





Network Appliance Announces Results for Second Quarter Fiscal Year 2005

SUNNYVALE, Calif.--(BUSINESS WIRE)--Nov. 16, 2004--

36% Year over Year Revenue Growth Reported Along with Record Profits; Company Increases Outlook for Fiscal Year 2005

Network Appliance, Inc. (NASDAQ:NTAP), the leader in advanced networked storage solutions, today reported results for the second quarter of fiscal year 2005. Revenues for the second fiscal quarter were \$375.2 million; an increase of 36% compared to revenues of \$275.6 million for the same period a year ago and a 5% increase compared to \$358.4 million in the prior quarter.

For the second fiscal quarter, GAAP net income increased 14% to \$55.3 million, or \$0.15 per share(1) compared to GAAP net income of \$48.4 million, or \$0.13 per share for the same period in the prior year. Pro forma(2) net income for the second fiscal quarter increased 74% to \$58.4 million, or \$0.16 per share, compared to pro forma net income of \$33.6 million, or \$0.09 per share for the same period a year ago.

Revenues for the first six months of the current fiscal year totaled \$733.6 million, compared to revenues of \$536.1 million for the first six months of the prior fiscal year, an increase of 37% year over year.

For the first six months of the current fiscal year, GAAP net income increased 35% to \$102.2 million, or \$0.27 per share, compared with GAAP net income of \$75.5 million, or \$0.21 per share for the same period in the prior year. Pro forma net income for the first six months of the current fiscal year totaled \$108.2 million, or \$0.29 per share, compared to pro forma net income of \$62.4 million, or \$0.17 per share for the first six months of the prior fiscal year.

"NetApp achieved strong growth across all product lines, segments, and geographies," said Dan Warmenhoven, CEO of Network Appliance. "NetApp is gaining momentum in the highest growth segments of the storage market by offering innovative and cost-effective solutions for today's IT challenges. Data ONTAP(TM) 7G, our next generation operating system announced yesterday, is an example of unique, breakthrough technology which empowers customers to do more with less. Data ONTAP 7G provides dynamic storage virtualization capabilities unmatched in the industry."

Outlook

- Network Appliance estimates that revenue for the third quarter will grow sequentially by 7% to 9%. This projection reflects year over year growth rates of 35% to 38%.
- The company expects third quarter pro forma earnings per share to finish at \$0.15 to \$0.16 per share. Third quarter GAAP earnings per share are projected to round to \$0.15 per share.
- For the full fiscal year 2005, Network Appliance estimates that revenues will finish 35% to 37% higher than fiscal year 2004.
- Network Appliance estimates full year pro forma earnings per share to finish at \$0.60 to \$0.61 per share. GAAP earnings per share are projected for fiscal year 2005 at \$0.57 to \$0.58 per share.

Quarterly Highlights

Throughout the second quarter of fiscal year 2005, Network Appliance reinforced its leadership position by introducing new security and compliance solutions, expanding partnerships, and continuing to grow iSCSI deployments. Customers deploying NetApp(R) solutions during the quarter for a variety of database, security, and other data center and mission-critical applications included Alyeska Pipeline, Anadarko, China Netcom, Consol Energy, Constellation Energy, the Federal Trade Commission, FMC Subsea Kongsberg, the General Services Administration, HypoVereinsbank, Jet Propulsion Labs (JPL), Nexan, Nokia, Rakuten, Saudi Aramco, Shamrock Foods, Siemens Business Services, Square Enix, The Times of India, Trader Media, the United States Air Force (USAF), and Voca Limited.

A wide range of enterprise customers have chosen to deploy NetApp for a variety of reasons--reduced complexity, a low total cost of ownership (TCO), and advanced management capabilities made possible through Data ONTAP and a range of additional storage software packages that unleash the value of enterprise data.

On the partners front, NetApp unveiled several new solution enhancements and partner offerings with Computer Associates, Decru, FalconStor, Novell,

Smartronix, Symantec, Vignette, and Websense to address a variety of data concerns, including Internet access and security, interoperability, data protection and recovery, storage and server consolidation and other business-critical initiatives facing enterprise customers.

To help companies meet stringent data storage regulations, including regulations mandated by U.S. SEC Rule 17a-4, NetApp introduced a new software product--LockVault(TM). LockVault delivers powerful backup, disaster recovery, and data permanence capabilities for unstructured data, enabling customers to address both backup and compliance challenges with a single comprehensive solution. Companies can now leverage the same infrastructure to meet both their backup and compliance requirements.

