

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

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

FOR THE FISCAL YEAR ENDED APRIL 24, 1998

OR

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

FOR THE TRANSITION PERIOD FROM
----- TO

COMMISSION FILE NUMBER 0-27130

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

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

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

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

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

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

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

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

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

The aggregate market value of voting stock held by non-affiliates of the Registrant, as of May 31, 1998, was \$984,774,626 (based on the closing price for

shares of the Registrant's common stock as reported by the Nasdaq National Market for the last trading day prior to that date). Shares of common stock held by each executive officer, director, and holder of 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

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

DOCUMENTS INCORPORATED BY REFERENCE

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

2

This Annual Report on Form 10-K contains forward looking statements that are accompanied by cautionary statements that identify important factors that could cause actual results to differ materially from those in the forward looking statements.

PART I

ITEM 1. BUSINESS

OVERVIEW

Network Appliance, Inc. (the "Company" or "Network Appliance") designs, manufactures, markets and supports high performance network data storage devices which provide fast, simple, reliable and cost effective file service for data-intensive network environments. The Company pioneered the concept of the "network appliance," an extension of the industry trend towards dedicated, specialized devices which perform a single function in the network, similar to the adoption of the router for network communications management. The Company's products consist of network data storage appliances or "filers" and proxy caching solutions developed to address the specific market requirements of data-intensive network environments as well as the World Wide Web. The Company's filers utilize an efficient software kernel optimized to exclusively perform the file service task. Unlike previous file server approaches, these products are not burdened by a general purpose operating system or file system overhead. By using a proprietary software architecture, Network Appliance is able to use industry standard hardware components rather than specialized hardware. The Company's filer products combine specialized proprietary software and state-of-the-art industry standard hardware to provide a unique solution for the NFS, Common Internet File System ("CIFS"), and HTTP server markets.

PRODUCTS

Filers -- The Company offers data access appliances or filers which cover a broad range of needs. Current products include the NetApp(R) F210, an entry-level appliance targeted for small workgroups and branch offices, the NetApp F230 workgroup filer, the NetApp F520, designed to address the needs of large departments, and the enterprise-class NetApp F630. All filers are based on a PCI-bus architecture and come packaged in rack mountable enclosures. The NetApp F210 and F230 filers are based on Pentium(R) processors and utilize SCSI-based storage. The NetApp F520 and NetApp F630 are based on Digital's Alpha(R) processor and support either SCSI or fibre channel arbitrated loop ("Fibre Channel") conventions as storage options.

All of the Company's filers include the Data ONTAP(TM) operating system and one base or standard protocol (either NFS, CIFS or HTTP). Native multiprotocol functionality can be easily added through licensing non-base protocols at an additional cost.

NetApp filer list prices range from approximately \$15,000 to \$600,000, depending primarily on the model purchased and the product configuration.

Data ONTAP Operating System -- Combining advanced multiprotocol file system technology and a powerful microkernel-based design, the Network Appliance filer

software solution, Data ONTAP, delivers simultaneous file service to UNIX, Windows and Web clients. Data ONTAP, version 5.0, supports multiple volume server partitioning, a popular strategy for modularizing, consolidating and administering data according to applications, data types and organizational needs.

Proxy Caching Solutions -- NetCache(TM), the Web proxy caching software made available through the Internet Middleware Corporation ("IMC") acquisition, allows network administrators to replicate or cache Web content. This reduces bandwidth costs by avoiding duplicate requests generated over the WAN, and significantly speeds up access for users. NetCache also provides greater control and selection of information permitted over the network. The software is currently available for Windows NT, SPARC Solaris and Digital UNIX.

In fiscal 1998, the Company introduced a family of network cache appliances. NetCache appliances and software allow carriers, ISPs and corporations to reduce network traffic, significantly improve user response time and enhance security. The NetApp C230 is a dedicated caching appliance designed for small points of presence ("POPs") and remote offices where there are no system administrators present. The NetApp C630, supporting access times up to T3, is a high-performance appliance, suitable for large corporate installations and ISP data centers.

2

3

SALES AND MARKETING

Network Appliance has established multiple distribution channels to accelerate market penetration of its products. The Company initially marketed its products primarily through indirect sales channels both domestically and internationally. In fiscal 1995, the Company shifted its emphasis domestically to direct sales and significantly expanded its direct sales force. The Company continues to rely primarily on indirect sales in Asia and in some portions of Europe. Network Appliance has approximately 25 sales offices located within North America and 6 sales offices within Europe and Asia. No customers accounted for 10% or more of the Company's net sales in fiscal 1998, 1997 or 1996.

BACKLOG

The Company manufactures its products based upon forecast of customers' demand. Orders are generally placed by customers on an as-needed basis and products are typically shipped within one to four weeks following receipt of an order. In general, customers may cancel or reschedule orders without penalty. For these reasons, the Company does not believe "orders" constitute a firm "backlog" and believes it is not a meaningful indicator of revenues nor material to an understanding of its business.

CUSTOMER SERVICE AND SUPPORT

Network Appliance's customer service and support organization provides customers with technical support, education and training. Network Appliance believes that providing a high level of customer service and technical support is critical to customer satisfaction and the Company's success. Warranty coverage includes 24 hour telephone support plus advanced replacement of defective hardware shipped on a next business day basis. For an additional charge, the Company also offers upgraded service during the warranty period, providing for faster on-site hardware repair. The standard hardware warranty for most parts includes one year of part replacement for failed components. Software support, including the repair of errors or defects, and new release updates are provided at no extra charge for 90 days after product shipment. Support for software is available beyond the initial period through the software subscription program.

Post-warranty service programs include: cooperative maintenance wherein the customer purchases replacements or extra parts and performs self-maintenance tasks, a full-service program involving a combination of telephone-based support and on-site advanced replacement, and a software subscription program that includes telephone support and software upgrades. The Company charges for service programs on an annual subscription basis, with discounts to sites with multiple filers. On-site support is primarily provided by independent parties both in North America and internationally.

MANUFACTURING

Network Appliance's manufacturing operations, located in Santa Clara, California, consist of procurement of materials, commodity management, component engineering, manufacturing engineering, product assembly, product assurance, quality control and final test. Network Appliance relies on many suppliers for the procurement of materials, as well as several key subcontractors for the production of certain board level assemblies. The Company's manufacturing strategy has been to develop close relationships with its suppliers, exchanging critical information and implementing joint quality training programs. This manufacturing strategy minimizes capital investment and overhead expenditures and creates flexibility by providing the capacity for rapid expansion. During May 1997, Network Appliance was awarded the ISO 9001 certification.

The Company relies upon a limited number of suppliers of several key components utilized in the assembly of the Company's products. The Company procures disk drives from multiple sources. However, the Company purchases most of its disk drives through a single supplier. The Company purchases computer boards and microprocessors from a limited number of suppliers. The Company's reliance on its suppliers involves several risks, including a potential inability to obtain an adequate supply of required components, price increases, timely delivery and component quality. This risk is particularly significant with respect to the Company's supplier of disk drives because in order to meet product performance requirements, the Company must obtain disk drives of extremely high quality and capacity. In addition, there are periodic supply and

3

4

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. Although to date the Company has been able to purchase its requirements of such components, there is no assurance that the Company will be able to obtain its full requirements of such components in the future or that prices of such components will not increase. In addition, there can be no assurance that problems with respect to yield and quality of such components and timeliness of deliveries will not occur. Disruption or termination of the supply of these components could delay shipments of the Company's products and could have a material adverse effect on the Company's business, operating results, financial condition or cash flows. Such delays could also damage relationships with current and prospective customers.

Certain of the Company's resellers and end-users have historically purchased minimally configured systems from the Company and have sourced additional disk drives and memory components from other vendors. Since these components do not undergo the Company's rigorous sourcing and testing procedures, they may experience more failures and incompatibilities when deployed in the Company's products. Any such higher failure rate or incompatibilities could negatively impact the Company's reputation and, as a result, could materially adversely affect its business, operating results, financial condition or cash flows.

RESEARCH AND DEVELOPMENT

Since its inception, Network Appliance has made substantial investments in research and development. Network Appliance believes that its future performance will depend in large part on its ability to maintain and enhance its current product line, develop new products that achieve market acceptance, maintain technological competitiveness and meet an expanding range of customer requirements. The Company intends to expand its existing product offerings and to introduce new products.

As part of the Company's ongoing development process, the Company introduced a significant software release during fiscal 1998 -- Data ONTAP release 5.0. The Company also initiated production shipments of its NetApp C230 and NetApp C630 NetCache appliances. In November 1997, the Company released version 2.0 of its NetApp Windows Networking Software, featuring SecureShare(TM). SecureShare enables true file system sharing for clients based on different operating systems. Windows and UNIX clients are now able to access the same files, at the same time.

The Company's future growth depends upon the success of these and other new products, however there can be no assurance that these or other new products will attain market acceptance. Due to the complexity of network file servers and

the difficulty in gauging the engineering effort required to produce new products, new products are subject to significant technical risks. There can be no assurance that new products will be introduced on a timely basis or at all. In the past, the Company has experienced delays in the shipments of its new products principally due to an inability to qualify component parts from disk drive and other suppliers, resulting in delay or loss of product sales. If new products are delayed or do not achieve market acceptance, the Company's business, operating results, financial condition or cash flows will be materially adversely affected.

The network file server market is characterized by rapid technological change, changing customer needs, frequent new product introductions and evolving industry standards. The introduction of products embodying new technologies and the emergence of new industry standards could render the Company's existing products obsolete and unmarketable. The Company's future success will depend upon its ability to develop and introduce new products (including new software releases and enhancements) on a timely basis that keep pace with technological developments and emerging industry standards and address the increasingly sophisticated needs of its customers. There can be no assurance that the Company will be successful in developing and marketing new products that respond to technological changes or evolving industry standards, that the Company will not experience difficulties that could delay or prevent the successful development, introduction and marketing of new products, or that its new products will adequately meet the requirements of the marketplace and achieve market acceptance. If the Company is unable, for technological or other reasons, to develop and introduce new products in a timely manner in response to changing market conditions or customer

4

5

requirements, the Company's business, operating results, financial condition or cash flows will be materially adversely affected.

Network file server products like those offered by the Company may contain undetected software errors or failures when first introduced or as new versions are released. There can be no assurance that, despite testing by the Company and by current and potential customers, errors will not be found in new products after commencement of commercial shipments, resulting in loss of or delay in market acceptance, which could have a material adverse effect upon the Company's business, operating results, financial condition or cash flows.

The Company's total expenses for research and development for fiscal years 1998, 1997 and 1996 were \$16.6 million, \$9.0 million and \$4.8 million, respectively. The Company anticipates that research and development expenses will increase in absolute dollars in future periods.

COMPETITION

The network file server market is intensely competitive and characterized by rapidly changing technology. The Company experiences substantial competition from specialized network file server companies, such as Auspex Systems, Inc. The Company also competes against traditional suppliers of UNIX-based systems that are used as network file servers including Sun Microsystems, Digital Equipment Corporation, Hewlett-Packard Company, EMC (indirectly through OEM relationships with system vendors), Silicon Graphics, Inc. and IBM Corporation, among others. In addition, certain of these large traditional suppliers of general purpose computers may in the future offer specialized file server products which are more directly competitive with those of the Company. The Company also encounters competition from manufacturers of PC-based file servers utilizing Windows NT and emerging standards. The Company's NetCache software and NetCache appliances compete against a number of software and hardware solutions, ranging from small start-ups to larger systems vendors.

While the Company believes that the price-performance characteristics of its products are currently competitive, increased competition is likely to result in price reductions, reduced gross margin and loss of market share, any of which could materially adversely affect the Company's business, operating results, financial condition or cash flows. Many of the Company's current and potential competitors have significantly greater financial, technical, marketing and other resources than the Company. As a result, they may be able to respond more quickly to new or emerging technologies and changes in customer requirements, or devote greater resources to the development, promotion, sale and support of their products than the Company. 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. In addition, the Company derives a significant portion of its sales from the resale of disk drives as components of its filers and therefore experiences competition from disk drive resellers. The market for the resale of disk drives is highly competitive and subject to intense price pressures. There can be no assurance that the Company will be able to compete successfully against current or future competitors or that competitive pressures faced by the Company will not materially adversely affect its business, operating results, financial condition or cash flows.

The Company believes that the principal competitive factors affecting its market include product features such as response time, scalability and ease of use, price, multiprotocol capabilities and customer service and support. Although the Company believes that its products currently compete favorably with respect to these factors, there can be no assurance that the Company can maintain its competitive position against current and potential competitors, especially those with significantly greater financial, marketing, service, support, technical and other resources.

PROPRIETARY RIGHTS

Network Appliance's success depends significantly upon its proprietary technology. The Company currently relies on a combination of copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect its proprietary rights. The Company seeks to protect its software, documentation and other written materials under trade secret and copyright laws, which afford only limited

5

6

protection. The Company has registered its Network Appliance name and logo, FAServer and NetApp trademarks. The Company will continue to evaluate the registration of additional trademarks as appropriate. The Company generally enters into confidentiality agreements with its employees and with its resellers and customers. The Company currently has multiple U.S. and international patent applications pending. There can be no assurance that the pending applications will be approved, or that if issued, such patents will not be challenged, and if such challenges are brought, that such patents will not be invalidated. There can be no assurance that the Company will develop proprietary products or technologies that are patentable, that any issued patent will provide the Company with any competitive advantages or will not be challenged by third parties, or that the patents of others will not have a material adverse effect on the Company's ability to do business. Litigation may be necessary to protect the Company's proprietary technology. Any such litigation may be time-consuming and costly. Despite the Company's efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of the Company's products or to obtain and use information that the Company regards 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. There can be no assurance that the Company's means of protecting its proprietary rights will be adequate or that the Company's competitors will not independently develop similar technology, duplicate the Company's products or design around patents issued to the Company or other intellectual property rights of the Company.

There have also been substantial amounts of litigation in the computer industry regarding intellectual property rights. In the first quarter of fiscal 1997, the Company settled litigation related to the alleged infringement of third party rights and other claims, which resulted in the Company recording a pre-tax expense of \$4.3 million (\$3.5 million in payments to the plaintiffs and \$0.8 million in legal fees). In addition, the Company may from time to time receive claims that it is infringing third parties' intellectual property rights. There can be no assurance that third parties will not in the future claim infringement by the Company with respect to current or future products, trademarks or other proprietary rights. The Company expects that companies in the file server market will increasingly be subject to infringement claims as the number of products and competitors in the Company's 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 the Company to redesign its products or require the Company to enter into royalty or licensing agreements, any of which could have a material adverse effect upon the Company's business, operating results,

financial condition or cash flows. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Company or at all.

EMPLOYEES

As of May 31, 1998, Network Appliance had a total of approximately 450 employees. Of the total, 247 were in sales and marketing, 116 in research and development, 45 in finance and administration and 42 in operations. The Company's future performance also depends in significant part upon the continued service of its key technical and senior management personnel, none of whom is bound by an employment agreement. The Company has not experienced any work stoppages and considers its relations with its employees to be good.

6

7

EXECUTIVE OFFICERS

The executive officers of the Company, and their ages as of May 31, 1998, are as follows:

NAME ----	AGE ---	POSITION -----
Daniel J. Warmenhoven.....	47	President, Chief Executive Officer and Director
M. Helen Bradley.....	44	Vice President, Engineering
Jeffrey R. Allen.....	46	Vice President, Finance and Operations, Chief Financial Officer, and Secretary
Thomas F. Mendoza.....	47	Senior Vice President, Worldwide Sales
Charles E. Simmons.....	49	Vice President, Marketing

Daniel J. Warmenhoven joined the Company in October 1994 as President and Chief Executive Officer, and has been a member of the Board of Directors since October 1994. Prior to joining the Company, Mr. Warmenhoven served in various capacities, including President, Chief Executive Officer and Chairman of the Board of Directors of Network Equipment Technologies, Inc., a telecommunications company, from November 1989 to January 1994. Mr. Warmenhoven holds a B.S. degree in electrical engineering from Princeton University.

M. Helen Bradley joined the Company as Vice President, Engineering in September 1995. Prior to that, Ms. Bradley owned a management consulting business from January 1995 to September 1995. She also served as Senior Vice President, Technology Development at Openvision, a client-server applications company, from May 1994 to January 1995. From August 1990 to April 1994, Ms. Bradley was the Vice President, Systems Software at Sun Microsystems. Ms. Bradley holds a B.S. degree in mathematics from the Massachusetts Institute of Technology and an M.S. degree in computer science from the Georgia Institute of Technology.

Jeffrey R. Allen joined the Company in December 1996 as Vice President, Finance and Operations, Chief Financial Officer and Secretary. From October 1994 to December 1996, Mr. Allen served in various capacities, including Senior Vice President of Operations and Vice President and Controller of Bay Networks, Inc., a networking company. From December 1990 to October 1994, Mr. Allen held various positions at SynOptics, the latest of which was Vice President and Controller. Before joining SynOptics, he held various positions, from December 1973 to November 1990, at Hewlett-Packard Company, the latest of which was Controller of the Information Networks Group. Mr. Allen holds a B.S. degree from San Diego State University.

Thomas F. Mendoza joined the Company in May 1994 as Vice President, North American Sales. During fiscal 1998, Mr. Mendoza was promoted to Senior Vice President, Worldwide Sales. From November 1993 to April 1994, Mr. Mendoza served in various capacities including Vice President, Sales at Work Group Technology, a product data management company. Prior to that, Mr. Mendoza served in various capacities including Vice President of North American Sales at Auspex, a UNIX-based network file server company, from November 1990 to October 1993. Mr. Mendoza was previously Vice President of Western Operations at Stratus Computer, a vendor of fault tolerant computers, from May 1982 to October 1990. Mr. Mendoza holds a B.A. degree from the University of Notre Dame.

Charles E. Simmons joined the Company in May 1996 as Vice President, Marketing. Prior to that, Mr. Simmons was a senior partner at Rohner & Associates, a consulting firm, from January 1995 to May 1996. From February 1994 to October 1994, Mr. Simmons served as Vice President of Marketing at Voyant Corporation, a developer of videoconferencing equipment. Prior to that, Mr. Simmons was with Sun Microsystems Computer Company, a subsidiary of Sun Microsystems, Inc., from November 1984 to February 1994, most recently as Director of Business Strategy and Technology Marketing. Mr. Simmons received a B.S. degree in electrical engineering from Washington University, an M.S. degree in electrical engineering from the Massachusetts Institute of Technology and an MBA from Santa Clara University.

OTHER FACTORS AFFECTING THE COMPANY

History of Operating Losses; Potential Fluctuations in Quarterly Results -- The Company was organized in April 1992 and first shipped products in June 1993. While the Company generated net income in fiscal

7

8

1998, 1997 and 1996, it incurred significant losses in fiscal 1995 and in each of its prior fiscal years. There can be no assurance that the Company will remain profitable on a quarterly or annual basis.

The Company's quarterly operating results have in the past varied and may in the future vary significantly depending on a number of factors, including: the level of competition; 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 the Company or its competitors; deferrals of customer orders in anticipation of new products or product enhancements; changes in pricing by the Company or its competitors; the ability of the Company to develop, introduce and market new products and product enhancements on a timely basis; hardware component costs; supply constraints; the Company's success in expanding its sales and marketing programs; technological changes in the network file server market; the mix of sales among the Company's sales channels; levels of expenditure on research and development; changes in Company strategy; personnel changes; general economic trends and other factors.

Sales for any future quarter are not predictable with any significant degree of certainty. The Company generally operates with limited order backlog because its products typically are 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 file server market is rapidly evolving and the Company's sales cycle varies substantially from customer to customer. A significant portion of the Company's revenues in any quarter may be derived from sales to a limited number of customers. Any significant deferral of these sales could have a material adverse effect on the Company's results of operations in any particular quarter; and to the extent that significant sales occur earlier than expected, operating results for subsequent quarters may be adversely affected. Because Company expense levels are based, in part, on its expectations as to future sales and because a significant percentage of the Company's expenses are fixed, if sales levels are below expectations, net income may be disproportionately affected. Although the Company has experienced significant revenue growth in recent periods, such growth may not be indicative of future operating results. Period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as an indicator of future performance. Due to all of the foregoing factors, it is possible that in some future quarter the Company's operating results may be below the expectations of public market analysts and investors. In such event, the price of the Company's common stock would likely be materially adversely affected.

Dependence on Growth in the Network File Server Market -- All of the Company's filer products address the network file server market. The Company's future financial performance will depend in large part on continued growth in the network file server market and on emerging standards in this market. There can be no assurance that the market for network file servers will continue to grow or that emerging standards in the network file server market will not adversely affect the growth of the NFS and Windows NT servers. If the network file server market fails to grow, grows more slowly than anticipated, or if network file servers, based on emerging standards other than those adopted by the Company, become increasingly accepted by the market, the Company's business,

operating results, financial condition or cash flows could be materially adversely affected. During recent years, segments of the computer industry have experienced significant economic downturns characterized by decreased product demand, production overcapacity, price erosion, work slowdowns and layoffs. The Company's operations may in the future experience substantial fluctuations from period-to-period as a consequence of such industry patterns, general economic conditions affecting the timing of orders from major customers and other factors affecting capital spending. There can be no assurance that such factors will not have a material adverse effect on the Company's business, operating results, financial condition or cash flows.

International Operations -- The Company conducts business internationally. Accordingly, the Company's future operating results could be materially adversely affected by a variety of uncontrollable and changing factors including regulatory, political or economic conditions in a specific country or region, trade protection measures and other regulatory requirements and government spending patterns.

The Company's 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 the Company's products more

8

9

expensive and, therefore, potentially less competitive in those markets. For international sales denominated in foreign currencies, the Company is subject to risks associated with currency fluctuations.

Additional risks, among others, inherent in the Company's international business activities generally include longer accounts receivable payment cycles, difficulties in managing international operations and potentially adverse tax consequences. There can be no assurance that such factors will not have a material adverse effect on the Company's future international sales and, consequently, the Company's business, operating results, financial condition or cash flows.

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, there can be no assurance that the Company's future operating results will not be adversely affected by seasonality.

The Company believes that its continued growth and profitability will require successful expansion of its international operations and sales and therefore the Company has committed significant resources to such expansion. In order to successfully expand international sales in fiscal 1999 and subsequent periods, the Company must strengthen foreign operations, hire additional personnel and recruit additional international distributors and resellers. This will require significant management attention and financial resources and could materially adversely affect the Company's business, operating results, financial condition or cash flows. To the extent that the Company is unable to effect these additions in a timely manner, the Company's growth, if any, in international sales will be limited, and the Company's business, operating results, financial condition or cash flows could be materially adversely affected. In addition, there can be no assurance that the Company will be able to maintain or increase international market demand for the Company's products. The Company currently sells a significant portion of its products internationally through resellers. There can be no assurance that any of the Company's international resellers or customers will continue to distribute or purchase the Company's products.

Product Concentration; Changing Product Mix -- The Company derives a substantial portion of its revenues from the sale of its network filer product line. As a result, a reduction in the demand for filer products due to increased competition, a general decline in the market for network file servers or other factors would have a material adverse effect on the Company's business, operating results, financial condition or cash flows. In fiscal 1998, the Company introduced four new filers: the NetApp F210, NetApp F230, NetApp F520 and NetApp F630. Additional product introductions in future periods are expected to impact the sales of existing products. If the Company is unable to introduce new products in a timely manner, effectively manage the introduction of new products and any related inventory transitions or if such products do not achieve market acceptance, the Company's business, operating results, financial

condition or cash flows could be materially adversely affected.

Concentration of Sales -- Historically, a significant portion of the Company's sales have been made to a limited number of end user customers and resellers. In fiscal 1998, 1997 and 1996, no customers accounted for 10% or more of net sales. The Company generally has not entered into long term volume purchase contracts with its end user customers or resellers, and such end user customers or resellers may have certain rights to extend or delay the shipment of their orders. The loss of a major end user customer or reseller, the reduction, delay or cancellation of orders or a delay in shipment of the Company's products to such end user customer or reseller could materially adversely affect the Company's business, operating results and financial condition. In addition, should one or more of these resellers choose to promote products competitive with the Company's products, the Company's business, operating results, financial condition or cash flows could be materially adversely affected.

Dependence Upon Key Personnel -- The Company's continued growth and success depends to a significant extent on the continued service of senior management and other key employees and the hiring of additional qualified employees. Competition for highly-skilled personnel is intense in the high technology industry. There can be no assurance that the Company will be successful in recruiting new personnel or in retaining existing personnel. The loss of one or more key employees or the Company's inability to attract additional qualified employees or retain other employees could have a material adverse effect on the Company's business, results of operations, financial condition or cash flows.

9

10

Management of Expanding Operations -- The Company has a history of rapid growth. The Company's future operating results will depend to a large extent on management's ability to successfully manage expansion and growth, including but not limited to hiring and retaining significant numbers of qualified technical, sales and other employees, expanding international operations, forecasting revenues, addressing new markets, controlling expenses, implementing infrastructure and systems and managing its assets. An unexpected decline in the growth rate of revenues without a corresponding and timely reduction in expense growth or a failure to manage other aspects of growth could have a material adverse effect on the Company's business, results of operations, financial condition or cash flows.

Possible Volatility of Stock Price -- The trading price of the Company's common stock could be subject to wide fluctuations in response to a number of factors, including quarterly variations in operating results, announcements of technological innovations or new products, applications or product enhancements by the Company or its competitors, changes in financial estimates by securities analysts and other events. In addition, the stock market has experienced volatility that has particularly affected the market prices of equity securities of many high technology companies and that often has been unrelated or disproportionate to the operating performance of such companies. These broad market fluctuations may adversely affect the market price of the Company's common stock.

Effect of Certain Charter Provisions; Anti-takeover Effects of Provisions of the Bylaws -- The Company's Board of Directors has the authority to issue up to 5,000,000 shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the shareholders. The rights of the holders of common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock could have the effect of making it more difficult for a third party to acquire a majority of the outstanding voting stock of the Company. Further, certain provisions of the Company's bylaws pertaining to the future elimination of cumulative voting and shareholder action by written consent, and the requirement that shareholders may call a special meeting of shareholders only upon a request of shareholders owning at least 50% of the Company's common stock, could delay or make more difficult a proxy contest involving the Company, which could adversely affect the market price of the Company's common stock.

