common stock	650,343	616,595
Deferred stock compensation	(8,775)	(12,044)
Retained earnings	199,892	204,632
Cumulative other comprehensive loss	(3,661)	(4,735)
Total stockholders' equity	837,799	804,448
	$ 1,056,376	$ 1,036,252

** Derived from audited consolidated financial statements.

See accompanying notes to condensed consolidated financial statements.

NETWORK APPLIANCE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JANUARY 25, 2002	JANUARY 26, 2001	JANUARY 25, 2002	JANUARY 26, 2001
NET SALES	$ 198,349	$ 288,409	$ 593,490	$ 780,345
COST OF SALES	75,012	113,763	244,073	302,534
Gross Margin	123,337	174,646	349,417	477,811
OPERATING EXPENSES:				
Sales and marketing	66,726	76,510	209,290	212,564

Research and development	28,451	34,966	85,888	86,807
General and administrative	10,587	10,922	31,401	29,950
Amortization of intangible assets	5,226	4,567	15,678	6,506
In-process research and development	--	--	--	26,688
Stock compensation (1)	1,133	1,140	5,755	2,012
Restructuring charges	--	--	7,980	--
Total operating expenses	112,123	128,105	355,992	364,527
INCOME (LOSS) FROM OPERATIONS	11,214	46,541	(6,575)	113,284
OTHER INCOME (EXPENSE), NET:				
Interest income and other, net	3,574	7,184	13,803	17,075
Impairment loss on investments	--	--	(13,008)	--
Total other income, net	3,574	7,184	795	17,075
INCOME (LOSS) BEFORE INCOME TAXES	14,788	53,725	(5,780)	130,359
PROVISION (BENEFIT) FOR INCOME TAXES	7,804	19,654	(1,040)	55,952
NET INCOME (LOSS)	$ 6,984	$ 34,071	$ (4,740)	$ 74,407
NET INCOME (LOSS) PER SHARE:				
Basic	$ 0.02	$ 0.11	$ (0.01)	$ 0.23
Diluted	$ 0.02	$ 0.09	$ (0.01)	$ 0.21
SHARES USED IN PER SHARE CALCULATIONS:				
Basic	332,403	322,727	330,726	318,161
Diluted	352,868	361,599	330,726	361,804
(1) Stock compensation:				
Sales and marketing	$ 263	$ 309	$ 806	$ 759
Research and development	736	716	4,542	937
General and administrative	134	115	407	316
	$ 1,133	$ 1,140	$ 5,755	$ 2,012

See accompanying notes to condensed consolidated financial statements.

NETWORK APPLIANCE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	NINE MONTHS ENDED	
	JANUARY 25, 2002	JANUARY 26, 2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (4,740)	$ 74,407
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	33,519	21,917
In-process research and development	--	26,688
Amortization of intangible assets	15,678	6,506
Stock compensation	5,755	2,012
Impairment loss on investments	13,008	--
Provision for doubtful accounts	6,015	852
Deferred income taxes	(26)	(8,918)
Deferred rent	(63)	(5)
Changes in assets and liabilities, net of effects of businesses acquired:		
Accounts receivable	41,853	(114,316)
Inventories	(9,178)	(25,336)
Prepaid expenses and other assets	(460)	7,558

Accounts payable	(29,854)	46,604
Income taxes payable	(4,164)	64,869
Accrued compensation and related benefits	(17,640)	23,138
Other accrued liabilities	19,562	13,767
Deferred revenue	18,932	39,604
Net cash provided by operating activities	88,197	179,347
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of short-term investments	(273,464)	(149,674)
Redemptions of short-term investments	178,203	102,420
Purchases of property and equipment	(22,485)	(59,941)
Purchase of equity securities	(875)	(6,391)
Purchase of businesses, net of cash acquired	--	(7,171)
Net cash used in investing activities	(118,621)	(120,757)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of common stock, net	31,262	68,832
Increase in restricted cash	(57,284)	(192,052)
Net cash used in financing activities	(26,022)	(123,220)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(56,446)	(64,630)
CASH AND CASH EQUIVALENTS:		
Beginning of period	271,931	279,014
End of period	$ 215,485	$ 214,384
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Income tax benefit from employee stock transactions	$ --	$ 62,000
Conversion of evaluation inventory to fixed assets	3,951	9,212
Common stock issued and options assumed for acquired businesses	--	101,237
SUPPLEMENTAL CASH FLOW INFORMATION:		
Income taxes paid	279	307

See accompanying notes to condensed consolidated financial statements.

NETWORK APPLIANCE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(DOLLAR AND SHARE AMOUNTS IN THOUSANDS, EXCEPT PER-SHARE DATA)
(UNAUDITED)

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying condensed consolidated financial statements have been prepared by Network Appliance, Inc. without audit and reflect all adjustments, which are, in the opinion of management, necessary for a fair presentation of our financial position, results of operations and cash flows for the interim periods presented. The statements have been prepared in accordance with the regulations of the Securities and Exchange Commission for interim financial statements. Accordingly, they do not include all information and footnotes required by accounting principles generally accepted in the United States of America for annual financial statements.

These financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended April 27, 2001. The results of operations for the three and nine-month periods ended January 25, 2002 are not necessarily indicative of the operating results to be expected for the full fiscal year or future operating periods.

2. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Actual results could differ from those estimates.

3. SIGNIFICANT ACCOUNTING POLICIES

(DOLLAR AND SHARE AMOUNTS IN THOUSANDS, EXCEPT PER-SHARE DATA)

Revenue Recognition -- In accordance with Statement of Position (SOP) 97-2, Software Revenue Recognition, we recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the fee is fixed or determinable, collectibility is probable and vendor specific objective evidence exists to allocate a portion of the total fee to any undelivered elements of the arrangement. This generally occurs at the time of shipment. We also record estimated product return, warranty reserves and other allowances based on historical experience. Revenues from software subscriptions, which entitle customers to software updates, including bug fixes, patch releases and major revisions, and services are recognized over the terms of the related contractual periods.

Segment Information -- We operate in one reportable industry segment: the design, manufacturing and marketing of high-performance networked storage solutions. We recorded revenue from customers throughout the United States and Canada; Europe; Latin America, Australia and Asia Pacific.

Foreign Currency Translation -- In the first quarter of fiscal 2002, we determined that the functional currency of one of our subsidiaries had changed from the Euro to the US Dollar. Accordingly, all monetary assets and liabilities were translated at the current exchange rate in effect as of the balance sheet date, nonmonetary assets and liabilities were translated at historical rates and net sales and expenses were 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 operations, were not significant in any of the periods presented.

4. INVENTORIES

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

	JANUARY 25, 2002	APRIL 30, 2001
Purchased components	$ 10,806	$ 11,106
Work in process	680	560
Finished goods	15,909	10,838
	$ 27,395	$ 22,504

5. STOCK COMPENSATION

We record stock compensation in accordance with provisions of Accounting Principle Board Opinion No. 25, "Accounting for Stock Issued to Employees," for employee awards and Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," for non-employee awards. Accordingly, we recognize the intrinsic value for employees and the fair value for non-employees as stock compensation expense over the vesting terms of the awards. During the first and second quarters of fiscal 2002, under terms of the acquisition agreement with Orca Systems, Inc. ("Orca"), we issued an additional 66 and 66 shares, respectively, of common stock to former Orca shareholders upon meeting certain performance criteria. The fair market values of the shares of $1,434 and $1,006, respectively, were measured on the date the performance criteria were met and were recognized as stock compensation during the first and second quarters of fiscal 2002. In the third quarter of fiscal 2002, no stock compensation was recorded relating to Orca achieving their performance milestones.

6. DERIVATIVE INSTRUMENTS

Effective May 1, 2001, we adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Under SFAS No. 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. SFAS No. 133 requires that all derivatives be recognized as either assets or liabilities at fair value. Derivatives that are not designated as hedges are adjusted to fair value through earnings. If the derivative is designated as a hedge, depending on the nature of the exposure being hedged, changes in fair value will either be offset against the change in fair value of the hedged asset, liability, or firm commitment through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of the hedge is recognized in earnings immediately.

As a result of our significant international operations, we are subject to risks associated with fluctuating exchange rates. We use foreign currency forward contracts, to attempt to minimize the impact of exchange rate movements on our balance sheet relating to certain foreign currency assets and liabilities. Gains and losses on these undesignated derivatives offset gains and losses on the assets and liabilities being hedged and the net amount is included in earnings. For the first quarter of fiscal 2002, net losses generated

by hedged assets and liabilities totaled $246, which were offset by gains on the related derivative instruments of $265. For the second quarter of fiscal 2002, net gains generated by hedged assets and liabilities totaled $1,142, which were offset by losses on the related derivative instruments of $1,585. For the third quarter of fiscal 2002, net losses generated by hedged assets and liabilities totaled $1,438, which were offset by gains on the related derivative instruments of $935. We do not enter into derivative financial instruments for speculative or trading purposes.

Currently, we do not enter into any foreign exchange forward contracts to hedge exposures related to forecasted transactions, firm commitments or equity investments. The adoption of SFAS No. 133 did not have a significant impact on our financial position, results of operations or cash flow.

7. EARNINGS PER SHARE

Basic and diluted net income (loss) per share are computed using weighted-average common shares outstanding in accordance with SFAS No. 128, "Earnings Per Share." Diluted net income per share also includes the dilutive effect of stock options.

During all periods presented, we had options outstanding which could potentially dilute basic earnings per share in the future, but were excluded in the computation of diluted earnings per share in such periods, as their effect would have been antidilutive in the nine months ended January 25, 2002 due to the net loss reported in that period and in the other periods as the options' exercise prices were above the average market prices in those periods. For the three-month periods ended January 25, 2002 and January 26, 2001, 24,673 and 3,688 shares of common stock options with a weighted average exercise price of $45.89 and $100.80, respectively, were excluded from the diluted net income per share computation. For the nine-month periods ended January 25, 2002 and January 26, 2001, 72,042 and 2,559 shares of common stock options with a weighted average exercise price of $21.10 and $110.05, respectively, were excluded from the diluted net income (loss) per share computation.

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

NETWORK APPLIANCE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(DOLLAR AND SHARE AMOUNTS IN THOUSANDS, EXCEPT PER-SHARE DATA)
(UNAUDITED)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JANUARY 25, 2002	JANUARY 26, 2001	JANUARY 25, 2002	JANUARY 26, 2001
NET INCOME (LOSS) (NUMERATOR):				
Net income (loss), basic and diluted	$ 6,984	$ 34,071	$ (4,740)	$ 74,407
SHARES (DENOMINATOR):				
Weighted average common shares outstanding	332,537	322,998	330,888	318,423
Weighted average common shares outstanding subject to repurchase	(134)	(271)	(162)	(262)
Shares used in basic computation	332,403	322,727	330,726	318,161
Weighted average common shares outstanding subject to repurchase	134	271	--	262
Common shares issuable upon exercise of stock options	20,331	38,601	--	43,381
Shares used in diluted computation	352,868	361,599	330,726	361,804
NET INCOME (LOSS) PER SHARE:				
Basic	$ 0.02	$ 0.11	$ (0.01)	$ 0.23
Diluted	$ 0.02	$ 0.09	$ (0.01)	$ 0.21

8. COMPREHENSIVE INCOME (LOSS)

The components of comprehensive income (loss), net of tax, were as follows:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JANUARY 25, 2002	JANUARY 26, 2001	JANUARY 25, 2002	JANUARY 26, 2001
Net income (loss)	$ 6,984	$ 34,071	$ (4,740)	$ 74,407
Foreign currency translation adjustment	(218)	2,057	(397)	658
Unrealized gain (loss) on investments	(98)	(3,448)	1,471	1,352
Comprehensive income (loss)	$ 6,668	$ 32,680	$ (3,666)	$ 76,417

9. COMMITMENTS

We have commitments related to operating lease arrangements for our headquarters site in Sunnyvale, California, under which we have options to purchase various properties at the expiration or termination of the leases for $309,000, or arrange for the sale of the property to third parties for at least $309,000 with a contingent liability for any deficiency. If the property is not purchased or sold as described above, we will be obligated for guaranteed residual amounts of approximately $212,936. These lease arrangements required the creation and maintenance of a cash collateral account that limits the liquidity of $251,031 of our cash, which is classified as non-current assets on our balance sheet. The leases

are for five years and can be renewed for two five-year periods, subject to the approval of the lessor. The lease payments will vary based on London Interbank Offered Rate ("LIBOR") (1.8% at January 25, 2002) plus a spread of 30 basis points.

The lease agreements, amended effective January 25, 2002, require us to comply with certain financial covenants, which include maintaining minimum unencumbered cash and cash equivalents; a minimum tangible net worth; a minimum quick ratio; a minimum fixed charge coverage; a minimum profitability and a maximum leverage ratio. At January 25, 2002, we did not meet the maximum leverage ratio. We entered into an amendment effective January 25, 2002 that cured the violation. The amendment modified the definition of debt for purposes of calculating the financial covenants to exclude all synthetic lease obligations with the lessor. Under the terms of the amended agreement, we are also required to maintain a mandatory restricted cash collateral at 100% of the lease arrangement.

We have entered into agreements and established Network Appliance accounts with Deutsche Banc Alex Brown whereby we have the option to guarantee any defaults by two corporate officers, of certain margin loans made to them by these financial institutions on their Network Appliance stock. The amount of the guarantee is limited to the difference between the amount of such loans and fair market value of the Network Appliance stock securing the loans. As of January 25, 2002, there were no outstanding guarantees.

From time to time, we have committed to purchase various key components used in the manufacture of our products. Our loss accrual for such commitments to these key component vendors are based on our current forecasts of inventory usage. We established accruals for estimated losses on purchase components for which we believe it is probable that they will not be utilized in future operations. To the extent that such forecasts are not achieved, our commitments and associated accruals may change.

10. NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets". Under SFAS No. 141, all business combinations initiated after June 30, 2001 must be accounted for using the purchase method. Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually for impairment (or more frequently if indicators of impairment arise). Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). The amortization provisions of SFAS No. 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, we are required to adopt SFAS No. 142 effective April 27, 2002. Upon adoption of SFAS No. 142, we will stop the amortization of goodwill (including acquired existing workforce) with a net carrying value of approximately $49,779 at April 26, 2002 and the annual amortization of $15,177 that resulted from business combinations initiated prior to the adoption. We will evaluate goodwill under the SFAS No. 142 transitional impairment test. Any transitional impairment loss will be recognized as a change in accounting principle on the date of adoption. If any impairment of goodwill is recognized, under existing pronouncement rules, prior to the date of adoption, the loss will be charged to operating expenses.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Assets to Be Disposed Of." Adoption of SFAS No. 144 is required for our fiscal year beginning April 27, 2002. We are currently evaluating the potential impact of adoption of SFAS No. 144

(DOLLAR AND SHARE AMOUNTS IN THOUSANDS, EXCEPT PER-SHARE DATA)

on our financial position and results of operations and have not yet determined the impact of adopting this statement.

11. RESTRUCTURING CHARGES

In August 2001, we implemented a restructuring plan, which included a reduction in workforce by approximately 200 employees and a consolidation of facilities. The action was required to properly align and manage the business commensurate with our current revenue levels. All functional areas of the Company were affected by the reduction. We completed our actions during the second quarter of fiscal 2002. As a result of this restructuring, we incurred a charge of $7,980. The restructuring charge included $4,796 of severance-related amounts, $2,656 of committed excess facilities and facility closure expenses, and $528 in fixed assets write off.

The following analysis sets forth the significant components of the restructuring reserve at January 25, 2002:

	Severance-related amounts	Fixed Assets write-off	Facility	Total
Restructuring charge	$ 4,796	$ 528	$ 2,656	$ 7,980
Cash payments	(4,128)	--	(81)	(4,209)
Non-cash portion	--	(528)	--	(528)
Reserve balance at October 26, 2001	668	--	2,575	3,243
Cash payments	(201)	--	(539)	(740)
Non-cash portion	--	--	--	--
Reserve balance at January 25, 2002	$ 467	$ --	$ 2,036	$ 2,503

Of the reserve balance at January 25, 2002, $2,259 was included in other accrued liabilities and the remaining $244 classified as long-term obligations. We currently expect that the facility closures and activities to which all of these charges relate will be substantially completed within one year of the commitment date of the exit plan, except for certain long-term contractual obligations.

12. IMPAIRMENT LOSS ON INVESTMENTS

We perform periodic reviews of our investments for impairment. Our investments in publicly held companies are generally considered impaired when a decline in the fair value of an investment as measured by quoted market prices is less than its carrying value and such a decline is not considered temporary. Our investments in privately held companies are considered impaired when a review of the investees' operations and other indicators of impairment indicate that the carrying value of the investment is not likely to be recoverable. Such indicators include, but are not limited to, limited capital resources, limited prospects of receiving additional financing, and prospects for liquidity of the related securities. In the second quarter of fiscal 2002, we recorded a non cash, other-than-temporary write down of $13,008 related to impairments of our investments in publicly traded and private companies. During the third quarters of fiscal 2002 and 2001, we sold shares of certain marketable equity securities and realized gains of $55 and $70, respectively, for those periods.

NETWORK APPLIANCE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(DOLLAR AND SHARE AMOUNTS IN THOUSANDS, EXCEPT PER-SHARE DATA)
(UNAUDITED)

13. CONTINGENCIES

We are subject to various legal proceedings and claims which arise in the normal course of business. We do not believe that any current litigation or claims will have a material adverse effect on the Company's business, operating results or financial condition.

14. EQUITY

Network Appliance was incorporated in California in April 1992, and reincorporated in Delaware in November 2001. We have established our common stock at $.001 par value.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In addition to historical information, this Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements may contain words such as "expects," "anticipates," "intends," "plans," "believes," "estimates," or other words indicating future results. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statement. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the following sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." This discussion should be read in conjunction with our Annual Report on Form 10-K for the year ended April 27, 2001. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

OVERVIEW

Based in Sunnyvale, California, Network Appliance was incorporated in California in April 1992, and reincorporated in Delaware in November 2001. Network Appliance is a leader in enterprise storage and the delivery of data and content on demand. We pioneered the concept of the "network appliance" for storage, an extension of the industry trend toward dedicated, specialized products that perform a single function. Network Appliance(TM) hardware, software, and service offerings are used to create, manage and scale seamless storage network, linking the data centers and remotes offices in a unified data management architecture. Our strategy converges LANs, WANs, and SANs into a flexible, highly reliable, scalable integrated business network that extends from the data center to the edge of the network. Our product portfolio utilizes our innovative data access software, known as the Data ONTAP(TM) operating system, as well as standards-compliant hardware. It also offers multiprotocol support and integration for UNIX(R) and Windows(R) environments.

RESULTS OF OPERATIONS

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JANUARY 25, 2002	JANUARY 26, 2001	JANUARY 25, 2002	JANUARY 26, 2001
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	37.8	39.4	41.1	38.8
Gross margin	62.2	60.6	58.9	61.2
Operating expenses:				
Sales and marketing	33.6	26.5	35.3	27.3
Research and development	14.3	12.1	14.5	11.1
General and administrative	5.4	3.8	5.3	3.8
Amortization of intangible assets	2.6	1.7	2.6	0.8
In-process research and development	--	--	--	3.4
Stock compensation	0.6	0.4	1.0	0.3
Restructuring charges	--	--	1.3	--
Total operating expenses	56.5	44.5	60.0	46.7
Income (loss) from operations	5.7	16.1	(1.1)	14.5
Total other income (expense), net	1.8	2.5	0.1	2.2
Income (loss) before income taxes	7.5	18.6	(1.0)	16.7
Provision (benefit) for income taxes	4.0	6.8	(0.2)	7.2
Net income (loss)	3.5%	11.8%	(0.8)%	9.5%

Net Sales -- Net sales decreased by 31.2% to $198.3 million for the three-month period ended January 25, 2002, from $288.4 million for the three-month period ended January 26, 2001. Net sales decreased by 23.9% to $593.5 million for the nine-month period ended January 25, 2002, from $780.3 million for the nine-month period ended January 26, 2001. The decline in net sales was due to a decrease in sales to Internet-based companies and reduced capital spending among technology companies across all geographies, but primarily in North America. This decrease in net sales for both the three and nine-month periods of fiscal 2002 was specifically attributable to a lower volume of units and software licenses shipped, as compared to the corresponding periods of the prior fiscal year.

Factors negatively impacting net sales include:

- reduced demand for our products resulting from deteriorating macro economic conditions;

- continued weakness in technology spending from Internet- and technology-related customers;

- decreased sales through indirect channels, including sales through our OEM partners, representing 22.5% and 19.2% of total net sales for the three and nine-month periods ended January 25, 2002, respectively, as compared to 24.5% and 26.1% of total net sales for three and nine-month periods ended January 26, 2001;

- declining average selling price of the F700 filers and older caching products; and

- declining unit sales of our older products.