In the Internet security arena, NetApp released NetCache(R) 6.0 software to further enhance and strengthen its market-leading Internet access and security solution. NetCache 6.0 software helps guard against security threats, expands support for industry-leading security partners, minimizes virus and hacking risks, and accelerates and improves management of customers' Web and application information providing security, cost savings, and flexibility.

Another iSCSI milestone was achieved this quarter with Siemens Corporate Research (SCR), a division of Siemens AG, becoming the 750th iSCSI customer deployment in IP SAN (storage area network) configurations. NetApp IP SAN solutions are an excellent choice for companies seeking to consolidate storage and server resources, maximize existing IT investments and headcount, and reduce complexity in the data center.

The company was also honored by the Triangle Business Journal (North Carolina) as "one of the best companies to work for in the Triangle." Network Appliance employees based in Research Triangle Park (RTP), North Carolina, responding to a survey from the publication, gave the company high marks for its positive work environment, exceptional benefits package, strong executive leadership, and effective manager relationships.

#### Conference Call Information

- The NetApp quarterly results conference call will be broadcast live via the Internet at <http://investors.netapp.com/> on Tuesday, November 16, 2004, at 2:00 p.m. Pacific time. This press release and any other information related to the call will also be posted to the Web site at that location. The conference call will also be available live in a listen-only format at (800) 510-9834 in the United States and (617) 614-3669 outside the United States. The passcode for both numbers is 10326317.
- A replay will be available for 72 hours following completion of the live call by dialing (888) 286-8010 in the United States and (617) 801-6888 outside the United States, with replay code 28877055.

#### About Network Appliance

Network Appliance is a world leader in unified storage solutions for today's data-intensive enterprise. Since its inception in 1992, Network Appliance has delivered technology, product, and partner firsts that continue to drive "The evolution of storage.(TM)" Information about Network Appliance(TM) solutions and services is available at [www.netapp.com](http://www.netapp.com).

"Safe Harbor" Statement under U.S. Private Securities Litigation Reform Act of 1995

This press release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include market and market share trends that benefit the Company, continued customer acceptance of the Company's products, and all of the statements under the Outlook section. These forward-looking statements involve risks and uncertainties, and actual results could vary. Factors that could impact our ability to achieve our goals include general economic and industry conditions, including expenditure trends for storage-related products; our ability to deliver new product architectures and products that meet market acceptance; our ability to design products that compete effectively from a price and performance perspective; and other important factors as described in Network Appliance, Inc.'s reports and documents filed from time to time with the Securities and Exchange Commission, including our most recently submitted 10-K and 10-Q.

(1) Earnings per share represents the diluted number of shares for all periods presented.

(2) Pro forma results for all periods presented and the projections in the Outlook section exclude amortization of intangible assets, stock compensation, restructuring charges, net gain/loss on investments, and the related effects on

income taxes, as well as an income tax benefit from a nonrecurring foreign tax ruling.

NetApp and NetCache are registered trademarks and Network Appliance, Data ONTAP, LockVault and The evolution of storage are trademarks of Network Appliance, Inc. in the U.S. and other countries. All other brands or products are trademarks or registered trademarks of their respective holders and should be treated as such.

#### Network Appliance Usage of Pro Forma Financials

The Company refers to the non-GAAP financial measures cited above in making operating decisions because they provide meaningful supplemental information regarding the Company's operational performance. In addition, these non-GAAP financial measures facilitate management's internal comparisons to the Company's historical operating results and comparisons to competitors' operating results. We include these non-GAAP financial measures in our earnings announcement because we believe they are useful to investors in allowing for greater transparency with respect to supplemental information used by management in its financial and operational decision making such as employee compensation planning. In addition, we have historically reported similar non-GAAP financial measures to our investors and believe that the inclusion of comparative numbers provides consistency in our financial reporting at this time.

NETWORK APPLIANCE, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands)  
(Unaudited)

	Oct. 29, 2004	April 30, 2004
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ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$257,344	\$241,149
Short-term investments	664,390	566,816
Accounts receivable, net	219,276	193,942
Inventories	35,351	34,109
Prepaid expenses and other	32,216	29,057
Deferred income taxes	24,235	24,163
	-----	-----
Total current assets	1,232,812	1,089,236
PROPERTY AND EQUIPMENT, net	398,306	370,717
GOODWILL	291,816	291,816
INTANGIBLE ASSETS, net	26,151	31,718
OTHER ASSETS	83,206	93,779
	-----	-----
	2,032,291	1,877,266
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$57,773	\$52,719
Income taxes payable	14,848	16,033
Accrued compensation and related benefits	70,064	65,186
Other accrued liabilities	46,581	43,683
Deferred revenue	200,263	166,602
	-----	-----
Total current liabilities	389,529	344,223
LONG-TERM DEFERRED REVENUE	139,591	112,337
LONG-TERM OBLIGATIONS	4,771	4,858
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533,891      461,418  
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STOCKHOLDERS' EQUITY	1,498,400	1,415,848	-----	-----
	2,032,291	1,877,266	-----	-----
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NETWORK APPLIANCE, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(In thousands, except per share amounts)  
(Unaudited)