Year 2000 Issues -- The "Year 2000 Issue" refers to computer programs which use two digits rather than four to define a given year and which therefore might read a date using "00" as the year 1900 rather than the year 2000. The Company

is currently assessing the impact the Year 2000 Issue will have on its internal information systems. The Company believes that the majority of its current products are Year 2000 compliant and that new products are being designed to be Year 2000 compliant. The Company is currently performing extended testing. The Company does not anticipate that addressing the Year 2000 Issue for its internal information systems and current and future products will have a material adverse impact on its operations, financial results or cash flows. However, there can be no assurance that these costs will not be greater than anticipated, or that corrective actions undertaken will be completed before any Year 2000 problems could occur. The Year 2000 Issue could lower demand for the Company's products while increasing the Company's costs. These combining factors, while not quantified, could have a material adverse impact on the Company's business, operating results, financial condition or cash flows.

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

ITEM 2. PROPERTIES

Network Appliance's principal administrative, sales, marketing, manufacturing and research and development facility is located in approximately 120,000 square feet of space in Santa Clara, California. This facility is leased under various operating leases which expire through fiscal 2003. The Company leases other sales offices throughout the U.S. and in Europe. The Company believes that the existing facilities are adequate for its current needs and that additional space will be available as needed. See additional discussion regarding

properties in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

ITEM 3. LEGAL PROCEEDINGS

None.

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

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this Annual Report on Form 10-K.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

The Company's common stock commenced trading on the Nasdaq National Market on November 21, 1995 and is traded under the symbol "NTAP." As of May 31, 1998, there were 284 holders of record of the common stock and 6,667 beneficial owners. The following table sets forth for the periods indicated the high and low closing sale prices for the common stock as reported on the Nasdaq National Market, adjusted to reflect the effect of the December 17, 1997 two-for-one stock split.

	FISCAL 1998		FISCAL 1997	
	HIGH	LOW	HIGH	LOW
First Quarter.....	\$20.50	\$14.00	\$19.38	\$12.13
Second Quarter.....	28.31	19.88	17.59	10.88
Third Quarter.....	35.50	24.13	28.00	15.75
Fourth Quarter.....	36.25	27.31	27.50	13.13

The Company believes that a number of factors, including, but not limited to, quarterly variations in results of operations may cause the market price of

its common stock to fluctuate significantly. See "Item 1. Business -- Other Factors Affecting the Company."

The Company has never paid cash dividends on its capital stock. The Company currently anticipates that it will retain all available funds for use in its business and does not anticipate paying any cash dividends.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

FIVE FISCAL YEARS ENDED APRIL 30, 1998
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	1998	1997	1996	1995	1994
	-----	-----	-----	-----	-----
Net Sales.....	\$166,163	\$93,333	\$46,632	\$14,796	\$ 2,244
Income (Loss) From Operations(1).....	32,658	3,083	6,000	(4,913)	(1,955)
Net Income (Loss) (2).....	20,965	250	6,600	(4,764)	(1,874)
Net Income (Loss) Per Share, basic(2).....	0.65	0.01	0.37	(0.56)	(0.23)
Net Income (Loss) Per Share, diluted(2).....	0.58	0.01	0.21	(0.56)	(0.23)
Total Assets.....	115,736	68,941	45,449	10,628	4,055
Long-Term Obligations.....	180	232	318	11,607	4,855
Total Shareholder's Equity (Deficit).....	86,265	54,029	39,029	(5,923)	(1,324)

(1) Fiscal 1997 includes the purchased in-process technology and compensation charge related to the IMC acquisition of \$10,519 and the Whipsaw litigation of \$4,300. See Notes 4 and 9 of Notes to Consolidated Financial Statements.

11

12

(2) Fiscal 1997 includes the purchased in-process technology and compensation charge related to the IMC acquisition of \$9,215 (net of taxes) and the Whipsaw litigation of \$2,795 (net of taxes). See Notes 4 and 9 of Notes to Consolidated Financial Statements.

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

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

RESULTS OF OPERATIONS

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

	YEARS ENDED APRIL 30,		
	1998	1997	1996
	-----	-----	-----
Net Sales.....	100.0%	100.0%	100.0%
Cost of Sales.....	40.7	40.8	44.1
Gross margin.....	59.3	59.2	55.9
Operating Expenses:			
Sales and marketing.....	25.7	26.0	27.3
Research and development.....	10.0	9.6	10.2
General and administrative.....	3.9	4.4	5.5
Purchased in-process technology and related compensation charge.....	--	11.3	--
Litigation settlement.....	--	4.6	--

Total operating expenses.....	39.6	55.9	43.0
Income from Operations.....	19.7	3.3	12.9
Other Income, net.....	0.5	1.0	1.3
Income before Income Taxes.....	20.2	4.3	14.2
Provision for Income Taxes.....	7.6	4.0	--
Net income.....	12.6%	0.3%	14.2%

FISCAL 1998 COMPARED TO FISCAL 1997

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

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

12

13

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

Gross Margin -- Gross margin remained relatively flat increasing slightly to 59.3% of net sales for fiscal 1998 compared to 59.2% of net sales for fiscal 1997. This increase in gross margin was primarily attributable to the increase in product volume, lower costs of key components, increased manufacturing efficiencies and by the sale of the Company's new product with cost-reduced designs first introduced in June and July 1997. Gross margin was also favorably impacted by the licensing of multiprotocol software and by growth in software subscription and service revenues due to a growing installed base. Factors contributing to gross margin growth were partially offset by the sale of 4 gigabyte drives at reduced prices in fiscal 1998.

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

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

product and company awareness. The Company believes that its continued growth and profitability is dependent in part on the successful expansion of its international operations, and therefore, has committed significant resources to international sales.

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

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

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

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

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

13

14

Provision for Income Taxes -- The Company's effective tax rate for fiscal 1998 was 37.5% compared to 93.8% for fiscal 1997. The fiscal 1997 tax rate was primarily affected by the one-time charge to operations of \$7.4 million for the write-off of purchased in-process research and development related to the IMC acquisition which was not deductible for income tax purposes. Excluding the net effect of the IMC acquisition, the fiscal 1997 effective tax rate would have been 35%. The higher effective tax rate in fiscal 1998, compared to the fiscal 1997 effective tax rate, exclusive of the IMC acquisition, relates to increased earnings, which reduce the impact of research and development and other tax credits on the effective tax rate. Additionally, fiscal 1997 included a benefit for the reversal of a valuation allowance previously provided against deferred tax assets which did not occur in fiscal 1998. As of April 30, 1998 and 1997, a valuation allowance was deemed unnecessary as Company management determined that it is more likely than not that the net deferred tax asset is realizable.

FISCAL 1997 COMPARED TO FISCAL 1996

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

Gross Margin -- Gross margin increased to 59.2% in fiscal 1997 from 55.9% in fiscal 1996. This increase in gross margin was primarily attributable to the increase in product volume in fiscal 1997, lower costs of key components and

increased manufacturing efficiencies. Gross margin also increased over the prior fiscal year as a result of licensing multiprotocol software and increases in software subscription revenue due to a larger installed base. These factors offset the effect of increased sales of highly configured systems during fiscal 1997, which generally generate lower gross margins per system due to higher disk drive content.

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

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

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

Purchased In-Process Technology and Related Compensation Charge -- On March 17, 1997, the Company acquired all outstanding shares and options to purchase shares of IMC common stock by issuing 374,046 shares of the Company's common stock and options to purchase shares of the Company's common stock. In connection with the acquisition, intangible assets of \$8.4 million were acquired, of which \$7.4 million

was reflected as a one-time charge to operations for the write-off of in-process research and development that had not reached technological feasibility and, in management's opinion, had no probable alternative future use. The remaining intangible assets of \$1.0 million, consisting of existing technology and goodwill, are included in other assets in the accompanying consolidated balance sheets and are being amortized over their estimated useful lives of five years.

Certain key employees of IMC who continued as employees of the Company were also granted vested options to purchase shares of the Company's common stock at a discount to the market price of the Company's common stock immediately preceding the acquisition. In connection with the granting of these options, the Company recorded a compensation charge of \$3.2 million in the fourth quarter of fiscal 1997.

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

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

founder.

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

15

16

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

In June 1998, the Company executed an agreement to acquire 5.9 acres of land in Sunnyvale, California and the accompanying 127,000 square foot building. Under terms of the agreement, the Company paid \$5.0 million of the \$33.8 million purchase price as a nonrefundable deposit. The agreement allows the Company to assign its rights and obligations to a third-party entity should the Company decide to enter into an operating lease. It is the Company's intent to assign its rights and obligations to a third-party entity and enter into an operating lease, provided the Company can obtain satisfactory leasing terms.

In June 1998, the Company signed a 25-year operating lease requiring annual lease payments of \$3,084, commencing in October 1999, for a 6.2 acre plot in Sunnyvale, California. In connection with executing the operating lease agreement, the Company also signed an option agreement to purchase the 6.2 acres of land. Under terms of the option agreement, the Company paid a \$4.5 million refundable deposit. The option allows the Company to purchase the land, within a 90-day period, commencing in December 1999 at a purchase price of \$23.7 million and its rights and obligations under this agreement may be assigned to third parties. It is the Company's intent to assign its purchase option to a

third-party entity and to enter into an operating lease with the third-party entity, provided the Company can obtain satisfactory leasing terms.

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

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

YEAR 2000 ISSUE

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

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

16

17

RECENTLY ISSUED ACCOUNTING STANDARDS

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Network Appliance, Inc.:

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

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

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

/s/ DELOITTE & TOUCHE LLP

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

17

18

NETWORK APPLIANCE, INC.

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	APRIL 30,	
	----- 1998	1997 -----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents.....	\$ 37,315	\$21,520
Short-term investments.....	10,800	6,916
Accounts receivable, net of allowances of \$811 in 1998 and \$330 in 1997.....	34,313	13,911
Inventories.....	8,707	9,920
Prepaid expenses and other.....	2,524	1,253
Deferred taxes.....	5,280	3,100
	-----	-----
Total current assets.....	98,939	56,620
	-----	-----
PROPERTY AND EQUIPMENT, NET.....	12,217	9,238
OTHER ASSETS.....	4,580	3,083
	-----	-----
	\$115,736	\$68,941
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:		
Current portion of long-term obligations.....	\$ 17	\$ 21
Accounts payable.....	10,024	4,394
Income taxes payable.....	1,782	1,023
Accrued compensation and related benefits.....	8,485	4,666
Other accrued liabilities.....	4,201	2,280
Deferred revenue.....	4,799	2,317
	-----	-----
Total current liabilities.....	29,308	14,701
	-----	-----
LONG-TERM OBLIGATIONS.....	163	211
COMMITMENTS AND CONTINGENCIES (NOTES 3 AND 11)		
SHAREHOLDERS' EQUITY:		
Preferred stock, no par value; 5,000 shares authorized; shares outstanding: none in 1998 and 1997.....	--	--
Common stock, no par value; 110,000 shares authorized; shares outstanding: 33,648 in 1998 and 32,832 in 1997.....	66,422	54,707
Deferred stock compensation.....	(498)	(54)
Retained earnings (accumulated deficit).....	20,341	(624)
	-----	-----
Total shareholders' equity.....	86,265	54,029
	-----	-----
	\$115,736	\$68,941
	=====	=====

See notes to consolidated financial statements.

18

19

NETWORK APPLIANCE, INC.

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

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

Diluted.....	=====	=====	=====
	\$ 0.58	\$ 0.01	\$ 0.21
	=====	=====	=====
SHARES USED IN PER SHARE CALCULATION:			
Basic.....	=====	=====	=====
	32,457	30,489	17,997
	=====	=====	=====
Diluted.....	=====	=====	=====
	35,951	34,402	31,468
	=====	=====	=====

See notes to consolidated financial statements.

19

20

NETWORK APPLIANCE, INC.

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

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

BALANCES, APRIL 30, 1998.....	----	-----	-----	-----	-----	-----	-----
	--	--	33,648	\$66,422	\$ (498)	\$20,341	\$86,265
	=====	=====	=====	=====	=====	=====	=====

See notes to consolidated financial statements.

20

21

NETWORK APPLIANCE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

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

See notes to consolidated financial statements.

21

22

NETWORK APPLIANCE, INC.

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

1. THE COMPANY

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

	APRIL 30,	
	1998	1997
	-----	-----
Computers, related equipment and purchased software.....	\$16,979	\$11,011
Furniture and fixtures.....	1,962	1,221
Leasehold improvements.....	2,782	1,520
	-----	-----
	21,723	13,752

Accumulated depreciation and amortization.....	(9,506)	(4,514)
	-----	-----
	\$12,217	\$ 9,238
	=====	=====

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

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

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

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

Certain Significant Risks and Uncertainties -- The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such management estimates include the allowance for doubtful accounts receivable, inventory reserves, various accruals and warranty reserves. Actual results could differ from those estimates.

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

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

Net Income Per Share -- The Company has adopted the provisions of Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS 128"), effective in the third quarter of fiscal 1998. SFAS 128 requires the presentation of basic and diluted net income per share. Basic net income per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for that period. Diluted

net income per share is computed giving effect to all dilutive potential shares that were outstanding during the period. Dilutive potential common shares consist of incremental common shares subject to repurchase, common shares issuable upon exercise of stock options and warrants and convertible preferred stock. All prior-period net income (loss) per-share amounts have been restated to comply with SFAS 128 as well as the two-for-one stock split (See Note 5).

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

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

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

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

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

Accounting for Long-Lived Assets -- Effective May 1, 1996, the Company adopted Financial Accounting Standards Board Statement No. 121 ("SFAS 121") "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," which requires the Company to review the impairment of long-lived assets, certain identifiable intangibles and goodwill related to those assets whenever events or changes in circumstances indicate that the carrying

amount of an asset may not be recoverable. The adoption of SFAS 121 had no impact on the Company's financial condition or results of operations.

Recently Issued Accounting Standards -- In June 1997, the Financial Accounting Standards Board issued two new statements of financial accounting standards ("SFAS"). SFAS No. 130, "Reporting Comprehensive Income", requires that an enterprise report, by major components and as a single total, the change in its net assets from nonowner sources during the period. SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information", establishes annual and interim reporting standards for an enterprise's business segments and related disclosures about its products, services, geographic areas and change in its net assets from nonowner sources during the period. SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information", establishes annual and interim reporting standards for

major customers. The Company has not yet identified its SFAS No. 131 reporting segments. Adoption of these statements will not impact the Company's consolidated financial position, results of operations or cash flows. Both statements are effective for the Company's fiscal year 1999.

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

3. COMMITMENTS

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

YEARS ENDING APRIL 30,	

1999.....	\$ 4,249
2000.....	3,323
2001.....	1,049
2002.....	886
2003.....	707
Thereafter.....	2,185

Total lease payments.....	\$12,399
	=====

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

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

4. ACQUISITION

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

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

The acquisition was accounted for as a purchase and, accordingly, the results of operations of IMC from the date of acquisition forward have been included in the Company's consolidated financial statements. In connection with the acquisition, intangible assets of \$8,362 were acquired, of which \$7,369 was reflected as a one-time charge to operations for the write-off of purchased in-process research and development that had not reached technological feasibility and, in management's opinion, had no probable alternative future use. The

\$10,519 combined one-time charge for purchased in-process technology and compensation expense has been reflected in the Company's fiscal 1997 consolidated statement of income within operating expenses. The remaining intangible assets of \$993, consisting of existing technology and goodwill, are included in other assets in the accompanying consolidated balance sheets and are being amortized over their estimated useful lives of five years.

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

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

Net assets acquired.....	\$	7,350
		=====

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

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

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

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

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

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

26

27

under the 1993 Plan were incorporated into the 1995 Plan upon the effectiveness of the Company's initial public offering.

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

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

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

Shares reserved for plan.....	4,000	--	--
Options granted (weighted average fair value of \$9.12).....	(2,724)	2,724	23.51
Options exercised.....	--	(620)	8.46
Options canceled.....	574	(574)	13.81
	-----	-----	
Balances, April 30, 1998 (2,506 options exercisable).....	2,789	7,169	\$15.58
	=====	=====	

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

27

28

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

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

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

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

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

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

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

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

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

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

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

6. EMPLOYEE BENEFIT PLAN

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

7. INCOME TAXES

The provision for income taxes consists of the following:

	YEARS ENDED APRIL 30,		
	1998	1997	1996

	-----	-----	-----
CURRENT:			
Federal.....	\$12,132	\$ 5,062	\$ 1,880
State.....	2,199	1,525	220
	-----	-----	-----
Total current.....	14,331	6,587	2,100
	-----	-----	-----
DEFERRED:			
Federal.....	(1,597)	(2,394)	(1,880)
State.....	(152)	(400)	(220)
	-----	-----	-----
Total deferred.....	(1,749)	(2,794)	(2,100)
	-----	-----	-----
Provision for income taxes.....	\$12,582	\$ 3,793	\$ --
	=====	=====	=====

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

29

30

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

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

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

Income before income taxes is as follows:

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

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

APRIL 30,

	1998	1997
Reserves and accruals not currently deductible for tax purposes.....	\$4,599	\$2,662
Tax benefit of options issued in IMC acquisition.....	1,074	1,304
Net operating loss carryforwards.....	236	116
Depreciation.....	197	369
Deferred rent.....	66	80
Capitalized research and development costs.....	--	142
Other.....	471	221
	-----	-----
Deferred tax assets.....	\$6,643	\$4,894
	=====	=====

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

8. OPERATIONS BY GEOGRAPHIC AREA AND SIGNIFICANT CUSTOMERS

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

30

31

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

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

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

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

9. LITIGATION

The computer industry is characterized by frequent litigation regarding

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

10. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

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

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

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

11. SUBSEQUENT EVENTS

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

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

In July 1998, the Company negotiated a \$5,000 unsecured revolving credit facility with a domestic commercial bank. Under terms of the credit facility which expires in July 1999, the Company must maintain various financial covenants. Any borrowings under this agreement bear interest at either LIBOR

plus 1% or at the Lender's "prime" lending rate, such rate determined at the discretion of the Company. As of July 17, 1998, there were no borrowings under the credit facility.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item with respect to the Company's executive officers is incorporated herein by reference from the information under Item 1 of Part I of this Report under the section entitled "Executive Officers". The information required by this Item with respect to the Company's directors is incorporated herein by reference from the information provided under the heading "Election of Directors" of the Proxy Statement which will be filed with the Commission. The information required by Item 405 of Regulation S-K is incorporated herein by reference from the information provided under the heading "Section 16(a) Beneficial Ownership Reporting Compliance" of the Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding the compensation of executive officers and directors of the Company is incorporated by reference from the information under the heading "Executive Compensation and Related Information" in the Company's Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information regarding security ownership of certain beneficial owners and management is incorporated by reference from the information under the heading "Security Ownership of Certain Beneficial Owners and Management" in the Company's Proxy Statement.

32

33

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding certain relationships and related transactions is incorporated by reference from the information under the caption "Employment Contracts, Termination of Employment and Change-In-Control Agreements" in the Company's Proxy Statement.

PART IV

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

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

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

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

2. Financial Statement Schedule.

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

Schedule II -- Valuation and Qualifying Accounts

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

3. Exhibits.

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

34

EXHIBIT NO. -----	DESCRIPTION -----
10.1(3), (4)	-- Distributor Agreement, dated June 1, 1993, by and among the Company, Itochu Corporation and CTC Supply Sales
10.2(3)	-- Forms of Indemnification Agreements entered into between the Company and its directors and officers
10.3(3)	-- The Company's 1993 Stock Option/Stock Issuance Plan
10.4(3)	-- The Company's 1993 Stock Incentive Plan
10.5(3)	-- The Company's Employee Stock Purchase Plan
10.6(3)	-- Series C Preferred Stock and Common Stock and Warrant to Purchase Series C Preferred Stock Purchase Agreement, dated September 23, 1994, among the Company and the purchasers named therein
10.7(3)	-- Office lease dated October 21, 1993, between the Company and Vanni Business Park General Partnership ("Vanni") and Office Lease Agreement, dated October 20, 1994, between the Company and Vanni
10.8(3)	-- Agreement dated June 19, 1995, between the Company and Imperial Bank, as amended, Promissory Note issued thereunder and ancillary documents
10.9(3)	-- Settlement Agreement and General Release, dated June 28, 1995, between the Company and Michael Malcolm
10.10(3)	-- Security and Loan Agreement, Credit Terms and Conditions and General Security Agreement between the Company and Imperial Bank, dated August 31, 1994, as amended
10.11(5)	-- Facility sublease, dated August 9, 1996, by and between S3, Inc. and the Registrant
10.12(6)	-- The Company's Amended 1995 Stock Incentive Plan
10.13(6)	-- The Company's Special Non-Officer Stock Option Plan
10.14(7)	-- Facility lease, dated August 18, 1997, by and between the

10.15	--	McCandless -- San Tomas No. 2 and the Registrant Agreement of Purchase and Sale, dated June 11, 1998, by and between 495 Java Drive Associates, L.P. and the Registrant
10.16	--	Operating lease agreement, dated June 11, 1998, by and between 475 Java Drive Associates L.P. and the Registrant
10.17	--	Purchase Option Agreement, dated June 11, 1998, by and between 475 Java Drive Associates L.P. and the Registrant
10.18	--	Line of credit agreement dated July 10, 1998, between the Company and Wells Fargo Bank, National Association
16.1(3)	--	Letter Regarding Change in Independent Auditors
21.1	--	Subsidiaries of the Company
23.1	--	Independent Auditors' Consent
24.1	--	Power of Attorney (see signature page)
27.1	--	Financial Data Schedule
27.2	--	Restated Financial Data Schedules
27.3	--	Restated Financial Data Schedules
27.4	--	Restated Financial Data Schedules

-
- (1) Previously filed as an exhibit with the Company's Form 8-K dated March 17, 1997.
 - (2) Previously filed as an exhibit with the Company's Annual Report on Form 10-K dated July 25, 1996.
 - (3) Previously filed as an exhibit to the Company's Registration Statement on Form S-1 (No. 33-97864).

34

35

- (4) Confidential treatment requested as to certain portions of these exhibits.
- (5) Previously filed as an exhibit with the Company's Quarterly Report on Form 10-Q dated March 7, 1997.
- (6) Previously filed as an exhibit with the Company's Annual Report on Form 10-K dated July 23, 1997.
- (7) Previously filed as an exhibit with the Company's Quarterly Report on Form 10-Q dated December 5, 1997.
- (8) Previously filed as an exhibit with the Company's Quarterly Report on Form 10-Q dated March 6, 1998.
- (b) Reports on Form 8-K.

None.

35

36

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on July 21, 1998.

NETWORK APPLIANCE, INC.

By: /s/ DANIEL J. WARMENHOVEN

 Daniel J. Warmenhoven
 President and Chief Executive
 Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Daniel J. Warmenhoven and Jeffrey R. Allen, and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and

stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitutes, may lawfully do or cause to be done by virtue thereof.

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

SIGNATURES -----	TITLE -----	DATE ----
/s/ DANIEL J. WARMENHOVEN ----- (Daniel J. Warmenhoven)	President and Chief Executive Officer, Director (Principal Executive Officer)	July 21, 1998
/s/ DONALD T. VALENTINE ----- (Donald T. Valentine)	Chairman of the Board, Director	July 21, 1998
/s/ JEFFRY R. ALLEN ----- (Jeffry R. Allen)	Vice President Finance and Operations and Chief Financial Officer (Principal Financial and Accounting Officer)	July 21, 1998
/s/ CAROL A. BARTZ ----- (Carol A. Bartz)	Director	July 21, 1998
/s/ LARRY R. CARTER ----- (Larry R. Carter)	Director	July 21, 1998
/s/ MICHAEL R. HALLMAN ----- (Michael R. Hallman)	Director	July 21, 1998
/s/ ROBERT T. WALL ----- (Robert T. Wall)	Director	July 21, 1998

NETWORK APPLIANCE, INC.

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

DESCRIPTION -----	BALANCE AT BEGINNING OF PERIOD -----	CHARGED TO COSTS AND EXPENSES -----	DEDUCTIONS -----	BALANCE AT END OF PERIOD -----
Allowance for doubtful account:				
1998.....	\$ 330	\$ 550	\$ 69	\$ 811
1997.....	330	--	--	330
1996.....	220	110	--	330
Excess and obsolescence inventory reserve:				
1998.....	\$3,016	\$1,302	\$1,333	\$2,985
1997.....	1,043	2,551	578	3,016
1996.....	345	698	--	1,043

EXHIBIT INDEX

EXHIBIT NO. -----	DESCRIPTION -----
10.15	-- Agreement of Purchase and Sale, dated June 11, 1998, by and between 495 Java Drive Associates, L.P. and the Registrant
10.16	-- Operating lease agreement, dated June 11, 1998, by and between 475 Java Drive Associates L.P. and the Registrant
10.17	-- Purchase Option Agreement, dated June 11, 1998, by and between 475 Java Drive Associates L.P. and the Registrant
10.18	-- Line of credit agreement dated July 10, 1998, between the Company and Wells Fargo Bank, National Association
21.1	-- Subsidiaries of the Company
23.1	-- Independent Auditors' Consent
24.1	-- Power of Attorney (see signature page)
27.1	-- Financial Data Schedule
27.2	-- Restated Financial Data Schedules
27.3	-- Restated Financial Data Schedules
27.4	-- Restated Financial Data Schedules

AGREEMENT OF PURCHASE AND SALE

THIS AGREEMENT OF PURCHASE AND SALE ("Agreement") is entered into as of June 11, 1998, by and between Network Appliance, Inc., a Delaware Corporation ("Buyer"), and 495 Java Drive Associates, L.P., a California Limited Partnership ("Seller") and constitutes (i) a contract of purchase and sale between the parties and (ii) escrow instructions to Escrow Agent (as hereinafter defined).