Net sales were favorably impacted by the following factors:

- competitive advantage relating to pricing and technology;

- a higher average selling price of our new products: our first multiprocessor high-end F880, entry-level F85 filer products as well as new NetCache(R) appliances and software features;

- networked storage solutions that bundle filers with caching and content delivery software providing for enterprise storage infrastructure and disaster recovery capability;

- competitive pricing advantage offered by the Total Cost of Ownership (TCO) proposition in four aspects: lower acquisition cost, reduced administrative overhead, minimized service cost and reduced downtime of critical business applications;

- data management and content delivery software offering a unique set of features to ensure mission-critical availability, while reducing the complexity of enterprise storage management;

- increased sales from new industry verticals: energy, telecommunications, financial services, manufacturing, life sciences and the government;

- higher software subscription and service revenues to support a growing installed base;

- increased add-on software revenue from Multi-Protocol solutions;

- introduction of NearStore(TM) appliances for business continuance and online recovery; and

- expansion of our sales organization to 915 as of January 25, 2002 from 870 as of January 26, 2001.

The overall net sales decline during the nine-month periods ended January 25, 2002 compared to January 26, 2001 was generally attributed to the same factors cited above. Additionally, net sales for the nine-month period of fiscal 2002 was positively impacted by increased revenue from our content delivery solutions compared to the same period a year ago.

International net sales (including United States exports) decreased by 25.1% and 11.7% for the three and nine-month periods ended January 25, 2002 as compared to the same periods ended January 26, 2001, respectively. International net sales were $83.0 million, or 41.8% of total net sales, and $236.9 million, or 39.9% of total net sales, for the three and nine-month periods ended January 25, 2002, respectively. The decline in international sales for the three and nine-month periods ended January 25, 2002 was primarily a result of a slower demand in Europe and Asia Pacific markets offset by our increased sales and marketing efforts internationally. We expect to continue to selectively add sales capacity in an effort to expand domestic and international markets, introduce new products, establish and expand new distribution channels and increase product and company awareness. We believe our international net sales will not increase in fiscal 2002 at the rate at which they grew in fiscal 2001.

Gross Margin -- Gross margin increased to 62.2% for the three-month period ended January 25, 2002 from 60.6% for the three-month period ended January 26, 2001. Gross margin decreased to 58.9% for the nine-month period ended January 25, 2002 from 61.2% for the nine-month period ended January 26, 2001.

Gross margin was favorably impacted by:

- lower costs of key components and subsystems;

- favorable product and software mix;

- a revision to previously estimated exposure of approximately $3.0 million relating to purchase commitments on end of life products;

- a faster-than-expected shift to our new high-density storage sub-system due to favorable average selling price on the enclosures, electronics and power systems sold with the disk systems;

- higher average selling prices for our new products;

- manufacturing overhead cost control and reduction efforts, including the restructuring impact;

- a December holiday facility shutdown; and

- growth in software subscriptions due primarily to a larger installed base.

Gross margin was negatively impacted by:

- the decrease in product sales volume;
- sales price reductions due to competitive pricing pressure and selective pricing discounts;
- lower of cost or market adjustments to inventory;
- decreased licensing of our software due to lower volume of units shipped;
- lower average selling price of certain add-on software options; and
- higher disk content with an expanded storage capacity for the higher-end filers including the F840 and F880 filers.

The overall gross margin decline during the nine-month periods ended January 25, 2002 compared to January 26, 2001 was generally attributed to the same factors cited above for the third quarters of fiscal 2002 and 2001. In addition, gross margin was also negatively impacted by increased investments in

customer service and positively impacted by the July and December partial holiday shutdowns for the nine-month period ended January 25, 2002 compared to the same period a year ago.

Sales and Marketing -- Sales and marketing expenses consist primarily of salaries, commissions, advertising and promotional expenses and certain customer service and support costs. Sales and marketing expenses decreased 12.8% to $66.7 million for the three-month period ended January 25, 2002 from $76.5 million for the three-month periods ended January 26, 2001. These expenses were 33.6% and 26.5% of net sales for the three-month periods ended January 25, 2002 and January 26, 2001, respectively. The decrease in absolute dollars was attributed to various cost control and reduction measures, restructuring impact, lower commission expenses and other profit-dependent payroll related expenses, partially offset by the continued worldwide investment in our sales and customer service organizations.

Sales and marketing expenses decreased 1.5% to $209.3 million for the nine-month period ended January 25, 2002 from $212.6 million for the nine-month period ended January 26, 2001. These expenses were 35.3% and 27.3% of net sales for the nine-month periods ended January 25, 2002 and January 26, 2001, respectively. The decrease in absolute dollars was primarily related to various cost control and reduction measures, restructuring impact, lower commission expenses and other profit-dependent payroll related expenses, partially offset by the continued worldwide investment in our sales and customer service organizations. Sales and marketing headcount increased to 1,225 at January 25, 2002 from 1,157 at January 26, 2001. We expect to continue to selectively add sales capacity in an effort to expand domestic and international markets, introduce new products, establish and expand new distribution channels and increase product and company awareness. We do not expect to increase our sales and marketing expenses materially in fiscal 2002.

Research and Development -- Research and development expenses consist primarily of salaries and benefits, prototype expenses, non-recurring engineering charges and fees paid to outside consultants. Research and development expenses decreased 18.6% to $28.5 million for the three-month period ended January 25, 2002 from $35.0 million for the three-month period ended January 26, 2001. These expenses represented 14.3% and 12.1% of net sales for the three-month periods ended January 25, 2002 and January 26, 2001, respectively. Research and development expenses decreased 1.1% to $85.9 million for the nine-month period ended January 25, 2002 from $86.8 million for the nine-month period ended January 26, 2001. These expenses represented 14.5% and 11.1% of net sales for the nine-month periods ended January 25, 2002 and January 26, 2001, respectively. Research and development expenses decreased in absolute dollars, primarily as a result of cost control, reduction in discretionary spending efforts, restructuring impact, the two holiday facility shutdowns, lower headcount, and lower profit-dependent payroll related expenses, partially offset by the operating impact of the Orca and WebManage acquisitions. Research and development headcount decreased to 554 at January 25, 2002 from 568 at

January 26, 2001. We expect to continuously support current and future product development and enhancement efforts, and incur prototyping expenses and non-recurring engineering charges associated with the development of new products and technologies.

During the first quarter of fiscal 2002, we continued our enterprise focus by introducing new networked storage solutions for global Information Technology (IT) infrastructures, offering greater data availability and enhanced disaster recovery:

- NetApp(R) DataFabric(TM) Manager, a software package for global enterprise and content delivery network deployments allowing IT staff to monitor and configure multiple storage and content delivery appliances throughout a network;

- new Fibre Channel Fabric Tape Storage Area Network (SAN) Backup solutions, along with leading data protection companies, underscoring our open storage networking approach to data management;

- DiskShelf14, a new 14-slot Fibre Channel disk drive shelf that holds up to one terabyte of data. Customers will benefit from the increased data storage and performance densities, which help to lower their overall cost of storage;

- SnapManager 1.1 for Microsoft(R) Exchange 5.5 environments, a new version of the industry-leading online backup and rapid data recovery solution. SnapManager 1.1 simplifies data

management by providing near instantaneous on-line backup and recovery, faster response times, and enhanced Windows(R) 2000 support;

- SecureShare(R) Quota Manager 2.0, a graphical user interface tool to centrally manage and control hard and soft quotas on thousands of Microsoft Windows NT(R)/2000 versions working with many Network Appliance filers. The solution is based on the Microsoft Management Console standard interface, and allows for a single point of control across multiple filers.

During the second quarter of fiscal 2002, we outlined our network storage strategy and launched new storage solutions for evolving data centers. We began shipping the new F880 series filers, our first multiprocessor systems that extend the high end of our networked storage solution. We also began shipping five new software upgrades:

- SnapManager(R) for Microsoft(R) Exchange 2000, our first block access product for Windows 2000 environments;

- New software releases designed to ease the deployment and management of networked storage, including NetCache 5.2(R), which delivers improved security and manageability in Windows 2000 environments and Data Fabric(TM) Manager 1.1 software that allows customers to view and centrally manage hundreds of terabytes of networked storage;

- ContentDirector(TM) 2.0 and ContentReporter(TM) 3.0, content distribution management software that automates and simplifies the movement and management of streaming media, Web pages, and rich content files from centralized storage locations to access points around the world.

During the third quarter of fiscal 2002, we expanded on our network storage vision with the introduction of NearStore, "near-line storage" appliances for business continuance and online recovery. We launched the F87 for remote office and branch office deployments and the F810 and F810c for enterprises, broadening the price/performance levels of our entire line of network storage systems.

Executing on our enterprise and commercial applications strategy, we debuted SnapDrive(TM) for Microsoft(R) SQL Server(TM) 2000. SnapDrive uses Virtual Local Disk (VLD) technology to present itself to SQL Server 2000 as a SAN-style, locally attached device. The complementary solution is intended to provide Microsoft SQL Server 2000 customers significantly increased levels of data availability for their Microsoft platform at a proven, low total cost of ownership.

We believe that our future performance will depend in large part on our ability to maintain and enhance our current product line, develop new products that achieve market acceptance, maintain technological competitiveness and meet an expanding range of customer requirements. We intend to continuously expand our existing product offerings and introduce new products and expect that expenditures for these purposes will increase moderately in absolute dollars. For the three and nine-month periods ended January 25, 2002 and January 26, 2001, no software development costs were capitalized.

General and Administrative -- General and administrative expenses decreased 3.1% to $10.6 million for the three-month period ended January 25, 2002, from $10.9 million for the three-month period ended January 26, 2001. These expenses represented 5.4% and 3.8% of net sales for the three-month periods ended January 25, 2002 and January 26, 2001, respectively. Decreases in absolute dollars were primarily due to cost control, reduction in discretionary spending efforts, restructuring impact, the two holiday facility shutdowns and lower profit-dependent payroll related expenses, partially offset by increased headcount, expenses associated with initiatives to enhance enterprise-wide management information systems, accrued general legal costs and an increase in the allowance for bad debts. General and administrative expenses increased 4.8% to $31.4 million for the nine-month period ended January 25, 2002, from $30.0 million for the nine-month period ended January 26, 2001. These expenses represented 5.3% and 3.8% of net sales for the nine-month periods ended January 25, 2002 and January 26, 2001, respectively. Increases in absolute dollars were primarily due to increased headcount, expenses associated with initiatives to enhance enterprise-wide management information systems, accrued general legal costs and an increase in the allowance for bad debts, partially offset by cost control, reduction in discretionary spending efforts, restructuring impact, the two holiday facility shutdowns and lower profit-dependent

personnel related expenses. General and administrative headcount increased to 274 at January 25, 2002 from 238 at January 26, 2001.

Amortization of Intangible Assets -- Amortization of intangible assets represents the amortization on acquired intangible assets and the excess of the aggregate purchase price over the fair value of the tangible and identifiable intangible assets acquired by us. Intangible assets as of January 25, 2002, including goodwill, existing workforce and technology, are being amortized over estimated useful lives of three to five years. We assess the recoverability of intangible assets by determining whether the amortized asset over its useful life may be recovered through estimated useful cash flows. Amortization of intangible assets charged to operations was $5.2 million and $4.6 million, respectively, in the third quarter of fiscal 2002 and 2001. Amortization of intangible assets charged to operations increased due to the acquisition impact of WebManage occurring in the third quarter of fiscal 2001 and was $15.7 million and $6.5 million, respectively, for the nine-month periods ended January 25, 2002 and January 26, 2001.

In-process Research and Development -- We incurred in-process research and development charges of approximately $26.7 million in the first quarter of fiscal 2001 related to the acquisition of Orca. The purchase price of the transaction was allocated to the acquired assets and liabilities based on their estimated fair values as of the date of the acquisition. Approximately $26.7 million was allocated to in-process research and development and charged to operations, because the acquired technology had not reached technological feasibility and had no alternative uses. The value was determined by estimating the costs to develop the acquired in-process technology into commercially viable products, estimating the resulting net cash flows from such projects, and discounting the net cash flows back to their present value. The discount rate included a factor that took into account the uncertainty surrounding the successful development of the acquired in-process technology. These estimates are subject to change, given the uncertainties of the development process, and no assurance can be given that deviations from these estimates will not occur. Excluding the charge that may result from the remaining 132,249 contingently issuable common shares, research and development costs to bring the products from Orca to technological feasibility are not expected to have a material impact on our future results of operations or financial condition. Costs incurred prior to establishment of technological feasibility are charged to research and development expense and have not been material through January 25, 2002.

The Orca acquisition has been successfully utilized for the design and development of the Direct Access File System (DAFS) protocol. By eliminating much of the traditional operating system overhead, DAFS allows for improved I/O performance while using fewer CPU cycles. The protocol leverages next generation networking technologies that provide remote memory transfer capabilities (RDMA) found in VI and Infiniband. This protocol has good industry support and is now under consideration as an industry standard. We expect to deliver DAFS capable product in first half of calendar 2002. However, there is risk associated with the completion of the in-process project and there can be no assurance that such project will meet with either technological or commercial success. Failure to successfully develop and commercialize this in-process project would result in the loss of the expected economic return inherent in the fair value allocation. Additionally, the value of other intangible assets acquired may become impaired. The risks associated with the research and development are still considered high and no assurance can be made that upcoming products will meet market expectations or gain market acceptance.

Stock Compensation -- We account for stock-based employee compensation arrangements in accordance with provisions of APB No. 25, "Accounting for Stock Issued to Employees," and comply with the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," for non-employee compensation awards. Accordingly, we recognize the intrinsic value for employees and the fair value for non-employees as stock compensation expense over the vesting terms of the awards. Stock compensation expenses were $1.1 million and $1.1 million in the third quarter of fiscal 2002 and 2001, respectively. For the nine-month periods, stock compensation expenses increased to $5.8 million in fiscal 2002 from $2.0 million in fiscal 2001, respectively for those periods. This increase was primarily attributable to the recognition of stock compensation on options assumed in the WebManage acquisition and the issuance of 132,248 contingently issuable milestones shares relating to Orca valued at $2.4 million.

Restructuring charges -- In August 2001, we implemented a restructuring plan, which included a reduction in workforce of approximately 200 employees and a consolidation of facilities. The action was

required to properly align and manage the business commensurate with our current revenue levels. All functional areas of the Company were affected by the reduction. We completed our actions during the second quarter of fiscal 2002. As a result of this restructuring, we incurred a charge of approximately $8.0 million. The restructuring charge included approximately $4.8 million of severance-related amounts, $2.7 million of committed excess facilities and facility closure costs, and $0.5 million in fixed assets write off. As of January 25, 2002, $2.5 million of accrued committed excess facility costs and other severance-related amounts remained outstanding. Of this amount, approximately $2.3 million was included in other accrued liabilities and the remaining $0.2 million classified as long-term obligations. We currently expect that the facility closures and activities to which all of these charges relate will be substantially completed within one year of the commitment date of the exit plan, except for certain long-term contractual obligations. We also expect annual cost savings of approximately $26.1 million as a result of restructuring and reduction in force actions taken in the second quarter of fiscal 2002.

Interest income and other, net -- Interest income and other, net, was $3.6 million and $7.2 million for the three-month periods ended January 25, 2002 and January 26, 2001, respectively. During the nine-month period ended January 25, 2002, interest income and other, net was $13.8 million, as compared to $17.1 million in the corresponding period of the prior year. The decrease in interest income was primarily due to lower average interest rates, partially offset by higher average investment balances from cash, short-term investments and restricted cash generated from operations. We expect interest income to decline further in the fourth quarter of fiscal 2002, as existing investments mature and proceeds are reinvested in a lower interest-rate environment. The three and nine-month periods of fiscal 2002 included losses from foreign currency transactions as compared to gains for the same periods in fiscal 2001.

Impairment loss on investments -- We perform periodic reviews of our investments for impairment. Our investments in publicly held companies are generally considered impaired when a decline in the fair value of an investment as measured by quoted market prices is less than its carrying value and such a decline is not considered temporary. Our investments in privately held companies are considered impaired when a review of the investees' operations and other indicators of impairment indicate that the carrying value of the investment is not likely to be recoverable. Such indicators include, but are not limited to, limited capital resources, limited prospects of receiving additional financing, and prospects for liquidity of the related securities. In the second quarter of fiscal 2002, we recorded a non cash, other-than-temporary write down of $13.0 million related to impairments of our investments in publicly traded and private companies. During the third quarters of fiscal 2002 and 2001, we sold shares of certain marketable equity securities and the realized gains for those periods were not material.

Provision (Benefit), for Income Taxes -- For the nine-month period ended January 25, 2002, we applied an annual rate of 18% to pretax loss and have recorded an adjustment in the current quarter to reflect this rate. For the three and nine-month periods ended January 26, 2001, our effective tax rate was 34.5%, which excluded the effect of non deductible amortization of goodwill and the write-off of acquired in-process research and development. Our estimate is based on existing tax laws and our current projections of income/(loss) and distributions of income/(loss) among different entities and tax jurisdictions, and is subject to change, based primarily on varying levels of profitability.

LIQUIDITY AND CAPITAL RESOURCES

As of January 25, 2002, as compared to the April 30, 2001 balances, our cash, cash equivalents and short-term investments increased by $39.6 million to $403.6 million. Working capital increased by $20.2 million to $436.9 million. We generated cash from operating activities totaling $88.2 million and $179.3 million for the nine-month periods ended January 25, 2002 and January 26, 2001, respectively. Net cash provided by operating activities for the nine-month period ended January 25, 2002 was principally related to decreases in accounts receivable, and increases in other accrued liabilities, deferred revenue, coupled with depreciation, impairment loss on investments, amortization of intangibles and stock compensation, partially offset by net loss of $4.7 million, decreases in accounts payable, income taxes payable, accrued compensation and related benefits and increases in inventories.

In addition to lower net income in fiscal 2002, the primary factors that impacted the period-to-period change in cash flows relating to operating activities included the following:

- lower accounts receivable balances due to lower sales and more collections in the first nine-month period of fiscal 2002;

- non-cash acquisition-related charges, stock compensation, impairment loss on investments, provision for doubtful accounts and depreciation included in net income (loss);

- increased accrued liabilities relating to the restructuring; and

- an increase in deferred sales related to service and software subscriptions.

The above factors were partially offset by the effects of:

- decreased balances for accounts payable due to lower levels of business activity in the nine-month period of fiscal 2002;

- decreased accrued compensation and related benefits due to payouts of profit dependent personnel expenses accrued in fiscal 2001 and paid in fiscal 2002, vacation taken during the July and December 2001 holidays' facility shutdowns and lower commission accrual as a result of lower levels of sales;

- increased inventory levels due to preparation in ramping our new NearStore product; and

- decreased income taxes payable, primarily reflecting lower profitability in fiscal 2002.

As a result of the restructuring actions implemented in the second quarter of fiscal 2002, we believe that cash operating expenses are likely to decline in the remainder of fiscal 2002.

Since we have curtailed capital expenditures, purchases of property and equipment were only $22.5 million in the nine-month period of fiscal 2002, compared to $59.9 million the same period a year ago. The decrease was primarily attributed to the slowdown in hiring and various cost control and cutting measures. We have used $95.3 million and $47.3 million during the nine-month periods ended January 25, 2002 and January 26, 2001, respectively, for net purchases of short-term investments. In the first quarter of fiscal 2001, we acquired Orca for a purchase price of approximately $50.0 million, including common stock, contingently issuable common stock, assumed options, cash payments of $2.0 million and related transaction costs. In the third quarter, we acquired WebManage for a purchase price of approximately $59.4 million, including common stock, assumed options, cash payments of $5.0 million and related transaction costs. Investing activities in the nine-month period ended January 25, 2002 also included new equity investments of $0.9 million.

We have used $26.0 million and $123.2 million during the nine-month periods ended January 25, 2002 and January 26, 2001, respectively, from financing activities, primarily from the increase in restricted cash (see " Commitments" Note 9 to Notes to Condensed Consolidated Financial Statements) partially offset by proceeds from the sale of common stock. The decrease in cash provided by sales of common stock for the nine-month period ended January 25, 2002, compared to the corresponding period of the prior fiscal year, was primarily due to lower stock option exercise proceeds as a result of the decline in our stock price.

We have commitments related to operating lease arrangements for our headquarters site in Sunnyvale, California, under which we have options to purchase various properties at the expiration or termination of the leases for $309.0 million, or arrange for the sale of the property to third parties for at least $309.0 million with a contingent liability for any deficiency. If the property is not purchased or sold as described above, we will be obligated for guaranteed residual amounts of approximately $212.9 million. These lease arrangements required the creation and maintenance of a cash collateral account that limits the liquidity of $251.0 million of our cash, which is classified as non-current assets on our balance sheet. The leases are for five years and can be renewed for two five-year periods, subject to the approval of the lessor. The lease payments will vary based on LIBOR (1.8% at January 25, 2002) plus a spread of 30 basis points.

The lease agreements, amended effective January 25, 2002, require us to comply with certain financial covenants, which include maintaining a minimum unencumbered cash and cash equivalents; a minimum tangible net worth; a minimum quick ratio; a minimum fixed charge coverage; a minimum profitability and a maximum leverage ratio. At January 25, 2002, we did not meet the maximum leverage ratio. We received an amendment effective January 25, 2002 that cured the violation. The amendment modified the definition of debt for purposes of calculating the financial covenants to exclude all synthetic lease obligations with the lessor. Under the terms of the amended agreement, we are also required to maintain a mandatory restricted cash collateral at 100% of the lease arrangement.