	Quarter Ended		Six Months Ended	
	Oct. 29, 2004	Oct. 31, 2003	Oct. 29, 2004	Oct. 31, 2003
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REVENUES:				
Product revenue	\$336,804	\$249,532	\$661,431	\$485,318
Service revenue	38,372	26,018	72,166	50,741
	-----	-----	-----	-----
Total revenues	375,176	275,550	733,597	536,059
	-----	-----	-----	-----
COST OF REVENUES:				
Cost of product revenue	111,728	88,090	225,943	173,129
Cost of service revenue	32,287	22,397	61,535	41,744
	-----	-----	-----	-----
Total cost of revenues	144,015	110,487	287,478	214,873
	-----	-----	-----	-----
GROSS MARGIN	231,161	165,063	446,119	321,186
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OPERATING EXPENSES:				
Sales and marketing	109,109	82,185	212,420	161,541
Research and development	40,650	31,513	79,353	63,054
General and administrative	17,870	12,728	34,752	24,993
Stock compensation	2,139	893	4,243	1,547
Restructuring charges	-	1,110	-	1,110
	-----	-----	-----	-----
Total operating expenses	169,768	128,429	330,768	252,245
	-----	-----	-----	-----
INCOME FROM OPERATIONS	61,393	36,634	115,351	68,941
OTHER INCOME (EXPENSES), net:				
Interest income	6,103	2,831	10,185	5,876
Other expenses, net	90	(1,209)	(822)	(1,256)
Net gain/(loss) on investments	-	-	-	145
	-----	-----	-----	-----
Total other income, net	6,193	1,622	9,363	4,765
	-----	-----	-----	-----
INCOME BEFORE INCOME TAXES	67,586	38,256	124,714	73,706
PROVISION FOR (BENEFIT FROM) INCOME TAXES	12,257	(10,157)	22,523	(1,780)
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NET INCOME	\$55,329	\$48,413	\$102,191	\$75,486
	=====	=====	=====	=====
NET INCOME PER SHARE:				
BASIC	\$0.15	\$0.14	\$0.29	\$0.22
	=====	=====	=====	=====

DILUTED	\$0.15	\$0.13	\$0.27	\$0.21
	=====	=====	=====	=====
SHARES USED IN PER SHARE CALCULATION:				
BASIC	357,787	343,725	357,265	342,706
	=====	=====	=====	=====
DILUTED	375,074	364,715	374,024	361,606
	=====	=====	=====	=====

NETWORK APPLIANCE, INC.  
PRO FORMA (1) CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(In thousands, except per share amounts)  
(Unaudited)

	Quarter Ended		Six Months Ended	
	Oct. 29, 2004	Oct. 31, 2003	Oct. 29, 2004	Oct. 31, 2003
	-----	-----	-----	-----
REVENUES:				
Product revenue	\$336,804	\$249,532	\$661,431	\$485,318
Service revenue	38,372	26,018	72,166	50,741
	-----	-----	-----	-----
Total revenues	375,176	275,550	733,597	536,059
	-----	-----	-----	-----
COST OF REVENUES:				
Cost of product revenue	110,870	86,726	224,227	170,401
Cost of service revenue	32,287	22,397	61,535	41,744
	-----	-----	-----	-----
Total cost of revenues	143,157	109,123	285,762	212,145
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GROSS MARGIN	232,019	166,427	447,835	323,914
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OPERATING EXPENSES:				
Sales and marketing	108,903	82,185	212,007	161,541
Research and development	40,650	31,513	79,353	63,054
General and administrative	16,601	12,728	32,215	24,993
	-----	-----	-----	-----
Total operating expenses	166,154	126,426	323,575	249,588
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INCOME FROM OPERATIONS	65,865	40,001	124,260	74,326
OTHER INCOME (EXPENSES), net	6,193	1,622	9,363	4,620
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INCOME BEFORE INCOME TAXES	72,058	41,623	133,623	78,946
PROVISION FOR INCOME TAXES	13,691	7,995	25,388	16,579
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NET INCOME	\$58,367	\$33,628	\$108,235	\$62,367
	=====	=====	=====	=====
NET INCOME PER SHARE:				
BASIC	\$0.16	\$0.10	\$0.30	\$0.18
	=====	=====	=====	=====
DILUTED	\$0.16	\$0.09	\$0.29	\$0.17
	=====	=====	=====	=====
SHARES USED IN PER SHARE CALCULATION:				
BASIC	357,787	343,725	357,265	342,706
	=====	=====	=====	=====