THE PARTIES ENTER INTO THIS AGREEMENT on the basis of the following facts, understandings and intentions:

A. Seller owns and desires to sell to Buyer real property comprised of approximately 5.86 acres, located at 495 Java Drive, Sunnyvale, California, as more particularly described on EXHIBIT A attached hereto ("Land") and the Improvements (defined below) being constructed by Seller, together with Seller's interest in (i) all rights, privileges, easements and right-of-ways appurtenant thereto, (ii) all warranties in connection with the Improvements, (iii) to the extent assignable, all entitlements, permits and other intangible property used in connection therewith, and (iv) to the extent assignable, all contract rights, related to the ownership, use and operation thereof (collectively, including such Land and Improvements, the "Property"), and Buyer desires to purchase the Property from Seller, on all of the terms, covenants and conditions provided herein.

B. For purposes of this Agreement, the following terms shall have the meanings given below:

1. "Execution Date" shall mean the date set forth at the beginning hereof.

2. "Business Day" shall mean any day other than a Saturday, Sunday or day on which banks in the state of California are authorized to be closed for business.

3. "Close of Escrow" shall mean the consummation of the purchase of the Property by Buyer or Buyer's assignee from Seller and the recordation of Seller's Grant Deed in accordance with the terms and provisions of this Agreement.

4. "Closing Date" shall mean a date which is the earlier of (i) twenty (20) business days following the date the Improvements are substantially completed in accordance with the Work Letter or (ii) a date selected by Buyer, but not before January 1, 1999, with written notice thereof to Seller at least thirty (30) days in advance. Seller shall provide Buyer with at least thirty (30) days written notice of the date Seller expects to substantially complete the Improvements and written notice of the date such Improvements are substantially complete.

5. "Escrow Agent" shall mean First American Title Insurance Company, 1636 North First Street, San Jose, California 95112.

6. "Title Company" shall mean First American Title Insurance Company, 1636 North First Street, San Jose, California 95112.

7. "Improvements" shall mean a four story building consisting of approximately One Hundred Twenty-Six Thousand Seven Hundred Sixty (126,760) square feet referred to in the Work Letter.

8. "Work Letter" shall mean that certain Work Letter attached hereto as EXHIBIT B. Capitalized terms used herein and defined in the Work Letter shall have the meaning given in the Work Letter.

9. "Lot Line Adjustment" shall mean adjustment of the property line between the Property and the adjoining property at 475 Java Drive in order to accommodate a common driveway as shown on Seller's Plans (as defined in the Work Letter).

10. "CC&R's" shall mean covenants, conditions and restrictions for the purpose for operating the Property and the adjoining property at 475 Java Drive in a manner that allows a common driveway substantially in conformance with the Declaration Of Covenants, Conditions And Restrictions And Cross-Access Parking Agreement For 500 East Middlefield Road and 401 Ellis Street, Mountain View, California dated December 12, 1997 and recorded as Document No. 13979683 of the Santa Clara County, California records, with appropriate revisions to adapt such document to the Property.

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants and agreements of the parties as herein set forth, the parties hereto agree as follows:

1. Purchase. Seller agrees to sell the Property to Buyer, and Buyer agrees to purchase the Property from Seller, on all of the terms, covenants and conditions provided herein.

2. Deposit.

(a) Deposit. Within seven (7) Business Days following the Execution Date, Buyer shall deposit with Escrow Agent the sum of Five Million Dollars (\$5,000,000.00) in cash ("Deposit") as a deposit on account of the Purchase Price (as defined in Section 4). The Deposit shall be nonrefundable, except as provided in Section 3(b) below.

(b) Interest Bearing Account. Escrow Agent shall deposit the Deposit in an interest bearing account, pursuant to investment instructions from Buyer. All interest earned on the Deposit shall be for the account of Buyer.

3. Liquidated Damages/Default.

(a) Buyer's Default. IN THE EVENT THAT THE SALE OF THE PROPERTY DOES NOT CLOSE AS A CONSEQUENCE OF A DEFAULT BY BUYER, AND IF SELLER IS NOT IN DEFAULT OF ITS OBLIGATIONS UNDER THIS AGREEMENT AND HAS PERFORMED ALL OBLIGATIONS OF SELLER TO BE

3

PERFORMED HEREUNDER AS OF THE TIME OF BUYER'S DEFAULT, SELLER SHALL BE ENTITLED EITHER TO (i) RETAIN THE AMOUNT OF THE DEPOSIT AS LIQUIDATED DAMAGES, OR (ii) SPECIFIC PERFORMANCE OF BUYER'S OBLIGATION TO PURCHASE THE PROPERTY; PROVIDED, HOWEVER, IN THE EVENT SELLER ELECTS TO SEEK SPECIFIC PERFORMANCE AND IS UNSUCCESSFUL IN OBTAINING SPECIFIC PERFORMANCE SELLER SHALL BE ENTITLED TO RETAIN THE AMOUNT OF THE DEPOSIT AS LIQUIDATED DAMAGES. THE PARTIES AGREE THAT SELLER'S ACTUAL DAMAGES WOULD BE DIFFICULT OR IMPOSSIBLE TO DETERMINE IF BUYER DEFAULTS, AND THE AMOUNT OF THE DEPOSIT (AND ACCRUED INTEREST THEREON) IS THE BEST ESTIMATE OF THE AMOUNT OF DAMAGES SELLER WOULD SUFFER. THE PARTIES ACKNOWLEDGE THAT THE SUM REPRESENTED BY BUYER'S DEPOSIT (AND INTEREST ACCRUED THEREON) CONSTITUTES A REASONABLE ESTIMATE OF SELLER'S DAMAGES UNDER THE PROVISIONS OF SECTION 1671 OF THE CALIFORNIA CIVIL CODE.

(b) Seller's Default. IF SELLER REFUSES OR FAILS TO CONVEY THE PROPERTY PURSUANT TO THIS AGREEMENT FOR ANY REASON EXCEPT A DEFAULT BY BUYER HEREUNDER, BUYER, AS ITS SOLE AND EXCLUSIVE REMEDY (EXCEPT AS PROVIDED IN SECTION 6(f) BELOW), SHALL BE ENTITLED EITHER TO (i) TERMINATE THIS AGREEMENT AND RECOVER THE DEPOSIT AND IF APPLICABLE THE LIQUIDATED DAMAGES COMPUTED PURSUANT TO SECTION 6(e) BELOW, OR (ii) SPECIFIC PERFORMANCE OF SELLER'S OBLIGATION TO CONVEY THE PROPERTY, PROVIDED THAT NO SUCH ACTION FOR SPECIFIC PERFORMANCE SHALL SEEK TO REQUIRE SELLER TO DO ANY OF THE FOLLOWING: (A) CHANGE THE CONDITION OF THE PROPERTY OR RESTORE THE SAME AFTER ANY CASUALTY (EXCEPT AS EXPRESSLY PROVIDED IN SECTION 12), OR (B) EXPEND MONEY OR POST A BOND TO REMOVE A TITLE ENCUMBRANCE OR DEFECT (EXCEPT LINES OR ENCUMBRANCES CREATED BY SELLER) OR CORRECT ANY MATTER SHOWN ON A SURVEY OF THE PROPERTY. IN THE EVENT BUYER SEEKS SPECIFIC PERFORMANCE AND IS UNSUCCESSFUL IN OBTAINING SPECIFIC PERFORMANCE, BUYER SHALL BE ENTITLED TO TERMINATE THIS AGREEMENT AND RECOVER THE DEPOSIT. BUYER SHALL BE DEEMED TO HAVE ELECTED TO TERMINATE THIS AGREEMENT IF

BUYER FAILS TO DELIVER TO SELLER WRITTEN NOTICE OF ITS INTENT TO ASSERT A CAUSE OF ACTION FOR SPECIFIC PERFORMANCE WITHIN THIRTY (30) DAYS FOLLOWING THE SCHEDULED CLOSING DATE OR, HAVING GIVEN SUCH NOTICE, FAILS TO FILE A LAWSUIT ASSERTING SUCH CAUSE OF ACTION IN THE PROPER COURT WITHIN SIXTY (60) DAYS FOLLOWING THE SCHEDULED CLOSING DATE. THE PARTIES WITNESS THEIR AGREEMENT TO THIS LIQUIDATED DAMAGES PROVISION AND THIS LIMITATION OF REMEDIES PROVISION BY THEIR EXECUTION BELOW:

BUYER: NETWORK APPLIANCE, INC.
a Delaware Corporation

By: /s/ CHRIS CARLTON

4

Its: Vice President

By: -----

Its: -----

SELLER: 495 Java Drive Associates, L.P.
a California Limited Partnership

By M-D Venture, Inc.,
a California Corporation,
its general partner

By: /s/ STEVE DOSTART

Steve Dostart, Vice President

(c) Cure Period for Default. Prior to termination of this Agreement by either party for default, the party alleging default shall give the defaulting party written notice thereof, and the defaulting party shall have ten (10) days from receipt of such notice to cure such default.

4. Purchase Price. Buyer shall pay Seller a purchase price ("Purchase Price") for the Property of Thirty-Three Million Seven Hundred Fifty Thousand Dollars (\$33,750,000.00), payable at the Close of Escrow, as follows:

- (a) Application of the Deposit; and
- (b) Paying the remainder in cash ("Cash Payment").

The Purchase Price shall be subject to adjustment pursuant to Section 6 below.

5. Conditions Precedent. At or before Close of Escrow the following conditions precedent ("Conditions Precedent") shall be either satisfied or waived by Buyer as a condition to Buyer's obligation to proceed with the purchase of the Property:

(a) Title. The term "Conditions of Title" shall refer to those exceptions to title (including, without limitation, Title Company's standard printed exceptions to title with respect to an ALTA Owner's Extended Form policy of title insurance (an "ALTA Policy") listed on EXHIBIT C incorporated herein by reference, the lien for real property taxes not delinquent, any current assessments (subject to Seller's obligation to pay delinquent assessments or credit same to the Purchase Price at closing), the effect of the Lot Line Adjustment and the CC&R's and any other encumbrances or matters of title caused or approved in writing by Buyer. On the Closing Date, Title Company shall be unconditionally committed to issue (a) an American Land Title Association ("ALTA") Extended Title Policy Form B (1970) for the Property ("ALTA Title Policy"), with a liability limit in the amount of the Purchase Price and insuring fee title vested in Buyer, and (b) endorsements to the ALTA Title Policy (i) to provide Buyer with assurance that the Property is the same as shown on the Survey, (ii) to

provide Buyer with assurance that the Property is contiguous with the property known as 475 Java Drive, and (iii) such other endorsements as Buyer may reasonably request, including without limitation zoning, tax parcel, access, and owner's comprehensive (ALTA 100, modified for owner, or equivalent) endorsements (collectively, the "Endorsements"); provided, however, the availability of such Endorsements shall not be a Condition Precedent to Buyer's obligation hereunder. Buyer shall take title to the Property subject to the Conditions of Title.

(b) Survey. Buyer has approved a certified ALTA survey of the Property prepared by Kier & Wright dated April 15, 1998 ("Survey"). Any revisions (including certification to Buyer) to the ALTA survey previously provided to Buyer by Seller which are requested by Buyer shall be at Buyer's sole cost and expense. At Close of Escrow Seller shall deliver to Buyer the Survey.

(c) Property Documents. Buyer has reviewed and approved all of the reports listed on EXHIBIT D attached hereto and incorporation herein ("Property Documents"). As of the Close of Escrow there shall have been no material adverse change in the physical condition of the Property as described in the Property Documents which would materially, adversely affect Buyer's use and occupancy of the Property and Seller shall deliver to Buyer its certificate representing and warranting that (except as described in such certificate) (i) there has been no such material adverse change in such physical condition between the Execution Date and the Close of Escrow, (ii) all Improvements completed by Seller prior to the Closing Date have been built in accordance with the Seller Plans and in compliance with all applicable laws and the CC&Rs, (iii) all asbestos containing building materials contained in the improvements located on the Land as of the date the Land was acquired by the Seller have been removed and transported to a suitable disposal site, in compliance with law and any contracts concerning the removal, transportation, or disposal of asbestos located at or on the Land had been fully performed as of the Closing Date and (iv) there are no agreements which would be binding upon the Property or the Buyer following Close of Escrow except as expressly contemplated by this Agreement. ("Seller's Closing Certificate").

(d) Completion of Improvements. Seller shall have substantially completed the Improvements in accordance with the Work Letter.

(e) Seller's Performance. Seller shall have performed all of its obligations under this Agreement.

6. Completion of Improvements.

(a) Completion of Improvements. Seller shall be obligated to complete the Improvements in accordance with the Work Letter.

(b) Milestones. The parties have set forth certain events which must occur prior to or during construction of the Improvements (each, a "Milestone"), which must be accomplished by Seller on or before certain prescribed dates or Buyer shall have the right to terminate this Agreement and pursue certain remedies described in Section 6(e) below. The Milestones to which Buyer and Seller have agreed are as follows:

(1) Construction of the foundation for the building (included within the Improvements) shall have commenced no later than June 10, 1998; and

(2) The Improvements shall have been substantially completed (as defined in the Work Letter) in accordance with Seller's Plans, except for landscaping, on or before June 17, 1999.

The Milestone dates set forth above shall be extended as follows: (A) One day for each day of delay caused by Buyer Delays (as defined in the Work Letter), (B) One day for each day of Force Majeure Events (as defined in the Work Letter), however, the maximum number of days that any such Milestone can be extended for such Force Majeure Delays shall be limited to a total of sixty (60) days except that no such limit shall apply in the event Seller's Plans are

changed in response to a request by Buyer under circumstances where Seller has informed Buyer in writing that Seller believes such change is material and would not be acceptable to Seller if Seller were building the Improvements on a speculative basis rather than for Buyer, and (C)

By the amount of time required to complete any arbitration process resulting from disputes between Seller and Buyer arising prior to the Milestone, to the extent the arbitration process (and the issue being arbitrated) actually causes a delay in achieving such Milestones. The aggregate extension of the Milestone dates provided for herein shall be referred to as the "Milestone Extension Period". The parties acknowledge that Seller has satisfied the Milestone set forth in clause (i) above.

(c) Changes requested by Buyer. Buyer has reviewed and approved the Seller Plans (as defined in the Work Letter) for construction of the Improvements. Buyer shall have the right to submit written requests for changes to the existing plans for the Improvements which changes shall be subject to Seller's written consent. Seller shall not unreasonably withhold its consent to such changes so long as (i) such changes do not extend the time period for substantial completion of the Improvements by more than ninety (90) days as reasonably determined by Seller (Buyer acknowledges that the date contemplated for substantial completion of the Improvements as of the date hereof without giving effect to any Milestone Extension Period or any requests by Buyer hereunder is March 17, 1999), and (ii) Buyer approves in writing Seller's estimated adjustment to the Purchase Price caused by such changes.

(d) Adjustment to Purchase Price.

(1) If any changes requested by Buyer and approved by Seller pursuant to this Section 6 increase or decrease the cost of constructing the Improvements the Purchase Price shall be adjusted accordingly. Such costs shall include but not be limited to Seller's carrying costs (including real property taxes, cost of financing on all costs associated with the Property at a rate of Comerica Bank's Prime Rate plus 1%, etc.) and hard and soft costs; provided, however, such costs shall not include any mark-up charged by Seller.

(2) In the event that the Close of Escrow occurs prior to completion of the Improvements, Seller shall be obligated to complete the Improvements following Close of Escrow. In such event the Purchase Price shall be reduced by the Interest Savings. The "Interest Savings" shall mean the amount of interest that Seller would have paid to Comerica Bank between the Closing Date and the date estimated (as of the closing date) for

7

substantial completion of the Improvements based upon the loan balance as of the Closing Date and Seller's best available interest rate pursuant to its loan from Comerica Bank. Buyer and Seller shall execute such additional documents and instruments as may be necessary to accomplish the purposes of this sub-paragraph, including but limited to, an agreement allowing Seller access to the Property for the purposes of completion of the Improvements, appropriate requirements for insurance to be carried by Buyer as owner of the Property, etc.

(e) Right to Terminate. If any Milestone set forth in Section 6(b) is not achieved by Seller, Buyer shall have the right to terminate this Agreement by written notice to Seller at any time within ten (10) business days after Seller's failure to achieve the particular Milestone; provided, however, if the conditions described in Section 6(f) are met Buyer shall have the right to elect the remedies described in Section 6(f). If Buyer exercises its termination right, Buyer shall be entitled to the remedies provided in this Section 6(e), which shall be Buyer's sole and exclusive remedies with respect to Seller's failure to achieve any Milestone. If Buyer exercises a termination right pursuant to this Section 6(e) and Seller believes that the Milestone was achieved by the appropriate date (as extended by the Milestone Extension Period), the parties agree to submit the dispute concerning Seller's failure to achieve that particular Milestone, and Buyer's resulting right to terminate the Lease, to binding arbitration pursuant to the provisions of Section 16. Notwithstanding any other provision of this Agreement or the Work Letter, if Seller fails to achieve any Milestone Buyer's sole and exclusive remedies shall be to either (i) elect to proceed under Section 6(f) if the conditions set forth therein have occurred, or (ii) terminate this Agreement and receive the Deposit and damages from Seller (which shall be paid within thirty (30) days of the date of Buyer's notice of termination, or, if the parties resort to arbitration

pursuant to the provision set forth above, then within thirty (30) days of Buyer's prevailing on said termination in arbitration) in the following amounts (all clauses referenced are in Paragraph 6(b)): \$250,000, as liquidated damages for failure of Seller to achieve the Milestone described in clause (1); and \$500,000, as liquidated damages for failure of Seller to achieve the Milestone described in clause (2). Seller and Buyer acknowledge and agree that if Seller fails to achieve the Milestone described in clause (1) or (2) and Buyer elects to terminate this Agreement pursuant to this paragraph as a result thereof, the damages which Buyer will suffer are difficult, if not impossible to calculate, and that the above-described liquidated damages are a fair and reasonable estimate of the damages that Buyer would suffer with respect to a failure to achieve the Milestone described in clause (1) or (2).

(f) Buyer's Self Help Remedy. Notwithstanding the above, in the event that all of the following are true: (i) Seller has failed to achieve a Milestone set forth in Section 6(b), and (ii) Buyer is not in a continuing default under this Agreement, then Buyer shall have the right to substantially complete the Improvements and offset its actual out of pocket costs and expenses incurred in connection therewith against the Purchase Price.

7. No Incumbrance or Transfer. Except as provided herein, Seller shall not encumber, lease, transfer, assign or sell all or any portion, or interest in, the Property, or enter into any agreement or contract effecting or relating to the Property without Buyer's prior written consent, which consent may be withheld in Buyer's sole discretion. Seller shall be entitled to encumber the Property for the purpose of securing one or more construction loans. Seller may also implement the Lot Line Adjustment, record the CC&R's and execute such other contracts (but not contracts or encumbrances that will be binding upon Buyer or the Property after the

8

Close of Escrow) as may be necessary or advisable in connection with performing its obligations hereunder including completion of the Improvements.

8. Escrow.

(a) Escrow. Within two (2) Business Days of the Execution Date, Seller shall establish an escrow ("Escrow") with the Escrow Agent for the close of this transaction. An executed copy of this Agreement shall be deposited with the Escrow Agent by Buyer and this Agreement, together with Seller's Additional Escrow Instructions (as hereinafter defined), if any, and Buyer's Additional Escrow Instructions (as hereinafter defined), if any, shall constitute Escrow Agent's escrow instructions for closing Escrow. Escrow shall close ("Close of Escrow") on or before the Closing Date.

(b) Seller. On or prior to the Closing Date Seller shall deposit the following into Escrow:

(i) Grant Deed. A duly executed and acknowledged Grant Deed in usual form setting forth all exceptions to title created or suffered by Seller which are not to be removed at or prior to Closing;

(ii) Non-Foreign Person Certificates. Duly executed non-foreign person certificates ("Non-Foreign Person Certificates") in usual form sufficient to relieve Buyer of any withholding requirements pursuant to the provisions of Section 1445 of the Internal Revenue Code of 1986 as amended (the "Code") and Section 18805 of the California Revenue and Taxation Code and a California Form 590-RE certifying that Seller has a permanent place of business or is qualified to do business in the State of California;

(iii) Assignment of Intangible Property. An assignment, in a form reasonably approved by Buyer and Seller, of all Seller's rights, title, and interest to any and all plans, permits, approvals, entitlements and other intangible property relating to the Property (the "Assignment of Intangibles");

(iv) Assignment of Warranties. An assignment by Seller, in a form reasonably approved by Buyer and Seller, of all Seller's rights, title and interest under the Warranties (the "Assignment of Warranties");

(v) Closing Certificate. Seller's Closing Certificate, in a form reasonably approved by Buyer and Seller; and

(vi) Additional Escrow Instructions and Documents. Such additional escrow instructions ("Seller's Additional Escrow Instructions") and documents as Escrow Agent may reasonably require of Seller to close the sale of the Property in accordance with this Agreement, which instructions shall not be inconsistent with the terms of this Agreement.

(c) Buyer. On or prior to the Closing Date Buyer shall deposit the following into Escrow:

9

(i) Cash Payment. The Cash Payment;

(ii) Additional Cash. Additional cash in the amount necessary to pay Buyer's share of closing costs and prorations, as hereinafter set forth;

(iii) Release and Assumption. The Release and Assumption provided for in Section 11(g); and

(iv) Additional Escrow Instructions and Documents. Such additional escrow instructions ("Buyer's Additional Escrow Instructions") and documents as Escrow Agent may reasonably require of Buyer to close the sale of the Property in accordance with this Agreement.

9. Close of Escrow.

(a) Time. When the Escrow Holder has confirmed that Title Company is in a position to issue an ALTA Extended Policy (Form B-1970) insuring title to the Property as being vested in Buyer in accordance with Section 5(a) and all documents and funds required hereby have been deposited with Escrow Agent, Escrow Agent shall cause Close of Escrow to occur as provided below.

(b) Procedure. Escrow Agent shall close Escrow as follows:

(i) Record the following documents in the order set forth below:

(1) The Grant Deed.

(ii) Deliver to Seller the following:

(1) The Cash Payment and the Deposit;

(2) The Release and Assumption; and

(3) A conformed copy of the Grant Deed.

(iii) Deliver to Buyer the following:

(1) An ALTA Policy in accordance with Section 5(a);

(2) The Non-Foreign Person Certificates; and

(3) Conformed copies of the Grant Deed, Assignment of Warranties, Seller's Closing Certificates and Assignment of Intangibles, and the originals of such documents following their recordation.

(c) Closing Costs and Prorations.

10

(i) Closing Costs. Seller shall pay the cost for a basic CLTA owner's policy; Buyer shall pay all additional costs for the Title Policy and all Endorsements. Seller shall pay county transfer taxes and one-half of the escrow fees applicable to the sale. Buyer shall pay one-half of the escrow fees and all recording fees attributable to the conveyance documents, and Seller shall pay recording fees attributable to the release of any liens on the Property. All other costs and charges of the escrow for the sale shall be paid in accordance with custom.

(ii) Prorations. Real estate taxes and all other expenses normal to the operation and maintenance of the Property, shall be prorated as of 12:01 a.m. on the Closing Date.

(iii) Escrow Cancellation Costs. Notwithstanding the provisions of subsection (i) above, if Escrow fails to close due to Seller's default, Seller shall pay all Escrow cancellation charges. If Escrow fails to close due to Buyer's default, Buyer shall pay all Escrow cancellation charges. If Escrow fails to close for any reason other than the foregoing, Buyer and Seller shall each pay one-half (1/2) of any Escrow cancellation charges. "Escrow cancellation charges" means all fees, charges, and expenses incurred by Escrow Agent, including all expenses incurred in connection with issuance of the Preliminary Report and other title matters.

10. Brokers. Each of Buyer and Seller represents to the other party that, other than Cornish & Carey representing Buyer and CPS, representing Seller ("Brokers"), such party has not engaged any broker or finder in connection with any of the transactions contemplated by this Agreement. Buyer shall indemnify, defend and hold Seller harmless from and against any loss, cost or expense, including, but not limited to, attorneys' fees and court costs, resulting from any claim against Seller for any fee or commission by any broker or finder claiming by or through Buyer, other than the Brokers. Seller shall indemnify, defend and hold Buyer harmless from and against any loss, cost or expense, including, but not limited to, attorneys' fees and court costs, resulting from any claim for a fee or commission by any broker or finder claiming by or through Seller. Seller shall be responsible for the payment of any fees or commissions payable to the Brokers in connection with the transaction contemplated by this Agreement in accordance with Seller's written agreements with such brokers. The covenants contained herein shall survive the Close of Escrow.

11. Seller's Representations, Warranties and Covenants.

(a) Seller's Representations and Warranties. Seller hereby makes the following representations and warranties to Buyer which representations and warranties shall survive the Close of Escrow for a period of twelve (12) months (at which time these representations and warranties shall expire):

(i) Litigation; Government Action. Except as disclosed to Buyer in writing, there is no claim, litigation, notice that the Property is in violation of law, or governmental investigation presently pending with respect to which Seller has been served with process or other notice thereof or, to the best of Seller's knowledge, otherwise pending or threatened, against or relating to the Property.

11

(ii) Condemnation. There is presently no pending condemnation of the Property or any part thereof with respect to which Seller has been served with process or other notice thereof nor, to the best of Seller's knowledge, is any such condemnation otherwise pending or contemplated.

(iii) Leases. There are no leases or other occupancy agreements relating to the Property.

(iv) Hazardous Materials.

(1) For purposes hereof, "Hazardous Materials" shall mean any and all asbestos, radioactive material, hazardous waste, toxic substance or related material, including but not limited to those materials and substances defined as "hazardous substances", "hazardous materials", "hazardous wastes" or "toxic substances" in any California or federal law or regulation.

(2) Seller has not released or discharged, or caused to be released or discharged, upon the Property any Hazardous Materials, and to the best of Seller's knowledge, except as disclosed in the Property Documents, there are no Hazardous Materials present on, in, or under the Property.

(3) To the best of Seller's knowledge, the Property Documents are all of the documents and reports in Seller's possession pertaining to Hazardous Materials on or at the Property.