Our capital and liquidity requirements depend on numerous factors, including risks relating to fluctuating operating results, continued growth in the network storage and content delivery markets, customer and market acceptance of our products, dependence on new products, rapid technological change, dependence on qualified technical and sales personnel, risk inherent in our international operations, competition, reliance on a limited number of suppliers, dependence on proprietary technology, intellectual property rights, the value of our investments in equity securities and real estate and other factors. We believe that our existing liquidity and capital resources, including the available amounts under our $5.0 million line of credit, our operating cash flow and synthetic lease arrangements, are sufficient to fund our operations for at least the next twelve months.

NEW ACCOUNTING STANDARDS

Effective May 1, 2001, we adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Under SFAS No. 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. SFAS No. 133 requires that all derivatives be recognized as either assets or liabilities at fair value. Derivatives that are not designated as hedges are adjusted to fair value through earnings. If the derivative is designated as a hedge, depending on the nature of the exposure being hedged, changes in fair value will either be offset against the change in fair value of the hedged asset, liability, or firm commitment through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of the hedge is recognized in earnings immediately.

As a result of our significant international operations, we are subject to risks associated with fluctuating exchange rates. We use foreign currency forward contracts, to attempt to minimize the impact of exchange rate movements on our balance sheet relating to certain foreign currency assets and liabilities. Gains and losses on these undesignated derivatives offset gains and losses on the assets and liabilities being hedged and the net amount is included in earnings. For the first quarter of fiscal 2002, net losses generated by hedged assets and liabilities totaled approximately $0.2 million, which were offset by gains on the related derivative instruments of approximately $0.3 million. For the second quarter of fiscal 2002, net gains generated by hedged assets and liabilities totaled approximately $1.1 million, which were offset by losses on the related derivative instruments of approximately $1.6 million. For the third quarter of fiscal 2002, net losses generated by hedged assets and liabilities totaled $1.4 million, which were offset by gains on the related derivative instruments of $0.9 million. We do not enter into derivative financial instruments for speculative or trading purposes.

Currently, we do not enter into any foreign exchange forward contracts to hedge exposures related to forecasted transactions, firm commitments or equity investments. The adoption of SFAS No. 133 did not have a significant impact on our financial position, results of operations or cash flow.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets". Under SFAS No. 141, all business combinations initiated after June 30, 2001 must be accounted for using the purchase method. Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually for impairment (or more frequently if indicators of impairment arise). Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful

lives (but with no maximum life). The amortization provisions of SFAS No. 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, we are required to adopt SFAS No. 142 effective April 27, 2002. Upon adoption of SFAS No. 142, we will stop the amortization of goodwill with a net carrying value of approximately $48.9 million at April 26, 2002 and the annual amortization of $14.6 million that resulted from business combinations initiated prior to the adoption. We will evaluate goodwill under the SFAS No. 142 transitional impairment test. Any transitional impairment loss will be recognized as a change in accounting principle on the date of adoption. If any impairment of goodwill is recognized, under existing accounting rules, prior to the date of adoption, the loss will be charged to operating expenses.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Assets to Be Disposed Of." Adoption of SFAS No. 144 is required for our fiscal year beginning April 27, 2002. We are currently evaluating the potential impact of adoption of SFAS No. 144 on our financial position and results of operations and have not yet determined the impact of adopting this statement.

RISK FACTORS

The following risk factors and other information included in this Form 10-Q should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we presently deem less significant may also impair our business operations. If any of the following risks actually occur, our business, operating results, and financial condition could be materially adversely affected.

FACTORS BEYOND OUR CONTROL COULD CAUSE OUR QUARTERLY RESULTS TO FLUCTUATE.

Although we did experience significant revenue growth in periods prior to the third quarter of fiscal 2001, this growth was not indicative of our operating results in the last twelve months. As a result, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as indicators of future performance. Many of the factors that could cause our quarterly operating results to fluctuate significantly in the future are beyond our control and include the following:

- general economic trends;
- global trends related to Information Technology spending;
- demand for storage and content delivery products;
- the level of competition in our target product markets;
- the size, timing, and cancellation of significant orders;
- product configuration and mix;
- market acceptance of new products and product enhancements;
- new product announcements or introductions by us or our competitors;
- deferrals of customer orders in anticipation of new products or product enhancements;
- changes in pricing by us or our competitors;
- our ability to develop, introduce, and market new products and enhancements in a timely manner;
- supply constraints;
- technological changes in our target product markets;
- the levels of expenditure on research and development and expansion of our sales and marketing programs; and
- seasonality.

Current global economic and political factors, including terrorism, could harm our business. Weak economic conditions, terrorist actions, and the effects of ongoing military actions against terrorists could lead to significant business interruptions. If such disruptions result in cancellations of customer

orders, a general decrease in corporate spending on information technology, or direct impacts on our marketing, manufacturing, financial functions or our suppliers' logistics function, our results of operations and financial condition could be adversely affected.

In addition, sales for any future quarter may vary and accordingly be inconsistent with our plans. We generally operate with limited order backlog because our products are typically shipped shortly after orders are received. As a result, product sales in any quarter are generally dependent on orders booked and shipped in that quarter. Product sales are also difficult to forecast because the network storage market is rapidly evolving and our sales cycle varies substantially from customer to customer.

Due to all of the foregoing factors, it is possible that in one or more future quarters our results may fall below the expectations of public market analysts and investors, as was the case during the last two quarters of fiscal 2001. In such event, the trading price of our common stock would likely decrease.

OUR GROSS MARGINS MAY VARY BASED ON THE CONFIGURATION OF OUR PRODUCTS.

We derive a significant portion of our sales from the resale of disk drives as components of our filers, and the resale market for hard disk drives is highly competitive and subject to intense pricing pressures. Our sales of disk drives generate lower gross margin percentages than those of our filer products. As a result, as we sell more highly configured systems with greater disk drive content, overall gross margin percentages will be negatively affected. Conversely, we believe our increased licensing of add-on software products may favorably impact gross margins.

Our gross margins have been and may continue to be affected by a variety of other factors, including:

- demand for storage and content delivery products;

- discount levels and price competition;

- direct versus indirect sales;

- the mix of software as a percentage of revenue;

- the mix and average selling prices of products;

- new product introductions and enhancements;

- excess inventory purchase commitments as a result of changes in demand forecast and possible product and software defects as we transition our products; and

- the cost of components, manufacturing labor, and quality.

A SIGNIFICANT PERCENTAGE OF OUR EXPENSES ARE FIXED WHICH COULD AFFECT OUR NET INCOME.

Our expense levels are based in part on our expectations as to future sales and a significant percentage of our expenses are fixed. As a result, if sales levels are below expectations or previously higher levels, as was the case during the second half of fiscal 2001 and the first three quarters of fiscal 2002, net income will be disproportionately affected.

OUR FUTURE FINANCIAL PERFORMANCE DEPENDS ON GROWTH IN THE NETWORK STORAGE AND CONTENT DELIVERY MARKET AND ANY LACK OF GROWTH WILL HAVE A MATERIAL ADVERSE EFFECT ON OUR OPERATING RESULTS.

All of our products address the storage and content delivery market. Accordingly, our future financial performance will depend in large part on continued growth in the storage and content delivery market and on emerging standards in these markets. We cannot assure you that the market for storage and content delivery will continue to grow or that emerging standards in these markets will not adversely affect the growth of UNIX, Windows NT and the World Wide Web server markets. In addition, our business also depends on general economic and business conditions. A reduction in demand for network storage and content delivery caused by weakening economic conditions and decreases in corporate spending has resulted in decreased revenues or lower revenue growth rates. The network storage and content delivery market growth declined significantly beginning in the third quarter of fiscal 2001, causing both our revenues and operating results to decline. If the network storage and content delivery markets grow more slowly than anticipated or if network storage and content delivery based on emerging standards other than those adopted by us become increasingly accepted by the market, our operating results could be materially adversely affected.

THE MARKET PRICE FOR OUR COMMON STOCK HAS FLUCTUATED SIGNIFICANTLY IN THE PAST AND WILL LIKELY CONTINUE TO DO SO IN THE FUTURE.

The market price for our common stock has been volatile in the past, and several factors could cause the price to fluctuate substantially in the future.

These factors include:

- fluctuations in our operating results;

- fluctuations in the valuation of companies perceived by investors to be comparable to us;

- a shortfall in revenues or earnings compared to securities analysts' expectations;

- changes in analysts' recommendations or projections;

- announcements of new products, applications or product enhancements by us or our competitors; and

- changes in our relationships with our suppliers, customers and strategic partners.

In addition, the stock market has experienced volatility that has particularly affected the market prices of equity securities of many high technology companies. Additionally, certain macro economic factors such as changes in interest rates as well as market climate for the high technology sector could also have an impact on the trading price of our stock. As a result, the market price of our common stock may fluctuate significantly in the future and any broad market decline, as well as our own operating results, may materially adversely affect the market price of our common stock.

THE SUCCESS OF OUR NETCACHE APPLIANCE PRODUCTS DEPENDS UPON MARKET ACCEPTANCE OF CACHING TECHNOLOGY AND CONTINUED GROWTH IN THE CONTENT DELIVERY MARKET.

In late 1997, we released our NetCache appliance products, a new category of hardware-based Internet caching appliances designed to speed and manage the delivery of information stored on the Web. However, hardware-based caching technology is still developing.

Our future financial performance will depend in part on the acceptance of caching technology and the acceptance of our NetCache appliance products. We cannot assure you that the caching appliance market will continue to grow at previous rates or at all.

IF WE ARE UNABLE TO DEVELOP AND INTRODUCE NEW PRODUCTS AND RESPOND TO TECHNOLOGICAL CHANGE, OR IF OUR NEW PRODUCTS DO NOT ACHIEVE MARKET ACCEPTANCE, OUR OPERATING RESULTS COULD BE MATERIALLY ADVERSELY AFFECTED.

Our future growth depends upon the successful development and introduction of new hardware and software products. Due to the complexity of storage sub-systems and Internet caching devices, and the difficulty in gauging the engineering effort required to produce new products, such products are subject to significant technical risks. However, we cannot assure you that any of our new products will achieve market acceptance. Additional product introductions in future periods may also impact the sales of existing products. In addition, our new products must respond to technological changes and evolving industry standards. If we are unable, for technological or other reasons, to develop and introduce new products in a timely manner in response to changing market conditions or customer requirements, or if such products do not achieve market acceptance, our operating results could be materially adversely affected.

WE DEPEND ON ATTRACTING AND RETAINING QUALIFIED TECHNICAL AND SALES PERSONNEL.

Our continued success depends, in part, on our ability to identify, attract, motivate and retain qualified technical and sales personnel. Because our future success is dependent on our ability to continue to enhance and introduce new products, we are particularly dependent on our ability to identify, attract, motivate and retain qualified engineers with the requisite education, backgrounds and industry experience. Competition for qualified engineers, particularly in Silicon Valley, is intense. The loss of the services of a significant number of our engineers or sales people could be disruptive to our development efforts or business relationships and could materially adversely affect our operating results.

RISKS INHERENT IN OUR INTERNATIONAL OPERATIONS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR OPERATING RESULTS.

We conduct business internationally. International customers (including United States exports) were approximately 41.8% and 39.9% of our net sales for the three and nine-month periods ended January 25, 2002, respectively. Accordingly, our future operating results could be materially adversely affected by a variety of factors, some of which are beyond our control, including regulatory, political or economic conditions in a specific country or region, trade protection measures and other regulatory requirements and government spending patterns.

Our international sales are denominated in U.S. dollars and in foreign currencies. An increase in the value of the U.S. dollar relative to foreign currencies could make our products more expensive and, therefore, potentially less competitive in foreign markets. For international sales and expenditures denominated in foreign currencies, we are subject to risks associated with currency fluctuations. We hedge risks associated with foreign currency transactions in order to minimize the impact of changes in foreign currency exchange rates on earnings. We utilize forward contracts to hedge trade and intercompany receivables and payables. All hedge contracts are marked to market through earnings every period. There can be no assurance that such hedging strategy will be successful and that currency exchange rate fluctuations will not have a material adverse effect on our operating results.

Additional risks inherent in our international business activities generally include, among others, longer accounts receivable payment cycles, difficulties in managing international operations and potentially adverse tax consequences. Such factors could materially adversely affect our future international sales and, consequently, our operating results.

Although operating results have not been materially adversely affected by seasonality in the past, because of the significant seasonal effects experienced within the industry, particularly in Europe, our future operating results could be materially adversely affected by seasonality.

We cannot assure you that we will be able to maintain or increase international market demand for our products.

AN INCREASE IN COMPETITION COULD MATERIALLY ADVERSELY AFFECT OUR OPERATING RESULTS.

The storage and content delivery markets are intensely competitive and are characterized by rapidly changing technology.

In the storage market, our filer appliances and data management software compete primarily against storage products and data management software from EMC Corporation, Hitachi Data Systems, Compaq Computer Corporation, Sun Microsystems, Inc., Hewlett-Packard Company, and IBM Corporation. We also encounter less frequent competition from companies including MTI Corp., Procom Technology, LSI Logic Corp., and Auspex Systems, Inc.

In the content delivery market, our NetCache appliances and content delivery software compete against caching appliance and content delivery software vendors including Cisco Systems, Inc., CacheFlow, Inc., Inktomi Corp., Akamai Technologies, Inc., and Volera.

This past year has seen an increasing number of new, privately held companies attempting to enter our markets, some of which may become significant competitors in the future.

We believe that the principal competitive factors affecting our market include but are not limited to:

- Response time and performance

- Scalability

- Data availability

- Multiprotocol data sharing

- Acquisition price and low overall total cost of ownership

- Ease-of-use and deployment

- Customer service and support

Although we believe that our products currently compete favorably with respect to these factors, we can not assure you that we can maintain our competitive position against current and potential

competitors, especially those with significantly greater financial, marketing, service, support, technical, and other resources.

Increased competition could result in price reductions, reduced gross margins and loss of market share, any of which could materially adversely affect our operating results. Our competitors may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements, or devote greater resources to the development, promotion, sale and support of their products. In addition, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties. Accordingly, it is possible that new competitors or alliances among competitors may emerge and rapidly acquire significant market share. We cannot assure you that we will be able to compete successfully against current or future competitors. Competitive pressures we face could materially adversely affect our operating results.

WE RELY ON A LIMITED NUMBER OF SUPPLIERS AND ANY DISRUPTION OR TERMINATION OF THESE SUPPLY ARRANGEMENTS COULD DELAY SHIPMENT OF OUR PRODUCTS AND COULD MATERIALLY ADVERSELY AFFECT OUR OPERATING RESULTS.

We rely on a limited number of suppliers of several key components utilized in the assembly of our products. We purchase most of our disk drives through a single supplier. We purchase computer boards and microprocessors from a limited number of suppliers. Our reliance on a limited number of suppliers involves several risks, including:

- a potential inability to obtain an adequate supply of required components because we do not have long-term supply commitments;

- supplier capacity constraints;

- price increases;

- timely delivery; and

- component quality.

In the future, we intend to increasingly rely on contract manufacturers to assemble our products. If our contract manufacturers' operations were interrupted for any reason, our ability to meet scheduled product deliveries to customers would be materially adversely affected.

Component quality is particularly significant with respect to our supplier of disk drives. In order to meet product performance requirements, we must obtain disk drives of extremely high quality and capacity. In addition, there are periodic supply and demand issues for disk drives, microprocessors and for semiconductor memory components, which could result in component shortages, selective supply allocations and increased prices of such components. We cannot assure you that we will be able to obtain our full requirements of such components in the future or that prices of such components will not increase. In addition, problems with respect to yield and quality of such components and timeliness of deliveries could occur. Disruption or termination of the supply of these components could delay shipments of our products and could materially adversely affect our operating results. Such delays could also damage relationships with current and prospective customers.

WE MAY INCUR PROBLEMS WITH CURRENT OR FUTURE EQUITY INVESTMENTS AND ACQUISITIONS AND THESE INVESTMENTS MAY NOT ACHIEVE OUR OBJECTIVES.

We are continuously evaluating alliances and external investment in technologies related to our business. We have already made strategic investments in a number of network storage related technology companies and acquired two companies since the beginning of fiscal 2001. Equity investments may result in the loss of investment capital. The market price and valuation of our equity investments in these companies may fluctuate due to market conditions and other circumstances over which we have little or no control. To the extent that the fair value of these securities is less than our cost over an extended period of time, our results of operations and financial position could be negatively impacted. In the second quarter of fiscal 2002, we recorded a non cash, other-than-temporary write down of $13.0 million related to impairments of our investments in publicly traded and private companies.

Acquisitions of companies or products and alliances and strategic investments entail numerous risks, and we may not be able to successfully integrate acquired operations and products or to realize anticipated synergies, economies of scale, or other value. In addition, we may experience a diversion of management's attention, the loss of key employees of acquired operations or the inability to recover strategic investments in development stage entities. Any such problems could have a material adverse effect on our business, financial condition and results of operation.

WE DO NOT HAVE EXCLUSIVE RELATIONSHIPS WITH OUR DISTRIBUTORS AND ACCORDINGLY THERE IS A RISK THAT THOSE DISTRIBUTORS MAY GIVE HIGHER PRIORITY TO PRODUCTS OF OTHER SUPPLIERS, WHICH COULD MATERIALLY ADVERSELY AFFECT OUR OPERATING RESULTS.

Our distribution customers generally offer products of several different companies, including products of our competitors. Accordingly, there is risk that these distributors may give higher priority to products of other suppliers, which could materially adversely affect our operating results.

UNDETECTED SOFTWARE ERRORS OR FAILURES FOUND IN NEW PRODUCTS MAY RESULT IN LOSS OF OR DELAY IN MARKET ACCEPTANCE OF OUR PRODUCTS WHICH COULD MATERIALLY ADVERSELY AFFECT OUR OPERATING RESULTS.

Our products may contain undetected software errors or failures when first introduced or as new versions are released. Despite testing by us and by current and potential customers, errors may not be found in new products until after commencement of commercial shipments, resulting in loss of or delay in market acceptance, which could materially adversely affect our operating results.

IF WE ARE UNABLE TO PROTECT OUR INTELLECTUAL PROPERTY WE MAY BE SUBJECT TO INCREASED COMPETITION THAT COULD MATERIALLY ADVERSELY AFFECT OUR OPERATING RESULTS.

Our success depends significantly upon our proprietary technology. We currently rely on a combination of copyright and trademark laws, trade secrets, confidentiality procedures, contractual provisions and patents to protect our proprietary rights. We seek to protect our software, documentation and other written materials under trade secret, copyright and patent laws, which afford only limited protection. Other United States trademarks and some of the other United States--registered trademarks are registered internationally as well. We will continue to evaluate the registration of additional trademarks as appropriate. We generally enter into confidentiality agreements with our employees and with our resellers and customers. We currently have multiple United States and international patent applications pending and multiple United States patents issued. The pending applications may not be approved and if patents are issued, such patents may be challenged. If such challenges are brought, the patents may be invalidated. We cannot assure you that we will develop proprietary products or technologies that are patentable, that any issued patent will provide us with any competitive advantages or will not be challenged by third parties, or that the patents of others will not materially adversely affect our ability to do business.

Litigation may be necessary to protect our proprietary technology. Any such litigation may be time-consuming and costly. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. In addition, the laws of some foreign countries do not protect proprietary rights to as great an extent as do the laws of the United States. We cannot assure you that our means of protecting our proprietary rights will be adequate or that our competitors will not independently develop similar technology, duplicate our products or design around patents issued to us or other intellectual property rights of ours.

We are subject to intellectual property infringement claims. We may, from time to time receive claims that we are infringing third parties' intellectual property rights. Third parties may in the future claim infringement by us with respect to current or future products, patents, trademarks or other proprietary rights. We expect that companies in the appliance market will increasingly be subject to infringement claims as the number of products and competitors in our industry segment grows and the functionality of products in different industry segments overlaps. Any such claims could be time-consuming, result in costly litigation, cause product shipment delays, require us to redesign our products or require us to enter into royalty or licensing agreements, any of which could materially adversely affect our operating results. Such royalty or licensing agreements, if required, may not be available on terms acceptable to us or at all.

PROTECTIVE ANTI-TAKEOVER PROVISIONS IN OUR CHARTER AND BYLAWS COULD MATERIALLY ADVERSELY AFFECT STOCKHOLDERS.

In November 2001, we reincorporated in Delaware. Under Delaware law and our charter documents, our board of directors is authorized to take actions that could deter a third party from acquiring our stock. For example, the board of directors could adopt a stockholder rights plan, a third party acquiring at least 15% of our outstanding stock would be subject to the restrictions of Section 203 of the Delaware General Corporation Law, and the board of directors could issue up to 5,000,000 shares of preferred stock with rights senior to the outstanding common stock.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk related to fluctuations in interest rates, market prices and foreign currency exchange rates. We use certain derivative financial instruments to manage these risks. We do not use derivative financial instruments for speculative or trading purposes. All financial instruments are used in accordance with Board-approved policies.

Market Interest and Interest Income Risk

Interest and Investment Income -- As of January 25, 2002, we had short-term investments of $188.1 million. Our investment portfolio primarily consists of highly liquid investments with original maturities at the date of purchase between three and twelve months and investment in marketable equity securities in certain technology companies. These highly liquid investments, consisting primarily of government and corporate debt securities, are subject to interest rate and interest income risk and will decrease in value if market interest rates increase. A hypothetical 10 percent increase in market interest rates from levels at January 25, 2002, would cause the fair value of these short-term investments to decline by an immaterial amount. Because we have the ability to hold these investments until maturity we would not expect any significant decline in value of our investments caused by market interest rate changes. Declines in interest rates over time will, however, reduce our interest income. We do not use derivative financial instruments in our investment portfolio.