DILUTED	375,074	364,715	374,024	361,606
	=====	=====	=====	=====

(1) Pro forma results of operations exclude amortization of intangible assets, stock compensation, restructuring charges, net gain/loss on investments and the related effects on income taxes, as well as an income tax benefit from a non-recurring foreign tax ruling.

NETWORK APPLIANCE, INC.  
RECONCILIATION OF NON-GAAP AND GAAP  
IN THE CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(In thousands, except per share amounts)  
(Unaudited)

	Quarter Ended		Six Months Ended	
	Oct. 29, 2004	Oct. 31, 2003	Oct. 29, 2004	Oct.31, 2003
SUMMARY RECONCILIATION OF NET INCOME				
NET INCOME	\$55,329	\$48,413	\$102,191	\$75,486
Adjustments:				
Amortization of intangible assets	2,333	1,364	4,666	2,728
Stock compensation	2,139	893	4,243	1,547
Restructuring charges	-	1,110	-	1,110
Net (gain)/loss on investments	-	-	-	(145)
Income tax effect	(1,434)	(1,321)	(2,865)	(1,528)
Income tax benefit from foreign tax ruling	-	(16,831)	-	(16,831)
PROFORMA NET INCOME	\$58,367	\$33,628	\$108,235	\$62,367
DILUTED PRO FORMA NET INCOME PER SHARE	\$0.16	\$0.09	\$0.29	\$0.17
SHARES USED IN DILUTED PRO FORMA NET INCOME PER SHARE CALCULATION:	375,074	364,715	374,024	361,606
DETAILED RECONCILIATION OF SPECIFIC ITEMS:				
COST OF REVENUES	\$144,015	\$110,487	\$287,478	\$214,873
Adjustment:				
Amortization of intangible assets	(858)	(1,364)	(1,716)	(2,728)
PRO FORMA COST OF REVENUES	\$143,157	\$109,123	\$285,762	\$212,145
GROSS MARGIN	\$231,161	\$165,063	\$446,119	\$321,186
Adjustment:				
Amortization of intangible assets	858	1,364	1,716	2,728

PRO FORMA GROSS MARGIN	\$232,019	\$166,427	\$447,835	\$323,914
SALES AND MARKETING EXPENSES	\$109,109	\$82,185	\$212,420	\$161,541
Adjustments:				
Amortization of intangible assets	(206)	-	(413)	-
PRO FORMA SALES AND MARKETING EXPENSES	\$108,903	\$82,185	\$212,007	\$161,541
GENERAL AND ADMINISTRATIVE EXPENSES	\$17,870	\$12,728	\$34,752	\$24,993
Adjustments:				
Amortization of intangible assets	(1,269)	-	(2,537)	-
PRO FORMA GENERAL AND ADMINISTRATIVE EXPENSES	\$16,601	\$12,728	\$32,215	\$24,993
OPERATING EXPENSES	\$169,768	\$128,429	\$330,768	\$252,245
Adjustments:				
Stock compensation	(2,139)	(893)	(4,243)	(1,547)
Amortization of intangible assets	(1,475)	-	(2,950)	-
Restructuring charges	-	(1,110)	-	(1,110)
PRO FORMA OPERATING EXPENSES	\$166,154	\$126,426	\$323,575	\$249,588
INCOME FROM OPERATIONS	\$61,393	\$36,634	\$115,351	\$68,941
Adjustments:				
Amortization of intangible assets	2,333	1,364	4,666	2,728
Stock compensation	2,139	893	4,243	1,547
Restructuring charges	-	1,110	-	1,110
PRO FORMA INCOME FROM OPERATIONS	\$65,865	\$40,001	\$124,260	\$74,326
TOTAL OTHER INCOME (EXPENSES), NET	\$6,193	\$1,622	\$9,363	\$4,765
Adjustments:				
Net (gain)/loss on investments	-	-	-	(145)
PRO FORMA TOTAL OTHER INCOME (EXPENSES), NET	\$6,193	\$1,622	\$9,363	\$4,620
INCOME BEFORE INCOME TAXES	\$67,586	\$38,256	\$124,714	\$73,706
Adjustments:				
Amortization of intangible assets	2,333	1,364	4,666	2,728
Stock compensation	2,139	893	4,243	1,547
Restructuring charges	-	1,110	-	1,110
Net (gain)/loss on investments	-	-	-	(145)
PRO FORMA INCOME BEFORE INCOME TAXES	\$72,058	\$41,623	\$133,623	\$78,946
PROVISION FOR INCOME TAXES	\$12,257	(\$10,157)	\$22,523	(\$1,780)
Adjustments:				
Income tax effect	1,434	1,321	2,865	1,528