(v) Property Documents. There are no other documents or reports in Seller's possession or under Seller's control other than the Property Documents, describing the condition of the Property concerning the presence of Hazardous Materials, the geotechnical condition of the soils or other like physical condition of the Property as of the Execution Date; provided, however, the improvements demolished and removed by Seller contained asbestos. Seller acknowledges and agrees that the demolition and removal of the existing improvements including the asbestos containing materials therein and all costs in connection therewith is the sole responsibility of Seller.

(b) Organization and Authority. Seller is a California limited partnership validly existing and in good standing under the laws of California. Seller and has full power to enter into this Agreement and is duly qualified to transact business in California. The execution, delivery, and performance of this Agreement have been duly authorized and approved by all requisite action and the consummation of the transactions contemplated hereby will be duly authorized and approved by all requisite action of Seller and no other authorizations or approvals, whether of governmental bodies or otherwise, will be necessary in order to enable Seller enter into or to comply with the terms of this Agreement.

(c) Binding Effect of Documents. This Agreement and the other documents to be executed by Seller hereunder, upon execution and delivery thereof by Seller, will have been duly entered into by Seller, and will constitute legal, valid and binding obligations of Seller. Neither this Agreement nor anything provided to be done under this Agreement

12

violates or shall violate any contract, document, understanding, agreement, or instrument to which Seller is a party or by which it is bound.

(d) "Best Knowledge" Definition. For purposes of this Section 11, the term "to the best of Seller's knowledge" shall mean the current actual knowledge of John Mozart and Steve Dostart after usual inquiry in connection with the operation of the Property. Seller represents that John Mozart and Steve Dostart are the representatives of Seller with supervisory responsibilities concerning the Property who would, in the ordinary course of their responsibilities, receive notice from persons or entities of any of the matters described in the representations and warranties in this Section 11.

(e) "As-Is" Condition; Release and Assumption. If Seller breaches any representation, warranty, or covenant hereunder prior to Closing and Buyer closes escrow with knowledge thereof, Buyer shall be deemed to waive such breach. Except as expressly provided in this Agreement and in Seller's Closing Certificate, Seller makes no representations or warranties of any kind, express or implied, written or oral, as to the physical condition of the Property; the uses of the Property or any limitations thereon, including, without limitation, zoning, environmental or other laws, regulations or governmental requirements; the utilities or other physical equipment and fixtures on the Property, the costs of operating the Property or any other aspect of the economic operations on the Property; the possibility of future assessments of charges being levied against the Property or imposed as a condition to development or construction; or the condition of the soils or groundwater of the Property. Except as provided herein, Buyer specifically acknowledges that it is acquiring the Property in an "as-is" condition (as such term is most broadly construed), in reliance upon its own inspection and investigation of the Property. Except as expressly provided herein, Seller makes no representation or warranties with respect to the condition of title to the Property, and Buyer agrees that it will rely solely on its policy of title insurance. At closing, and as a condition to Seller's obligations hereunder, Buyer shall, pursuant to a form of Release and Assumption ("Release and Assumption") prepared by Seller and delivered to Buyer for approval by Buyer within ten (10) days after the Execution Date, (1) release Seller from any and all claims, liability or causes of action (except for the express representations and warranties herein and in Seller's Closing Certificate to the extent the same survive closing) in connection with the Property and (2) assume all of Seller's obligations under any and all laws and regulations pertaining to the Property (except (i) those occurring prior to the Close of Escrow, or (ii) for Seller's obligations in connection with completion of the Improvements, if the Improvements are not completed as of the Closing Date).

12. Loss by Fire or Other Casualty; Condemnation.

(a) Condemnation and General Casualty. Buyer shall be bound to purchase the Property for the full Purchase Price as required by the terms hereof, without regard to the occurrence or effect of any damage to or destruction of any improvements or condemnation of any portion of the Property. In the event of a casualty Buyer may elect to purchase the Property pursuant to the terms of this sub-paragraph (a) or to require Seller to repair and complete the Improvements pursuant to sub-paragraph (c). Such election shall be made by written notice given within thirty (30) days following the casualty. If Buyer elects to proceed pursuant to this sub-paragraph (a), the Purchase Price shall be credited by the amount of any insurance proceeds or condemnation awards (excluding proceeds or awards payable in respect of

13

carrying costs or other costs born by Seller and not subject to adjustment of the Purchase Price as provided herein) collected by Seller as a result of any such damage or destruction or condemnation less any monies actually expended by Seller to repair any damage, plus any deductible amounts attributable to such damage or destruction, or such proceeds shall be assigned to Buyer if not then collected.

(b) Seller Cooperation. If Seller assigns the proceeds of any insurance policy to Buyer pursuant to Section 12(a), Seller shall cooperate with Buyer in presenting and prosecuting the claim with Seller's insurance carriers, shall follow Buyer's instructions with respect thereto (except to the extent Seller is advised by counsel that following a particular instruction would expose Seller to liability, or to the extent Seller would incur additional cost to follow such instruction which is not paid by Buyer), and will not settle any such claim without Buyer's written approval.

(c) Insurance. Seller shall purchase and keep in force a policy or policies of fire and property damage insurance (including coverage for flood and earthquake, if available) covering loss or damage to the Property (including the improvements) in the amount of the full replacement value thereof including comprehensive builder's risk/course of construction insurance. In the event of a casualty and election by Buyer (pursuant to sub-paragraph (a) above) to require Seller to repair and complete the Improvements, Seller shall be obligated to repair and complete the Improvements pursuant to the terms and conditions hereof subject to extension of all of the dates for performance and the closing date for the delay caused by the casualty. In such event there shall be no adjustment to the Purchase Price for increase costs sustained by Seller (whether or not such costs are covered by insurance) in connection with or caused by the casualty. Notwithstanding anything to the contrary herein, in the event of a casualty under circumstances where the cost of completion of the Improvements exceeds the Available Funds by an amount in excess of \$1,000,000, Seller may terminate this agreement unless Buyer elects to pay such excess. The term "Available Funds" shall mean the sum of (i) insurance proceeds, (ii) deductibles in respect of the casualty loss and (iii) the amount of the cost of the Improvements which Buyer had not yet disbursed (and for which Buyer had not incurred liability) as of the date of the casualty.

13. Successors and Assigns. The terms, covenants, and conditions herein contained shall be binding upon and inure to the benefit of the successors and assigns of the parties hereto. Buyer may assign it's rights under this Agreement to a financing entity in connection with a synthetic lease transaction without the need for Seller's prior written consent but no such assignment shall relieve the assignor from primary liability for its obligations hereunder. Prior to the acquisition of the Property, Buyer intends to assign Buyer's interest under this Agreement to an entity (the "Lessor"), who will then lease all of the acquired portions of the property to Buyer, as tenant ("Tenant"), pursuant to a synthetic lease ("Lease") to be executed by Lessor and Tenant, pursuant to which Tenant shall have the right to construct certain improvements thereon, pursuant to plans and specifications approved by Lessor and Tenant. The parties acknowledge that (a) Tenant is intended to be the ultimate occupant and user of the Real Property, and (b) the improvements to be constructed thereon are being designed for Tenant's benefit and to Tenant's specifications. Therefore, the parties acknowledge that Tenant is an intended third party beneficiary of all of Seller's covenant, representations, warranties and obligations under this Agreement.

14. Entire Agreement. This Agreement contains all of the covenants, conditions and agreements between the parties and shall supersede all prior correspondence, agreements, and understandings, both oral and written. No provisions of this Agreement may be amended or modified in any manner except by an agreement in writing duly executed by the parties hereto.

15. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California as applied to agreements among California residents which are entered into and performed entirely within California.

16. Attorneys' Fees; Arbitration.

(a) Attorneys' Fees. In the event of any litigation or arbitration regarding the rights and obligations under this Agreement, the prevailing party shall be entitled to recover, in addition to damages, injunctive or other relief, reasonable attorneys' fees expert witness fees, and court costs.

(b) Arbitration of Disputes. ANY CONTROVERSY OR CLAIM ARISING OUT OF THIS AGREEMENT SHALL BE SETTLED BY ARBITRATION IN ACCORDANCE WITH THE RULES OF THE AMERICAN ARBITRATION ASSOCIATION FOR THE ARBITRATION OF COMMERCIAL DISPUTES, AND JUDGMENT ON THE AWARD RENDERED BY THE ARBITRATOR(S) MAY BE ENTERED IN ANY COURT HAVING JURISDICTION. THE PREVAILING PARTY IN SUCH ARBITRATION SHALL BE ENTITLED TO ATTORNEYS' FEES AND COSTS.

NOTICE: BY INITIALING IN THE SPACE BELOW YOU ARE AGREEING TO HAVE ANY DISPUTE ARISING OUT OF THE MATTERS INCLUDED IN THE "ARBITRATION OF DISPUTES" PROVISION DECIDED BY NEUTRAL ARBITRATION AS PROVIDED BY CALIFORNIA LAW AND YOU ARE GIVING UP ANY RIGHTS YOU MIGHT POSSESS TO HAVE THE DISPUTE LITIGATED IN A COURT OR JURY TRIAL. BY INITIALING IN THE SPACE BELOW YOU ARE GIVING UP YOUR JUDICIAL RIGHTS TO DISCOVERY AND APPEAL, UNLESS THOSE RIGHTS ARE SPECIFICALLY INCLUDED IN THE "ARBITRATION OF DISPUTES" PROVISION. IF YOU REFUSE TO SUBMIT TO ARBITRATION AFTER AGREEING TO THIS PROVISION, YOU MAY BE COMPELLED TO ARBITRATE UNDER THE AUTHORITY OF THE CALIFORNIA CODE OF CIVIL PROCEDURE. YOUR AGREEMENT TO THIS ARBITRATION PROVISION IS VOLUNTARY.

WE HAVE READ AND UNDERSTAND THE FOREGOING AND AGREE TO SUBMIT DISPUTES ARISING OUT OF THIS AGREEMENT TO NEUTRAL ARBITRATION.

CONSENT TO NEUTRAL ARBITRATION BY:

_____ (SELLER): _____ (BUYER).

17. Notices. All notices required or permitted to be given pursuant to the terms hereof shall be in writing and either delivered by hand delivery, professional courier service

which provides written evidence of delivery or deposited in the United States mail, registered or certified, postage prepaid and addressed as follows:

To Seller: 495 Java Drive Associates, L.P.
c/o Mozart Development Company
1068 East Meadow Circle
Palo Alto, California 94303
Attn: John Mozart and Steve Dostart
Tel. (415) 493-9000
FAX (415) 493-9050

With a copy to: Ellman, Burke, Hoffman & Johnson
One Ecker Building, Suite 200
San Francisco, California 94105
Attn: Jeffrey W. Johnson, Esq.
Tel. (415) 777-2727
FAX (415) 495-7587

To Buyer: Network Appliance Inc.
2770 San Tomas Expressway
Santa Clara, California 95051
Attn: Chris Carlton

Tel. (408) 367-3200
FAX (408) 367-3151

With a copy to: Network Appliance Inc.
2770 San tomas Expressway
Santa Clara, California 95051
Attn: Fran Bellet, Esq.
Tel. (408) 367-3200
FAX (408) 367-3151

The foregoing addresses may be changed by written notice to the other party as provided herein. Notices shall be deemed delivered and received, in the case of personal delivery or delivery by courier as aforesaid, on the day physically delivered to the indicated addressee, and in the case of delivery by United States mail, three (3) Business Days after deposit in the United States mail as aforesaid.

18. Exhibits. All exhibits are attached hereto and incorporated herein by this reference.

19. Authority. Each person executing this Agreement on behalf of a party to this Agreement hereby represents and warrants that he or she has authority to execute this Agreement on behalf of such party.

16

20. Headings. Headings at the beginning of any paragraph or Section of this Agreement are solely for the convenience of the parties and are not a part of this Agreement or to be used in the interpretation hereof.

21. Survival. The representations, warranties and covenants of the parties hereto shall survive the Close of Escrow, or the termination of the Agreement if the Close of Escrow does not occur, subject to the express limitations on survivability contained in this Agreement.

22. Waiver. No waiver by Buyer or Seller of a breach of any of the terms, covenants, or conditions of this Agreement by the other party shall be construed or held to be a waiver of any succeeding or preceding breach of the same or any other term, covenant or condition herein contained. No waiver of any default by Buyer or Seller hereunder shall be implied from any omission by the other party to take any action on account of such default if such default persists or is repeated, and no express waiver shall affect a default other than as specified in such waiver. The consent or approval by Buyer or Seller to or of any act by the other party requiring the consent or approval of the first party shall not be deemed to waive or render unnecessary such party's consent or approval to or of any subsequent similar acts by the other party.

23. Confidentiality. Buyer and Seller shall both maintain this Agreement in the terms and conditions of confidence except as required by law and except as required in connection with the performance of each of the obligations of Buyer and Seller hereunder. Notwithstanding anything to the contrary herein, the provisions of this Section 23 shall be separate and severable from all of the other provisions of this Agreement. A breach or alleged breach of the provisions of this Section 23 shall not be grounds for termination of this Agreement or otherwise excuse the performance of any other obligations hereunder. The maximum damages recoverable for a breach of the terms of this Section 23 shall be Twenty-Five Thousand Dollars (\$25,000.00).

24. Withdrawal from Market. During the period that this Agreement is in effect Seller shall withdraw the Property from the market and shall not except any back-up offers for the sell or lease of all or any portion of the Property.

25. Severability. If any phrase, clause, sentence, paragraph, section, article, or other portion of this Agreement shall become illegal, null or void or against public policy, for any reason, or shall be held by any court of competent jurisdiction to be illegal, null or void or against public policy, the remaining portions of this Agreement shall not be affected thereby and shall remain in force and effect to the fullest extent permissible by law. Buyer and Seller acknowledge and agree that Buyer and Seller have simultaneously executed a Lease and an Option Agreement for the property adjoining the Property at 475 Java Drive ("Separate Transaction"). The parties agree that for all purposes hereunder the Separate Transaction is separate and independent of any and all rights and obligations of the parties hereunder.

26. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the dates set forth next to their respective signatures below.

BUYER: Network Appliance, Inc.,
a Delaware corporation

By: /s/ CHRIS CARLTON

Its: Vice President

SELLER:

495 Java Drive Associates, L.P.
a California Limited Partnership

By M-D Venture, Inc.,
a California Corporation,
its general partner

By: /s/ STEVE DOSTART

Steve Dostart, Vice President

EXHIBIT A

[Description of Property]

EXHIBIT "A"

MAP OF PROJECT (INCLUDING BUILDING)

[SITE PLAN WITH BUILDING OUTLINED AND CROSSHATCHED]

EXHIBIT "A-1"

DESCRIPTION OF LAND

[PARCEL MAP AND LEGAL DESCRIPTION HERE FROM TITLE REPORT]

EXHIBIT "B"

[FORM OF CC&Rs TO BE ATTACHED]

EXHIBIT "C"

[INTENTIONALLY DELETED]

WORK LETTER

1. Obligations of Seller and Buyer. Seller shall furnish and install the Improvements provided for in Paragraph 2 below at Seller's expense. The quantities, character and manner of installation of all of the foregoing work shall be subject to the limitations imposed by any applicable regulations, laws, ordinances, codes and rules.

2. Improvements. Seller shall furnish an industrial shell building which exterior and site shall substantially comply with the, "Base Building Improvement Plans" described on Schedule 1 hereto, excepting that the sitework shall be revised to be in substantial conformance with the site plan defined in Schedule 2 hereto and excepting those items included on the Base Building Improvement Plans for informational purposes only (eg. restroom locations, shaft locations, elevators, extra stairwells, etc.) noted on the plans as N.I.C. and as further specified below

("Improvements"). However, in the event of a conflict between the (a) Base Building Improvement Plans and (b) the items listed in (i) through (viii) below and the Exclusions listed in Paragraph 3, then the latter shall control.

(i) floor - hard trowel, smooth concrete, level (at a specification not to exceed a slope of 1/8" in 10 feet) and ready for installation of floor covering (excluding standard floor preparation and waterproofing); underslab waterproofing shall include 2" sand layer over gravel with visqueen vapor barrier ;

(ii) ceiling/roof - (a) structural steel members, (b) exposed corrugated metal deck, (c) building sprinkler system to include main floor shut off valves, primary loop;

(iii) exterior walls - (a) exposed metal studs and/or aluminum window system members, empty framing cavity, and the backside of exterior sheeting and fireproofed columns (if required by code), (b) completed window assembly with painted metal window frames;

(iv) electrical/utilities - small electrical transformer for site lighting, all other utilities (including telephone lines and sanitary sewer) stubbed into shell, and conduit (excluding cabling) installed to the 475 Java Drive property line 495 Java Drive;

(v) elevator - two (2) elevator pits;

(vi) stairs - one (1) building staircase (minimal level required to obtain shell building permit);

(vii) live load - slab and upper floor decks shall be designed to support a live load of eighty (80) pounds per square foot and a partition load of twenty (20) pounds per square foot for a total of one hundred (100) pounds per square foot;

(viii) site work - parking, parking lot lighting (in compliance with applicable code requirements) striping, curb cuts, ramps, sidewalks (if required by the City of Sunnyvale),

underground storm drains, and main entries to the Building to be in compliance with the applicable ADA requirements;

(ix) roof screens - roof screens as noted on the Base Building Improvement Plans.

3. Exclusions from Base Building Improvements. Specific exclusions from Improvements include, but are not limited to, (a) sprinklers beyond those required for shell permit, (b) window coverings, (c) fire alarms or security systems, (d) interior walls, (e) HVAC systems, (f) electrical service in the Building, (g) restrooms, (h) elevator, (i) lobby, (j) electrical, telephone, janitorial and similar closets, (k) building cabling, (l) building signage, (m) insulation.

4. Seller's Plans. Seller shall provide Buyer with necessary base "design build" drawings, specifications, and CAD diskettes (to the extent available) for the Buildings no later than July 1, 1998 ("Seller's Plans"). Seller's Plans shall be substantially in accordance with the plans described on

Schedule 1 (which have been approved by Buyer), together with and including the specifications described for the Improvements in Paragraph 2 of this Work Letter, but shall specifically exclude any improvements to the interior of the Building, or items noted in Paragraph 3 as specific exclusions from the Improvements. Seller shall have the right to change Seller's Plans after submission to Buyer as needed to satisfy any requirements of the City of Sunnyvale; provided, however, Seller shall provide Buyer prior written notice of any such changes and notice of meetings with the City of Sunnyvale to be attended by Buyer, which Seller shall be entitled to attend. Any additional time required to accommodate Buyer's involvement in such meetings shall constitute a Buyer Delay pursuant to Section 7 below to the extent it actually delays construction.

Excepting changes required by the City of Sunnyvale, any changes in Seller's Plans initiated by Seller shall be subject to Buyer's review and approval, which shall not be unreasonably withheld, conditioned or delayed. Buyer must notify Seller in writing of any disapproval with respect to any submitted plans and specification within three (3) business days, unless the revisions include new detailed mechanical, electrical and plumbing drawings or substantial revisions thereto, in which case, Buyer shall have five (5) business days to notify Seller in writing of any disapproval or unless the plans and specifications are the final complete set of plans and specifications which Seller intends to submit to the applicable authorities to obtain its building permit and other applicable governmental licenses, in which case Buyer shall have seven (7) business days to notify Seller in writing of any disapproval. Any written notice containing Buyer's disapproval, shall also include the specific reasons for disapproval. If Buyer fails to notify Seller of any disapproval within the applicable time periods provided above, Buyer shall be deemed to have approved the submitted revised plans and specifications.

5. Change Orders. Any changes requested by Buyer that necessitate revisions or changes in Seller's Plans or the design or construction of the Improvements or delay the commencement or completion of Improvements, shall be subject to the prior written approval of

25

Seller subject to the standard for approval and Purchase Price adjustment provided for in Section 6(c) and 6(d), respectively, in the Purchase Agreement; any such changes approved by Seller shall be a "Change Order" hereunder. Before any such design and/or construction changes are made, Buyer shall pay to Seller the full costs to be incurred by Seller in connection with such Change Order if, and to the extent, the aggregate cost of all Change Orders exceeds \$3,000,000. Any such Change Order funded by Seller shall be a basis for adjustment of the Purchase Price pursuant to Section 6(d) of the Agreement to which this Work Letter is attached as an exhibit. Seller and Buyer shall hold weekly construction meetings during the development of the Project and shall cooperate in good faith during the weekly meetings to review and agree upon Change Orders. In those instances in which proposed revisions to Seller's Plans result from a Change Order, Seller shall cause the Seller's contractor, if applicable, to determine the additional cost or savings from such Change Order, and Seller shall promptly so notify Buyer. The additional costs or savings resulting from such Change Orders (and the time impact of said Change Order, if any) shall be supported by detailed trade cost breakdowns prepared by Seller's Contractor. Buyer shall, within five (5) business days after such notification by Seller, inform Seller in writing whether or not Buyer desires to proceed with such Change Order. In the event that Buyer fails to inform Seller within such five

(5) day period that Buyer desires to proceed with such Change Order, Seller shall not make any changes(s) to the Improvements included in such Change Order. If Buyer informs Seller within such five (5) day period that Buyer does wish to proceed with the proposed Change Order, the proposed Change Order shall be incorporated in the Improvements if applicable thereto and Seller's contractor shall proceed with the work covered by the Change Order and Buyer shall be responsible for all costs and expenses incurred in connection therewith as aforesaid. The Seller shall pass through to Buyer the Seller's contractor's percentage mark-up (which shall not be greater than the mark-up charged to Seller) for overhead and profit (which shall include all charges for general conditions) for Change Orders to the Improvements without additional mark-up from Seller. All Change Orders shall be in writing and shall be on such AIA form as required by Seller and/or Seller's contractor. Buyer shall evidence in writing it's approval of such Change Order prior to Seller's approval of same.

6. Substantial Completion. For purposes of this Work Letter and the Purchase Agreement, the Improvements shall be deemed "substantially complete" at such time as (i) Seller has completed work in accordance with Seller's Plans and in compliance with all legal requirements applicable to the Improvements at the time the permits were obtained for the construction thereof subject to completion and correction of items on Seller's architect's punch list, and landscaping, (ii) Seller has assured Buyer access to the Building (e.g. all concrete/asphalt paving and hard scape work is complete), and (iii) Seller is diligently prosecuting the completion of landscaping. Upon Buyer's request, if a certificate of shell completion or similar certification is available from the City of Sunnyvale in connection with the Improvements, without incurring any additional cost or causing delays to the Improvements or Buyer Improvements, Seller shall use commercially reasonable efforts to obtain such certification after completion of the Improvements and deliver a copy to Buyer.

7. Buyer Delays. If substantial completion of the Improvements is delayed due to any of the following (collectively, "Buyer Delays"), then the delay shall be included in the Milestone Delay Extension and the Purchase Price shall be subject to adjustment pursuant to

26

Section 6(d) of the Purchase Agreement: (i) Buyer's failure to timely submit any items required by this Work Letter, including, without limitation, the space plan, supporting drawings and specifications and pallet of interior colors and finishes; (b) Buyer's requested changes to the Improvements pursuant to any Change Order(s); or (c) Buyer's failure to comply with Seller's contractor's schedule. No Buyer Delay shall be deemed to have occurred unless and until Seller has given written notice to Buyer specifying the action or inaction which Seller contends constitutes a Buyer Delay. If such action or inaction is not cured within one (1) business day after Buyer's receipt of such notice, then a Buyer Delay, as set forth in such notice, shall be deemed to have occurred commencing as of the date Buyer received such notice and continuing for the number of days the substantial completion of the Improvements was in fact delayed as a direct result of such action or inaction.

8. Seller Delay. The term "Seller Delay" as used in this Lease or this Work Letter shall mean the extent of any delay in the design or construction of the Buyer Improvements which is due to the following: (1) delay in the giving of authorizations or approvals by Seller beyond the time periods provided for herein or in the Lease; (2) delay attributable to the refusal of Seller, its agents or contractors to permit Buyer, its agents or contractors, access to and use of the Building and any Building facilities or services after the Initial Buyer Work Date; (3) delay attributable to Seller giving Buyer incorrect or incomplete Building requirements or Seller Plans, or revisions made to such Seller Plans subsequent to the delivery of such items to Buyer; and (4) failure of Seller to deliver Seller's Plans to Buyer on or before July 1, 1998. No Seller Delay shall be deemed to have occurred unless and until Buyer has given written notice to Seller specifying the action or inaction which Buyer contends constitutes a Seller Delay. If such action or inaction is not cured within one (1) business day after Seller's receipt of such notice, then a Seller Delay, as set forth in such notice, shall be deemed to have occurred commencing as of the date Seller received such notice and continuing for the number of days the substantial completion of the Buyer Improvements was in fact delayed as a direct result of such action or inaction.

9. Force Majeure Events. The term "Force Majeure Events," as used in the Lease or this Work Letter shall mean any delay in the completion of

the Improvements which is attributable to any: (1) actual delay or failure to perform by the applicable party attributable to any strike, lockout or other labor or industrial disturbance (whether or not on the part of employees of either party hereto), civil disturbance, future order claiming jurisdiction, act of the public enemy, war, riot, sabotage, blockade, embargo, inability to secure customary materials, supplies, or labor through ordinary sources by reason or regulation or order of any governmental or regulatory body; (2) delay attributable to lightning, earthquake, fire, storm, hurricane, tornado, flood, washout, rain, severe weather, explosion, or any other similar industry-wide or area-wide cause beyond the reasonable control of the party from whom performance is required, or any of its contractors or other representatives. Except as specifically limited in this Work Letter, any prevention, delay or stoppage due to any Force Majeure Event shall excuse the performance of the party affected for a period of time equal to any such prevention, delay or stoppages (except the obligations of either party to pay money, other than rent, pursuant to this Lease). No Force Majeure Event shall be deemed to have occurred unless and until the party claiming such Force Majeure Event has provided written notice to the other party specifying the action or inaction

27

that such notifying party contends constitutes a Force Majeure Event within five (5) business days of the occurrence of such event.