Operating Lease Commitments -- As of January 25, 2002, we have outstanding lease commitments to a third-party entity under operating lease agreements, which vary based on a monthly LIBOR rate plus a spread. A hypothetical 10 percent increase in interest rates would increase our annual rent expense under operating lease commitments by approximately $0.7 million. Increases in interest rates could, however, increase our rent expenses associated with future lease payments. We do not currently hedge against interest rate increases. Our investment portfolio offers a natural hedge against interest rate risk from our operating lease commitments in the event of a significant increase in the market interest rate. Moreover, a total of $251.0 million in operating leases are collateralized with investments that have similar, and thus offsetting, interest rate characteristics.

Market Price Risk

Equity Securities -- We are also exposed to market price risk on our equity security included in our short-term investments. Such investment is in a publicly traded company in the volatile high-technology industry sector. We do not attempt to reduce or eliminate our market exposure on these securities and as a result, the amount of income and cash flow that we ultimately realize from these investments in future periods may vary materially from the current unrealized amount. A 50% adverse change in the equity price would result in an approximate $0.4 million decrease in the fair value of our equity security as of January 25, 2002.

The hypothetical changes and assumptions discussed above will be different from what actually occurs in the future. Furthermore, such computations do not anticipate actions that may be taken by management, should the hypothetical market changes actually occur over time. As a result, the effect on actual earnings in the future will differ from those described above.

Foreign Currency Exchange Rate Risk

We hedge risks associated with foreign currency transactions in order to minimize the impact of changes in foreign currency exchange rates on earnings. We utilize forward contracts to hedge against the short-term impact of foreign currency fluctuations on certain assets and liabilities denominated in foreign currencies. All hedge instruments are marked to market through earnings every period. We believe that these forward contracts do not subject us to undue risk due to foreign exchange movements because gains and losses on these contracts are offset by losses and gains on the underlying assets and liabilities.

All contracts have a maturity of less than one year and we do not defer any gains and losses, as they are all accounted for through earnings every period.

The following table provides information about our foreign exchange forward contracts outstanding on January 25, 2002, (in thousands):

CURRENCY	BUY/ SELL	FOREIGN CURRENCY AMOUNT	CONTRACT VALUE USD	FAIR VALUE IN USD
AUD	Sell	9,434	$ 4,819	$ 4,830
CHF	Sell	3,771	$ 2,205	$ 2,205
EUR	Sell	38,000	$32,636	$32,684
GBP	Sell	8,648	$12,152	$12,172

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

10.76 Modification Agreement (Amendment to Lease Documents- Phase I) dated January 25, 2002, by and between BNP Paribas Leasing Corporation and the Company

10.77 Modification Agreement (Amendment to Lease Documents- Phase II) dated January 25, 2002, by and between BNP Paribas Leasing Corporation and the Company

10.78 Modification Agreement (Amendment to Lease Documents- Phase III) dated January 25, 2002, by and between BNP Paribas Leasing Corporation and the Company

10.79 Modification Agreement (Amendment to Lease Documents- Phase V) dated January 25, 2002, by and between BNP Paribas Leasing Corporation and the Company

10.80 Modification Agreement (Amendment to Lease Documents- Phase IV) dated January 25, 2002, by and between BNP Paribas Leasing Corporation and the Company

(b) REPORTS ON FORM 8-K

We filed a current report on Form 8-K, dated November 1, 2001, describing, pursuant to Item 5, the completion of our reincorporation into the State of Delaware.

SIGNATURE

Pursuant to the requirements of the Securities and Exchange Act of 1934, as amended, the registrant duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NETWORK APPLIANCE INC.
(Registrant)

/s/ JEFFRY R. ALLEN

Jeffry R. Allen
Executive Vice President Finance and Operations,
and Chief Financial Officer

Date: March 5, 2002

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION

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MODIFICATION AGREEMENT
(SECOND AMENDMENT TO OPERATIVE DOCUMENTS)

This MODIFICATION AGREEMENT (this "AGREEMENT") is made effective as of January 25, 2002, by BNP PARIBAS LEASING CORPORATION, a Delaware corporation ("BNP"), and NETWORK APPLIANCE, INC., a California corporation ("NAI").

R E C I T A L S

A. BNP and NAI executed a Lease Agreement dated as of January 20, 1999 (as amended, the "LEASE"), together with certain other Operative Documents relating thereto (capitalized terms used and not otherwise defined in this Agreement are intended to have the meanings assigned to them in the Common Definitions and Provisions Agreement executed by BNPLC and NAI contemporaneously with the Lease, as amended).

B. BNP, NAI, and the undersigned Participants desire to amend the Lease and the Pledge Agreement as provided below on and subject to the terms and conditions set forth below.

NOW, THEREFORE, in consideration of the above recitals and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Financial Covenants. Subject to the approval of a Majority (under and as defined in the Participation Agreement) as provided in the next paragraph, Schedule 1 attached to each of the Lease and the Pledge Agreement is hereby amended and restated in its entirety with Schedule 1 attached hereto.

2. Collateral Percentage. At all times hereafter, the Collateral Percentage for purposes of the Pledge Agreement shall be one hundred percent (100%), and a Mandatory Collateral Period shall be in effect at all times hereafter.

3. Approval by a Majority. The foregoing modifications are made contingent upon approval by a "Majority" under and as defined in the Participation Agreement, which approval is to be evidenced by the execution of this Modification in the spaces provided below by parties to the Participation Agreement.

4. Representations and Warranties. NAI hereby represents and warrants to BNP and the Participants as follows:

    (a) No Default has occurred or is continuing.

    (b) The execution, delivery and performance by NAI of this Modification has been duly authorized by all necessary corporate and other action and do not and will not require any registration with, consent or approval of, notice to or action by, any Person in order to be effective and enforceable.

    (c) All representations and warranties of NAI contained in the Operative Documents are true and correct on and as of the date hereof.

5. Ratification. Each of the Operative Documents are hereby ratified and confirmed in all respects.

6. Entire Agreement. This Agreement and the documents and agreements referred to herein set forth the entire agreement between the parties concerning the subject matter hereof and no amendment or modification of this Agreement shall be binding or valid unless expressed in a writing executed by both parties hereto.

7. Successors and Assigns. All of the covenants, agreements, terms and conditions to be observed and performed by the parties hereto shall be applicable to and binding upon their respective heirs, personal

representatives, successors and, to the extent assignment is permitted under the Lease, their respective assigns.

8. Fees and Expenses. NAI covenants and agrees to pay to or reimburse BNP, upon demand, for all reasonable out-of-pocket costs and expenses (including the reasonable fees, charges and disbursements of counsel) incurred by BNP in connection with the development, preparation, negotiation, execution and delivery of this Modification. NAI covenants and agrees to pay to BNP, for payment in turn by BNP to each Participant which executes and returns this Modification to BNP on or prior to February 11, 2002, an amendment fee equal to 10 basis points of all such Participants' Percentages under the Participation Agreement multiplied by the Stipulated Loss Value, such fee to be payable on the date hereof.

9. Execution in Counterparts. To facilitate execution, this Agreement may be executed in as many identical counterparts as may be required. It shall not be necessary that the signature of, or on behalf of, each party, or that the signature of all persons required to bind any party, appear on each counterpart. All counterparts, taken together, shall collectively constitute a single instrument. It shall not be necessary in making proof of this Agreement to produce or account for more than a single counterpart containing the respective signatures of, or on behalf of, each of the parties hereto. Any signature page to any counterpart may be detached from such counterpart without impairing the legal effect of the signatures thereon and thereafter attached to another counterpart identical thereto except having attached to it additional signature pages.

10. Recitals. The recitals contained herein are incorporated by this reference.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

BNP PARIBAS LEASING CORPORATION,
a Delaware corporation

By:____________________________________
Lloyd G. Cox, Managing Director

NETWORK APPLIANCE, INC., a California corporation

By:____________________________________
Name:__________________________________
Title:_________________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

BNP PARIBAS

By:____________________________________
Name:__________________________________
Title:_________________________________

By:____________________________________
Name:__________________________________
Title:_________________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

BANK OF MONTREAL

By:_____________________________________
Name:________________________________
Title:______________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

KEYBANK NATIONAL ASSOCIATION

By:_____________________________________
Name:________________________________
Title:______________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

WELLS FARGO BANK, N.A.

By:_____________________________________
Name:________________________________
Title:______________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

COMERICA BANK--CALIFORNIA

By:_____________________________________
Name:________________________________
Title:______________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

THE BANK OF NOVA SCOTIA

By:_____________________________________
Name:________________________________
Title:______________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

FBTC LEASING CORP.

By:_________________________________
   Name:_____________________________
   Title:____________________________

Schedule 1

FINANCIAL COVENANTS

This Schedule 1 is attached to and made a part of (a) the Lease Agreement (as amended, the "LEASE") dated to be effective as of January 20, 1999 (the "EFFECTIVE DATE"), between BNP Paribas Leasing Corporation, a Delaware corporation, formerly known as BNP Leasing Corporation ("BNPLC"), and Network Appliance, Inc., a California corporation ("NAI"), and (b) the Pledge Agreement (as amended, the "PLEDGE AGREEMENT") dated to be effective as of the Effective Date, among BNPLC, NAI, and BNP Paribas, as a Participant and as agent for any financial institutions that become Participants thereunder from time to time.

PART I - DEFINED TERMS

In this Schedule 1, capitalized terms used but not defined herein shall have the meaning assigned to them in the Lease or the Common Definitions and Provisions Agreement referenced in the Lease; and the following capitalized terms shall have the following meanings:

"ADJUSTED NET INCOME" means, for any fiscal period of NAI, the aggregate net income earned (or net losses incurred) during such period by NAI and its Subsidiaries (determined on a consolidated basis), plus any Permitted Non-Cash Charges deducted in determining such net income (or net loss).

"ADJUSTED EBIT" means, for any accounting period, net income (or net loss) of NAI and its Subsidiaries (determined on a consolidated basis), plus the amounts (if any) which, in the determination of net income (or net loss) for such period, have been deducted for (a) interest expense, (b) income tax expense (c) rent expense under leases of property, and (d) Permitted Non-Cash Charges, but in no event shall Adjusted EBIT be less than $1.00.

"CONSOLIDATED TANGIBLE NET WORTH" means the excess of (1) the total assets, other than Intangible Assets, of NAI and its Subsidiaries (determined on a consolidated basis) over (2) the total liabilities of NAI and its Subsidiaries (determined on a consolidated basis).

"DEBT" as used in this Exhibit shall have the meaning assigned to it in the Common Definitions and Provisions Agreements, where "Debt" of any Person is defined to mean (without duplication of any item) the sum of: (a) indebtedness of such Person for borrowed money; (b) indebtedness of such Person for the deferred purchase price of property or services (except trade payables and accrued expenses constituting current liabilities in the ordinary course of business); (c) the face amount of any outstanding letters of credit issued for the account of such Person; (d) obligations of such Person arising under acceptance facilities; (e) guaranties, endorsements (other than for collection in the ordinary course of business) and other contingent obligations of such Person to purchase, to provide funds for payment, to provide funds to invest in any Person, or otherwise to assure a creditor against loss; (f) obligations of others secured by any Lien on property of such Person;

(g) obligations of such Person as lessee under Capital Leases; and (h) the obligations of such Person, contingent or otherwise, under any "synthetic" or other lease of property or related documents (including a separate purchase agreement) which provides that such Person or any of

its Affiliates must purchase or cause another Person to purchase any interest in the leased property and thereby guarantee a minimum residual value of the leased property to the lessor (a "SYNTHETIC LEASE"). For purposes of this definition, the amount of the obligations described in clause (h) of the preceding sentence with respect to any lease classified according to GAAP as an "operating lease," shall equal the sum of (1) the present value of rentals and other minimum lease payments required in connection with such lease [calculated in accordance with SFAS 13 and other GAAP relevant to the determination of the whether such lease must be accounted for as an operating lease or capital lease], plus (2) the fair value of the property covered by the lease; provided, however, that such amount shall not exceed the price, as of the date a determination of Debt is required hereunder, for which the lessee can purchase the leased property pursuant to any valid ongoing purchase option if, upon such a purchase, the lessee shall be excused from paying rentals or other minimum lease payments that would otherwise accrue after the purchase. Notwithstanding the foregoing, solely for the purpose of calculating the financial covenants provided for in Part II of this Schedule 1, NAI may exclude from the calculation of Debt any payments or obligations required pursuant to or in connection with the Leases (or under other Synthetic Leases with BNPLC from time to time, if any).

"FIXED CHARGES" means, for any accounting period, the sum (without duplication of any item) of the following charges or costs incurred or paid by NAI and its Subsidiaries (determined on a consolidated basis): (a) gross interest expense accruing during such period, plus (b) amortization of principal or debt discount in respect of all Debt during such period, plus (c) rent payable under all leases of property during such period, plus (d) taxes payable during such period (but in no event less than $1.00, regardless of any tax refunds received).

"INTANGIBLE ASSETS" means assets of NAI and its Subsidiaries (determined on a consolidated basis) that are properly classified as "INTANGIBLE ASSETS" in accordance with GAAP and, in any event, shall include goodwill, patents, trade names, trademarks, copyrights, franchises, experimental expense, organization expense, unamortized debt discount and expense, and deferred charges (other than prepaid insurance, prepaid taxes and current deferred taxes to the extent any such prepaid or deferred items are classified on the balance sheet of NAI and its consolidated Subsidiaries as current assets in accordance with GAAP and with the concurrence of NAI's independent public accountants).

"MANDATORY COLLATERAL PERIOD" means any period during which, notwithstanding any contrary designation of a Collateral Percentage by NAI under the Pledge Agreement, the Collateral Percentage for purposes of the Pledge Agreement shall be one hundred percent (100%).

"PERMITTED NON-CASH CHARGES" means the amounts (if any) which, in the determination of net income (or net loss) for any relevant fiscal period, have been deducted by NAI or its Subsidiaries for non-cash charges made to write down goodwill or research and development costs in connection with acquisitions permitted by this Schedule 1.

"QUICK RATIO" means the ratio of:

(A) the sum (without duplication of any item) of the following assets of NAI and its Subsidiaries (determined on a consolidated basis): unencumbered cash; plus unencumbered short term cash investments; plus other unencumbered marketable securities which are classified as short term investments in accordance with GAAP; plus unencumbered accounts receivable, computed net of reserves for uncollectible amounts as determined in accordance with GAAP, but excluding collateral delivered and pledged under the Pledge Agreements (or under any other pledge agreements with BNPLC securing Debt payable by NAI or any Subsidiary to BNPLC) in accordance with the requirements thereof (if any); plus, to

(B) the sum (without duplication of any item) of (1) all liabilities of NAI and its Subsidiaries (determined on a consolidated basis) treated as current liabilities in accordance with GAAP, plus (2) other obligations included in total Debt of NAI and its Subsidiaries (determined on a consolidated basis), the payment of which is due on demand or will become due within one year after the date on which the applicable determination of Quick Ratio is required hereunder.

"ROLLING FOUR QUARTER PERIOD" means a period of four consecutive fiscal quarters of NAI, the last of which quarters ends after December 31, 1999.

PART II - FINANCIAL COVENANTS FOR LEASE AGREEMENT

NAI covenants that it shall not at any time suffer or permit:

1. Minimum Unencumbered Cash and Cash Equivalents. The sum (without duplication of any item) of the unrestricted cash, unencumbered short term cash investments and unencumbered marketable securities classified as short term investments according to GAAP of NAI and its Subsidiaries (determined on a consolidated basis) (but excluding collateral delivered and pledged under the Pledge Agreements [or under any other pledge agreements with BNPLC securing Debt payable by NAI or any Subsidiary to BNPLC] in accordance with the requirements thereof [if any]) to be less than total Debt of NAI and its Subsidiaries (determined on a consolidated basis).

2. Minimum Tangible Net Worth. Consolidated Tangible Net Worth to be less than the sum of: (a) ninety percent of the Consolidated Tangible Net Worth as of October 30, 1998; plus (b) seventy-five percent of NAI's net income (computed without deduction for net losses in any fiscal quarter) earned in each fiscal quarter since October 30, 1998; plus (c) one-hundred percent of the net proceeds of sales of stock in NAI or its Subsidiaries (other than sales to NAI or its Subsidiaries) after October 30, 1998; less (d) Permitted Non-Cash Charges for any period after October 30, 1998.

3. Minimum Quick Ratio. The Quick Ratio to be less than 1.50 to 1.00.

4. Minimum Fixed Charge Coverage. The ratio of (a) Adjusted EBIT for any Rolling Four Quarter Period to (b) Fixed Charges for the same Rolling Four Quarter Period, to be less than 1.50 to 1.00.

5. Minimum Profitability. Adjusted Net Income to be less than $1.00 in more than one fiscal quarter of any Rolling Four Quarter Period.

6. Maximum Leverage Ratio. the ratio of (a) total Debt of NAI and its Subsidiaries (determined on a consolidated basis) at the end of any Rolling Four Quarter Period to (b) the Adjusted EBIT for the same Four Quarter Rolling Period, to exceed 3.00 to 1.00.

PART III - [INTENTIONALLY OMITTED]

PART IV - OTHER COVENANTS

Without limiting NAI's obligations under the other provisions of the Operative Documents, during the Term, NAI shall not, without the prior written consent of BNPLC in each case:

A. Liens. Create, incur, assume or suffer to exist, or permit any of its Consolidated Subsidiaries to create, incur, assume or suffer to exist, any Lien, upon or with respect to any of its properties, now owned or hereafter acquired, provided that the following shall be permitted except to the extent that they would encumber any interest in the Property in violation of other provisions of the Operative Documents:

1. Liens for taxes or assessments or other government charges or levies if not yet due and payable or if they are being contested in good faith by appropriate proceedings and for which appropriate reserves are maintained;

2. Liens imposed by law, such as mechanic's, materialmen's, landlord's, warehousemen's and carrier's Liens, and other similar Liens, securing obligations incurred in the ordinary course of business which are not past due for more than thirty (30) days, or which are being contested in good faith by appropriate proceedings and for which appropriate reserves have been established;

3. Liens under workmen's compensation, unemployment insurance, social security or similar laws (other than ERISA);

4. Liens, deposits or pledges to secure the performance of bids, tenders, contracts (other than contracts for the payment of money), leases, public or statutory obligations, surety, stay, appeal, indemnity, performance or other similar bonds, or other similar obligations arising in the ordinary course of business;

5. judgment and other similar Liens against assets other than the Property or any part thereof in an aggregate amount not in excess of $3,000,000 arising in connection with court proceedings; provided that the execution or other enforcement of such Liens is effectively stayed and the claims secured thereby are being actively contested in good faith by appropriate proceedings;

6. easements, rights-of-way, restrictions and other similar encumbrances which, in the aggregate, do not materially interfere with the occupation, use and enjoyment by NAI or any such Consolidated Subsidiary of the property or assets encumbered thereby in the normal course of its business or materially impair the value of the property subject thereto;

7. Liens securing obligations of such a Consolidated Subsidiary to NAI or to another such Consolidated Subsidiary;

8. Liens not otherwise permitted by this subparagraph A (and not encumbering the Property or any Collateral) incurred in connection with the incurrence of additional Debt or asserted to secure Unfunded Benefit Liabilities, provided that (a) the sum of the aggregate principal amount of all outstanding obligations secured by Liens incurred pursuant to this clause shall not at any time exceed five percent (5%) of Consolidated Tangible Net Worth at such time; and (b) such Liens do not constitute Liens against NAI's interest in any material Subsidiary or blanket Liens against all or substantially all of the inventory, receivables, general intangibles or equipment of NAI or of any material Subsidiary of NAI (for purposes of this clause, a "material Subsidiary" means any subsidiary whose assets represent a substantial part of the total assets of NAI and its Subsidiaries, determined on a consolidated basis in accordance with GAAP); and

9. Liens incurred in connection with any renewals, extensions or refundings of any Debt secured by Liens described in the preceding clauses of this subparagraph A, provided that there is no increase in the aggregate principal amount of Debt secured thereby from that which was outstanding as of the date of such renewal, extension or refunding and no additional property is encumbered.

B. Transactions with Affiliates. Enter into or permit any Subsidiary of NAI to enter into any material transactions (including, without limitation, the purchase, sale or exchange of property or the rendering of any service) with any

Affiliates of NAI except on terms (1) that would not cause or result in a Default by NAI under the financial covenants set forth in Part II of this Schedule, and (2) that are no less favorable to NAI or the relevant Subsidiary than those that would have been obtained in a comparable transaction on an arm's length basis from an unrelated Person.

C. Compliance. Fail to preserve and maintain all licenses, permits, governmental approvals, rights, privileges and franchises necessary for the conduct of its business; or fail to comply with the provisions of all documents pursuant to which NAI is organized and/or which govern NAI's continued existence and with the requirements of all laws, rules, regulations and orders of a governmental agency applicable to NAI and/or its business.