Income tax benefit from foreign tax ruling	-	16,831	-	16,831
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PRO FORMA PROVISION FOR INCOME TAXES	\$13,691	\$7,995	\$25,388	\$16,579
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NETWORK APPLIANCE, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW  
(In thousands)  
(Unaudited)

	Six Months Ended	
	Oct. 29, 2004	Oct. 31, 2003
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<b>Cash Flows from Operating Activities:</b>		
Net income	\$102,191	\$75,486
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	26,640	26,997
Amortization of patents	901	601
Amortization of intangible assets	4,666	2,728
Stock compensation	4,243	1,547
Net (gain) loss on investments	(29)	(145)
Net (gain) loss on disposal of equipment	519	(30)
Allowance for doubtful accounts	403	(320)
Deferred rent and other	224	320
Changes in assets and liabilities:		
Accounts receivable	(25,737)	(8,904)
Inventories	(5,993)	(7,893)
Prepaid expenses and other assets	4,170	(1,711)
Accounts payable	5,054	1,454
Income taxes payable	13,449	(6,452)
Accrued compensation and related benefits	4,878	4,962
Other accrued liabilities	2,809	4,179
Deferred revenue	60,915	34,700
	-----	-----
Net cash provided by operating activities	199,303	127,519
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<b>Cash Flows from Investing Activities:</b>		
Purchases of short and long-term investments	(180,725)	(251,720)
Redemptions of short and long-term investments	83,057	177,604
Purchases of property and equipment	(49,442)	(22,041)
Proceeds from disposal of property and equipment	-	105
Proceeds from sales of investments	298	419
Purchase of patents	-	(9,015)
Purchases of equity securities	-	(325)
	-----	-----
Net cash used in investing activities	(146,812)	(104,973)
	-----	-----
<b>Cash Flows from Financing Activities:</b>		
Proceeds from sale of common stock related to employee stock transactions	46,717	53,215
Repurchases of common stock	(83,013)	(44,862)
	-----	-----
Net cash used in financing activities	(36,296)	8,353
	-----	-----
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	16,195	30,899
<b>Cash and Cash Equivalents:</b>		
Beginning of period	241,149	284,161
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End of period	\$257,344	\$315,060

	=====	=====
Noncash Investing and Financing Activities:		
Deferred stock compensation, net of reversals	\$ (373)	\$1,612
Conversion of evaluation inventory to fixed assets	\$4,751	\$2,621
Income tax benefit from employee stock transactions	\$14,634	\$11,929
Supplemental cash flow information:		
Income taxes paid	\$10,172	\$4,733
Income taxes refund	\$10,572	\$3,810

NETWORK APPLIANCE, INC.  
RECONCILIATION OF NON GAAP GUIDANCE TO GAAP  
EXPRESSED AS EARNINGS PER SHARE  
Q3 OF FISCAL YEAR 2005  
(Unaudited)

Projected Third Quarter Revenue Growth Range		Projected Annual FY05 Revenue Growth Range	
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7%	9%	35%	37%
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ADJUSTMENTS OF SPECIFIC ITEMS TO  
EARNINGS PER SHARE FOR  
Q3 OF FISCAL YEAR 2005 (\$):

COST OF REVENUES

Adjustment:

Amortization of intangible assets	(0.0023)	(0.0023)	(0.0091)	(0.0091)
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OPERATING EXPENSES

Adjustments:

Stock compensation	(0.0056)	(0.0056)	(0.0227)	(0.0227)
Amortization of intangible assets	(0.0039)	(0.0039)	(0.0157)	(0.0157)

PROVISION FOR INCOME TAXES

Adjustments:

Income tax effect	0.0039	0.0040	0.0158	0.0162
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NET DECREASE IN EARNINGS PER SHARE	(0.0079)	(0.0078)	(0.0317)	(0.0313)
	=====	=====	=====	=====

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