10. Billing. Buyer shall pay to Seller all amounts payable by Buyer within thirty (30) days after billing by Seller. Bills may be rendered during the progress of the work so as to enable Seller to pay its general contractor, architect or engineers without advancing Seller's funds for changes to the Base Building Improvements, though such progress billings shall only be based on the extent to which the work is completed.

11. Insurance. During the course of construction, Seller shall require its contractors and architects to obtain and maintain in force Broad Form Comprehensive General Liability insurance (including, without limitation, insurance against completed operations liability for losses occurring within three (3) years after the completion of the Work) with coverage for explosion, collapse, and underground damage, against claims arising out of bodily injury, personal injury, or death and from damage to or destruction of property of others, including, without limitation, loss of use thereof, and including, without limitation, the liability of Seller or the applicable contractor or architect arising out of the activities of all subcontractors, and each of them, with a combined single limit of not less than One Million Dollars (\$1,000,000) for any one accident and/or occurrence and/or series of accidents or occurrences arising out of any one event. Such insurance shall include Broad Form Property Damage and Independent Contractors Coverage. Such insurance shall be primary and not subject to any contribution from any insurance carried by Seller.

12. Buyer's Improvements. In the event that Buyer wishes to commence constructing additional improvements within the Improvements to be constructed by Seller ("Buyer's Improvements") prior to substantial completion of the Improvements by Seller, the terms and conditions of this paragraph 12 shall apply. Buyer shall use Devcon Construction as its general contractor for the Buyer Improvements or some other contractor with an equivalent reputation and bonding capability reasonably approved by Seller ("Buyer's Contractor"). Buyer shall direct and authorize Buyer's Contractor to keep Seller fully informed of the construction process for the Buyer Improvements and to provide Seller with access to all documentation and other information in Buyer's Contractor's possession or control regarding construction of the Buyer Improvements, provided that Seller shall not be obligated to monitor or inspect construction of the Buyer Improvements or any information in connection therewith.

All Buyer Improvements shall be constructed by Buyer's Contractor. Installation of all Buyer Improvements shall be coordinated with Seller's contractor's schedule for the Base Building Improvements, and shall be handled in such a manner as to maintain harmonious labor relations and not interfere with or delay the work of Seller's contractors. In addition, at Seller's request all Buyer Improvements shall be constructed using union labor. All Buyer Improvements furnished and installed by Buyer shall not cause Seller's contractor to be dependent upon Buyer's work in order for Seller's contractor to complete his work. Buyer's contractors, subcontractors and labor shall be subject to approval by Seller which approval shall not be unreasonably withheld or delayed and shall be subject to the reasonable administrative supervision of

Buyer's general contractor and reasonable rules of the site. Buyer shall give

28

Seller full access and entry to the Premises in order to complete the Base Building Improvements. Buyer shall not be charged any fee for Seller's review of the plans, drawings and specifications or any oversight of the construction of the Buyer Improvements.

Buyer shall keep the Property free and clear of all lien claims arising in connection with Buyer's Improvements. Any delay experienced by Seller as the result of Buyer's construction of Buyer's Improvements shall constitute a Buyer's Delay (subject to the notice and cure provisions of section 7 above) for the purposes of this work letter. In the event the Purchase Agreement is terminated by Buyer pursuant to the terms and conditions thereof, except due to Seller's intentional breach at the election of Seller, Buyer shall immediately remove any and all of Buyer's Improvements that Seller reasonably determines to be of no value or of negative value in connection with the use of the Property by Seller; provided, however, at any time prior to commencement of construction of Buyer's Improvements, Buyer may submit to Seller its plans and specifications for Buyer's Improvements and request that Seller designate in writing within fifteen (15) days from receipt of such written request, which portion of the proposed Buyer's Improvements meet the foregoing standard requiring removal. Seller shall have no obligation to pay Buyer for any of Buyer's Improvements in the event of termination of the Agreement for any reason whatsoever.

29

EXHIBIT D-1 (A)

BASE BUILDING IMPROVEMENT PLANS

[Plan index to be attached from submittal set]

30

EXHIBIT D-1 (b)

REVISED SITE PLAN

[Plan index to be attached from submittal set]

31

EXHIBIT D-2

APPROVED BUYER PLAN GUIDELINES

[To be forthcoming pursuant to the terms outlined below. Typically, the easiest manner to do this is for Buyer to attach a conceptual, softline plan that would be pre-approved]

Seller and Buyer shall endeavor to agree upon parameters concerning the contents of this Exhibit. However, the parties have no obligation to so agree. In the event that Buyer believes that the parties are unable to agree upon such parameters, Buyer shall have the option to terminate the Lease by providing Seller written notice of its election to do so within two (2) weeks of the

execution date of the Lease.

32

EXHIBIT E

ESTOPPEL CERTIFICATE

[Date]

Network Appliance, Inc.
[Address]

Attn: [corporate officer]

Re: Acknowledgment of Initial Buyer Work Date under the Lease Agreement
by and between 495 Java Drive Associates, L.P., and Network Appliance,
Inc., dated as of _____, 1998 (the "Lease")

Dear [name]:

This letter will confirm that for all purposes of the Lease,
the Initial Buyer Work Date (as defined in Paragraph 3(a) of the Lease) is
_____, 199_.

Please acknowledge your acceptance of this letter by signing
and returning a copy to the undersigned.

Very truly yours,

495 Java Drive Associates, L.P.,
a California limited partnership

By: M-D Ventures, Inc.,
a California corporation
Its General Partner

By: _____
Its: _____

Accepted and Agreed:

Network Appliance, Inc.,
a Delaware corporation

By: _____
Its: _____

Dated: _____

33

EXHIBIT "F"
[INTENTIONALLY DELETED]

34

EXHIBIT "G"
[INTENTIONALLY DELETED]

35

EXHIBIT "H"

ESTOPPEL CERTIFICATE
(CONSTRUCTION LENDER)

[TO FOLLOW FROM LENDER, SUBJECT TO BUYER'S REASONABLE REQUIREMENTS]

36

EXHIBIT "H"

FORM OF BUYER ESTOPPEL CERTIFICATE
(ONGOING)

TO: _____, OR ASSIGNEE ("LENDER"), AND/OR WHOM ELSE IT MAY
CONCERN:

THIS IS TO CERTIFY THAT:

1. The undersigned is the lessee ("Buyer") under that certain lease dated _____, 19____, ("Lease"), by and between _____ as lessor ("Seller") and _____ as Buyer, covering those certain premises commonly known and designated as _____ ("Premises").
2. The Lease has not been modified, changed, altered, assigned, supplemented or amended in any respect (except as indicated below; if none, state "none"). The Lease is not in default and is valid and in full force and effect on the date hereof. The Lease is the only Lease or agreement between the Buyer and the Seller affecting or relating to the Premises. The Lease represents the entire agreement between the Seller and the Buyer with respect to the Premises _____.
3. The Buyer is not entitled to, and has made no agreement(s) with the Seller or its agents or employees concerning free rent, partial rent, rebate of rent payments, credit or offset or deduction in rent, or any other type of rental concession, including, without limitation, lease support payments or lease buy-outs (except as expressly provided in the Lease or as indicated below; if none, state "none").
_____.
4. The Buyer has accepted the Premises, and opened for business in the Premises on _____, 19__. The Lease term began _____, 19__. The termination date of the present term of the Lease, excluding unexercised renewals, is _____, 19__.
5. The Buyer has paid rent for the Premises for the period up to and including _____, 19__. The fixed minimum rent and any additional rent (including the Buyer's share of tax increases and cost of living increases) payable by the Buyer presently is \$__ per month. No such rent has been paid more than one (1) month in advance of its due date, except as indicated below (if none, state "none"). The Buyer's security deposit is
\$_____.
6. To the best of Buyer's knowledge (which means the current, actual knowledge of the signatory for Buyer, who is the person responsible at Buyer for applicable matters): (i) no

37

event has occurred and no condition exists which, with the giving notice or the lapse of time or both, will constitute a default under the Lease; and (ii) the Buyer has no existing defenses or offsets

against the enforcement of this Lease by the Seller.

7. The Buyer has received or will receive payment or credit for Buyer improvement work in the total amount of \$_____ (or if other than cash, describe below; if none, state "none"). Except as noted below, all conditions under this Lease to be performed by the Seller have been satisfied. _____.
8. Except as provided in the Lease, the Buyer has no outstanding options or rights of first refusal to purchase the Premises or any part thereof or all or any part of the real property of which the Premises are a part.
9. No actions, whether voluntary or otherwise, are pending against the Buyer or any general partner of the Buyer under the bankruptcy laws of the United States or any state thereof.
10. The Buyer has not sublet the Premises to any sublessee and has not assigned any of its rights under the Lease, except as indicated below (if none, state "none"). No one except the Buyer and its employees occupies the Premises. _____.
11. The address for notices to be sent to the Buyer is as set forth in the Lease.
12. To the best of Buyer's knowledge, Buyer's and Buyer's sublessee's and assignee's use, maintenance or operation of the Premises complies with, and will at all times comply with, all applicable federal, state, county or local statutes, laws, rules and regulations of any governmental authorities relating to environmental, health or safety matters (being hereinafter collectively referred to as the Environmental Laws).
13. The Premises have not been used and the Buyer does not plan to use the Premises for any activities which, directly or indirectly, involve the use, generation, treatment, storage, transportation or disposal of any petroleum product or any toxic or hazardous chemical, material, substance, pollutant or waste except as permitted by the lease.
14. Buyer has not received any notices, written or oral, of violation of any Environmental Law or of any allegation which, if true, would contradict anything contained herein and there are no writs, injunctions, decrees, orders or judgements outstanding, no lawsuits, claims, proceedings or investigations pending or threatened, relating to Buyer's or Buyer's sublessee's or assignee's use, maintenance or operation of the Premises, nor is Buyer aware of a basis for any such proceeding.
15. (INCLUDE THIS PARAGRAPH FOR LOAN TRANSACTIONS.) The Buyer acknowledges that all the interest of the Seller in and to the Lease is being duly assigned to Lender, and that pursuant to the terms thereof, all rent payments under the Lease shall

38

continue to be paid to the Seller in accordance with the terms of the Lease unless and until the Buyer is notified otherwise in writing by Lender or its successors or assigns. Buyer is hereby authorized and directed by Seller to comply with any written direction of Lender concerning payment of Rent and no such compliance will give rise to any default by Buyer under the Lease.

It is particularly noted that:

(a) Under the provisions of this assignment, the Lease cannot be terminated (except as expressly provided in the Lease) or modified in any of its terms, or consent be given to the release of any party having liability thereon, without the prior written consent of Lender or its successors or assigns, and without such consent, no rent may be collected or accepted more than one (1) month in advance.

(b) The interest of the Seller in the Lease has been assigned

to Lender for the purposes specified in the assignment. Lender, or its successors or assigns, assumes no duty, liability or obligation whatsoever under the Lease or any extension or renewal thereof.

(c) Any notices sent to Lender or its affiliates should be sent by registered mail and addressed as follows:
_____ .

- 16. Buyer agrees to give any Mortgagee and/or Trust Deed Holders ("Mortgagee"), by registered mail, a copy of any notice of default served upon the Seller, and Lender shall have the cure rights expressly provided in Paragraph 21 of the Lease.
- 17. This certification is made to induce Lender to make certain fundings, knowing that Lender relies upon the truth of this certification in disbursing said funds.
- 18. The undersigned is authorized to execute this Buyer Estoppel Certificate on behalf of the Buyer.

DATED THIS DAY OF _____, 19_____.

(BUYER)

BY: _____

ITS:

DATE:

39

THE UNDERSIGNED HEREBY CERTIFIES THAT THE CERTIFICATIONS SET FORTH ABOVE ARE TRUE AS OF THE DATE HEREOF.

(OWNER/SELLER)

BY: _____

ITS:

DATE:

40

EXHIBIT "I"

[PREAPPROVED FORM OF SNDA AGREEMENT TO BE ATTACHED]

41

EXHIBIT "J"

RULES AND REGULATIONS

1. Sidewalks, exits, entrances, elevators, escalators and stairways shall not be obstructed by Buyer or used by Buyer for any purpose other than for ingress to and egress from the Premises. Buyer, and Buyer's employees or invitees, shall not go upon the roof of the Building, except as authorized by Seller or pursuant to Paragraph 46 of the Lease.

2. All curtains, draperies, blinds, shutters, shades, screens

or other coverings, awnings, hangings or decorations shall be attached to, hung or placed in, or used in connection with, any exterior window, door or patio on the Premises, if any, shall be subject to Seller's approval, which shall not be unreasonably withheld.

3. If Buyer shall alter any lock or access device or install a new or additional lock or access device, Buyer shall in each case furnish Seller with a key for any such lock to the extent Seller would be entitled to such key under the Lease.

4. Upon the termination of the tenancy, Buyer shall deliver to Seller all the keys or access devices for the Building, offices, rooms and toilet rooms which Buyer shall have had made.

5. The toilet rooms, toilets, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed and no foreign substance of any kind whatsoever shall be thrown therein, and the expense of any breakage, stoppage or damage resulting from the violation of this rule by Buyer or Buyer's employees or invitees shall be borne by Buyer.

6. Animals or birds shall not be brought or kept in or about the Premises or the Building, other than seeing-eye dogs or other such animals that assist handicapped individuals.

7. Buyer shall not install any radio or television antenna, loudspeaker or any other device on the exterior walls or the roof of the Building except as expressly permitted by the Lease.

8. Buyer shall not lay linoleum, tile, carpet or any other floor covering so that the same shall be affixed to the floor of the Premises in any manner except as approved in writing by Seller. The expense of repairing any damage resulting from a violation of this rule by Buyer or Buyer's contractors, employees or invitees or the removal of any floor covering shall be borne by Buyer.

42

9. Buyer shall not place a load upon any floor of the Premises which exceeds the load per square foot which such floor was designed to carry and which is allowed by law. Buyer may hang pictures on walls in the Premises. Any damage to the walls caused by molly bolts, double sided tape, or like hanging materials, will be repaired by Buyer.

10. Buyer shall store all trash and garbage within the interior of the Premises or in the appropriate trash collection areas outside of the Premises. No material shall be placed in the trash boxes or receptacles if such material is of such nature that it may not be disposed of in the ordinary and customary manner of removing and disposing of trash and garbage in the jurisdiction in which the Premises is located, without violation of any law or ordinance governing such disposal.

11. Buyer shall comply with all safety, fire protection and evacuation procedures and regulations established by any governmental agency.

12. Buyer assumes any and all responsibility for protecting the Premises from theft, robbery and pilferage, which includes keeping doors locked and other means of entry to the Premises closed, unless caused by the gross negligence or willful misconduct of Seller, its agents, servants, or employees ("Seller Parties").

13. Buyer shall be responsible for the observance of all of the foregoing Rules and Regulations by Buyer's employees, agents, clients, customers, invitees and guests.

14. Unless otherwise defined, terms used in these Rules and

Regulations shall have the same meaning as in the Lease.

43

EXHIBIT K

REQUIRED CONDITION OF PREMISES UPON SURRENDER

Upon termination of the Lease, the Premises shall be returned to Seller with all Building Systems and elevator, fire and gas systems in good working order and maintained with any necessary repairs completed in the reasonable opinion of Seller's subcontractor, and all operating manuals and maintenance records with respect to such systems shall be delivered to Seller. All space in the Premises shall be clean and well-maintained with walls freshly painted as necessary (or touched-up, if acceptable to Seller in its reasonable discretion), and carpet shampooed and presentable for re-leasing. Any damaged or unpresentable carpet shall be replaced. All window coverings shall be cleaned and any damaged coverings repaired or replaced. Any damaged ceiling tiles shall be replaced and all light fixtures shall be fully operational and clean. All doors shall be presentable and damaged doors repaired or replaced. Bathrooms shall be freshly mopped and all tile surfaces cleaned. Any damaged bathroom partitions or fixtures shall be repaired or replaced. The exterior and interior of all windows shall be washed and all interior partition glass shall be cleaned. If Buyer is obligated to remove or restore any Buyer Improvements or Alterations upon termination or expiration of the Lease pursuant to Paragraph 8(d) or (e) of the Lease or Paragraph 6 of the Work Letter, the affected area will be returned to Seller in the form of open office space in the condition described above.

44

EXHIBIT "L"

[INTENTIONALLY DELETED]

45

EXHIBIT "M"

FORM OF LETTER OF CREDIT

[TO BE PROVIDED BY BUYER FOR REVIEW BY SELLER PRIOR TO LEASE EXECUTION]

46

EXHIBIT "N"

BUYER'S HAZARDOUS SUBSTANCES DISCLOSURES

[TO BE PROVIDED BY BUYER FOR SELLER'S REVIEW PRIOR TO LEASE EXECUTION]

47

ADDENDUM TO AGREEMENT OF PURCHASE AND SALE

Notwithstanding anything to the contrary in the Agreement of Purchase and Sale between Network Appliance, Inc. ("Buyer") and 495 Java Drive Associates, L.P. ("Seller"), (i) Buyer warrants that it has authority to execute, deliver and perform the Agreement of Purchase and Sale and (ii) Seller

shall be entitled to terminate the Agreement of Purchase and Sale at any time after July 10, 1998 if, prior to such termination Buyer has failed to deliver to Seller its Board of Directors Resolution certified by the Secretary or Assistant Secretary of Buyer authorizing the transactions contemplated by the Agreement of Purchase and Sale. Upon such termination Seller shall return Buyer's Deposit.

BUYER:

NETWORK APPLIANCE, INC.

By: /s/ CHRIS CARLTON

Its: Vice President

SELLER:

495 JAVA DRIVE ASSOCIATES, L.P.

By M-D Ventures, Inc.

By: /s/ JEFFREY JOHNSON

Its: Attorney-in-fact

48

INDEMNIFICATION AGREEMENT

This Indemnification Agreement is executed as of June 15, 1998 by and between Network Appliance, Inc., a Delaware Corporation ("Network") and 495 Java Drive Associates, L.P., a California limited partnership ("Java").

1. Recitals.

a. Java owns the property located at 495 Java Drive, Sunnyvale, California ("Property").

b. Java is in the process of constructing a four story building consisting of approximately One Hundred Twenty-Six Thousand Seven Hundred Sixty (126,760) square feet ("Improvements"). The Improvements are being constructed by Devcon Construction Company ("Devcon").

c. Network and Java have executed that certain Agreement Of Purchase And Sale dated as of June 11, 1998 for the purchase by Network of the Property ("Purchase Agreement").

d. The capitalized terms not otherwise defined herein shall have the meanings given in the Purchase Agreement.

e. Network wishes to review the plans and specifications for the Improvements to consider changes therein. Under the terms and conditions of the Purchase Agreement the additional costs of changes are to be borne by Network. In order to minimize the additional costs associated with such changes Network has determined that it would be to its advantage to cause Devcon to stop construction as of the date hereof and to do only such construction as Network shall authorize.

f. Java is willing to allow Network to stop the Devcon construction and limit its construction to only those portions of the work authorized by Network in accordance herewith if, and only if, Network indemnifies Java on the terms and conditions of this Indemnity Agreement for the costs associated therewith.

2. Devcon Construction. Java shall instruct Devcon to stop

construction as of June 16, 1998 and to limit its construction to only the portions of work authorized by Network (collectively "Stop Work Notice") until the earlier of (i) written notice delivered by Network to Java notifying Java that it wishes to withdraw the Stop Work Notice or (ii) written notice by Java delivered to Network that it has withdrawn the Stop Work Notice following termination of the Purchase Agreement or after September 14, 1998.

3. Indemnification. Network shall be obligated to pay Java the following costs and expenses associated with the Stop Work Notice:

(a) All increased costs of construction of the Improvements

49

charged by Devcon in connection with the Stop Work Notice as evidenced by appropriate invoices and supporting information supplied by Devcon. Java agrees to cooperate with Network in reviewing and approving such charges.

(b) The sum of \$2,323 per day for the period that substantial completion of the Improvements is delayed by the effect of the Stop Work Notice as determined by Devcon and reasonably approved by Java. Unless and until substantial completion of the Improvements occurs it shall be presumed that the number of days of delay caused by the Stop Work Notice shall be the number of days from June 16, 1998 until the day proceeding the date Devcon commences pouring foundations (ie the same stage of construction that existed on June 16, 1998) ("Presumed Delay Period"). If the purchase and sale contemplated by the Purchase Agreement fails to occur for any reason whatsoever, the number of days of delay shall be the Presumed Delay Period. If the purchase and sale contemplated by the Purchase Agreement is completed the number of days of delay for the computation required by this sub-paragraph (b) shall be the lesser of (i) the Presumed Delay Period or (ii) the number of days beyond March 17, 1999 that substantial completion of the Improvements (as defined in the Purchase Agreement) occurs.

4. Payment. Unless and until the Purchase Agreement is terminated or the Closing Date arrives and Close of Escrow is not completed on the Closing Date the amounts that Network is obligated to pay pursuant to this Indemnification Agreement shall be treated as a Change Order under the Purchase Agreement and credited to the first \$3,000,000 of Change Orders to be financed by Java and which are to result in an adjustment to the Purchase Price at Close of Escrow. In the event the Purchase Agreement is terminated for any reason whatsoever and/or the Closing Date arrives and Network fails to purchase the Property for any reason whatsoever, the amounts payable by Network to Java hereunder shall be due and payable within ten (10) days written notice given pursuant to the notice procedure set forth in the Purchase Agreement.

5. Attorneys fees; Arbitration. In the event of any litigation or arbitration regarding the rights and obligations under this Agreement the prevailing party shall be entitled to recover, in addition to damages, reasonably attorney's fees, expert witness fees and court costs. Any controversy or claim arising out of this Agreement shall be settled by arbitration in accordance with the rules of the American Arbitration Association for the arbitration of commercial disputes, and judgement on the award rendered by the Arbitrator(s) may be entered in any court having jurisdiction. the prevailing party in such arbitration shall be entitled to attorney's fees and costs.

6. Separate and Independent Obligations. The obligations of Network are entirely separate and independent of any and all of the rights and obligations of the parties under the Purchase Agreement or any other agreement between the parties hereto.

50

IN WITNESS WHEREOF the parties hereto have executed this Indemnity Agreement as of the date and year set forth above.

Network Appliance, Inc.,
a Delaware Corporation

/s/ CHRIS CARLTON

by: Chris Carlton

its: Vice President

495 Java Drive Associates, L.P.,
M-D Venture, Inc., a California
Corporation, its General Partner

/s/ JEFFREY JOHNSON

by: Jeffrey Johnson

its: Attorney-in-fact

LEASE BETWEEN

475 Java Drive Associates, L.P.,
a California Limited Partnership

("LESSOR")

AND

NETWORK APPLIANCE, INC.,
a Delaware Corporation

("LESSEE")

June 11, 1998

LEASE

THIS LEASE is made and entered into as of June 11, 1998, by and between 475 Java Drive Associates, L.P., a California Limited Partnership ("Lessor") and Network Appliance, Inc., a Delaware Corporation ("Lessee").

RECITALS

A. Lessor owns that certain real property located in the City of Sunnyvale, County of Santa Clara, State of California, and more particularly described in Exhibit A attached hereto. The land described in Exhibit A together with the Improvements (as defined below) thereon, is herein referred to as the "Premises."

B. Lessee desires to lease the Premises from Lessor, and Lessor has agreed to lease the Premises to Lessee on the terms and conditions set forth in this Lease and for the purposes provided herein.

NOW, THEREFORE, in consideration of the rents to be paid hereunder and of the agreements, covenants and conditions contained herein, the parties hereby agree as follows:

ARTICLE 1. BASIC LEASE INFORMATION

The following is a summary of basic lease information. Each term or item in this Article 1 shall be deemed to incorporate all of the provisions set forth below pertaining to such term or item and to the extent there is any conflict between the provisions of this Article 1 and any more specific provision of this Lease, the more specific provision shall control.

Lessor: 475 Java Drive Associates, L.P.,
a California Limited Partnership

Address of Lessor: c/o The Mozart Development Company
1068 East Meadow Circle
Palo Alto, CA 94303

Lessee: NETWORK APPLIANCE, INC.,
a Delaware Corporation

Address of Lessee: 2770 San Tomas Expressway
Santa Clara, California 95051

Commencement Date (Article 5): October 1, 1999

Term (Article 5): 25 years

Use (Article 11): Lessee may use the Premises for general office, administration and research and development (including a cafeteria for its employees).

3

Base Monthly Rental as of Commencement Date (Article 7): Two Hundred Fifty Seven Thousand Dollars (\$257,000) per month.

Use (Article 11): Office, administration, research, development, light manufacturing and industrial operations, and/or any lawful purpose

ARTICLE 2. DEFINITIONS

As used in this Lease, the following terms shall have the following meanings, applicable, as appropriate, to both the singular and plural forms of the terms herein defined:

"Additional Rental" is as defined in Article 8.

"Affiliate" means (i) the legal representative, successor or assignee of, or any trustee of a trust for the benefit of, Lessee; (ii) any entity of which a majority of the voting or economic interest is owned by Lessee or one or more of the persons referred to in the preceding clause; (iii) any partnership in which Lessee or a person referred to in the preceding clauses is a partner; (iv) any person who is an officer, director, trustee, stockholder (10% or more) or partner of Lessee or any person referred to in the preceding clauses; or (v) any person directly or indirectly controlling, or under direct or indirect common control with, any person referred to in any of the preceding clauses. For purposes of this definition, "control" means owning directly or indirectly ten percent (10%) or more of the beneficial interest in such entity or the direct or indirect power to control the management policies of such person or entity, whether through ownership, by contract or otherwise.

"Alterations" means any additional improvements, alterations, remodeling, demolition, or reconstruction of or to the Initial Improvements or construction of improvements different than the Initial Improvements after the completion of the initial construction of the Initial Improvements.

"Applicable Laws" means all applicable covenants, conditions and restrictions recorded against and applicable to the Premises and all applicable laws, codes, ordinances, orders, rules, regulations and requirements, including, without limitation, all Environmental Requirements, of all Federal, state, county, municipal and other governmental authorities and the departments, commissions, boards, bureaus, instrumentalities, and officers thereof, and all orders, rules and regulations of the Pacific Fire Rating Bureau, and the American Insurance Association (formerly the National Board of Fire Underwriters) or any other body exercising similar functions relating to or affecting the Premises, the Improvements now or hereafter located on the Premises or the use, operation or occupancy of the Premises for the purposes permitted hereunder, whether now existing or hereafter enacted.