D. Insurance. Fail to maintain and keep in force insurance of the types and in amounts customarily carried in lines of business similar to that of NAI, including but not limited to fire, extended coverage, public liability, flood, property damage and workers' compensation, with all such insurance carried with companies and in amounts satisfactory to BNPLC, or fail to deliver to BNPLC from time to time at BNPLC's request schedules setting forth all insurance then in effect.

E. Facilities. fail to keep all properties useful or necessary to NAI's business in good repair and condition, or to from time to time make necessary repairs, renewals and replacements thereto so that such properties shall be fully and efficiently preserved and maintained.

F. Taxes and Other Liabilities. Fail to pay and discharge when due any and all indebtedness, obligations, assessments and taxes, both real or personal, including without limitation federal and state income taxes and state and local property taxes and assessments, except (a) such as NAI may in good faith contest or as to which a bona fide dispute may arise, and (b) for which NAI has made provisions, to BNPLC's satisfaction, for eventual payment thereof in the event that NAI is obligated to make such payment.

G. Capital Expenditures. Make any additional investment in fixed assets in any fiscal year in excess of an aggregate of twenty percent (20%) of NAI's total assets as of the end of the prior fiscal year.

H. Merger, Consolidation, Transfer of Assets. Merge into or consolidate with any other entity (unless NAI is the surviving entity and remains in compliance of all provisions of the Operative Documents); or make any substantial change in the nature of NAI's business as conducted as of the date hereof; or sell, lease, transfer or otherwise dispose of all or a substantial or material portion of NAI's assets except in the ordinary course of its business.

I. Loans, Advances, Investments. Make any loans or advances to or investments in any person or entity, except (a) any of the foregoing existing as of, and disclosed to BNPLC prior to, the date hereof, (b) loans to employees for travel advances, relocation loans and other loans in the ordinary course of business, (c) investments in accordance with NAI's investment policy, as in effect from time to time, (d) existing investments in subsidiaries and joint ventures which have been disclosed to BNPLC in writing prior to the date hereof, and new investments in subsidiaries and joint ventures in amounts up to an aggregated of $10,000,000.00, (e) loans to employees, officers, directors to finance or refinance the purchase of equity securities of NAI.

J. Dividends, Distributions. Declare or pay any dividend or distribution either in cash, stock or any other property on NAI's stock now or hereafter outstanding, nor redeem, retire, repurchase or otherwise acquire any shares of any class of NAI's stock now or hereafter outstanding.

MODIFICATION AGREEMENT

(SECOND AMENDMENT TO OPERATIVE DOCUMENTS)

This MODIFICATION AGREEMENT (this "AGREEMENT") is made effective as of January 25, 2002, by BNP PARIBAS LEASING CORPORATION, a Delaware corporation ("BNP"), and NETWORK APPLIANCE, INC., a California corporation ("NAI").

R E C I T A L S

A. BNP and NAI executed a Lease Agreement (Phase II-Improvements) dated as of May 3, 1999 (as amended, the "IMPROVEMENTS LEASE") and a Lease Agreement (Phase II-Land) dated as of May 3, 1999 (as amended, the "LAND LEASE"), together with certain other Operative Documents relating thereto (capitalized terms used and not otherwise defined in this Agreement are intended to have the meanings assigned to them in the Common Definitions and Provisions Agreement (Phase II - Improvements) executed by BNPLC and NAI contemporaneously with the Improvements Lease and in the Common Definitions and Provisions Agreement (Phase II - Land) executed by BNPLC and NAI contemporaneously with the Land Lease, each as amended).

B. BNP, NAI, and the undersigned Participants desire to amend the Improvements Lease, the Land Lease, and the Pledge Agreements as provided below on and subject to the terms and conditions set forth below.

NOW, THEREFORE, in consideration of the above recitals and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Financial Covenants. Subject to the approval of a Majority (under and as defined in the Participation Agreement) as provided in the next paragraph, Schedule 1 attached to each of the Land Lease, the Improvements Lease, and the Pledge Agreements is hereby amended and restated in its entirety with Schedule 1 attached hereto.

2. Collateral Percentage. At all times hereafter, the Collateral Percentage for purposes of the Pledge Agreements shall be one hundred percent (100%), and a Mandatory Collateral Period shall be in effect at all times hereafter.

3. Approval by a Majority. The foregoing modifications are made contingent upon approval by a "Majority" under and as defined in the Participation Agreement, which approval is to be evidenced by the execution of this Modification in the spaces provided below by parties to the Participation Agreement.

4. Representations and Warranties. NAI hereby represents and warrants to BNP and the Participants as follows:

   (a) No Default has occurred or is continuing.

   (b) The execution, delivery and performance by NAI of this Modification has been duly authorized by all necessary corporate and other action and do not and will not require any registration with, consent or approval of, notice to or action by, any Person in order to be effective and enforceable.

   (c) All representations and warranties of NAI contained in the Operative Documents are true and correct on and as of the date hereof.

5. Ratification. Each of the Operative Documents are hereby ratified and confirmed in all respects.

6. Entire Agreement. This Agreement and the documents and agreements referred to herein set forth the entire agreement between the parties concerning the subject matter hereof and no amendment or modification of this Agreement shall be binding or valid unless expressed in a writing

executed by both parties hereto.

7. Successors and Assigns. All of the covenants, agreements, terms and conditions to be observed and performed by the parties hereto shall be applicable to and binding upon their respective heirs, personal representatives, successors and, to the extent assignment is permitted under the Leases, their respective assigns.

8. Fees and Expenses. NAI covenants and agrees to pay to or reimburse BNP, upon demand, for all reasonable out-of-pocket costs and expenses (including the reasonable fees, charges and disbursements of counsel) incurred by BNP in connection with the development, preparation, negotiation, execution and delivery of this Modification. NAI covenants and agrees to pay to BNP, for payment in turn by BNP to each Participant which executes and returns this Modification to BNP on or prior to February 11, 2002, an amendment fee equal to 10 basis points of all such Participants' Percentages under the Participation Agreement multiplied by the Stipulated Loss Value, such fee to be payable on the date hereof.

9. Execution in Counterparts. To facilitate execution, this Agreement may be executed in as many identical counterparts as may be required. It shall not be necessary that the signature of, or on behalf of, each party, or that the signature of all persons required to bind any party, appear on each counterpart. All counterparts, taken together, shall collectively constitute a single instrument. It shall not be necessary in making proof of this Agreement to produce or account for more than a single counterpart containing the respective signatures of, or on behalf of, each of the parties hereto. Any signature page to any counterpart may be detached from such counterpart without impairing the legal effect of the signatures thereon and thereafter attached to another counterpart identical thereto except having attached to it additional signature pages.

10. Recitals. The recitals contained herein are incorporated by this reference.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

BNP PARIBAS LEASING CORPORATION,
a Delaware corporation

By:____________________________________
Lloyd G. Cox, Managing Director

NETWORK APPLIANCE, INC., a California corporation

By:____________________________________
Name:__________________________________
Title:_________________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

BNP PARIBAS

By:____________________________________

Name:______________________________

Title:______________________________

By:____________________________________

Name:______________________________

Title:______________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

BANK OF MONTREAL

By:____________________________________

Name:______________________________

Title:______________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

KEYBANK NATIONAL ASSOCIATION

By:____________________________________

Name:______________________________

Title:______________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

WELLS FARGO BANK, N.A.

By:____________________________________

Name:______________________________

Title:______________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

COMERICA BANK--CALIFORNIA

By:____________________________________

Name:______________________________

Title:______________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

THE BANK OF NOVA SCOTIA

By:___________________________________
Name:_______________________________
Title:______________________________

Schedule 1

FINANCIAL COVENANTS

This Schedule 1 is attached to and made a part of (a) the Lease Agreement (Phase II - Improvements) (as amended, the "IMPROVEMENTS LEASE") dated to be effective as of May 3, 1999 (the "EFFECTIVE DATE"), between BNP Paribas Leasing Corporation, a Delaware corporation, formerly known as BNP Leasing Corporation ("BNPLC"), and Network Appliance, Inc., a California corporation ("NAI"), (b) the Lease Agreement (Phase II - Land) (as amended, the "LAND LEASE" and, together with the Improvements Lease, the "LEASES") dated to be effective as of the Effective Date, between BNPLC and NAI, (c) the Pledge Agreement (Phase II - Improvements) (as amended, the "PLEDGE AGREEMENT (IMPROVEMENTS)") dated to be effective as of the Effective Date, among BNPLC, NAI, and BNP Paribas, as a Participant and as agent for any financial institutions that become Participants thereunder from time to time, and (d) the Pledge Agreement (Phase II - Land) (as amended, and collectively with the Pledge Agreement (Improvements), the "PLEDGE AGREEMENTS") dated to be effective as of the Effective Date, among BNPLC, NAI, and BNP Paribas, as a Participant and as agent for any financial institutions that become Participants thereunder from time to time.

PART I - DEFINED TERMS

In this Schedule 1, capitalized terms used but not defined herein shall have the meaning assigned to them in the Leases or the Common Definitions and Provisions Agreements referenced in the Leases; and the following capitalized terms shall have the following meanings:

"ADJUSTED NET INCOME" means, for any fiscal period of NAI, the aggregate net income earned (or net losses incurred) during such period by NAI and its Subsidiaries (determined on a consolidated basis), plus any Permitted Non-Cash Charges deducted in determining such net income (or net loss).

"ADJUSTED EBIT" means, for any accounting period, net income (or net loss) of NAI and its Subsidiaries (determined on a consolidated basis), plus the amounts (if any) which, in the determination of net income (or net loss) for such period, have been deducted for (a) interest expense, (b) income tax expense (c) rent expense under leases of property, and (d) Permitted Non-Cash Charges, but in no event shall Adjusted EBIT be less than $1.00.

"CONSOLIDATED TANGIBLE NET WORTH" means the excess of (1) the total assets, other than Intangible Assets, of NAI and its Subsidiaries (determined on a consolidated basis) over (2) the total liabilities of NAI and its Subsidiaries (determined on a consolidated basis).

"DEBT" as used in this Exhibit shall have the meaning assigned to it in the Common Definitions and Provisions Agreements, where "Debt" of any Person is defined to mean (without duplication of any item) the sum of: (a) indebtedness of such Person for borrowed money; (b) indebtedness of such Person for the deferred purchase price of property or services (except trade payables and accrued expenses constituting current liabilities in the ordinary course of business); (c) the face amount of any outstanding letters of credit issued for the account of such Person; (d) obligations of such Person arising under acceptance facilities; (e) guaranties, endorsements (other than for collection in the ordinary course of business) and other contingent obligations of such Person to purchase, to provide funds for payment, to provide funds to invest in any Person, or otherwise to assure a creditor against loss; (f) obligations of others secured by any Lien on property of such Person; (g) obligations of such Person as lessee under Capital Leases; and (h) the obligations of such Person, contingent or otherwise, under any "synthetic" or other lease of property or related documents (including a separate purchase agreement) which provides that such Person or any of its Affiliates must purchase or cause another Person to purchase any interest in the leased property and thereby guarantee a minimum residual value of the leased property to the lessor (a "SYNTHETIC LEASE"). For purposes of this definition, the amount of the obligations described in clause (h) of the preceding sentence with respect to any lease classified according to GAAP as an "operating lease," shall equal the sum of (1) the present value of rentals and other minimum lease payments required in connection with such lease [calculated in accordance with SFAS 13 and other GAAP relevant to the determination of the whether such lease must be accounted for as an operating lease or capital lease], plus (2) the fair value of the property covered by the lease; provided, however, that such amount shall not exceed the price, as of the date a determination of Debt is required hereunder, for which the lessee can purchase the leased property pursuant to any valid ongoing purchase option if, upon such a purchase, the lessee shall be excused from paying rentals or other minimum lease payments that would otherwise accrue after the purchase. Notwithstanding the foregoing, solely for the purpose of calculating the financial covenants provided for in Part II of this Schedule 1, NAI may exclude from the calculation of Debt any payments or obligations required pursuant to or in connection with the Leases (or under other Synthetic Leases with BNPLC from time to time, if any).

"FIXED CHARGES" means, for any accounting period, the sum (without duplication of any item) of the following charges or costs incurred or paid by NAI and its Subsidiaries (determined on a consolidated basis): (a) gross interest expense accruing during such period, plus (b) amortization of principal or debt discount in respect of all Debt during such period, plus (c) rent payable under all leases of property during such period, plus (d) taxes payable during such period (but in no event less than $1.00, regardless of any tax refunds received).

"INTANGIBLE ASSETS" means assets of NAI and its Subsidiaries (determined on a consolidated basis) that are properly classified as "INTANGIBLE ASSETS" in accordance with GAAP and, in any event, shall include goodwill, patents, trade names, trademarks, copyrights, franchises, experimental expense, organization expense, unamortized debt discount and expense, and deferred charges (other than prepaid insurance, prepaid taxes and current deferred taxes to the extent any such prepaid or deferred items are classified on the balance sheet of NAI and its consolidated Subsidiaries as current assets in accordance with GAAP and with the concurrence of NAI's independent public accountants).

"MANDATORY COLLATERAL PERIOD" means any period during which, notwithstanding any contrary designation of a Collateral Percentage by NAI under the Pledge Agreements, the Collateral Percentage for purposes of the Pledge Agreements shall be one hundred percent (100%).

"PERMITTED NON-CASH CHARGES" means the amounts (if any) which, in the determination of net income (or net loss) for any relevant fiscal period, have been deducted by NAI or its Subsidiaries for non-cash charges made to write down goodwill or research and development costs in connection with acquisitions permitted by this Schedule 1.

"QUICK RATIO" means the ratio of:

(A) the sum (without duplication of any item) of the following assets of NAI and its Subsidiaries (determined on a consolidated basis): unencumbered cash; plus unencumbered short term cash investments; plus other unencumbered marketable securities which are classified as short term investments in accordance with GAAP; plus unencumbered accounts receivable, computed net of reserves for uncollectible amounts as determined in accordance with GAAP, but excluding collateral delivered and pledged under the Pledge Agreements (or under any other pledge agreements with BNPLC securing Debt payable by NAI or any Subsidiary to BNPLC) in accordance with the requirements thereof (if any); plus, to

(B) the sum (without duplication of any item) of (1) all liabilities of NAI and its Subsidiaries (determined on a consolidated basis) treated as current liabilities in accordance with GAAP, plus (2) other obligations included in total Debt of NAI and its Subsidiaries (determined on a consolidated basis), the payment of which is due on demand or will become due within one year after the date on which the applicable determination of Quick Ratio is required hereunder.

"ROLLING FOUR QUARTER PERIOD" means a period of four consecutive fiscal quarters of NAI, the last of which quarters ends after December 31, 1999.

PART II - FINANCIAL COVENANTS FOR LEASE AGREEMENT

NAI covenants that it shall not at any time suffer or permit:

1. Minimum Unencumbered Cash and Cash Equivalents. The sum (without duplication of any item) of the unrestricted cash, unencumbered short term cash investments and unencumbered marketable securities classified as short term investments according to GAAP of NAI and its Subsidiaries (determined on a consolidated basis) (but excluding collateral delivered and pledged under the Pledge Agreements [or under any other pledge agreements with BNPLC securing Debt payable by NAI or any Subsidiary to BNPLC] in accordance with the requirements thereof [if any]) to be less than total Debt of NAI and its Subsidiaries (determined on a consolidated basis).

2. Minimum Tangible Net Worth. Consolidated Tangible Net Worth to be less than the sum of: (a) ninety percent of the Consolidated Tangible Net Worth as of October 30, 1998; plus (b) seventy-five percent of NAI's net income (computed without deduction for net losses in any fiscal quarter) earned in each fiscal quarter since October 30, 1998; plus (c) one-hundred percent of the net proceeds of sales of stock in NAI or its Subsidiaries (other than sales to NAI or its Subsidiaries) after October 30, 1998; less (d) Permitted Non-Cash Charges for any period after October 30, 1998.

3. Minimum Quick Ratio. The Quick Ratio to be less than 1.50 to 1.00.

4. Minimum Fixed Charge Coverage. The ratio of (a) Adjusted EBIT for any Rolling Four Quarter Period to (b) Fixed Charges for the same Rolling Four Quarter Period, to be less than 1.50 to 1.00.

5. Minimum Profitability. Adjusted Net Income to be less than $1.00 in more than one fiscal quarter of any Rolling Four Quarter Period.

6. Maximum Leverage Ratio. the ratio of (a) total Debt of NAI and its Subsidiaries (determined on a consolidated basis) at the end of any Rolling Four Quarter Period to (b) the Adjusted EBIT for the same Four Quarter Rolling Period, to exceed 3.00 to 1.00.

PART III - [INTENTIONALLY OMITTED]

PART IV - OTHER COVENANTS

Without limiting NAI's obligations under the other provisions of the Operative

Documents, during the Term, NAI shall not, without the prior written consent of BNPLC in each case:

A. Liens. Create, incur, assume or suffer to exist, or permit any of its Consolidated Subsidiaries to create, incur, assume or suffer to exist, any Lien, upon or with respect to any of its properties, now owned or hereafter acquired, provided that the following shall be permitted except to the extent that they would encumber any interest in the Property in violation of other provisions of the Operative Documents:

1. Liens for taxes or assessments or other government charges or levies if not yet due and payable or if they are being contested in good faith by appropriate proceedings and for which appropriate reserves are maintained;

2. Liens imposed by law, such as mechanic's, materialmen's, landlord's, warehousemen's and carrier's Liens, and other similar Liens, securing obligations incurred in the ordinary course of business which are not past due for more than thirty (30) days, or which are being contested in good faith by appropriate proceedings and for which appropriate reserves have been established;

3. Liens under workmen's compensation, unemployment insurance, social security or similar laws (other than ERISA);

4. Liens, deposits or pledges to secure the performance of bids, tenders, contracts (other than contracts for the payment of money), leases, public or statutory obligations, surety, stay, appeal, indemnity, performance or other similar bonds, or other similar obligations arising in the ordinary course of business;

5. judgment and other similar Liens against assets other than the Property or any part thereof in an aggregate amount not in excess of $3,000,000 arising in connection with court proceedings; provided that the execution or other enforcement of such Liens is effectively stayed and the claims secured thereby are being actively contested in good faith by appropriate proceedings;

6. easements, rights-of-way, restrictions and other similar encumbrances which, in the aggregate, do not materially interfere with the occupation, use and enjoyment by NAI or any such Consolidated Subsidiary of the property or assets encumbered thereby in the normal course of its business or materially impair the value of the property subject thereto;

7. Liens securing obligations of such a Consolidated Subsidiary to NAI or to another such Consolidated Subsidiary;

8. Liens not otherwise permitted by this subparagraph A (and not encumbering the Property or any Collateral) incurred in connection with the incurrence of additional Debt or asserted to secure Unfunded Benefit Liabilities, provided that (a) the sum of the aggregate principal amount of all outstanding obligations secured by Liens incurred pursuant to this clause shall not at any time exceed five percent (5%) of Consolidated Tangible Net Worth at such time; and (b) such Liens do not constitute Liens against NAI's interest in any material Subsidiary or blanket Liens against all or substantially all of the inventory, receivables, general intangibles or equipment of NAI or of any material Subsidiary of NAI (for purposes of this clause, a "material Subsidiary" means any subsidiary whose assets represent a substantial part of the total assets of NAI and its Subsidiaries, determined on a consolidated basis in accordance with GAAP); and

9. Liens incurred in connection with any renewals, extensions or refundings of any Debt secured by Liens described in the preceding clauses of this subparagraph A, provided that there is no increase in the aggregate principal amount of Debt secured thereby from that which was outstanding as of the date of such renewal, extension or refunding and no additional property is encumbered.

B. Transactions with Affiliates. Enter into or permit any Subsidiary of NAI to enter into any material transactions (including, without limitation, the purchase, sale or exchange of property or the rendering of any service) with any Affiliates of NAI except on terms (1) that would not cause or result in a Default by NAI under the financial covenants set forth in Part II of this Schedule, and (2) that are no less favorable to NAI or the relevant Subsidiary than those that would have been obtained in a comparable transaction on an arm's length basis from an unrelated Person.

C. Compliance. Fail to preserve and maintain all licenses, permits, governmental approvals, rights, privileges and franchises necessary for the conduct of its business; or fail to comply with the provisions of all documents pursuant to which NAI is organized and/or which govern NAI's continued existence and with the requirements of all laws, rules, regulations and orders of a governmental agency applicable to NAI and/or its business.

D. Insurance. Fail to maintain and keep in force insurance of the types and in amounts customarily carried in lines of business similar to that of NAI, including but not limited to fire, extended coverage, public liability, flood, property damage and workers' compensation, with all such insurance carried with companies and in amounts satisfactory to BNPLC, or fail to deliver to BNPLC from time to time at BNPLC's request schedules setting forth all insurance then in effect.

E. Facilities. fail to keep all properties useful or necessary to NAI's business in good repair and condition, or to from time to time make necessary repairs, renewals and replacements thereto so that such properties shall be fully and efficiently preserved and maintained.

F. Taxes and Other Liabilities. Fail to pay and discharge when due any and all indebtedness, obligations, assessments and taxes, both real or personal, including without limitation federal and state income taxes and state and local property taxes and assessments, except (a) such as NAI may in good faith contest or as to which a bona fide dispute may arise, and (b) for which NAI has made provisions, to BNPLC's satisfaction, for eventual payment thereof in the event that NAI is obligated to make such payment.