"Appropriation" means any taking by exercise of right of condemnation (direct or inverse) or eminent domain, or requisitioning by military or other public authority for any purpose arising out of a temporary emergency or other temporary circumstance or sale under threat of condemnation. "Appropriated" means having been subject to such taking and "Appropriating" means exercising such taking authority.

4

"Award" means the amount paid by the Appropriating authority as a result of an Appropriation.

"Base Monthly Rental" means the amount stated in the Basic Lease Information, payable in accordance with Article 7.

"Basic Lease Information" means the information contained in Article 1.

"Bonded Contracts" is as defined in Section 13.5(b).

"City" means the City of Sunnyvale.

"Commencement Date" is as stated in the Basic Lease Information.

"CPI" means the Consumer Price Index published by the U.S. Department of Labor, Bureau of Labor Statistics (San Francisco-Oakland Bay Area, All Urban Consumers, All Items), or if such index is no longer published, a successor or substitute index designated by Lessor, published by a governmental agency and reflecting changes in consumer prices in the San Francisco Bay Area.

"Environmental Audit" is as defined in Section 20.5.

"Environmental Claims" means all claims, demands, judgments, damages, penalties, fines, liabilities (including strict liability), encumbrances, liens, costs, and expenses of investigation and defense of any claim, including, without limitation, reasonable attorneys' fees and disbursements and consultants' fees, any of which are incurred at any time as a result of a Hazardous Substance Occurrence, including, without limitation:

(i) Claims for personal injury, or injury to property or natural resources occurring upon or off of the Premises;

(ii) Fees incurred for the services of attorneys, consultants, contractors, experts, laboratories and all other costs incurred in connection with the investigation or remediation of Hazardous Substances or violation of Environmental Requirements, including, but not limited to, preparation of feasibility studies or reports, or the performance of any cleanup, remediation, removal, response, abatement, containment, closure, restoration or monitoring work required by any federal, state or local governmental agency or political subdivision, or reasonably necessary to make full economic use of the Premises or any other property or otherwise expended in connection with such conditions, and including without limitation any attorneys' fees, costs and expenses incurred in enforcing this Lease or collecting any sums due hereunder; and

(iii) Liability to any third person or governmental agency to indemnify such person or agency for costs expended in connection with the items referenced in subsection (ii) above.

"Environmental Requirements" means all applicable present and future statutes, regulations, rules, ordinances, codes, licenses, permits, orders, approvals, plans, authorizations,

5

concessions, franchises, and similar items, and all amendments thereto, of all governmental agencies, departments, commissions, boards, bureaus or instrumentalities of the United States, California, and political subdivisions thereof, and all applicable judicial, administrative and regulatory decrees, judgments, and orders relating to the protection of human health or the environment, including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. section 9601 et seq.) and the Resource Conservation and Recovery Act (42 U.S.C. section 6901 et seq.) and including, without limitation: (i) all requirements pertaining to reporting, licensing, permitting, investigation and remediation of emissions, discharges, releases, or threatened releases of Hazardous Substances, whether solid, liquid, or gaseous in nature, into the air, surface water, groundwater, or land, or relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling of Hazardous Substances, and (ii) all requirements pertaining to the health and safety of employees or the public.

"Expiration Date" is as stated in the Basic Lease Information.

"Event of Default" is as defined in Article 28.

"Full Insurable Replacement Value" is as defined in Section 21.1.

"Hazardous Substance" means any substance:

(i) the presence of which requires investigation or remediation under any Environmental Requirement;

(ii) which is or becomes defined as a "hazardous waste," "hazardous substance," "pollutant," or "contaminant" under any Environmental Requirement;

(iii) which is toxic, explosive, corrosive, flammable, infectious, radioactive, carcinogenic, mutagenic, or otherwise hazardous and is or becomes regulated under any Environmental Requirement;

(iv) the presence of which on the Premises causes or threatens to cause a nuisance upon the Premises or to surrounding properties or poses or threatens to pose a hazard to the health or safety of persons on or about the Premises;

(v) the presence of which on adjacent properties could constitute a trespass by Lessee;

(vi) without limitation of the foregoing, which contains gasoline, diesel fuel or other petroleum hydrocarbons;

(vii) without limitation of the foregoing, which contains polychlorinated biphenals (PCBs), asbestos or urea formaldehyde foam insulation; or

(viii) without limitation of the foregoing, radon gas.

6

"Hazardous Substance Occurrence" means any use, treatment, keeping, storage, sale, release, disposal, migration or discharge of any Hazardous Substance from, on, about, under or into the Premises, or the exacerbation through the acts of Lessee or its subtenants of any previously existing Hazardous Substance condition, that occurs during the, excluding any Hazardous Substance Occurrence caused by Lessor or its Affiliates or originating on property owned by Lessor or its Affiliates.

"Impositions" is as defined in Section 8.1.

"Improvements" means all landscaping, buildings and other structures and improvements, and fixtures thereto, constructed, planted, or installed on the Premises, including, without limitation, the Initial Improvements to be constructed by Lessee in accordance herewith and all subsequent Alterations.

"Initial Improvements" means the initial improvements constructed by Lessee.

"Interest Rate" means the lesser of (i) the rate of interest charged by Bank of America at its offices in San Francisco as its prime or reference rate, plus 2%, or (ii) the highest rate permitted under Applicable Laws, compounded monthly.

"Lease Year" shall mean each successive twelve month period commencing on October 1 and ending on September 30.

"Leasehold Mortgage" is as defined in Article 26.

"Premises" is as defined in Recital A.

"Supplemental Audit" is as defined in Section 20.5.

"Term" is as defined in Article 5.

"Termination Date" shall mean the Expiration Date or such earlier date as this Lease is terminated pursuant to any provision hereof.

"Transfer" is as defined in Section 24.1.

ARTICLE 3. LEASE OF PREMISES; RESERVATION OF RIGHTS

Lessor hereby leases and demises to Lessee, and Lessee hereby hires from Lessor, the Premises;

Subject to all zoning and governmental regulations now or

hereafter in effect, and all liens, encumbrances, restrictions, rights and conditions of law or of record or otherwise known to Lessee or ascertainable by inspection or a survey; and

7

ARTICLE 4. DEMOLITION; NO OTHER ALTERATION BY LESSOR; ACCEPTANCE OF PREMISES

Section 4.1 Lessor's Obligation To Demolish Existing Building. Prior to the Commencement Date, Lessor shall cause the existing improvement to be demolished and removed from the Premise in accordance with the specifications described on EXHIBIT B attached hereto and incorporated herein by reference. Lessor shall indemnify, defend and hold Lessee harmless from and against any cost, claim, loss or liability directly or indirectly in connection with such demolition. Lessor shall take no action which alters the physical condition of the Premises except for the demolition described in the preceding sentence.

Section 4.2 Lessee's Due Diligence. Prior to entering into this Lease, Lessee has made a thorough, independent examination of the Premises and all matters relevant to Lessee's decision to enter into this Lease, and Lessee is thoroughly familiar with all aspects of the Premises and is satisfied that they are in an acceptable condition and meet Lessee's needs. Without in any way limiting the generality of the foregoing, Lessee's inspection and review has included, to the extent that Lessee in its sole discretion has deemed necessary or appropriate:

(a) All matters relating to title, together with all municipal and other legal requirements such as taxes, assessments, zoning, use permit requirements and building codes;

(b) The physical condition of the Premises, including the soils and groundwater and the presence or absence of Hazardous Substances on, under or in the vicinity of the Premises and all other physical and functional aspects of the Premises;

(c) All easements and access rights;

(d) Lessee's ability to obtain appropriate licenses and satisfy all licensing requirements under Applicable Laws;

(e) The economics of the business Lessee intends to conduct on the Premises, including without limitation, market conditions and financial viability; and

(f) Lessee's ability to finance the construction of the Improvements.

8

Section 4.3 Acceptance of the Premises. Subject to the obligations of Lessor pursuant to Section 4.1, Lessee specifically agrees to take the Premises in its condition as of the Commencement Date and acknowledges that in entering into this Lease, Lessee does not rely on, and Lessor does not make, any express or implied representations or warranties as to any matters including, without limitation, the suitability of the soil or subsoil, any characteristics of the Premises or improvements thereon, the suitability of the Premises for the intended use, the economic feasibility of the business Lessee intends to conduct on the Premises, title to the Premises, Hazardous Substances on or in the vicinity of the Premises, or any other matter. Lessee has satisfied itself as to such suitability and other pertinent matters by Lessee's own inquiries and tests into all matters relevant in determining whether to enter into this Lease. Subject to the obligations of Lessor pursuant to Section 4.1, Lessee accepts the Premises in its condition as of the Commencement Date, and hereby expressly agrees that if any remedial or restoration work is required in order to conform the Premises to the requirements of Applicable Laws, Lessee shall assume sole responsibility for any such work.

ARTICLE 5. TERM

The term of this Lease (the "Term") shall be for the period stated in the Basic Lease Information, commencing on the Commencement Date and

expiring on the Expiration Date (subject to extension pursuant to Article 6) or on such earlier date as this Lease may be terminated as hereinafter provided. In the event the demolition to be completed by Lessor pursuant to Section 4.1 is not completed as of October 1, 1999 the Commencement Date shall be extended to the date of completion of such work.

ARTICLE 6. OPTIONS TO EXTEND TERM

Lessee shall have no right to extend the Term.

9

ARTICLE 7. BASE MONTHLY RENTAL

Section 7.1 Base Monthly Rental. Commencing upon the Commencement Date and continuing throughout the term, Lessee shall pay to Lessor, at Lessor's address stated in the Basic lease Information, or to such other person or at such other place as Lessor may from time to time designate by notice to Lessee, without prior notice or demand, Base Monthly Rental in the amount stated in the Basic Lease Information, which amount shall be adjusted as provided below.

ARTICLE 8. ADDITIONAL RENTAL

Section 8.1 Impositions. In addition to the Base Monthly Rental and all other amounts and charges due hereunder, as part of the consideration for this Lease and as additional rental hereunder, commencing October 1, 1999, Lessee covenants and agrees to bear, discharge and pay to the relevant authority or entity, in lawful money of the United States, without offset or deduction, as the same become due, before delinquency, all taxes, assessments, rates, charges, license fees, municipal liens, levies, excises or imposts, whether general or special, or ordinary or extraordinary, of every name, nature and kind whatsoever, including all governmental charges of whatsoever name, nature or kind that may be levied, assessed, charged or imposed or may be or become a lien or charge upon the Premises or any part thereof; or upon the rent or income of Lessee; or upon the use or occupancy of the Premises; or this transaction or any document creating or transferring an estate or interest in the Premises; upon any of the buildings or improvements that are or are hereafter placed, built or newly constructed upon the Premises; or upon the leasehold of Lessee or upon the estate hereby created.

If at any time during the Term, under any Applicable Laws, any tax is levied or assessed against Lessor directly, in substitution in whole or in part for real property taxes, Lessee covenants and agrees to pay and discharge such tax.

All of the foregoing taxes, assessments and other charges are herein referred to as "Impositions."

10

Section 8.2 Right to Contest. Lessee shall have the right to contest, by appropriate proceedings, the amount or validity, in whole or in part, of any Imposition, provided that Lessee shall not postpone or defer payment of such Imposition but shall pay such Imposition in accordance with Section 8.1 notwithstanding such contest. Lessor shall have no obligation to join in any such proceedings. Lessee shall indemnify and defend Lessor against and save Lessor harmless, in accordance with Article 22 hereof, from and against any and all claims, demands, losses, costs, liabilities, damages, penalties and expenses, including, without limitation, reasonable attorneys' fees and expenses, arising from or in connection with any such proceedings.

Section 8.3 Proration. Any Imposition relating to a fiscal period of any taxing authority, only a part of which period is included within the Term, shall be prorated as between Lessor and Lessee so that Lessor shall pay the portion thereof attributable to any period prior to the commencement of and subsequent to the lapse of the Term, and Lessee shall pay the portion thereof attributable to any period during the Term. Lessee, however, shall pay all personal property taxes, without proration, that relate to a fiscal year in which the Term hereof shall commence or terminate.

Section 8.4 Assessment Proceedings. If at any time during the Term any

governmental authority shall undertake to create an improvement or special assessment district the proposed boundaries of which shall include the Premises, Lessee shall be entitled to appear in any proceeding relating thereto and to exercise all rights of a landowner to have the Premises excluded from the proposed improvement or special assessment district or to determine the degree of benefit to the Premises resulting therefrom.

Section 8.5 Additional Rental. All of the above charges and all other charges and amounts required to be paid by Lessee under this Lease shall be additional rent ("Additional Rental"). All such Additional Rental that is payable to Lessor shall be payable at the place where the Base Monthly Rental is payable.

ARTICLE 9. NET LEASE; NO COUNTERCLAIM OR ABATEMENT

The Base Monthly Rental and Additional Rental due to Lessor hereunder shall be absolutely net to Lessor and shall be paid without assertion of any counterclaim, setoff, deduction or defense and without abatement, suspension, deferment or reduction. Under no circumstances or conditions, whether now existing or hereafter arising, and whether or not beyond the present contemplation of the parties, shall Lessor be expected or required to make any payment of any kind whatsoever with respect to the Premises or be under any obligation or liability hereunder except as expressly set forth in this Lease.

Except as otherwise expressly provided herein, this Lease shall continue in full force and effect, and the obligations of Lessee hereunder shall not be released, discharged or otherwise affected, by reason, of: (a) any damage to or destruction of the Premises or any portion thereof or any improvements thereon, or any taking thereof in eminent domain; (b) any restriction or prevention of or interference with any use of the Premises or the improvements or any part thereof; (c) any bankruptcy, insolvency, reorganization, composition, adjustment, dissolution, liquidation or other proceeding relating to Lessor, Lessee or any constituent partner

11

of Lessee or any sublessee, licensee or concessionaire or any action taken with respect to this Lease by an trustee or receiver, or by any court, in any proceeding; (d) any claim that Lessee or any other person has or might have against Lessor; (e) any failure on the part of Lessor to perform or comply with any of the terms hereof or of any other agreement with Lessee or any other person; (f) any failure on the part of any sublessee, licensee, concessionaire, or other person to perform or comply with any of the terms of any sublease or other agreement between Lessee and any such person; (g) any termination of any sublease, license or concession, whether voluntary or by operation of law; or (h) any other occurrence whatsoever, whether similar or dissimilar to the foregoing, in each case whether or not Lessee shall have notice or knowledge of any of the foregoing.

The obligations of Lessee hereunder shall be separate and independent covenants and agreements. Lessee hereby waives, to the full extent permitted by applicable law, all rights now or hereafter conferred by statute, including without limitation the provisions of Civil Code Sections 1932 and 1933, to quit, terminate or surrender this Lease or the Premises or any part thereof, or to any abatement, suspension, deferment, diminution or reduction of any rent hereunder.

ARTICLE 10. OPTION TO PURCHASE.

Lessor hereby grants to Lessee the option to purchase the Premises pursuant to the terms and conditions of that certain Option Agreement dated of even date herewith.

ARTICLE 11. USE OF PREMISES

Subject to all provisions and limitations contained herein, the Premises and all buildings and improvements at any time located thereon shall at all times be used and operated for the purposes stated in the Basic Lease Information and for no other purpose. The parties hereby acknowledge and agree that Lessee's covenant that the Premises shall be used solely for the purposes stated in the Basic Lease Information and for no other purpose is material consideration for Lessor's agreement to enter into this Lease. The parties further acknowledge and agree that any violation of said covenant shall constitute a material breach of this Lease and entitle Lessor to exercise any

and all of its rights and remedies under this Lease or otherwise at law or in equity.

Without limitation of the foregoing, or any other provision of this Lease, in no event shall the Premises be used for any purpose that in any manner causes, creates, or results in a nuisance; any purpose or use that is of a nature to involve substantial hazard, such as the manufacture or use of explosives, chemicals or products that may explode, or any purpose or use that otherwise may harm the health or welfare of persons or the physical environment; or any discharge of Hazardous Substances on the Premises, including but not limited to the disposing or discharging of such substances into or under the Premises.

ARTICLE 12. LIMITATION ON EFFECT OF APPROVALS

Lessor shall have no obligation to review, comment upon, approve, inspect or take any other action with respect to the Premises, the Improvements, or the design or construction thereof, or any other matter, are specifically for the benefit of Lessor and no other

12

party. No review, comment, approval or inspection, right or exercise of any right to perform Lessee's obligations, or similar actions required or permitted by, of, or to Lessor hereunder, or actions or omissions of Lessor's employees, agents and trustees, or other circumstances shall give or be deemed to give Lessor any liability, responsibility or obligation for, in connection with, or with respect to, the design, construction, maintenance or operation of the Premises or any Improvements, or the removal and/or remediation of any Hazardous Substances on, in or from the Premises, nor shall any such approval, actions, information or circumstances relieve or be deemed to relieve Lessee of the sole obligation and responsibility for the design, construction, maintenance and operation of the Premises and Improvements and the removal and/or remediation of Hazardous Substances required under this Lease, if any.

ARTICLE 13. INITIAL CONSTRUCTION AND ALTERATIONS

Section 13.1 Construction of Initial Improvements. Lessee hereby is granted permission, at Lessee's sole cost and expense, to design, develop and construct upon the Premises the Initial Improvements.

Section 13.2 Alterations. Lessee shall have the right to make Alterations.

Section 13.3 Permits and Approvals. Lessee shall be solely responsible for obtaining, at its sole cost and expense, any approvals that may be required pursuant to that certain Declaration of Protected Covenants, of Moffet Industrial Park No. 2 recorded in the Santa Clara official records on December 23, 1971, and the approval of the City (and any other governmental agencies with jurisdiction) for any general plan amendment, rezoning, variance, conditional use permit, building, electrical and plumbing permits, environmental impact analysis and mitigations imposed thereby, or other governmental action necessary to permit the development, construction and operation of the Improvements (including any Alterations) in accordance with this Lease. Lessor, at no cost or expense to itself, shall cooperate with Lessee to the extent reasonably required to obtain the approval of the City for the Initial Improvements and any proposed Alterations. Lessee shall reimburse Lessor for any out-of-pocket expenses reasonably incurred by Lessor in connection with such cooperation.

Section 13.4 Design. The exterior design of the Improvements, including without limitation, the site plan, landscaping plan and materials, colors, and elevations, shall be subject to the approval of the City. Lessee shall provide copies of such plans from time-to-time to Lessor.

Section 13.5 Prerequisites to Commencement of Construction. In addition to all other requirements set forth herein, before commencing the construction of the Initial Improvements or any Alterations and before any building materials have been delivered to the Premises by Lessee or under Lessee's authority, Lessee shall:

(a) Procure or cause to be procured the insurance coverage described below in the limits hereinafter provided, and provide Lessor with certified copies of all such insurance or, with the written approval of Lessor, certificates of such insurance in form satisfactory to Lessor. All such

insurance shall comply with any requirements of Articles 14 and 21.

(b) Obtain the approval of Lessor of the general contractor in respect of any Bonded Contracts, which approval shall not be unreasonably withheld or delayed. Lessor hereby

13

approves Devcon Construction Company, and Lessor shall approve any other contractor with an equivalent reputation and bonding capacity. If Lessor fails to approve the general contractor, Lessee shall provide Lessor with performance and payment bonds naming Lessor as an additional obligee, which shall cover payment of all obligations arising under the Bonded Contracts in connection with the construction of the Initial Improvements or any subsequent Alterations, as the case may be, and guaranteeing the completion of such construction, and payment in full of all claims for labor performed and materials supplied for such construction. The bonds shall be issued by a responsible surety company, licensed to do business in California, in an amount not less than the amount of the Bonded Contracts and shall remain in effect until the entire cost of the work shall have been paid in full. As used herein, the term "Bonded Contracts" means the general contract and any construction contract separate from the general contract that is for \$100,000 or more. The bonds shall state that they are conditioned to secure the completion of the work under the Bonded Contracts, free from all liens and claims of contractors, subcontractors, mechanics, laborers, and material suppliers; and that the construction work shall be completed in accordance with the terms of the respective Bonded Contract by the contractor thereunder, or, on its default, the surety.

(c) During the course of construction, to the extent not covered by property insurance maintained by Lessee pursuant to Article 21, maintain or caused to be maintained a comprehensive "all risk" builder's risk insurance, including vandalism and malicious mischief, covering all improvements in place on the Premises, all materials and equipment stored at the Premises and furnished under contract, and all materials and equipment that are in the process of fabrication at the premises of any third party or that have been placed in due course of transit to the Premises when such fabrication or transit is at the risk of, or when title to or an insurable interest in such materials or equipment has passed to, Lessee or its construction manager, contractors or subcontractors (excluding any contractors', subcontractors' and construction managers' tools and equipment, and property owned by the employees of the construction manager, any contractor or any subcontractor), such insurance to be written on a completed value basis in an amount not less than the full estimated replacement value of the Initial Improvements or such Alterations, as applicable.

(d) Cause the contractor to procure and maintain comprehensive liability insurance covering Lessee, Lessor and each construction manager, contractor and subcontractor engaged in any work on the Premises, which insurance may be effected by endorsement, if obtainable, on the policy required to be carried pursuant to Article 21, including insurance for completed operations, elevators, owner's, construction manager's and contractor's protective liability, products completed operations for three (3) years after the date of acceptance of the work by Lessee, broad form blanket contractual liability, broad form property damage and full form personal injury (including but not limited to bodily injury), covering the performance of all work at or from the Premises by Lessee, its construction manager, contractors and subcontractors, and in a liability amount not less than the amount at the time carried by prudent owners of comparable construction projects in the Santa Clara valley, but in any event not less than Ten Million Dollars (\$10,000,000) combined single limit, which policy shall contain a cross-liability clause or separation of insureds provision, an endorsement deleting the property damage exclusion as to explosion, underground, and collapse hazards, and an endorsement providing incidental malpractice coverage, and shall include thereunder for the mutual benefit of

14

Lessor and Lessee, bodily injury liability and property damage liability automobile insurance on any non-owned, hired or leased automotive equipment used in the construction of any work.

(e) Cause the contractor to procure and maintain Worker's Compensation Insurance in the amounts and coverages required under workers' compensation, disability and similar employee benefit laws applicable to the Premises, and Employer's Liability Insurance with limits not less than Ten Million Dollars (\$10,000,000) or such higher amounts as may be required by law.

Section 13.6 General Construction Requirements.

(a) All construction and other work shall be done at Lessee's sole cost and expense and in a prudent and first class manner and with first class materials. Lessee shall construct the Initial Improvements and all Alterations in strict accordance with all Applicable Laws, and with plans and specifications that are in accordance with the provisions of this Article 13 and all other provisions of this Lease.

(b) Lessee shall construct all improvements within setbacks required by Applicable Laws or the provisions of this Lease.

(c) Prior to the commencement of any construction, alteration, addition, improvements, repair or landscaping in excess of One Thousand Dollars (\$1,000), Lessor shall have the right to post in a conspicuous location on the Premises as well as to record with the County of Santa Clara, a Notice of Lessor's Nonresponsibility. Lessee covenants and agrees to give Lessor at least ten (10) days prior written notice of the commencement of any such construction, alteration, addition, improvement, repair or landscaping in order that Lessor shall have sufficient time to post such notice.

Section 13.7 Construction Completion Procedures.

(a) On completion of the construction of the Initial Improvements or any Alterations during the Term, Lessee shall file for recordation, or cause to be filed for recordation, a notice of completion.

(b) On completion of construction of the Initial Improvements or any Alterations, Lessee shall deliver to Lessor evidence satisfactory to Lessor of payment of all costs, expenses, liabilities and liens arising out of or in any way connected with such construction (except for liens that are contested in the manner provided herein).

ARTICLE 14. OWNERSHIP OF IMPROVEMENTS

All Improvements constructed, installed or placed by Lessee on the Premises shall be the property of Lessee during, and only during, the Term and no longer. During the Term, the Improvements shall not be conveyed, transferred or assigned unless such conveyance, transfer or assignment shall be to a person, corporation or other entity to whom this Lease is being transferred or assigned simultaneously therewith in compliance with the provisions of (but without limitation of the restrictions set forth in) Article 24, and at all such times the holder of the leasehold interest of Lessee under this Lease shall be the owner of the Improvements. Any

attempted conveyance, transfer or assignment of the Improvements, whether voluntarily or by operation of law or otherwise, to any person, corporation or other entity shall be void and of no effect whatever except a conveyance, transfer or assignment to a person, corporation or other entity to whom this Lease is being transferred or assigned simultaneously therewith in compliance with the provisions of (but without limitation of the restrictions set forth in) Article 24. Notwithstanding the foregoing, Lessee may from time to time replace items of personal property and fixtures provided that the replacements for such items are of equivalent or better value and quality, and such items are free from any liens and encumbrances except as permitted hereunder. Upon any termination of this Lease, whether by reason of the expiration of the Term hereof, or pursuant to any provision hereof, or by reason of any other cause whatsoever, all of Lessee's right, title and interest in the Improvements shall cease and terminate and title to the Improvements shall vest in Lessor unless Lessor makes the election to require demolition pursuant to Article 30. Lessee shall surrender the Improvements to Lessor as provided in Article 30 hereof. No further deed or other instrument shall be necessary to confirm the vesting in Lessor of title to the Improvements. However, upon any termination of this Lease, Lessee, upon request of Lessor, shall execute, acknowledge and deliver to Lessor a quitclaim deed and quitclaim bill of sale confirming that all of

Lessee's rights, title and interest in the Improvements has expired and that title thereto has vested in Lessor.

ARTICLE 15. MAINTENANCE AND REPAIRS; NO WASTE

Section 15.1 Maintenance and Repairs. During the Term, Lessee shall, at its own cost and expense and without any cost or expense to Lessor, keep and maintain the Premises and the Improvements and all appurtenant facilities, including without limitation the grounds, soils, groundwater, sidewalks, parking and landscaped areas, and all furniture, fixtures and equipment, in good condition and repair and shall allow no nuisances to exist or be maintained thereon.