G. Capital Expenditures. Make any additional investment in fixed assets in any fiscal year in excess of an aggregate of twenty percent (20%) of NAI's total assets as of the end of the prior fiscal year.

H. Merger, Consolidation, Transfer of Assets. Merge into or consolidate with any other entity (unless NAI is the surviving entity and remains in compliance of all provisions of the Operative Documents); or make any substantial change in the nature of NAI's business as conducted as of the date hereof; or sell, lease, transfer or otherwise dispose of all or a substantial or material portion of NAI's assets except in the ordinary course of its business.

I. Loans, Advances, Investments. Make any loans or advances to or investments in any person or entity, except (a) any of the foregoing existing as of, and disclosed to BNPLC prior to, the date hereof, (b) loans to employees for travel advances, relocation loans and other loans in the ordinary course of business, (c) investments in accordance with NAI's investment policy, as in effect from time to time, (d) existing investments in subsidiaries and joint ventures which have been disclosed to BNPLC in writing prior to the date hereof, and new investments in subsidiaries and joint ventures in amounts up to an aggregated of $10,000,000.00, (e) loans to employees, officers, directors to finance or refinance the purchase of equity securities of NAI.

J. Dividends, Distributions. Declare or pay any dividend or distribution either in cash, stock or any other property on NAI's stock now or hereafter outstanding, nor redeem, retire, repurchase or otherwise acquire any shares of any class of NAI's stock now or hereafter outstanding.

MODIFICATION AGREEMENT
(THIRD AMENDMENT TO OPERATIVE DOCUMENTS)

This MODIFICATION AGREEMENT (this "AGREEMENT") is made effective as of January 25, 2002, by BNP PARIBAS LEASING CORPORATION, a Delaware corporation ("BNP"), and NETWORK APPLIANCE, INC., a California corporation ("NAI").

R E C I T A L S

A. BNP and NAI executed a Lease Agreement (Phase III-Improvements) dated as of June 16, 1999 (as amended, the "IMPROVEMENTS LEASE") and a Lease Agreement (Phase III-Land) dated as of May 1, 2000 (as amended, the "LAND LEASE"), together with certain other Operative Documents relating thereto (capitalized terms used and not otherwise defined in this Agreement are intended to have the meanings assigned to them in the Common Definitions and Provisions Agreement (Phase III - Improvements) executed by BNPLC and NAI contemporaneously with the Improvements Lease and in the Common Definitions and Provisions Agreement (Phase III - Land) executed by BNPLC and NAI contemporaneously with the Land Lease, each as amended).

B. BNP, NAI, and the undersigned Participants desire to amend the Improvements Lease, the Land Lease, and the Pledge Agreements as provided below on and subject to the terms and conditions set forth below.

NOW, THEREFORE, in consideration of the above recitals and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Financial Covenants. Subject to the approval of a Majority (under and as defined in the Participation Agreement) as provided in the next paragraph, Schedule 1 attached to each of the Land Lease, the Improvements Lease, and the Pledge Agreements is hereby amended and restated in its entirety with Schedule 1 attached hereto.

2. Collateral Percentage. At all times hereafter, the Collateral Percentage for purposes of the Pledge Agreements shall be one hundred percent (100%), and a Mandatory Collateral Period shall be in effect at all times hereafter.

3. Approval by a Majority. The foregoing modifications are made contingent upon approval by a "Majority" under and as defined in the Participation Agreement, which approval is to be evidenced by the execution of this Modification in the spaces provided below by parties to the Participation Agreement.

4. Representations and Warranties. NAI hereby represents and warrants to BNP and the Participants as follows:

   (a) No Default has occurred or is continuing.

   (b) The execution, delivery and performance by NAI of this Modification has been duly authorized by all necessary corporate and other action and do not and will not require any registration with, consent or approval of,

   notice to or action by, any Person in order to be effective and enforceable.

   (c) All representations and warranties of NAI contained in the Operative Documents are true and correct on and as of the date hereof.

5. Ratification. Each of the Operative Documents are hereby ratified and confirmed in all respects.

6. Entire Agreement. This Agreement and the documents and agreements referred to herein set forth the entire agreement between the parties concerning the subject matter hereof and no amendment or modification of this Agreement shall be binding or valid unless expressed in a writing executed by both parties hereto.

7. Successors and Assigns. All of the covenants, agreements, terms and conditions to be observed and performed by the parties hereto shall be applicable to and binding upon their respective heirs, personal representatives, successors and, to the extent assignment is permitted under the Leases, their respective assigns.

8. Fees and Expenses. NAI covenants and agrees to pay to or reimburse BNP, upon demand, for all reasonable out-of-pocket costs and expenses (including the reasonable fees, charges and disbursements of counsel) incurred by BNP in connection with the development, preparation, negotiation, execution and delivery of this Modification. NAI covenants and agrees to pay to BNP, for payment in turn by BNP to each Participant which executes and returns this Modification to BNP on or prior to February 11, 2002, an amendment fee equal to 10 basis points of all such Participants' Percentages under the Participation Agreement multiplied by the Stipulated Loss Value, such fee to be payable on the date hereof.

9. Execution in Counterparts. To facilitate execution, this Agreement may be executed in as many identical counterparts as may be required. It shall not be necessary that the signature of, or on behalf of, each party, or that the signature of all persons required to bind any party, appear on each counterpart. All counterparts, taken together, shall collectively constitute a single instrument. It shall not be necessary in making proof of this Agreement to produce or account for more than a single counterpart containing the respective signatures of, or on behalf of, each of the parties hereto. Any signature page to any counterpart may be detached from such counterpart without impairing the legal effect of the signatures thereon and thereafter attached to another counterpart identical thereto except having attached to it additional signature pages.

10. Recitals. The recitals contained herein are incorporated by this reference.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

BNP PARIBAS LEASING CORPORATION,
a Delaware corporation

By:___________________________________
Lloyd G. Cox, Managing Director

NETWORK APPLIANCE, INC., a California corporation

By:___________________________________
Name:_________________________________
Title:________________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

BNP PARIBAS

By:___________________________________

Name:______________________________
Title:_____________________________

By:_____________________________________
Name:______________________________
Title:_____________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

BANK OF MONTREAL

By:_____________________________________
Name:______________________________
Title:_____________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

KEYBANK NATIONAL ASSOCIATION

By:_____________________________________
Name:______________________________
Title:_____________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

WELLS FARGO BANK, N.A.

By:_____________________________________
Name:______________________________
Title:_____________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

THE INDUSTRIAL BANK OF JAPAN LIMITED

By:_____________________________________
Name:______________________________
Title:_____________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

THE BANK OF NOVA SCOTIA

By:_________________________________
   Name:______________________________
   Title:_____________________________

Schedule 1

FINANCIAL COVENANTS

This Schedule 1 is attached to and made a part of (a) the Lease Agreement (Phase III - Improvements) (as amended, the "IMPROVEMENTS LEASE") dated to be effective as of June 6, 1999 (the "EFFECTIVE DATE"), between BNP Paribas Leasing Corporation, a Delaware corporation, formerly known as BNP Leasing Corporation ("BNPLC"), and Network Appliance, Inc., a California corporation ("NAI"), (b) the Lease Agreement (Phase III - Land) (as amended, the "LAND LEASE" and, together with the Improvements Lease, the "LEASES") dated May 1, 2000, between BNPLC and NAI, (c) the Pledge Agreement (Phase III - Improvements) (as amended, the "PLEDGE AGREEMENT (IMPROVEMENTS)") dated to be effective as of the Effective Date, among BNPLC, NAI, and BNP Paribas, as a Participant and as agent for any financial institutions that become Participants thereunder from time to time, and (d) the Pledge Agreement (Phase III - Land) (as amended, and collectively with the Pledge Agreement (Improvements), the "PLEDGE AGREEMENTS") dated to be effective as May 1, 2000, among BNPLC, NAI, and BNP Paribas, as a Participant and as agent for any financial institutions that become Participants thereunder from time to time.

PART I - DEFINED TERMS

In this Schedule 1, capitalized terms used but not defined herein shall have the meaning assigned to them in the Leases or the Common Definitions and Provisions Agreements referenced in the Leases; and the following capitalized terms shall have the following meanings:

"ADJUSTED NET INCOME" means, for any fiscal period of NAI, the aggregate net income earned (or net losses incurred) during such period by NAI and its Subsidiaries (determined on a consolidated basis), plus any Permitted Non-Cash Charges deducted in determining such net income (or net loss).

"ADJUSTED EBIT" means, for any accounting period, net income (or net loss) of NAI and its Subsidiaries (determined on a consolidated basis), plus the amounts (if any) which, in the determination of net income (or net loss) for such period, have been deducted for (a) interest expense, (b) income tax expense (c) rent expense under leases of property, and (d) Permitted Non-Cash Charges, but in no event shall Adjusted EBIT be less than $1.00.

"CONSOLIDATED TANGIBLE NET WORTH" means the excess of (1) the total assets, other than Intangible Assets, of NAI and its Subsidiaries (determined on a consolidated basis) over (2) the total liabilities of NAI and its Subsidiaries (determined on a consolidated basis).

"DEBT" as used in this Exhibit shall have the meaning assigned to it in the Common Definitions and Provisions Agreements, where "Debt" of any Person is defined to mean (without duplication of any item) the sum of: (a) indebtedness of such Person for borrowed money; (b) indebtedness of such Person for the deferred purchase price of property or services (except trade payables and accrued expenses constituting current liabilities in the ordinary course of business); (c) the face amount of any outstanding letters of credit issued for the account of such Person; (d) obligations of such Person arising under acceptance facilities; (e) guaranties, endorsements (other than for collection in the ordinary course of business) and other contingent obligations of such Person to purchase, to provide funds for payment, to provide funds to invest in any Person, or otherwise to assure a creditor against loss; (f) obligations of others secured by any Lien on property of such Person; (g) obligations of such Person as lessee under Capital Leases; and (h) the obligations of such Person, contingent or otherwise, under any "synthetic" or other lease of property or related documents (including a separate purchase agreement) which provides that such Person or any of its Affiliates must purchase or cause another Person to purchase any interest in the leased property and thereby guarantee a minimum residual value of the leased property to the lessor (a "SYNTHETIC LEASE"). For purposes of this definition, the amount of the obligations described in clause (h) of the preceding sentence with respect to any lease classified according to GAAP as an "operating lease," shall equal the sum of (1) the present value of rentals and other minimum lease payments required in connection with such lease [calculated in accordance with SFAS 13 and other GAAP relevant to the determination of the whether such lease must be accounted for as an operating lease or capital lease], plus (2) the fair value of the property covered by the lease; provided, however, that such amount shall not exceed the price, as of the date a determination of Debt is required hereunder, for which the lessee can purchase the leased property pursuant to any valid ongoing purchase option if, upon such a purchase, the lessee shall be excused from paying rentals or other minimum lease payments that would otherwise accrue after the purchase. Notwithstanding the foregoing, solely for the purpose of calculating the financial covenants provided for in Part II of this Schedule 1, NAI may exclude from the calculation of Debt any payments or obligations required pursuant to or in connection with the Leases (or under other Synthetic Leases with BNPLC from time to time, if any).

"FIXED CHARGES" means, for any accounting period, the sum (without duplication of any item) of the following charges or costs incurred or paid by NAI and its Subsidiaries (determined on a consolidated basis): (a) gross interest expense accruing during such period, plus (b) amortization of principal or debt discount in respect of all Debt during such period, plus (c) rent payable under all leases of property during such period, plus (d) taxes payable during such period (but in no event less than $1.00, regardless of any tax refunds received).

"INTANGIBLE ASSETS" means assets of NAI and its Subsidiaries (determined on a consolidated basis) that are properly classified as "INTANGIBLE ASSETS" in accordance with GAAP and, in any event, shall include goodwill, patents, trade names, trademarks, copyrights, franchises, experimental expense, organization expense, unamortized debt discount and expense, and deferred charges (other than prepaid insurance, prepaid taxes and current deferred taxes to the extent any such prepaid or deferred items are classified on the balance sheet of NAI and its consolidated Subsidiaries as current assets in accordance with GAAP and with the concurrence of NAI's independent public accountants).

"MANDATORY COLLATERAL PERIOD" means any period during which, notwithstanding any contrary designation of a Collateral Percentage by NAI under the Pledge Agreements, the Collateral Percentage for purposes of the Pledge Agreements shall be one hundred percent (100%).

"PERMITTED NON-CASH CHARGES" means the amounts (if any) which, in the determination of net income (or net loss) for any relevant fiscal period, have been deducted by NAI or its Subsidiaries for non-cash charges made to write down goodwill or research and development costs in connection with acquisitions permitted by this Schedule 1.

"QUICK RATIO" means the ratio of:

(A) the sum (without duplication of any item) of the following assets of NAI and its Subsidiaries (determined on a consolidated basis): unencumbered cash; plus unencumbered short term cash investments; plus other unencumbered marketable securities which are classified as short term investments in accordance with GAAP; plus unencumbered accounts receivable, computed net of reserves for uncollectible amounts as determined in accordance with GAAP, but excluding collateral delivered and pledged under the Pledge Agreements (or under any other pledge agreements with BNPLC securing Debt payable by NAI or any Subsidiary to BNPLC) in accordance with the requirements thereof (if any); plus, to

(B) the sum (without duplication of any item) of (1) all liabilities of NAI and its Subsidiaries (determined on a consolidated basis) treated as current liabilities in accordance with GAAP, plus (2) other obligations included in total Debt of NAI and its Subsidiaries (determined on a consolidated basis), the payment of which is due on demand or will become due within one year after the date on which the applicable determination of Quick Ratio is required hereunder.

"ROLLING FOUR QUARTER PERIOD" means a period of four consecutive fiscal quarters of NAI, the last of which quarters ends after December 31, 1999.

PART II - FINANCIAL COVENANTS FOR LEASE AGREEMENT

NAI covenants that it shall not at any time suffer or permit:

1. Minimum Unencumbered Cash and Cash Equivalents. The sum (without duplication of any item) of the unrestricted cash, unencumbered short term cash investments and unencumbered marketable securities classified as short term investments according to GAAP of NAI and its Subsidiaries (determined on a consolidated basis) (but excluding collateral delivered and pledged under the Pledge Agreements [or under any other pledge agreements with BNPLC securing Debt payable by NAI or any Subsidiary to BNPLC] in accordance with the requirements thereof [if any]) to be less than total Debt of NAI and its Subsidiaries (determined on a consolidated basis).

2. Minimum Tangible Net Worth. Consolidated Tangible Net Worth to be less than the sum of: (a) ninety percent of the Consolidated Tangible Net Worth as of October 30, 1998; plus (b) seventy-five percent of NAI's net income (computed without deduction for net losses in any fiscal quarter) earned in each fiscal quarter since October 30, 1998; plus (c) one-hundred percent of the net proceeds of sales of stock in NAI or its Subsidiaries (other than sales to NAI or its Subsidiaries) after October 30, 1998; less (d) Permitted Non-Cash Charges for any period after October 30, 1998.

3. Minimum Quick Ratio. The Quick Ratio to be less than 1.50 to 1.00.

4. Minimum Fixed Charge Coverage. The ratio of (a) Adjusted EBIT for any Rolling Four Quarter Period to (b) Fixed Charges for the same Rolling Four Quarter Period, to be less than 1.50 to 1.00.

5. Minimum Profitability. Adjusted Net Income to be less than $1.00 in more than one fiscal quarter of any Rolling Four Quarter Period.

6. Maximum Leverage Ratio. the ratio of (a) total Debt of NAI and its Subsidiaries (determined on a consolidated basis) at the end of any Rolling Four Quarter Period to (b) the Adjusted EBIT for the same Four Quarter Rolling Period, to exceed 3.00 to 1.00.

PART III - [INTENTIONALLY OMITTED]

PART IV - OTHER COVENANTS

Without limiting NAI's obligations under the other provisions of the Operative

Documents, during the Term, NAI shall not, without the prior written consent of BNPLC in each case:

A. Liens. Create, incur, assume or suffer to exist, or permit any of its Consolidated Subsidiaries to create, incur, assume or suffer to exist, any Lien, upon or with respect to any of its properties, now owned or hereafter acquired, provided that the following shall be permitted except to the extent that they would encumber any interest in the Property in violation of other provisions of the Operative Documents:

1. Liens for taxes or assessments or other government charges or levies if not yet due and payable or if they are being contested in good faith by appropriate proceedings and for which appropriate reserves are maintained;

2. Liens imposed by law, such as mechanic's, materialmen's, landlord's, warehousemen's and carrier's Liens, and other similar Liens, securing obligations incurred in the ordinary course of business which are not past due for more than thirty (30) days, or which are being contested in good faith by appropriate proceedings and for which appropriate reserves have been established;

3. Liens under workmen's compensation, unemployment insurance, social security or similar laws (other than ERISA);

4. Liens, deposits or pledges to secure the performance of bids, tenders, contracts (other than contracts for the payment of money), leases, public or statutory obligations, surety, stay, appeal, indemnity, performance or other similar bonds, or other similar obligations arising in the ordinary course of business;

5. judgment and other similar Liens against assets other than the Property or any part thereof in an aggregate amount not in excess of $3,000,000 arising in connection with court proceedings; provided that the execution or other enforcement of such Liens is effectively stayed and the claims secured thereby are being actively contested in good faith by appropriate proceedings;

6. easements, rights-of-way, restrictions and other similar encumbrances which, in the aggregate, do not materially interfere with the occupation, use and enjoyment by NAI or any such Consolidated Subsidiary of the property or assets encumbered thereby in the normal course of its business or materially impair the value of the property subject thereto;

7. Liens securing obligations of such a Consolidated Subsidiary to NAI or to another such Consolidated Subsidiary;

8. Liens not otherwise permitted by this subparagraph A (and not encumbering the Property or any Collateral) incurred in connection with the incurrence of additional Debt or asserted to secure Unfunded Benefit Liabilities, provided that (a) the sum of the aggregate principal amount of all outstanding obligations secured by Liens incurred pursuant to this clause shall not at any time exceed five percent (5%) of Consolidated Tangible Net Worth at such time; and (b) such Liens do not constitute Liens against NAI's interest in any material Subsidiary or blanket Liens against all or substantially all of the inventory, receivables, general intangibles or equipment of NAI or of any material Subsidiary of NAI (for purposes of this clause, a "material Subsidiary" means any subsidiary whose assets represent a substantial part of the total assets of NAI and its Subsidiaries, determined on a consolidated basis in accordance with GAAP); and

9. Liens incurred in connection with any renewals, extensions or refundings of any Debt secured by Liens described in the preceding clauses of this subparagraph A, provided that there is no increase in the aggregate principal amount of Debt secured thereby from that which was outstanding as of the date of such renewal, extension or refunding and no additional property is encumbered.

B. Transactions with Affiliates. Enter into or permit any Subsidiary of NAI to enter into any material transactions (including, without limitation, the purchase, sale or exchange of property or the rendering of any service) with any Affiliates of NAI except on terms (1) that would not cause or result in a Default by NAI under the financial covenants set forth in Part II of this Schedule, and (2) that are no less favorable to NAI or the relevant Subsidiary than those that would have been obtained in a comparable transaction on an arm's length basis from an unrelated Person.

C. Compliance. Fail to preserve and maintain all licenses, permits, governmental approvals, rights, privileges and franchises necessary for the conduct of its business; or fail to comply with the provisions of all documents pursuant to which NAI is organized and/or which govern NAI's continued existence and with the requirements of all laws, rules, regulations and orders of a governmental agency applicable to NAI and/or its business.

D. Insurance. Fail to maintain and keep in force insurance of the types and in amounts customarily carried in lines of business similar to that of NAI, including but not limited to fire, extended coverage, public liability, flood, property damage and workers' compensation, with all such insurance carried with companies and in amounts satisfactory to BNPLC, or fail to deliver to BNPLC from time to time at BNPLC's request schedules setting forth all insurance then in effect.

E. Facilities. fail to keep all properties useful or necessary to NAI's business in good repair and condition, or to from time to time make necessary repairs, renewals and replacements thereto so that such properties shall be fully and efficiently preserved and maintained.

F. Taxes and Other Liabilities. Fail to pay and discharge when due any and all indebtedness, obligations, assessments and taxes, both real or personal, including without limitation federal and state income taxes and state and local property taxes and assessments, except (a) such as NAI may in good faith contest or as to which a bona fide dispute may arise, and (b) for which NAI has made provisions, to BNPLC's satisfaction, for eventual payment thereof in the event that NAI is obligated to make such payment.

G. Capital Expenditures. Make any additional investment in fixed assets in any fiscal year in excess of an aggregate of twenty percent (20%) of NAI's total assets as of the end of the prior fiscal year.

H. Merger, Consolidation, Transfer of Assets. Merge into or consolidate with any other entity (unless NAI is the surviving entity and remains in compliance of all provisions of the Operative Documents); or make any substantial change in the nature of NAI's business as conducted as of the date hereof; or sell, lease, transfer or otherwise dispose of all or a substantial or material portion of NAI's assets except in the ordinary course of its business.

I. Loans, Advances, Investments. Make any loans or advances to or investments in any person or entity, except (a) any of the foregoing existing as of, and disclosed to BNPLC prior to, the date hereof, (b) loans to employees for travel advances, relocation loans and other loans in the ordinary course of business, (c) investments in accordance with NAI's investment policy, as in effect from time to time, (d) existing investments in subsidiaries and joint ventures which have been disclosed to BNPLC in writing prior to the date hereof, and new investments in subsidiaries and joint ventures in amounts up to an aggregated of $10,000,000.00, (e) loans to employees, officers, directors to finance or refinance the purchase of equity securities of NAI.

J. Dividends, Distributions. Declare or pay any dividend or distribution either in cash, stock or any other property on NAI's stock now or hereafter outstanding, nor redeem, retire, repurchase or otherwise acquire any shares of any class of NAI's stock now or hereafter outstanding.

MODIFICATION AGREEMENT
(THIRD AMENDMENT TO OPERATIVE DOCUMENTS)

This MODIFICATION AGREEMENT (this "AGREEMENT") is made effective as of January 25, 2002, by BNP PARIBAS LEASING CORPORATION, a Delaware corporation ("BNP"), and NETWORK APPLIANCE, INC., a California corporation ("NAI").

R E C I T A L S

A. BNP and NAI executed a Lease Agreement (Phase V-Improvements) dated as of March 1, 2000 (as amended, the "IMPROVEMENTS LEASE") and a Lease Agreement (Phase V-Land) dated as of March 1, 2000 (as amended, the "LAND LEASE"), together with certain other Operative Documents relating thereto (capitalized terms used and not otherwise defined in this Agreement are intended to have the meanings assigned to them in the Common Definitions and Provisions Agreement (Phase V - Improvements) executed by BNPLC and NAI contemporaneously with the Improvements Lease and in the Common Definitions and Provisions Agreement (Phase V - Land) executed by BNPLC and NAI contemporaneously with the Land Lease, each as amended).

B. BNP, NAI, and the undersigned Participants desire to amend the Improvements Lease, the Land Lease, and the Pledge Agreements as provided below on and subject to the terms and conditions set forth below.

NOW, THEREFORE, in consideration of the above recitals and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Financial Covenants. Subject to the approval of a Majority (under and as defined in the Participation Agreement) as provided in the next paragraph, Schedule 1 attached to each of the Land Lease, the Improvements Lease, and the Pledge Agreements is hereby amended and restated in its entirety with Schedule 1 attached hereto.

2. Collateral Percentage. At all times hereafter, the Collateral Percentage for purposes of the Pledge Agreements shall be one hundred percent (100%), and a Mandatory Collateral Period shall be in effect at all times hereafter.

3. Approval by a Majority. The foregoing modifications are made contingent upon approval by a "Majority" under and as defined in the Participation Agreement, which approval is to be evidenced by the execution of this Modification in the spaces provided below by parties to the Participation Agreement.

4. Representations and Warranties. NAI hereby represents and warrants to BNP and the Participants as follows:

   (a) No Default has occurred or is continuing.

   (b) The execution, delivery and performance by NAI of this Modification has been duly authorized by all necessary corporate and other action and do not and will not require any registration with, consent or approval of,

   notice to or action by, any Person in order to be effective and enforceable.

   (c) All representations and warranties of NAI contained in the Operative Documents are true and correct on and as of the date hereof.

5. Ratification. Each of the Operative Documents are hereby ratified and confirmed in all respects.

6. Entire Agreement. This Agreement and the documents and agreements referred to herein set forth the entire agreement between the parties concerning the subject matter hereof and no amendment or modification of this Agreement shall be binding or valid unless expressed in a writing executed by both parties hereto.

7. Successors and Assigns. All of the covenants, agreements, terms and

conditions to be observed and performed by the parties hereto shall be applicable to and binding upon their respective heirs, personal representatives, successors and, to the extent assignment is permitted under the Leases, their respective assigns.

8. Fees and Expenses. NAI covenants and agrees to pay to or reimburse BNP, upon demand, for all reasonable out-of-pocket costs and expenses (including the reasonable fees, charges and disbursements of counsel) incurred by BNP in connection with the development, preparation, negotiation, execution and delivery of this Modification. NAI covenants and agrees to pay to BNP, for payment in turn by BNP to each Participant which executes and returns this Modification to BNP on or prior to February 11, 2002, an amendment fee equal to 10 basis points of all such Participants' Percentages under the Participation Agreement multiplied by the Stipulated Loss Value, such fee to be payable on the date hereof.

9. Execution in Counterparts. To facilitate execution, this Agreement may be executed in as many identical counterparts as may be required. It shall not be necessary that the signature of, or on behalf of, each party, or that the signature of all persons required to bind any party, appear on each counterpart. All counterparts, taken together, shall collectively constitute a single instrument. It shall not be necessary in making proof of this Agreement to produce or account for more than a single counterpart containing the respective signatures of, or on behalf of, each of the parties hereto. Any signature page to any counterpart may be detached from such counterpart without impairing the legal effect of the signatures thereon and thereafter attached to another counterpart identical thereto except having attached to it additional signature pages.

10. Recitals. The recitals contained herein are incorporated by this reference.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

BNP PARIBAS LEASING CORPORATION,
a Delaware corporation

By:_____________________________________
Lloyd G. Cox, Managing Director

NETWORK APPLIANCE, INC., a California corporation

By:_____________________________________
Name:___________________________________
Title:__________________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

BNP PARIBAS

By:_____________________________________
Name:___________________________________
Title:__________________________________

By:____________________________________
Name:_______________________________
Title:______________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

BANK OF AMERICA, N.A.

By:____________________________________
Name:_______________________________
Title:______________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

BANK ONE, NA
(main office Chicago)

By:____________________________________
Name:_______________________________
Title:______________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

WELLS FARGO BANK, N.A.

By:____________________________________
Name:_______________________________
Title:______________________________

Schedule 1

FINANCIAL COVENANTS

This Schedule 1 is attached to and made a part of (a) the Lease Agreement (Phase V - Improvements) (as amended, the "IMPROVEMENTS LEASE") dated to be effective as of March 1, 2000 (the "EFFECTIVE DATE"), between BNP Paribas Leasing Corporation, a Delaware corporation, formerly known as BNP Leasing Corporation ("BNPLC"), and Network Appliance, Inc., a California corporation ("NAI"), (b) the Lease Agreement (Phase V - Land) (as amended, the "LAND LEASE" and, together with the Improvements Lease, the "LEASES") dated to be effective as of the Effective Date, between BNPLC and NAI, (c) the Pledge Agreement (Phase V - Improvements) (as amended, the "PLEDGE AGREEMENT (IMPROVEMENTS)") dated to be effective as of the Effective Date, among BNPLC, NAI, and BNP Paribas, as a Participant and as agent for any financial institutions that become Participants thereunder from time to time, and (d) the Pledge Agreement (Phase V - Land) (as amended, and collectively with the Pledge Agreement (Improvements), the "PLEDGE AGREEMENTS") dated to be effective as of the Effective Date, among BNPLC, NAI, and BNP Paribas, as a Participant and as agent for any financial institutions that become Participants thereunder from time to time.

PART I - DEFINED TERMS

In this Schedule 1, capitalized terms used but not defined herein shall have the meaning assigned to them in the Leases or the Common Definitions and Provisions Agreements referenced in the Leases; and the following capitalized terms shall have the following meanings:

"ADJUSTED NET INCOME" means, for any fiscal period of NAI, the aggregate net income earned (or net losses incurred) during such period by NAI and its Subsidiaries (determined on a consolidated basis), plus any Permitted Non-Cash Charges deducted in determining such net income (or net loss).

"ADJUSTED EBIT" means, for any accounting period, net income (or net loss) of NAI and its Subsidiaries (determined on a consolidated basis), plus the amounts (if any) which, in the determination of net income (or net loss) for such period, have been deducted for (a) interest expense, (b) income tax expense (c) rent expense under leases of property, and (d) Permitted Non-Cash Charges, but in no event shall Adjusted EBIT be less than $1.00.

"COLLATERAL TEST DATES" mean the Base Rent Commencement Date and the earlier of the following dates after each fiscal quarter of NAI that ends after the Base Rent Commencement Date: (1) the seventh Business Day after the release by NAI of its financial statements for the fiscal quarter; or (2) the first Business Day of the third calendar month following the end of the fiscal quarter.

"CONSOLIDATED TANGIBLE NET WORTH" means the excess of (1) the total assets, other than Intangible Assets, of NAI and its Subsidiaries (determined on a consolidated basis) over (2) the total liabilities of NAI and its Subsidiaries (determined on a consolidated basis).

"DEBT" as used in this Exhibit shall have the meaning assigned to it in the Common Definitions and Provisions Agreements, where "Debt" of any Person is defined to mean (without duplication of any item) the sum of: (a) indebtedness of such Person for borrowed money; (b) indebtedness of

such Person for the deferred purchase price of property or services (except trade payables and accrued expenses constituting current liabilities in the ordinary course of business); (c) the face amount of any outstanding letters of credit issued for the account of such Person; (d) obligations of such Person arising under acceptance facilities; (e) guaranties, endorsements (other than for collection in the ordinary course of business) and other contingent obligations of such Person to purchase, to provide funds for payment, to provide funds to invest in any Person, or otherwise to assure a creditor against loss; (f) obligations of others secured by any Lien on property of such Person; (g) obligations of such Person as lessee under Capital Leases; and (h) the obligations of such Person, contingent or otherwise, under any "synthetic" or other lease of property or related documents (including a separate purchase agreement) which provides that such Person or any of its Affiliates must purchase or cause another Person to purchase any interest in the leased property and thereby guarantee a minimum residual value of the leased property to the lessor (a "SYNTHETIC LEASE"). For purposes of this definition, the amount of the obligations described in clause (h) of the preceding sentence with respect to any lease classified according to GAAP as an "operating lease," shall equal the sum of (1) the present value of rentals and other minimum lease payments required in connection with such lease [calculated in accordance with SFAS 13 and other GAAP relevant to the determination of the whether such lease must be accounted for as an operating lease or capital lease], plus (2) the fair value of the property covered by the lease; provided, however, that such amount shall not exceed the price, as of the date a determination of Debt is required hereunder, for which the lessee can purchase the leased property pursuant to any valid ongoing purchase option if, upon such a purchase, the lessee shall be excused from paying rentals or other minimum lease payments that would otherwise accrue after the purchase. Notwithstanding the foregoing, solely for the purpose of calculating the financial covenants provided for in Part II of this Schedule 1, NAI may exclude from the calculation of Debt any payments or obligations required pursuant to or in connection with the Leases (or under other Synthetic Leases with BNPLC from time to time, if any).

"FIXED CHARGES" means, for any accounting period, the sum (without duplication of any item) of the following charges or costs incurred or paid by NAI and its Subsidiaries (determined on a consolidated basis): (a) gross interest expense accruing during such period, plus (b) amortization of principal or debt discount in respect of all Debt during such period, plus (c) rent payable under all leases of property during such period, plus (d) taxes payable during such period (but in no event less than $1.00, regardless of any tax refunds received).

"INTANGIBLE ASSETS" means assets of NAI and its Subsidiaries (determined on a consolidated basis) that are properly classified as "INTANGIBLE ASSETS" in accordance with GAAP and, in any event, shall include goodwill, patents, trade names, trademarks, copyrights, franchises, experimental expense, organization expense, unamortized debt discount and expense, and deferred charges (other than prepaid insurance, prepaid taxes and current deferred taxes to the extent any such prepaid or deferred items are classified on the balance sheet of NAI and its consolidated Subsidiaries as current assets in accordance with GAAP and with the concurrence of NAI's independent public accountants).

"MANDATORY COLLATERAL PERIOD" means any period during which, notwithstanding any contrary designation of a Collateral Percentage by NAI under the Pledge Agreements, the Collateral Percentage for purposes of the Pledge Agreements shall be one hundred percent (100%).

"PERMITTED NON-CASH CHARGES" means the amounts (if any) which, in the determination of net income (or net loss) for any relevant fiscal period, have been deducted by NAI or its Subsidiaries

for non-cash charges made to write down goodwill or research and development costs in connection with acquisitions permitted by this Schedule 1.

"QUICK RATIO" means the ratio of:

(A) the sum (without duplication of any item) of the following assets of NAI and its Subsidiaries (determined on a consolidated basis): unencumbered cash; plus unencumbered short term cash investments; plus other unencumbered marketable securities which are classified as short term investments in accordance with GAAP; plus unencumbered accounts receivable, computed net of reserves for uncollectible amounts as determined in accordance with GAAP, but excluding collateral delivered and pledged under the Pledge Agreements (or under any other pledge agreements with BNPLC securing Debt payable by NAI or any Subsidiary to BNPLC) in accordance with the requirements thereof (if any); plus, to

(B) the sum (without duplication of any item) of (1) all liabilities of NAI and its Subsidiaries (determined on a consolidated basis) treated as current liabilities in accordance with GAAP, plus (2) other obligations included in total Debt of NAI and its Subsidiaries (determined on a consolidated basis), the payment of which is due on demand or will become due within one year after the date on which the applicable determination of Quick Ratio is required hereunder.

"ROLLING FOUR QUARTER PERIOD" means a period of four consecutive fiscal quarters of NAI, the last of which quarters ends after December 31, 1999.

PART II - FINANCIAL COVENANTS FOR LEASE AGREEMENT

NAI covenants that it shall not at any time suffer or permit:

1. Minimum Unencumbered Cash and Cash Equivalents. The sum (without duplication of any item) of the unrestricted cash, unencumbered short term cash investments and unencumbered marketable securities classified as short term investments according to GAAP of NAI and its Subsidiaries (determined on a consolidated basis) (but excluding collateral delivered and pledged under the Pledge Agreements [or under any other pledge agreements with BNPLC securing Debt payable by NAI or any Subsidiary to BNPLC] in accordance with the requirements thereof [if any]) to be less than total Debt of NAI and its Subsidiaries (determined on a consolidated basis).

2. Minimum Tangible Net Worth. Consolidated Tangible Net Worth to be less than the sum of: (a) ninety percent of the Consolidated Tangible Net Worth as of October 30, 1998; plus (b) seventy-five percent of NAI's net income (computed without deduction for net losses in any fiscal quarter) earned in each fiscal quarter since October 30, 1998; plus (c) one-hundred percent of the net proceeds of sales of stock in NAI or its Subsidiaries (other than sales to NAI or its Subsidiaries) after October 30, 1998; less (d) Permitted Non-Cash Charges for any period after October 30, 1998.

3. Minimum Quick Ratio. The Quick Ratio to be less than 1.50 to 1.00.

4. Minimum Fixed Charge Coverage. The ratio of (a) Adjusted EBIT for any Rolling Four Quarter Period to (b) Fixed Charges for the same Rolling Four Quarter Period, to be less than 1.50 to 1.00.

5. Minimum Profitability. Adjusted Net Income to be less than $1.00 in more than one fiscal quarter of any Rolling Four Quarter Period.

6. Maximum Leverage Ratio. the ratio of (a) total Debt of NAI and its Subsidiaries (determined on a consolidated basis) at the end of any Rolling Four Quarter Period to (b) the Adjusted EBIT for the same Four Quarter Rolling Period, to exceed 3.00 to 1.00.

PART III - [INTENTIONALLY OMITTED]

PART IV - OTHER COVENANTS

Without limiting NAI's obligations under the other provisions of the Operative Documents, during the Term, NAI shall not, without the prior written consent of BNPLC in each case:

A. Liens. Create, incur, assume or suffer to exist, or permit any of its Consolidated Subsidiaries to create, incur, assume or suffer to exist, any Lien, upon or with respect to any of its properties, now owned or hereafter acquired, provided that the following shall be permitted except to the extent that they would encumber any interest in the Property in violation of other provisions of the Operative Documents:

1. Liens for taxes or assessments or other government charges or levies if not yet due and payable or if they are being contested in good faith by appropriate proceedings and for which appropriate reserves are maintained;

2. Liens imposed by law, such as mechanic's, materialmen's, landlord's, warehousemen's and carrier's Liens, and other similar Liens, securing obligations incurred in the ordinary course of business which are not past due for more than thirty (30) days, or which are being contested in good faith by appropriate proceedings and for which appropriate reserves have been established;

3. Liens under workmen's compensation, unemployment insurance, social security or similar laws (other than ERISA);

4. Liens, deposits or pledges to secure the performance of bids, tenders, contracts (other than contracts for the payment of money), leases, public or statutory obligations, surety, stay, appeal, indemnity, performance or other similar bonds, or other similar obligations arising in the ordinary course of business;

5. judgment and other similar Liens against assets other than the Property or any part thereof in an aggregate amount not in excess of $3,000,000 arising in connection with court proceedings; provided that the execution or other enforcement of such Liens is effectively stayed

and the claims secured thereby are being actively contested in good faith by appropriate proceedings;

6. easements, rights-of-way, restrictions and other similar encumbrances which, in the aggregate, do not materially interfere with the occupation, use and enjoyment by NAI or any such Consolidated Subsidiary of the property or assets encumbered thereby in the normal course of its business or materially impair the value of the property subject thereto;

7. Liens securing obligations of such a Consolidated Subsidiary to NAI or to another such Consolidated Subsidiary;

8. Liens not otherwise permitted by this subparagraph A (and not encumbering the Property or any Collateral) incurred in connection with the incurrence of additional Debt or asserted to secure Unfunded Benefit Liabilities, provided that (a) the sum of the aggregate principal amount of all outstanding obligations secured by Liens incurred pursuant to this clause shall not at any time exceed five percent (5%) of Consolidated Tangible Net Worth at such time; and (b) such Liens do not constitute Liens against NAI's interest in any material Subsidiary or blanket Liens against all or substantially all of the inventory, receivables, general intangibles or equipment of NAI or of any material Subsidiary of NAI (for purposes of this clause, a "material Subsidiary" means any subsidiary whose assets represent a substantial part of the total assets of NAI and its Subsidiaries, determined on a consolidated basis in accordance with GAAP); and

9. Liens incurred in connection with any renewals, extensions or refundings of any Debt secured by Liens described in the preceding clauses of this subparagraph A, provided that there is no increase in the aggregate principal amount of Debt secured thereby from that which was outstanding as of the date of such renewal, extension or refunding and no additional property is encumbered.

B. Transactions with Affiliates. Enter into or permit any Subsidiary of NAI to enter into any material transactions (including, without limitation, the purchase, sale or exchange of property or the rendering of any service) with any Affiliates of NAI except on terms (1) that would not cause or result in a Default by NAI under the financial covenants set forth in Part II of this Schedule, and (2) that are no less favorable to NAI or the relevant Subsidiary than those that would have been obtained in a comparable transaction on an arm's length basis from an unrelated Person.

C. Compliance. Fail to preserve and maintain all licenses, permits, governmental approvals, rights, privileges and franchises necessary for the conduct of its business; or fail to comply with the provisions of all documents pursuant to which NAI is organized and/or which govern NAI's continued existence and with the requirements of all laws, rules, regulations and orders of a governmental agency applicable to NAI and/or its business.

D. Insurance. Fail to maintain and keep in force insurance of the types and in amounts customarily carried in lines of business similar to that of NAI, including but not limited to fire, extended coverage, public liability, flood, property damage and workers' compensation, with all such insurance carried with companies and in amounts satisfactory to BNPLC, or fail to deliver to BNPLC from time to time at BNPLC's request schedules setting forth all insurance then in effect.

E. Facilities. fail to keep all properties useful or necessary to NAI's business in good repair and condition, or to from time to time make necessary repairs, renewals and replacements thereto so that such properties shall be fully and efficiently preserved and maintained.

F. Taxes and Other Liabilities. Fail to pay and discharge when due any and all indebtedness, obligations, assessments and taxes, both real or personal, including without limitation federal and state income taxes and state and local property taxes and assessments, except (a) such as NAI may in good faith contest or as to which a bona fide dispute may arise, and (b) for which NAI has made provisions, to BNPLC's satisfaction, for eventual payment thereof in the event that NAI is obligated to make such payment.

G. Capital Expenditures. Make any additional investment in fixed assets in any fiscal year in excess of an aggregate of twenty percent (20%) of NAI's total assets as of the end of the prior fiscal year.

H. Merger, Consolidation, Transfer of Assets. Merge into or consolidate with any other entity (unless NAI is the surviving entity and remains in compliance of all provisions of the Operative Documents); or make any substantial change in the nature of NAI's business as conducted as of the date hereof; or sell, lease, transfer or otherwise dispose of all or a substantial or material portion of NAI's assets except in the ordinary course of its business.

I. Loans, Advances, Investments. Make any loans or advances to or investments in any person or entity, except (a) any of the foregoing existing as of, and disclosed to BNPLC prior to, the date hereof, (b) loans to employees for travel advances, relocation loans and other loans in the ordinary course of business, (c) investments in accordance with NAI's investment policy, as in effect from time to time, (d) existing investments in subsidiaries and joint ventures which have been disclosed to BNPLC in writing prior to the date hereof, and new investments in subsidiaries and joint ventures in amounts up to an aggregated of $10,000,000.00, (e) loans to employees, officers, directors to finance or refinance the purchase of equity securities of NAI.

J. Dividends, Distributions. Declare or pay any dividend or distribution either in cash, stock or any other property on NAI's stock now or hereafter outstanding, nor redeem, retire, repurchase or otherwise acquire any shares of any class of NAI's stock now or hereafter outstanding.