Lessor shall not be obligated to make to the Premises or the Improvements any repairs, replacements or renewals of any kind, nature or description whatsoever and Lessee hereby expressly waives any right to terminate this Lease and any right to make repairs at Lessor's expense under Sections 1932(1), 1941 and 1942 of the California Civil Code, or any amendments thereof or any similar law, statute or ordinance now or hereafter in effect.

Section 15.2 No Waste. Lessee shall not commit or permit waste upon the Premises.

ARTICLE 16. UTILITIES AND SERVICES

Lessee shall be solely responsible for, shall make all arrangements for, and shall pay for all utilities and services furnished to or used at the Premises, including without limitation, gas, electricity, other power, water, telephone, cable and other communication services, security services, sewage, sewage service fees, trash collection, and any taxes or impositions thereon. All service lines of such utilities shall be installed beneath the surface of the Premises and connected and maintained at no cost or expense to Lessor. Lessor grants to Lessee the right to grant to public entities, public service corporations, or public utilities, for the purpose of serving only the Premises, rights-of-way, or easements on or over the Premises for poles or conduits or both for telephone, electricity, water, sanitary, or storm sewers or both, and for other utilities and municipal or special district services.

16

ARTICLE 17. MECHANICS' AND OTHER LIENS

Section 17.1 No Liens. Lessee covenants and agrees to keep Lessor's Interest in the Premises free and clear of and from any and all mechanics', material supplier's and other liens for work or labor done, services performed, materials, appliances, or power contributed, used or furnished, to be used in or about the Premises for or in connection with any operations of Lessee, any alteration, improvement or repairs or additions that Lessee may make or permit or cause to be made, or any work or construction by, for or permitted by Lessee on or about the Premises, and at all times promptly and fully to pay and discharge any and all claims upon which any such lien may or could be based, and to save and hold Lessor and Lessor's Interest in the Premises free and harmless of and from any and all such liens and claims of liens and suits or other proceedings pertaining thereto.

Section 17.2 No Affect on Lessor's Interests. No mechanics' or material suppliers' liens or mortgages, deeds of trust, or other liens of any character whatsoever created or suffered by Lessee shall in any way, or to any extent, affect the interest, right or title of Lessor in and to the Premises or the Improvements.

Section 17.3 Lessor's Right to Cause Release of Liens. If Lessee shall not within ten (10) days following the imposition of any such lien which is not being contested by Lessee in accordance with Article 18 below, cause the lien to be released of record by payment or posting of a proper bond, Lessor shall have the right but not the obligation to cause the same to be released by such means as Lessor shall deem appropriate and the amount paid by Lessor together with all expenses incurred by Lessor in connection therewith (including without limitation reasonable attorneys' fees and expense), plus interest at the Interest Rate from the date of payment by Lessor, shall be Additional Rental, immediately due and payable by Lessee to Lessor upon demand.

ARTICLE 18. RIGHT TO CONTEST LIENS

Lessee shall have the right to contest, in good faith, the amount or validity of any lien of the nature described in Section 17.1 above, provided that Lessee shall give Lessor written notice of Lessee's intention to do so within ten (10) days after the recording of such lien, and provided further, that Lessee shall, at its expense, defend itself and Lessor against the same and shall pay and satisfy any adverse judgment that may be rendered thereon before the enforcement thereof against the Premises.

17

ARTICLE 19. COMPLIANCE WITH LAWS; INSURANCE REQUIREMENTS

Section 19.1 Compliance with Applicable Laws. Lessee, at Lessee's cost and expense, shall comply with all Applicable Laws. Any work or installations made or performed by or on behalf of Lessee or any person or entity claiming through or under Lessee in order to conform the Premises to Applicable Laws shall be subject to and performed in compliance with the provisions of Article 13. Lessee shall give Lessor immediate written notice of any violation of Applicable Laws known to Lessee and, at its sole cost and expense, Lessee shall immediately rectify any such violation. Without in any way limiting the generality of the foregoing obligation of Lessee, Lessee shall be solely responsible for compliance with, and shall make or cause to be made all such improvements and alterations to the Premises (including, without limitation, removing such barriers and providing such alternative services) as shall be required by, the Americans with Disabilities Act (42 USC section 12101 et seq.), as the same may be amended from time to time, and any similar or successor laws, and with any rules or regulations promulgated thereunder. Lessee's liability shall be primary and Lessee shall indemnify Lessor in accordance with Article 22 in the event of any failure or alleged failure of Lessee to comply or to cause the Improvements to comply with said laws and rules and regulations.

Section 19.2 Compliance with Insurance Requirements. Lessee shall not do anything, or permit anything to be done, in or about the Premises that would: (i) invalidate or be in conflict with the provisions of any fire or other insurance policies covering the Premises or any property located therein, or (ii) result in a refusal by insurance companies of good standing to insure the Premises or any such property in amounts required hereunder. Lessee, at Lessee's expense, shall comply with all rules, orders, regulations or requirements of the American Insurance Association (formerly the National Board of Fire Underwriters) and with any similar body that shall hereafter perform the function of such Association.

ARTICLE 20. HAZARDOUS SUBSTANCES

Section 20.1 Lessee Indemnity. Except for Lessor's obligations pursuant to Section 4.1 above, Lessee releases Lessor from any liability for, waives all claims against Lessor and shall indemnify, defend and hold harmless Lessor, its employees, partners, agents, subsidiaries and affiliate organizations against any and all claims, suits, loss, costs (including costs of investigation, clean up, monitoring, restoration and reasonably attorney fees), damage or liability, whether foreseeable or unforeseeable, by reason of property damage (including diminution in the value of the property of Lessor), personal injury or death directly arising from or related to Hazardous Substances released, manufactured, discharged, disposed, used or stored on, in, or under the Land or Premises during the initial Term and any extensions of this Lease by Lessee or its employees, agents or contractors. The provisions of this Lessee Indemnity regarding Hazardous Substances shall survive the termination of the Lease.

18

Section 20.2 Lessor Indemnity. Lessor releases Lessee from any liability for, waives all claims against Lessee and shall indemnify, defend and hold harmless Lessee, its officers, employees, and agents to the extent of Lessor's interest in the Project, against any and all actions by any governmental agency for clean up of Hazardous Substances on or under the Land (including, without limitation, any groundwater contamination) including costs of legal proceedings, investigation, clean up, monitoring, and restoration, including reasonable attorney fees and Lessor also releases Lessee from any liability for, waives all claims against Lessee and shall indemnify, defend and hold harmless Lessee, its officers, employees and agents from and against any and all liability and

actions for damages to property instituted by any third parties, if, and to the extent, in either case, arising from the presence of Hazardous Substances on, in or under the Land or Premises, except to the extent caused by the release, disposal, use or storage of Hazardous Substances in, on or about the Premises by Lessee, its employees, agents, sublessees, assignees, or contractors. The provisions of this Lessor Indemnity regarding Hazardous Substances shall survive the termination of the Lease.

Section 20.3 Lessee Covenants. Lessee has informed Lessor that, except for very immaterial amounts of toxic materials incidental to office use (e.g. copier toner, typical janitorial cleaning materials, petroleum products in cars), Lessee will not use any Hazardous Substances within the Project and shall comply with any applicable Laws to the extent that it does. Lessee shall immediately notify Lessor if and when Lessee learns or has reason to believe there has been any release of Hazardous Substances in, on or about the Project during the Term.

Section 20.4 Right to Remediate. Should Lessee fail to perform or observe any of its obligations or agreements pertaining to Hazardous Substances or Environmental Requirements, then Lessor shall have the right, but not the duty, without limitation of any other rights of Lessor hereunder, to enter the Premises personally or through its agents, consultants or contractors and perform the same. Lessee agrees to indemnify Lessor for the costs thereof and liabilities therefrom as set forth above in this Section 20.

ARTICLE 21. INSURANCE

Section 21.1 Required Insurance. At all times during the Term and at its sole cost and expense, Lessee shall obtain and keep in force for the benefit of Lessee and Lessor the following insurance:

(a) Fire and casualty insurance on all Improvements. The amount of such insurance shall be the Full Insurable Replacement Value. All such policies shall specify that proceeds shall be payable whether or not any improvements are actually rebuilt. Each such policy shall include an endorsement protecting the named and additional insureds against becoming a co-insured under the policy. Lessee hereby waives as against Lessor any and all claims and demands, of whatever nature, for damages, loss or injury to the Improvements and to the property of Lessee in, upon or about the Premises caused by or resulting from fire and/or other perils, construction defects and/or other events or happenings.

"Full Insurable Replacement Value" means 100% of the actual costs to replace the Improvements (without deduction for depreciation but with standard exclusions such as foundations, excavations, paving and landscaping, as applicable to specific perils), including the

19

costs of demolition and debris removal and including materials and equipment not in place but in transit to or delivered to the Premises. The Full Insurable Replacement Value initially shall be determined at Lessee's expense by an appraiser or one of the insurers, selected by Lessee and acceptable to Lessor. Lessor or Lessee may at any time, but not more frequently than once in any twelve (12) month period, by written notice to the other, require the Full Insurable Replacement Value to be redetermined, at Lessee's expense, by an appraiser or one of the insurers, selected by Lessee and reasonably acceptable to Lessor. Lessee shall maintain coverage at the current Full Insurable Replacement Value throughout the Term.

(b) Insurance against loss of rental from the Premises, under a rental value insurance policy, or against loss from business interruption under a business interruption policy, covering risk of loss due to causes insured against under subsection (a), in an amount not less than twelve months of projected rental income from the Premises.

(c) Worker's Compensation Insurance in the amounts and coverages required under worker's compensation, disability and similar employee benefit laws applicable to the Premises, with all elective employment covered on a voluntary basis where permissible, and Employer's Liability Insurance with limits not less than \$500,000 or such higher amounts as may be required by law.

(d) Comprehensive general liability through one or more primary and umbrella liability policies against claims, including but not

limited to, bodily injury and property damage occurring on the Premises or the streets, curbs or sidewalks adjoining the Premises, with such limits as may be reasonably required by Lessor from time to time, but in any event not less than Ten Million Dollars (\$10,000,000), combined single limit and annual aggregate for the Premises. Such insurance shall insure the performance by Lessee of the indemnity agreements contained in this Lease. If any governmental agency or department requires insurance or bonds with respect to any proposed or actual use, storage, treatment or disposal of Hazardous Substances by Lessee or any sublessee, tenant, or licensee of Lessee, Lessee shall be responsible for such insurance and bonds and shall pay all premiums and charges connected therewith; provided, however, that this provision shall not and shall not be deemed to modify the provisions of Article 20 hereof.

Such insurance shall (i) delete any employee exclusion on personal injury coverage; (ii) include employees as additional insureds; (iii) provide for blanket contractual coverage, including liability assumed by and the obligations of Lessee under Article 22 for personal injury, death and/or property damage; (iv) provide Products and Completed Operations and Independent Contractors coverage and Broad Form Property Damage liability coverage without exclusions for collapse, explosion, demolition, underground coverage and excavating, including blasting; (v) provide aircraft liability coverage, if applicable, and automobile liability coverage for owned, non-owned and hired vehicles; (vi) provide liability coverage on all mobile equipment used by Lessee; and (vii) include a cross liability endorsement (or provision) permitting recovery with respect to claims of one insured against another. Such insurance shall insure against any and all claims for bodily injury, including death resulting therefrom, and damage to or destruction of property of any kind whatsoever and to whomever belonging and arising from Lessee's operations hereunder and whether such operations are performed by Lessee or any of its contractors, subcontractors, or by any other person.

20

(e) An environmental impairment liability policy with such limits as may be appropriate given the nature of Lessee's operations on the Premises.

(f) All other insurance that Lessee is required to maintain under Applicable Laws.

Section 21.2 Policy Form and General.

(a) All of the insurance policies required under this Lease, including without limitation, under the provisions of Article 13 and this Article 21, and all renewals thereof shall be issued by one or more companies of recognized responsibility, authorized to do business in California with a financial rating of at least a Class A--VII (or its equivalent successor) status, as rated in the most recent edition throughout the Term of Best's Insurance reports (or its successor, or, if there is no equivalent successor rating, otherwise reasonably acceptable to Lessor). Any loss adjustment or disposition of insurance proceeds by the insurer shall require the written consent of Lessor for losses in excess of One Hundred Thousand Dollars (\$100,000.00). All property insurance hereunder shall name Lessor as an additional insured and all liability insurance shall name as additional insureds Lessor, and its directors, trustees, officers, agents, and employees, and such other parties as Lessor reasonably may request. Any deductibles or self insurance retention for any of the foregoing insurance must be agreed to in advance in writing by Lessor, which consent shall not be unreasonably withheld or delayed; all deductibles and self insurance retention shall be paid by Lessee. All insurance of Lessee shall be primary coverage.

(b) Each policy of property insurance and all other policies of insurance required by the provisions of this Lease, shall be made expressly subject to the provisions of this Article 21 and shall provide that Lessee's insurers shall waive any right of subrogation against Lessor. All policies provided for herein expressly shall provide that such policies shall not be canceled, terminated or altered without thirty (30) days' prior written notice to Lessor. Each policy, or a certificate of the policy executed by the insurance company evidencing that the required insurance coverage is in full force and effect, shall be deposited with Lessor on or before the date of this Lease, shall be maintained throughout the Term, and shall be renewed, not less than thirty (30) days before the expiration of the term of the policy. Except for specific provisions described herein, no policy shall contain any provisions for

exclusions from liability and no exclusion shall be permitted in any event if it conflicts with any coverage required hereby, and, in addition, no policy shall contain any exclusion from liability for personal injury or sickness, disease or death or which in any way impairs coverage under the contractual liability coverage described above.

(c) If either party shall at any time deem the limits of any of the insurance described in this Lease then carried or required to be carried to be either excessive or insufficient, or if Lessee shall determine that any form, scope, or type of insurance required hereunder is not generally available in the marketplace at reasonable cost, the parties shall endeavor to agree upon the proper and reasonable limits and terms for such insurance then to be carried and such insurance shall thereafter be carried with the limits and terms thus agreed upon until further change pursuant to the provisions of this subsection. If the parties shall be unable to agree on the proper and reasonable limits and terms for such insurance, then such limits and terms shall be determined pursuant to the provisions of Article 37. The decision of the appraiser

21

as to such limits and terms for such insurance then to be carried shall be binding upon the parties and such insurance shall be carried with the limits and terms as thus determined until such limits shall again be changed pursuant to the provisions of this subsection. The expenses of such determination shall be borne equally between Lessor and Lessee.

ARTICLE 22. INDEMNITY AND RELEASE

Lessee shall indemnify, protect, defend and save and hold harmless Lessor and the Premises from and against, and reimburse Lessor for, any and all claims, demands, losses, damages, costs, liabilities, causes of action and expenses, including, without limitation, reasonable attorneys' fees and expenses, incurred in connection with or arising, in whole or in part, in any way out of this Lease, any default by Lessee in the observance or performance of any of the terms, covenants or conditions of this Lease on Lessee's part to be observed or performed, the use, occupancy or manner of use or occupancy of the Premises by Lessee or any sublessee, licensee, or any other person or entity, the conduct or management of any work or thing done in or on the Premises, the design, construction, maintenance, or condition of any Improvements, the condition of the Premises, any actual or alleged acts, omissions, or negligence of Lessee or of the sublessees, contractors, agents, servants, employees, visitors or licensees of Lessee, in, on or about the Premises or other of Lessor's lands, and any accident or other occurrence on the Premises from any cause whatsoever, except to the extent caused solely by the gross negligence or willful misconduct of Lessor.

In case any claim, action or proceeding be brought, made or initiated against Lessor relating to any of the above described events, acts, omissions, occurrences, or conditions, Lessee, upon notice from Lessor, shall at its sole cost and expense, resist, or defend such claim, action or proceeding by attorneys approved by Lessor.

Lessor shall not be responsible for, and Lessee hereby waives any and all claims and causes of action whatsoever of any kind or nature against Lessor for, any injury, loss, damage or liability to any person or property in or about the Premises or in any way connected with the Premises or this Lease, from any cause whatsoever (other than caused solely by the gross negligence or willful misconduct of Lessor).

The provisions of this Article 22 shall survive any termination of this Lease. The provisions of Article 21 (Insurance) shall not limit in any way Lessee's obligations under this Article 22.

22

ARTICLE 23. APPROPRIATION, DAMAGE OR DESTRUCTION

Section 23.1 No Termination, No Affect on Rental Obligation. No Appropriation nor any loss or damage by fire or other cause resulting in either partial or total destruction of the Premises, the Improvements or any other property on the

Premises shall,

Section 23.2 Determination of Award. The amount of the Award due to Lessor and Lessee as a result of Appropriation shall be separately determined by the court having jurisdiction of such proceedings based on the following: Lessor shall be entitled to that portion of the Award attributable to the value of the fee interest in the Premises (or portion thereof subject to Appropriation, in case of a partial Appropriation) subject to this Lease, and to the value of Lessor's reversionary interest in the Improvements (or portion thereof subject to Appropriation, in case of a partial Appropriation), as determined by the court; Lessee shall be entitled to that portion of the Award attributable to the value of Lessee's leasehold interest in the Premises (or portion thereof subject to Appropriation, in case of a partial Appropriation) and to the value of Lessee's interest in the Improvements (or portion thereof subject to Appropriation, in case of a partial Appropriation), as determined by the court.

ARTICLE 24. ASSIGNMENT

Section 24.1 Assignment. Prior to completion of construction of the Initial Improvements, any assignment by Lessee of its leasehold estate shall not release Lessee from its obligations hereunder and such assignments shall be subject to the consent of Lessor, provided, however, Lessee shall have the right to assign its interest hereunder to a financing entity in connection with a synthetic lease transaction without the prior written consent of Lessor.

Section 24.2 Assumption in Writing. No assignment by Lessee shall become effective unless and until the assignee executes and delivers to Lessor a written form of assignment in which the assignee assumes and agrees to perform and observe all covenants and conditions to be performed and observed by Lessee under this Lease for the period from and after the date of the assignment.

ARTICLE 25. SUBLETTING

Section 25.1 Conditions to Subletting. Lessee may enter into Subleases in respect of the Premises without Lessor's consent. No Sublease shall relieve Lessee from the performance of any of its obligations under this Lease. No Sublease shall extend beyond the Term of this Lease. Each Sublease shall be subject to and subordinate to the terms, covenants and conditions of this Lease and the rights of Lessor hereunder.

ARTICLE 26. LEASEHOLD MORTGAGES

23

Section 26.1 Leasehold Mortgage. Notwithstanding the provisions of Article 24 regarding Transfer of this Lease, but subject to the provisions of this Article 26, Lessee shall have the right at any time and from time to time to encumber the entire (but not less than the entire) leasehold estate created by this Lease and Lessee's interest in the Improvements by a mortgage, deed of trust or other security instrument (any such mortgage, deed of trust, or other security instrument that satisfies the requirements of this Article 26 being herein referred to as a "Leasehold Mortgage") to secure repayment of one or more loans (and associated obligations) made to Lessee.

Lessee shall deliver to Lessor promptly after execution by Lessee a true and verified copy of any Leasehold Mortgage, and any amendment, modification or extension thereof, together with the name and address of the owners and holder thereof.

In no event shall any interest of Lessor in the Premises, including without limitation, Lessor's fee interest in the Premises or reversionary interest in the Improvements or interest under this Lease, be subject or subordinate to any lien or encumbrance of any mortgage, deed of trust or other security instrument.

Section 26.2 Agreement Regarding the Leasehold Mortgage. During the continuance of any Leasehold Mortgage until such time as the lien of any Leasehold Mortgage has been extinguished, and if a true and verified copy of such Leasehold Mortgage shall have been delivered to Lessor together with a written notice of the name and address of the holder thereof:

(a) Lessor shall not agree to any termination nor accept any surrender of this Lease (except upon the expiration of the Term or termination

pursuant to Article 23 hereof and as otherwise provided below with respect to termination upon an Event of Default), nor shall any material amendment or modification of this Lease be binding upon the holder of a Leasehold Mortgage ("Lender") or any purchaser in foreclosure from the Lender, unless the Lender has given its prior written consent to such amendment or modification.

(b) The Lender shall have the right, but not the obligation, at any time prior to termination of this Lease and without payment of any penalty, to pay all of the Base Monthly Rental and Additional Rental due hereunder, to provide any insurance and make any other payments, to make any repairs and improvements and do any other act or thing required of Lessee hereunder, and to do any act or thing which may be necessary and proper to be done in the performance and observance of the covenants, conditions and agreements hereof to prevent the termination of this Lease. All payments so made and all things so done and performed by the Lender shall be as effective to prevent a termination of this Lease as the same would have been if made, done and performed by Lessee instead of by the Lender.

(c) Should any Event of Default under this Lease occur, the Lender shall have thirty (30) days after receipt of notice from Lessor setting forth the nature of such Event of Default, and, if the default is such that possession of the Premises is necessary to remedy the default, a reasonable time after the expiration of such thirty (30) day period, within which to remedy such default, provided that (i) the Lender shall have fully cured any default in the payment of any monetary obligations of Lessee under this Lease within such thirty (30) day period and shall continue to pay currently such monetary obligations as and when the same are

24

due, and (ii) the Lender shall have acquired Lessee's leasehold estate created hereby or given Lessor written notice that the Lender intends to take action to acquire Lessee's leasehold estate and commenced foreclosure or other appropriate proceedings in the nature thereof within such thirty (30) day period or prior thereto, and shall thereafter diligently and continuously prosecute such proceedings to completion.

(d) An Event of Default under this Lease which in the nature thereof cannot be remedied by the Lender shall be deemed to be remedied if (i) within thirty (30) days after receiving written notice from Lessor of such Event of Default, the Lender shall have acquired Lessee's leasehold estate created hereby or given Lessor written notice that the Lender intends to take action to acquire Lessee's leasehold estate and commenced foreclosure or other appropriate proceedings in the nature thereof, (ii) the Lender shall diligently and continuously prosecute any such proceedings to completion, (iii) the Lender shall have fully cured any default in the payment of any monetary obligations of Lessee under this Lease within such thirty (30) day period and shall thereafter continue to faithfully perform all such monetary obligations, and (iv) after gaining possession of the Premises, the Lender shall perform all of the obligations of Lessee hereunder as and when the same are due and cure any defaults that are curable by the Lender but that require possession of the Premises to cure, such cure to be effected within thirty (30) days after gaining possession, or such longer period of time as is reasonably necessary to effect such cure using all due diligence.

(e) If the Lender is prohibited by any process or injunction issued by any court or by reason of any action by any court having jurisdiction of any bankruptcy or insolvency proceedings involving Lessee from commencing or prosecuting foreclosure or other appropriate proceedings in the nature thereof, the times specified in subsections (c) and (d) above for commencing or prosecuting such foreclosure or other proceedings shall be extended for the period of such prohibition; provided that the Lender shall have fully cured any default in the payment of any monetary obligations of Lessee under this Lease and shall continue to pay currently such monetary obligations as and when the same fall due, and provided further that the Lender shall diligently attempt to remove any such prohibition.

(f) Lessor shall mail to the Lender a duplicate copy by certified mail of any and all notices that Lessor may from time to time give to or serve upon Lessee pursuant to the provisions of this Lease.

(g) Foreclosure of a Leasehold Mortgage or any sale thereunder, whether by judicial proceedings or by virtue of any power of sale contained in the Leasehold Mortgage, or any conveyance of the leasehold estate

created hereby from Lessee to the Lender by virtue or in lieu of foreclosure or other appropriate proceedings in the nature thereof, shall not require the consent of Lessor or constitute a breach of any provision of or a default under this Lease and upon such foreclosure, sale or conveyance, Lessor shall recognize the Lender, or any other foreclosure sale purchaser or recipient of any deed in lieu, as Lessee hereunder; provided, (i) the Lender shall have fully complied with the provisions of this Article 26 applicable prior to gaining possession of the Premises and the Lender or foreclosure sale purchaser or deed in lieu recipient, as the case may be, who is to become the Lessee hereunder shall comply with the provisions of this Article 26 applicable after gaining possession of the Premises; (ii) the Lender, or foreclosure sale purchaser or deed in lieu recipient, as the case may be, who is to become the

25

Lessee hereunder shall be responsible for taking such actions as shall be necessary to obtain possession of the Premises; and (iii) the Lender, or foreclosure sale purchaser or deed in lieu recipient, as the case may be, who is to become the Lessee hereunder shall execute, acknowledge and deliver to Lessor an instrument in recordable form pursuant to which the Lender or foreclosure sale purchaser or deed in lieu recipient, as the case may be, expressly assumes all obligations of the Lessee under this Lease which arise from and after the date of foreclosure or deed in lieu thereof. If there are two or more Leasehold Mortgages or foreclosure sale purchasers (whether of the same or different Leasehold Mortgages), Lessor shall have no duty or obligation whatsoever to determine the relative priorities of such Leasehold Mortgages or the rights of the different holders thereof and/or foreclosure sale purchasers. If the Lender or foreclosure sale purchaser becomes Lessee under this Lease, or under any new lease obtained pursuant to subsection (h) below, the Lender or foreclosure sale purchaser shall not be personally liable for the obligations of the Lessee under this Lease accruing after the period of time that the Lender is the Lessee hereunder or thereunder.