MODIFICATION AGREEMENT
(SECOND AMENDMENT TO OPERATIVE DOCUMENTS)

This MODIFICATION AGREEMENT (this "AGREEMENT") is made effective as of January 25, 2002, by BNP PARIBAS LEASING CORPORATION, a Delaware corporation ("BNP"), and NETWORK APPLIANCE, INC., a California corporation ("NAI").

R E C I T A L S

A. BNP and NAI executed a Lease Agreement (Phase IV-Improvements) dated as of October 2, 2000 (as amended, the "IMPROVEMENTS LEASE") and a Lease Agreement (Phase IV-Land) dated as of October 2, 2000 (as amended, the "LAND LEASE"), together with certain other Operative Documents relating thereto (capitalized terms used and not otherwise defined in this Agreement are intended to have the meanings assigned to them in the Common Definitions and Provisions Agreement (Phase IV - Improvements) executed by BNPLC and NAI contemporaneously with the Improvements Lease and in the Common Definitions and Provisions Agreement (Phase IV - Land) executed by BNPLC and NAI contemporaneously with the Land Lease, each as amended).

B. BNP, NAI, and the undersigned Participants desire to amend the Improvements Lease, the Land Lease, and the Pledge Agreements as provided below on and subject to the terms and conditions set forth below.

NOW, THEREFORE, in consideration of the above recitals and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Financial Covenants. Subject to the approval of a Majority (under and as defined in the Participation Agreement) as provided in the next paragraph, Schedule 1 attached to each of the Land Lease, the Improvements Lease, and the Pledge Agreements is hereby amended and restated in its entirety with Schedule 1 attached hereto.

2. Collateral Percentage. At all times hereafter, the Collateral Percentage for purposes of the Pledge Agreements shall be one hundred percent (100%), and a Mandatory Collateral Period shall be in effect at all times hereafter.

3. Approval by a Majority. The foregoing modifications are made contingent upon approval by a "Majority" under and as defined in the Participation Agreement, which approval is to be evidenced by the execution of this Modification in the spaces provided below by parties to the Participation Agreement.

4. Representations and Warranties. NAI hereby represents and warrants to BNP and the Participants as follows:

   (a) No Default has occurred or is continuing.

   (b) The execution, delivery and performance by NAI of this Modification has been duly authorized by all necessary corporate and other action and do not and will not require any registration with, consent or approval of, notice to or action by, any Person in order to be effective and enforceable.

   (c) All representations and warranties of NAI contained in the Operative Documents are true and correct on and as of the date hereof.

5. Ratification. Each of the Operative Documents are hereby ratified and confirmed in all respects.

6. Entire Agreement. This Agreement and the documents and agreements referred to herein set forth the entire agreement between the parties concerning the subject matter hereof and no amendment or modification of this Agreement shall be binding or valid unless expressed in a writing executed by both parties hereto.

7. Successors and Assigns. All of the covenants, agreements, terms and conditions to be observed and performed by the parties hereto shall be applicable to and binding upon their respective heirs, personal representatives, successors and, to the extent assignment is permitted under the Leases, their respective assigns.

8. Fees and Expenses. NAI covenants and agrees to pay to or reimburse BNP, upon demand, for all reasonable out-of-pocket costs and expenses (including the reasonable fees, charges and disbursements of counsel) incurred by BNP in connection with the development, preparation, negotiation, execution and delivery of this Modification. NAI covenants and agrees to pay to BNP, for payment in turn by BNP to each Participant which executes and returns this Modification to BNP on or prior to February 11, 2002, an amendment fee equal to 10 basis points of all such Participants' Percentages under the Participation Agreement multiplied by the original Maximum Construction Allowance (not taking into account any Prior Funding Advances), such fee to be payable on the date hereof.

9. Execution in Counterparts. To facilitate execution, this Agreement may be executed in as many identical counterparts as may be required. It shall not be necessary that the signature of, or on behalf of, each party, or that the signature of all persons required to bind any party, appear on each counterpart. All counterparts, taken together, shall collectively constitute a single instrument. It shall not be necessary in making proof of this Agreement to produce or account for more than a single counterpart containing the respective signatures of, or on behalf of, each of the parties hereto. Any signature page to any counterpart may be detached from such counterpart without impairing the legal effect of the signatures thereon and thereafter attached to another counterpart identical thereto except having attached to it additional signature pages.

10. Recitals. The recitals contained herein are incorporated by this reference.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

BNP PARIBAS LEASING CORPORATION,
a Delaware corporation

By:____________________________________
Lloyd G. Cox, Managing Director

NETWORK APPLIANCE, INC., a California corporation

By:____________________________________
Name:__________________________________
Title:_________________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

BNP PARIBAS

By:_____________________________________
   Name:________________________________
   Title:_______________________________

By:_____________________________________
   Name:________________________________
   Title:_______________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

BANK OF AMERICA, N.A.

By:_____________________________________
   Name:________________________________
   Title:_______________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

ERSTE BANK

By:_____________________________________
   Name:________________________________
   Title:_______________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

WELLS FARGO BANK, N.A.

By:_____________________________________
   Name:________________________________
   Title:_______________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

CDC FINANCE - CDC IXIS

By:_____________________________________
   Name:________________________________
   Title:_______________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

THE INDUSTRIAL BANK OF JAPAN LIMITED

By:___________________________________
Name:_______________________________
Title:______________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

FBTC LEASING CORP.

By:___________________________________
Name:_______________________________
Title:______________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

THE DAI-ICHI KANGYO BANK, LTD.

By:___________________________________
Name:_______________________________
Title:______________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

AIB INTERNATIONAL FINANCE

By:___________________________________
Name:_______________________________
Title:______________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

BANK HAPOALIM B.M.

By:___________________________________
Name:_______________________________
Title:______________________________

[Continuation of signature pages to Amendment dated to be effective January 25, 2002]

The undersigned Participant hereby consents to the foregoing Amendment:

THE BANK OF NOVA SCOTIA

By:____________________________________
Name:_________________________________
Title:________________________________

Schedule 1

FINANCIAL COVENANTS

This Schedule 1 is attached to and made a part of (a) the Lease Agreement (Phase IV - Improvements) (as amended, the "IMPROVEMENTS LEASE") dated to be effective as of October 2, 2000 (the "EFFECTIVE DATE"), between BNP Paribas Leasing Corporation, a Delaware corporation, formerly known as BNP Leasing Corporation ("BNPLC"), and Network Appliance, Inc., a California corporation ("NAI"), (b) the Lease Agreement (Phase IV - Land) (as amended, the "LAND LEASE" and, together with the Improvements Lease, the "LEASES") dated to be effective as of the Effective Date, between BNPLC and NAI, (c) the Pledge Agreement (Phase IV - Improvements) (as amended, the "PLEDGE AGREEMENT (IMPROVEMENTS)") dated to be effective as of the Effective Date, among BNPLC, NAI, and BNP Paribas, as a Participant and as agent for any financial institutions that become Participants thereunder from time to time, and (d) the Pledge Agreement (Phase IV - Land) (as amended, and collectively with the Pledge Agreement (Improvements), the "PLEDGE AGREEMENTS") dated to be effective as of the Effective Date, among BNPLC, NAI, and BNP Paribas, as a Participant and as agent for any financial institutions that become Participants thereunder from time to time.

PART I - DEFINED TERMS

In this Schedule 1, capitalized terms used but not defined herein shall have the meaning assigned to them in the Leases or the Common Definitions and Provisions Agreements referenced in the Leases; and the following capitalized terms shall have the following meanings:

"ADJUSTED NET INCOME" means, for any fiscal period of NAI, the aggregate net income earned (or net losses incurred) during such period by NAI and its Subsidiaries (determined on a consolidated basis), plus any Permitted Non-Cash Charges deducted in determining such net income (or net loss).

"ADJUSTED EBIT" means, for any accounting period, net income (or net loss) of NAI and its Subsidiaries (determined on a consolidated basis), plus the amounts (if any) which, in the determination of net income (or net loss) for such period, have been deducted for (a) interest expense, (b) income tax expense (c) rent expense under leases of property, and (d) Permitted Non-Cash Charges, but in no event shall Adjusted EBIT be less than $1.00.

"CONSOLIDATED TANGIBLE NET WORTH" means the excess of (1) the total assets, other than Intangible Assets, of NAI and its Subsidiaries (determined on a consolidated basis) over (2) the total liabilities of NAI and its Subsidiaries (determined on a consolidated basis).

"DEBT" as used in this Exhibit shall have the meaning assigned to it in the Common Definitions and Provisions Agreements, where "Debt" of any Person is defined to mean (without duplication of any item) the sum of: (a) indebtedness of such Person for borrowed money; (b) indebtedness of such Person for the deferred purchase price of property or services (except trade payables and accrued expenses constituting current liabilities in the ordinary course of business); (c) the face amount of any outstanding letters of credit issued for the account of such Person; (d) obligations of such Person arising under acceptance facilities; (e) guaranties, endorsements (other than for

collection in the ordinary course of business) and other contingent obligations of such Person to purchase, to provide funds for payment, to provide funds to invest in any Person, or otherwise to assure a creditor against loss; (f) obligations of others secured by any Lien on property of such Person; (g) obligations of such Person as lessee under Capital Leases; and (h) the obligations of such Person, contingent or otherwise, under any "synthetic" or other lease of property or related documents (including a separate purchase agreement) which provides that such Person or any of its Affiliates must purchase or cause another Person to purchase any interest in the leased property and thereby guarantee a minimum residual value of the leased property to the lessor (a "SYNTHETIC LEASE"). For purposes of this definition, the amount of the obligations described in clause (h) of the preceding sentence with respect to any lease classified according to GAAP as an "operating lease," shall equal the sum of (1) the present value of rentals and other minimum lease payments required in connection with such lease [calculated in accordance with SFAS 13 and other GAAP relevant to the determination of the whether such lease must be accounted for as an operating lease or capital lease], plus (2) the fair value of the property covered by the lease; provided, however, that such amount shall not exceed the price, as of the date a determination of Debt is required hereunder, for which the lessee can purchase the leased property pursuant to any valid ongoing purchase option if, upon such a purchase, the lessee shall be excused from paying rentals or other minimum lease payments that would otherwise accrue after the purchase. Notwithstanding the foregoing, solely for the purpose of calculating the financial covenants provided for in Part II of this Schedule 1, NAI may exclude from the calculation of Debt any payments or obligations required pursuant to or in connection with the Leases (or under other Synthetic Leases with BNPLC from time to time, if any).

"FIXED CHARGES" means, for any accounting period, the sum (without duplication of any item) of the following charges or costs incurred or paid by NAI and its Subsidiaries (determined on a consolidated basis): (a) gross interest expense accruing during such period, plus (b) amortization of principal or debt discount in respect of all Debt during such period, plus (c) rent payable under all leases of property during such period, plus (d) taxes payable during such period (but in no event less than $1.00, regardless of any tax refunds received).

"INTANGIBLE ASSETS" means assets of NAI and its Subsidiaries (determined on a consolidated basis) that are properly classified as "INTANGIBLE ASSETS" in accordance with GAAP and, in any event, shall include goodwill, patents, trade names, trademarks, copyrights, franchises, experimental expense, organization expense, unamortized debt discount and expense, and deferred charges (other than prepaid insurance, prepaid taxes and current deferred taxes to the extent any such prepaid or deferred items are classified on the balance sheet of NAI and its consolidated Subsidiaries as current assets in accordance with GAAP and with the concurrence of NAI's independent public accountants).

"MANDATORY COLLATERAL PERIOD" means any period during which, notwithstanding any contrary designation of a Collateral Percentage by NAI under the Pledge Agreements, the Collateral Percentage for purposes of the Pledge Agreements shall be one hundred percent (100%).

"PERMITTED NON-CASH CHARGES" means the amounts (if any) which, in the determination of net income (or net loss) for any relevant fiscal period, have been deducted by NAI or its Subsidiaries for non-cash charges made to write down goodwill or research and development costs in connection with acquisitions permitted by this Schedule 1.

"QUICK RATIO" means the ratio of:

(A) the sum (without duplication of any item) of the following assets of NAI and its Subsidiaries (determined on a consolidated basis): unencumbered cash; plus unencumbered short term cash investments; plus other unencumbered marketable securities which are classified as short term investments in accordance with GAAP; plus unencumbered accounts receivable, computed net of reserves for uncollectible amounts as determined in accordance with GAAP, but excluding collateral delivered and pledged under the Pledge Agreements (or under any other pledge agreements with BNPLC securing Debt payable by NAI or any Subsidiary to BNPLC) in accordance with the requirements thereof (if any); plus, to

(B) the sum (without duplication of any item) of (1) all liabilities of NAI and its Subsidiaries (determined on a consolidated basis) treated as current liabilities in accordance with GAAP, plus (2) other obligations included in total Debt of NAI and its Subsidiaries (determined on a consolidated basis), the payment of which is due on demand or will become due within one year after the date on which the applicable determination of Quick Ratio is required hereunder.

"ROLLING FOUR QUARTER PERIOD" means a period of four consecutive fiscal quarters of NAI, the last of which quarters ends after December 31, 1999.

PART II - FINANCIAL COVENANTS FOR LEASE AGREEMENT

NAI covenants that it shall not at any time suffer or permit:

1. Minimum Unencumbered Cash and Cash Equivalents. The sum (without duplication of any item) of the unrestricted cash, unencumbered short term cash investments and unencumbered marketable securities classified as short term investments according to GAAP of NAI and its Subsidiaries (determined on a consolidated basis) (but excluding collateral delivered and pledged under the Pledge Agreements [or under any other pledge agreements with BNPLC securing Debt payable by NAI or any Subsidiary to BNPLC] in accordance with the requirements thereof [if any]) to be less than total Debt of NAI and its Subsidiaries (determined on a consolidated basis).

2. Minimum Tangible Net Worth. Consolidated Tangible Net Worth to be less than the sum of: (a) ninety percent of the Consolidated Tangible Net Worth as of October 30, 1998; plus (b) seventy-five percent of NAI's net income (computed without deduction for net losses in any fiscal quarter) earned in each fiscal quarter since October 30, 1998; plus (c) one-hundred percent of the net proceeds of sales of stock in NAI or its Subsidiaries (other than sales to NAI or its Subsidiaries) after October 30, 1998; less (d) Permitted Non-Cash Charges for any period after October 30, 1998.

3. Minimum Quick Ratio. The Quick Ratio to be less than 1.50 to 1.00.

4. Minimum Fixed Charge Coverage. The ratio of (a) Adjusted EBIT for any Rolling Four Quarter Period to (b) Fixed Charges for the same Rolling Four Quarter Period, to be less than 1.50 to 1.00.

5. Minimum Profitability. Adjusted Net Income to be less than $1.00 in more than one fiscal quarter of any Rolling Four Quarter Period.

6. Maximum Leverage Ratio. the ratio of (a) total Debt of NAI and its Subsidiaries (determined on a consolidated basis) at the end of any Rolling Four Quarter Period to (b) the Adjusted EBIT for the same Four Quarter Rolling Period, to exceed 3.00 to 1.00.

PART III - [INTENTIONALLY OMITTED]

PART IV - OTHER COVENANTS

Without limiting NAI's obligations under the other provisions of the Operative Documents, during the Term, NAI shall not, without the prior written consent of BNPLC in each case:

A. Liens. Create, incur, assume or suffer to exist, or permit any of its Consolidated Subsidiaries to create, incur, assume or suffer to exist, any Lien, upon or with respect to any of its properties, now owned or hereafter acquired, provided that the following shall be permitted except to the extent that they would encumber any interest in the Property in violation of other provisions of the Operative Documents:

1. Liens for taxes or assessments or other government charges or levies if not yet due and payable or if they are being contested in good faith by appropriate proceedings and for which appropriate reserves are maintained;

2. Liens imposed by law, such as mechanic's, materialmen's, landlord's, warehousemen's and carrier's Liens, and other similar Liens, securing obligations incurred in the ordinary course of business which are not past due for more than thirty (30) days, or which are being contested in good faith by appropriate proceedings and for which appropriate reserves have been established;

3. Liens under workmen's compensation, unemployment insurance, social security or similar laws (other than ERISA);

4. Liens, deposits or pledges to secure the performance of bids, tenders, contracts (other than contracts for the payment of money), leases, public or statutory obligations, surety, stay, appeal, indemnity, performance or other similar bonds, or other similar obligations arising in the ordinary course of business;

5. judgment and other similar Liens against assets other than the Property or any part thereof in an aggregate amount not in excess of $3,000,000 arising in connection with court proceedings; provided that the execution or other enforcement of such Liens is effectively stayed and the claims secured thereby are being actively contested in good faith by appropriate proceedings;

6. easements, rights-of-way, restrictions and other similar encumbrances which, in the aggregate, do not materially interfere with the occupation, use and enjoyment by NAI or any such Consolidated Subsidiary of the property or assets encumbered thereby in the normal course of its business or materially impair the value of the property subject thereto;

7. Liens securing obligations of such a Consolidated Subsidiary to NAI or to another such Consolidated Subsidiary;

8. Liens not otherwise permitted by this subparagraph A (and not encumbering the Property or any Collateral) incurred in connection with the incurrence of additional Debt or asserted to secure Unfunded Benefit Liabilities, provided that (a) the sum of the aggregate principal amount of all outstanding obligations secured by Liens incurred pursuant to this clause shall not at any time exceed five percent (5%) of Consolidated Tangible Net Worth at such time; and (b) such Liens do not constitute Liens against NAI's interest in any material Subsidiary or blanket Liens against all or substantially all of the inventory, receivables, general intangibles or equipment of NAI or of any material Subsidiary of NAI (for purposes of this clause, a "material Subsidiary" means any subsidiary whose assets represent a substantial part of the total assets of NAI and its Subsidiaries, determined on a consolidated basis in accordance with GAAP); and

9. Liens incurred in connection with any renewals, extensions or refundings of any Debt secured by Liens described in the preceding

clauses of this subparagraph A, provided that there is no increase in the aggregate principal amount of Debt secured thereby from that which was outstanding as of the date of such renewal, extension or refunding and no additional property is encumbered.

B. Transactions with Affiliates. Enter into or permit any Subsidiary of NAI to enter into any material transactions (including, without limitation, the purchase, sale or exchange of property or the rendering of any service) with any Affiliates of NAI except on terms (1) that would not cause or result in a Default by NAI under the financial covenants set forth in Part II of this Schedule, and (2) that are no less favorable to NAI or the relevant Subsidiary than those that would have been obtained in a comparable transaction on an arm's length basis from an unrelated Person.

C. Compliance. Fail to preserve and maintain all licenses, permits, governmental approvals, rights, privileges and franchises necessary for the conduct of its business; or fail to comply with the provisions of all documents pursuant to which NAI is organized and/or which govern NAI's continued existence and with the requirements of all laws, rules, regulations and orders of a governmental agency applicable to NAI and/or its business.

D. Insurance. Fail to maintain and keep in force insurance of the types and in amounts customarily carried in lines of business similar to that of NAI, including but not limited to fire, extended coverage, public liability, flood, property damage and workers' compensation, with all such insurance carried with companies and in amounts satisfactory to BNPLC, or fail to deliver to BNPLC from time to time at BNPLC's request schedules setting forth all insurance then in effect.

E. Facilities. fail to keep all properties useful or necessary to NAI's business in good repair and condition, or to from time to time make necessary repairs, renewals and replacements thereto so that such properties shall be fully and efficiently preserved and maintained.

F. Taxes and Other Liabilities. Fail to pay and discharge when due any and all indebtedness, obligations, assessments and taxes, both real or personal, including without limitation federal and state income taxes and state and local property taxes and assessments, except (a) such as NAI may in good faith contest or as to which a bona fide dispute may arise, and (b) for which NAI has made provisions, to BNPLC's satisfaction, for eventual payment thereof in the event that NAI is obligated to make such payment.

G. Capital Expenditures. Make any additional investment in fixed assets in any fiscal year in excess of an aggregate of twenty percent (20%) of NAI's total assets as of the end of the prior fiscal year.

H. Merger, Consolidation, Transfer of Assets. Merge into or consolidate with any other entity (unless NAI is the surviving entity and remains in compliance of all provisions of the Operative Documents); or make any substantial change in the nature of NAI's business as conducted as of the date hereof; or sell, lease, transfer or otherwise dispose of all or a substantial or material portion of NAI's assets except in the ordinary course of its business.

I. Loans, Advances, Investments. Make any loans or advances to or investments in any person or entity, except (a) any of the foregoing existing as of, and disclosed to BNPLC prior to, the date hereof, (b) loans to employees for travel advances, relocation loans and other loans in the ordinary course of business, (c) investments in accordance with NAI's investment policy, as in effect from time to time, (d) existing investments in subsidiaries and joint ventures which have been disclosed to BNPLC in writing prior to the date hereof, and new investments in subsidiaries and joint ventures in amounts up to an aggregated of $10,000,000.00, (e) loans to employees, officers, directors to finance or refinance the purchase of equity securities of NAI.

J. Dividends, Distributions. Declare or pay any dividend or distribution either in cash, stock or any other property on NAI's stock now or hereafter outstanding, nor redeem, retire, repurchase or otherwise acquire any shares of any class of NAI's stock now or hereafter outstanding.