(h) In the event of (a) any rejection of this Lease by Lessee in any bankruptcy proceeding, or (b) such other termination of this Lease by reason of a condition which (i) is not known or ascertainable by the parties on the effective date of the Lender's Leasehold Mortgage, (ii) results from any applicable state or federal law enacted after the effective date of such Leasehold Mortgage, and (iii) which would work an inequitable forfeiture upon the Lender due to the non-curable nature of such condition, Lessor shall, subject to the terms and conditions of this subsection (h), upon written request by the Lender to Lessor made within sixty (60) days after such termination, execute and deliver a new lease of the Premises to the Lender for the remainder of the term of this Lease with the same covenants, conditions and agreements (except for any requirements which have been satisfied by Lessee prior to termination) as are contained herein; provided, however, that Lessor's execution and delivery of such new lease of the Premises shall be made without representation or warranty of any kind or nature whatsoever, either express or implied, including without limitation, any representation or warranty regarding title to the Premises or the priority of such new lease and Lessor's obligations and liability under such new lease shall not be greater than if this Lease had not terminated and the Lender had become the Lessee hereunder. Lessor's delivery of any Improvements to the Lender pursuant to such new lease shall be made without representation or warranty of any kind or nature whatsoever, either express or implied; and the Lender shall take any Improvements "as is" in their then current condition. Upon execution and delivery of such new lease, the Lender, at its sole cost and expense, shall be responsible for taking such action as shall be necessary to cancel and discharge this Lease and to remove the Lessee named herein and any other occupant from the Premises. Lessor's obligation to enter into such new lease of the Premises with the Lender shall be conditioned as follows: (x) the Lender shall have complied with the provisions of this Article 26 applicable prior to the gaining of possession and shall comply with the provisions of this Article 26 applicable after gaining possession of the Premises; (y) if more than one holder of a Leasehold Mortgage claims to be the Lender and requests such new lease, Lessor shall have no duty or obligation whatsoever to determine the relative priority of such Leasehold Mortgages, and in the event of any dispute between or among the holders thereof, Lessor shall have no obligation to enter into any such new lease if such dispute is not resolved to the sole satisfaction of Lessor within ninety (90) days after the date of termination of this Lease; and (z) the Lender shall pay all costs and expenses of Lessor, including without limitation, reasonable attorneys' fees, real property transfer taxes and any escrow fees and recording charges, incurred in

connection with the preparation and execution of such new lease and any conveyances related thereto.

ARTICLE 27. LESSOR'S RIGHT OF INSPECTION

Lessor shall be entitled, at all reasonable times with advance written notice to go upon the Premises and the Improvements for the purposes of (a) inspecting the same, (b) inspecting the performance by Lessee of the terms, covenants, agreements and conditions of this Lease, (c) posting and keeping posted thereon Notices of Non-Responsibility for any construction, alteration or repair thereof, as required or permitted by any law or ordinance, and (d) any other lawful purposes; provided, however, Lessor's rights hereunder shall not entitle Lessor to access to the demised premises of any subtenant occupying the Improvements without the written consent of such subtenant, which consent shall not be unreasonably withheld.

ARTICLE 28. EVENT OF DEFAULT AND LESSOR'S REMEDIES

Section 28.1 Events of Default. The occurrence of any of the following shall be an Event of Default on the part of Lessee hereunder:

(a) Failure to pay any part of the Base Monthly Rental or Additional Rental, herein reserved, or any other sums of money that Lessee is required to pay hereunder at the times or in the manner herein provided, when such failure shall continue for a period of ten (10) days after written notice thereof from Lessor to Lessee. No such notice shall be deemed a forfeiture or a termination of this Lease unless Lessor expressly so elects in such notice.

(b) Failure to perform any express or implied nonmonetary provision of this Lease when, except in the case of any provision which by its terms provides for no grace period, such failure shall continue for a period of thirty (30) days, or such other period as is expressly set forth herein, after written notice thereof from Lessor to Lessee; provided that if the nature of the default is such that more than thirty (30) days are reasonably required for its cure, then an Event of Default shall not be deemed to have occurred if Lessee shall commence such cure within said thirty (30) day period and thereafter diligently and continuously prosecute such cure to completion and cure. No such notice shall be deemed a forfeiture or a termination of this Lease unless Lessor expressly so elects in such notice.

(c) The abandonment of the Premises.

(d) Lessee shall admit in writing its inability to pay its debts generally as they become due, file a petition in bankruptcy, insolvency, reorganization, readjustment of debt, dissolution or liquidation under any law or statute of any government or any subdivision thereof either now or hereafter in effect, make an assignment for the benefit of its creditors, consent to or acquiesce in the appointment of a receiver of itself or of the whole or any substantial part of the Premises.

(e) A court of competent jurisdiction shall enter an order, judgment or decree appointing a receiver of Lessee or of the whole or any substantial part of the Premises and such order, judgment or decree shall not be vacated, set aside or stayed within forty-five (45) days

after the date of entry of such order, judgment, or decree, or a stay thereof shall be thereafter set aside.

(f) A court of competent jurisdiction shall enter an order, judgment or decree approving a petition filed against Lessee under any bankruptcy, insolvency, reorganization, readjustment of debt, dissolution or liquidation law or statute of the Federal government or any state government or any subdivision of either now or hereafter in effect, and such order, judgment or decree shall not be vacated, set aside or stayed within forty-five (45) days from the date of entry of such order, judgment or decree, or a stay thereof shall be thereafter set aside.

Section 28.2 Lessor's Remedies. Upon the occurrence of an Event of Default, Lessor shall have the following rights and remedies:

(a) The right to terminate this Lease, in which event Lessee shall immediately surrender possession of the Premises in accordance with Article 30, and pay to Lessor all Base Monthly Rental, Additional Rental and other charges and amounts due from Lessee hereunder to the date of termination.

(b) The rights and remedies described in California Civil Code Section 1951.2, including without limitation, the right to recover the worth at the time of award of the amount by which the Base Monthly Rental, Additional Rental and other charges payable hereunder for the balance of the Term after the time of award exceed the amount of such rental loss for the same period that Lessee proves could be reasonably avoided, as computed pursuant to subdivision (b) of said Section 1951.2, and the right to recover any amount necessary to compensate Lessor for all the detriment proximately caused by Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom which, without limiting the generality of the foregoing, includes unpaid taxes and assessments, any costs or expenses incurred by Lessor in recovering possession of the Premises, maintaining or preserving the Premises after such default, preparing the Premises for reletting to a new lessee, any repairs or alterations to the Premises for such reletting, leasing commissions, architect's fees and any other costs necessary or appropriate either to relet the Premises or to adapt them to another beneficial use by Lessor and such amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable California law.

(c) The rights and remedies described in California Civil Code Section 1951.4 that allow Lessor to continue this Lease in effect and to enforce all of its rights and remedies under this Lease, including the right to recover Base Monthly Rental, and Additional Rental as they become due, for so long as Lessor does not terminate Lessee's right to possession. Acts of maintenance or preservation, efforts to relet the Premises or the appointment of a receiver upon Lessor's initiative to protect its interest under this Lease shall not constitute a termination of Lessee's right to possession.

(d) The right and power to enter and to sublet the Premises, to collect rents from all subtenants and to provide or arrange for the provision of all services and fulfill all obligations of Lessee under the subleases and Lessor is hereby authorized on behalf of Lessee, but shall have absolutely no obligation, to provide such services and fulfill such obligations and to incur all such expenses and costs as Lessor deems necessary in connection therewith.
Lessee

shall be liable immediately to Lessor for all costs and expenses Lessor incurs in collecting such rents and arranging for or providing such services or fulfilling such obligations. Lessor is hereby authorized, but not obligated, to relet the Premises or any part thereof on behalf of Lessee, to incur such expenses as may be necessary to effect a relet and make said relet for such term or terms, upon such conditions and at such rental as Lessor in its sole discretion may deem proper. Lessee shall be liable immediately to Lessor for all reasonable costs Lessor incurs in reletting the Premises including, without limitation, brokers' commissions, expenses of remodeling the Premises required by the reletting, and other costs. If Lessor relets the Premises or any portion thereof, such reletting shall not relieve Lessee of any obligation hereunder, except that Lessor shall apply the rent or other proceeds actually collected by it as a result of such reletting against any amounts due from Lessee hereunder to the extent that such rent or other proceeds compensate Lessor for the nonperformance of any obligation of Lessee hereunder. Such payments by Lessee shall be due at such times as are provided elsewhere in this Lease, and Lessor need not wait until the termination of this Lease, by expiration of the Term hereof or otherwise, to recover them by legal action or in any other manner. Lessor may execute any lease made pursuant hereto in its own name, and the lessee thereunder shall be under no obligation to see to the application by Lessor of any rent or other proceeds, nor shall Lessee have any right to collect any such rent or other proceeds. Lessor shall not by any reentry or other act be deemed to have accepted any surrender by Lessee of the Premises or Lessee's interest therein, or be deemed to have otherwise terminated this Lease, or to have relieved Lessee of any obligation hereunder, unless Lessor shall have given

Lessee express written notice of Lessor's election to do so as set forth herein.

(e) The right to have a receiver appointed upon application by Lessor to take possession of the Premises and to collect the rents or profits therefrom and to exercise all other rights and remedies pursuant to Section 28.2(d).

(f) The right to enjoin, and any other remedy or right now or hereafter available to a lessor against a defaulting lessee under the laws of the State of California or the equitable powers of its courts, and not otherwise specifically reserved herein.

ARTICLE 29. LESSOR'S RIGHT TO CURE DEFAULTS.

If Lessee shall fail or neglect to do or perform any act or thing herein provided by it to be done or performed and such failure shall not be cured within any applicable grace period provided in Article 28, then Lessor shall have the right, but shall have no obligation, to pay any Imposition payable by Lessee hereunder, discharge any lien, take out, pay for and maintain any insurance required under Article 21, or do or perform or cause to be done or performed any such other act or thing (entering upon the Premises for such purposes, if Lessor shall so elect), and Lessor shall not be or be held liable or in any way responsible for any loss, disturbance, inconvenience, annoyance or damage resulting to Lessee on account thereof, and Lessee shall repay to Lessor upon demand the entire reasonable cost and expense thereof, including, without limitation, compensation to the agents, consultants and contractors of Lessor and reasonable attorneys' fees and expenses. Lessor may act upon shorter notice or no notice at all if necessary in Lessor's judgment to meet an emergency situation or governmental or municipal time limitation or otherwise to protect Lessor's interest in the Premises. Lessor shall not be required to inquire into the correctness of the amount or validity of any Imposition or lien that may be

29

paid by Lessor, and Lessor shall be duly protected in paying the amount of any such Imposition or lien claimed, and, in such event, Lessor shall also have the full authority, in Lessor's sole judgment and discretion and without prior notice to or approval by Lessee, to settle or compromise any such lien or Imposition. Any act or thing done by Lessor pursuant to the provisions of this Article 30 shall not be or be construed as a waiver of any default by Lessee, or as a waiver of any term, covenant, agreement or condition herein contained or of the performance thereof. All amounts payable by Lessee to Lessor under any of the provisions of this Lease, if not paid when the same become due as in this Lease provided, shall bear interest at the Interest Rate.

ARTICLE 30. SURRENDER OF THE PREMISES

Upon the termination of this Lease, whether at the expiration of the Term as stated in Article 5 hereof or prior thereto pursuant to any provision hereof, Lessee shall surrender to Lessor the Premises in good order and repair, reasonable wear and tear and acts of God casualties excepted. Within ninety (90) days following the termination of this Lease, Lessor may elect to require Lessee to demolish the buildings located on the Property. Lessor may make such election by delivering written notice to Lessee within such 90-day period. In the event Lessor makes such election, Lessee shall diligently proceed to demolish the buildings and complete such demolition within a reasonable time, at no cost to Lessor. Unless Lessor gives written notice of its election to require Lessee to demolish the improvements in accordance with the foregoing, all Improvements shall automatically and without further act by Lessor or Lessee, become the property of Lessor.

Any personal property of Lessee that remains on the Premises after the Termination Date may, at the option of Lessor, be deemed to have been abandoned by Lessee and may either be retained by Lessor as its property or disposed of, without accountability, in such manner as Lessor may determine in its sole discretion.

ARTICLE 31. REPRESENTATIONS AND WARRANTIES OF LESSEE

Lessee hereby represents and warrants to Lessor as follows:

(a) Lessee is a corporation, partnership, or limited liability

company duly formed and validly existing under the laws of the state of identified in the Basic Lease Information and is qualified to do business under the laws of the State of California. Lessee has full corporate power and authority to enter into and perform its obligations under this Lease and to develop, construct and operate the Premises as contemplated by this Lease.

(b) Lessee has taken all necessary action to authorize the execution, delivery and performance of this Lease and this Lease constitutes the legal, valid, and binding obligation of Lessee.

(c) Lessee has the right, power, legal capacity and authority to enter into and perform its obligations under this Lease and no approvals or consents of any person are required in connection with the execution and performance of this Lease. The execution and performance of this Lease will not result in or constitute any default or event that with notice or the lapse of

30

time or both, would be a default, breach or violation of the organizational instruments governing Lessee or any agreement or any order or decree of any court or other governmental authority to which Lessee is a party or to which it is subject.

ARTICLE 32. NO WAIVER BY LESSOR

No failure by Lessor to insist upon the strict performance of any term, covenant, agreement, provision, condition or limitation of this Lease or to exercise any right or remedy upon a breach thereof, and no acceptance by Lessor of full or partial rent during the continuance of any such breach, shall constitute a waiver of any such breach or of such term, covenant, agreement, provision, condition or limitation. No term, covenant, agreement, provision, condition or limitation of this Lease and no breach thereof may be waived, altered or modified except by a written instrument executed by Lessor. No waiver of any breach shall affect or alter this Lease but each and every term, covenant, agreement, provision, condition and limitation of this Lease shall continue in full force and effect with respect to any other then existing or subsequent breach.

ARTICLE 33. NO PARTNERSHIP

It is expressly understood that neither Lessee nor Lessor is or becomes, in any way or for any purpose, a partner of the other in the conduct of its business, or otherwise, or joint venturer or a member of a joint enterprise with the other, or agent of the other by reason of this Lease or otherwise. Lessee is and shall be an independent contractor with respect to the Lease and Premises.

ARTICLE 34. NO DEDICATION

This Lease shall not be, nor be deemed or construed to be, a dedication to the public of the Premises, the areas in which the Premises are located or the Improvements, or any portion thereof.

ARTICLE 35. NO THIRD PARTY BENEFICIARIES

This Lease shall not confer nor be deemed nor construed to confer upon any person or entity, other than the parties hereto, any right or interest, including, without limiting the generality of the foregoing, any third party beneficiary status or any right to enforce any provision of this Lease.

ARTICLE 36. NOTICES

Any notice, consent or other communication required or permitted under this Lease shall be in writing and shall be delivered by hand, sent by air courier, sent by prepaid registered or certified mail with return receipt requested, or sent by facsimile, and shall be deemed to have been given on the earliest of (i) receipt, (ii) one business day after delivery to an air courier for overnight expedited delivery service, or (iii) five (5) business days after the date deposited in the United States mail, registered or certified, with postage prepaid and return receipt requested (provided that such return receipt must indicate receipt at the address specified) or on the day of its transmission by facsimile if transmitted during the business hours of the place

of receipt, otherwise on the next business day. All notices shall be addressed as appropriate to the following addresses (or to such other or further addresses as the parties may designate by notice given in accordance with this section):

If to Lessor:

475 Java Drive Associates, L.P.
c/o The Mozart Development Company
1068 East Meadow Circle
Palo Alto, CA 94303

Tel.: () -

If to Lessee:

Network Appliance Inc.
2770 San Tomas Expressway
Santa Clara, California 95051
Attn: Chris Carlton
Tel. (408) 367-3200

ARTICLE 37. HOLDING OVER

This Lease shall terminate upon the Termination Date and any holding over by Lessee after the Termination Date shall not constitute a renewal of this Lease or give Lessee any rights hereunder or in or to the Premises.

ARTICLE 38. MEMORANDUM

This Lease shall not be recorded. However, at the request of either party, the parties hereto shall execute and acknowledge a memorandum hereof (including Lessee's options under Article 10) in recordable form that Lessor shall file for recording in the Official Records of Santa Clara County.

ARTICLE 39. ESTOPPEL CERTIFICATE

Each of the parties hereto agrees, at any time and from time to time upon not less than twenty (20) days' prior written request by the other party (which request must specify that response is required within twenty (20) days), to execute, acknowledge and deliver to the party making such request, or to any other Person specified by the requesting party, an estoppel certificate stating: (a) whether this Lease is in full force and effect and whether such party has any existing defenses or offsets against the enforcement of this Lease; (b) whether this Lease has been assigned, modified, supplemented or amended, and, if so, identifying and describing any such assignment, modification, supplement or amendment; (c) the date to which Rent has been paid; (d) whether the party to whom the request is directed knows of any default or failure to perform conditions on the part of the other party hereunder, and if so, specifying the nature thereof; and (e) that this Lease, as it may have been modified, supplemented or amended, represents the entire agreement between the parties as to this leasing.

The failure of either party to issue such a certificate to the requesting party or other specified Person within said twenty (20) day period shall constitute an acknowledgment by the party to whom such request is directed that this Lease is unmodified and in full force and effect and shall constitute, as to any Person entitled to rely upon such certificate, a waiver of any defaults that may exist prior to the date of such request. Such certificate shall act as a waiver of any claim by the party furnishing such certificate to the extent such claim is based upon facts which are contrary to those asserted in the certificate but only to the extent the claim is asserted against a bona fide encumbrancer or purchaser for value without knowledge of facts contrary to those contained in the certificate and who has acted in reasonable reliance upon the certificate. Such certificate shall in no event subject the party furnishing it to any liability whatsoever, notwithstanding the negligent or inadvertent failure of such party to disclose correct or relevant information.

ARTICLE 40. GENERAL PROVISIONS

Section 40.1 Severability. In case any one or more of the provisions of this Lease shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Lease, and this Lease shall be construed as if such invalid, illegal or unenforceable provisions had not been contained herein.

Section 40.2 Headings. Article, Section and subsection headings in this Lease are for convenience only and are not to be construed as a part of this Lease or in any way limiting or amplifying the provisions hereof.

Section 40.3 Lease Construed as a Whole. The language in all parts of this Lease shall in all cases be construed as a whole according to its fair meaning and not strictly for or against either Lessor or Lessee. The parties acknowledge that each party and its counsel have reviewed this Lease and participated in its drafting and therefore that the rule of construction that any ambiguities are to be resolved against the drafting party shall not be employed nor applied in the interpretation of this Lease.

Section 40.4 Meaning of Terms. Whenever the context so requires, the neuter gender shall include the masculine and the feminine, and the singular shall include the plural, and vice versa. Any reference to a specific sum of money, shall mean that amount of lawful money of the United States of America that (except where the specific provision by its terms provides for adjustment to reflect inflation) is the equivalent in value on the date such determination is to be made under the relevant provision of this Lease, to the stated amount in U.S. Dollars in the year of the Commencement Date: i.e. the stated amount increased by the percentage increase equal to the cumulative percentage increase in the CPI from January 1 of the year of the Commencement Date, to the date of determination.

Section 40.5 Attorneys' Fees. In the event of any action or proceeding at law or in equity between Lessor and Lessee to enforce or interpret any provision of this Lease or to protect or establish any right or remedy of either party hereunder, the party not prevailing in such action or proceeding shall pay to the prevailing party all costs and expenses, including without limitation, reasonable attorneys' fees and expenses (including attorneys' fees and expenses of in-house attorneys), incurred therein by such prevailing party and if such prevailing party shall recover judgment in any such action or proceeding, such costs, expenses and attorneys' fees shall be included in and as a part of such judgment.

Section 40.6 Binding Agreement. The terms, covenants and agreements contained in this Lease shall bind and inure to the benefit of the parties hereto and their respective successors and assigns.

Section 40.7 Entire Agreement. This instrument, together with the exhibits hereto, all of which are incorporated herein by reference, constitutes the entire agreement between Lessor and Lessee with respect to the subject matter hereof and supersedes all prior offers, negotiations, oral and written. This Lease may not be amended or modified in any respect whatsoever except by an instrument in writing signed by Lessor and Lessee.

Section 40.8 Quiet Enjoyment. Lessor agrees that Lessee, upon paying the Base Monthly Rental, Additional Rental and all other sums due hereunder and upon keeping and observing all of the covenants, agreement and provisions of this Lease on its part to be observed and kept, shall, subject to the exceptions and reservations referred to in Article 3, lawfully and quietly hold, occupy and enjoy the Premises during the Term without hindrance or molestation by anyone claiming by, through, or under Lessor.

Section 40.9 Termination Not Merger. The voluntary sale or other surrender of this Lease by Lessee to Lessor, or a mutual cancellation thereof, or the termination thereof by Lessor pursuant to any provision contained herein, shall not work a merger, but at the option of Lessor shall either terminate any or all

existing subleases or subtenancies hereunder, or operate as an assignment to Lessor of any or all of such subleases or subtenancies.

IN WITNESS WHEREOF, Lessor and Lessee have executed this Lease by proper persons thereunto duly authorized as of the date first above written.

LESSOR: /s/ STEVE DOSTART

475 Java Drive Associates, L.P.,
a California Limited Partnership

By: M-D Ventures, Inc.,
its General Partner

By: /s/

Its: Vice President

LESSEE: NETWORK APPLIANCE, INC.,
a Delaware Corporation

By: /s/ CHRIS CARLTON

Its: Vice President

35

Exhibit A
[Description of Premises]

36

TABLE OF CONTENTS

OPTION AGREEMENT

THIS OPTION AGREEMENT ("Agreement") is entered into as of June 11, 1998, by and between Network Appliance, Inc., a Delaware Corporation ("Optionee"), and 475 Java Drive Associates, L.P., a California Limited Partnership ("Owner") and upon exercise by Optionee as provided herein shall constitute (i) a contract of purchase and sale between the parties and (ii) escrow instructions to Escrow Agent (as hereinafter defined).

THE PARTIES ENTER INTO THIS AGREEMENT on the basis of the following facts, understandings and intentions:

A. Owner owns and desires to grant to Optionee an option to purchase and Optionee wishes to acquire an option to purchase real property comprised of approximately 6.217 acres, located at 475 Java Drive, Sunnyvale, California, as more particularly described on EXHIBIT A attached hereto ("Land") together with Owner's interest in (i) all rights, privileges, easements and right-of-ways appurtenant thereto, (ii) to the extent assignable, all entitlements, permits and other intangible property used in connection therewith, and (iii) to the extent assignable, all contract rights, related to the ownership, use and operation thereof (collectively, including such Land and Improvements, the "Property"), and Optionee desires to purchase the Property from Owner, on all of the terms, covenants and conditions provided herein.

B. For purposes of this Agreement, the following terms shall have the meanings given below:

1. "Execution Date" shall mean the date set forth at the beginning hereof.

2. "Business Day" shall mean any day other than a Saturday, Sunday or day on which banks in the state of California are authorized to be closed for business.

3. "Close of Escrow" shall mean the consummation of the purchase of the Property by Optionee or Optionee's assignee from Owner and the recordation of Owner's Grant Deed in accordance with the terms and provisions of this Agreement.

4. "Closing Date" shall mean a date which is the later of (i) thirty (30) days following the exercise of the Option by Optionee or (ii) January 10, 2000, but in no event later than March 30, 2000 (extended by the number of days beyond October 1, 1999 that it takes Owner to complete the demolition required pursuant to Section 4.1 of the Ground Lease).

5. "Escrow Agent" shall mean First American Title Insurance Company, 1636 North First Street, San Jose, California 95112.

6. "Title Company" shall mean First American Title Insurance Company, 1636 North First Street, San Jose, California 95112.

7. "Exercise Window" shall mean the period commencing at 12:01 a.m. December 1, 1999 (extended by the number of days beyond October 1, 1999 that it takes

Owner to complete the demolition required pursuant to Section 4.1 of the Ground Lease) and ending 11:59 p.m. ninety (90) days thereafter.

8. "Ground Lease" shall mean that certain lease between Owner as Lessor and Optionee as Lessee.

9. "Lot Line Adjustment" shall mean adjustment of the property line between the Property and the adjoining property at 495 Java Drive in order to accommodate a common driveway as shown on Owner's Plans (as defined in the Work Letter).

10. "CC&R's" shall mean covenants, conditions and restrictions for the purpose for operating the Property and the adjoining property at 495 Java Drive in a manner that allows a common driveway substantially in conformance with the Declaration Of Covenants, Conditions And Restrictions And Cross-Access Parking Agreement For 500 East Middlefield Road and 401 Ellis Street, Mountain View, California dated December 12, 1997 and recorded as Document No. 13979683 of the Santa Clara County, California records, with appropriate revisions to adapt such document to the Property.

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants and agreements of the parties as herein set forth, the parties hereto agree as follows:

1. Option; Option Payment.

(a) Option. Owner hereby grants to Optionee an option ("Option") to purchase the Property from Owner, on all of the terms, covenants and conditions provided herein.

(b) Option Payment. Upon execution of this Agreement Optionee shall pay, as option consideration, the sum of \$4,500,000 to Owner ("Option Payment"); provided, however, if Optionee does not pay the Option Payment upon execution, Optionee must pay the Option Payment within seven (7) Business Days and failure to pay by said date shall entitle Owner to either (i) terminate this Agreement and the Ground Lease or (ii) file suit for payment of the Option Payment. The Option Payment shall be deposited with the Escrow Agent upon execution of this Agreement pursuant to escrow instructions approved by Owner and Optionee. The escrow instructions shall provide that the Escrow Agent shall deposit the Option Payment in an interest bearing account, pursuant to investment instructions from Optionee and approved by Owner. All interest earned on the Option Payment shall be for the account of Optionee. The escrow instructions shall also provide that the Option Payment shall be released to Owner upon the earlier of (i) exercise of Optionee's option hereunder, in which case such Option Payment shall be applied toward the Purchase Price, or (ii) the expiration of the Option without exercise by Optionee.

2. Exercise of Option. Optionee shall be entitled to exercise the Option at any time during the Exercise Window by delivering written notice of its unconditional election to exercise the Option to Owner ("Exercise Notice"), which Exercise Notice, in order to be effective, must be delivered to Owner during, and prior to the expiration of, the Exercise Window. Upon the effective exercise of the Option in accordance with the foregoing this Agreement shall be a bilateral agreement requiring Owner to sell the Property to Optionee and

3

Optionee to purchase the Property from Owner through the Close of Escrow on the Closing Date on the terms and conditions of this Agreement.

3. Purchase Price. Optionee shall pay Owner a purchase price ("Purchase Price") for the Property of Twenty-Three Million Seven Hundred Forty-Five Thousand Dollars (\$23,745,000.00), payable at the Close of Escrow in cash ("Cash Payment")

4. Conditions Precedent. At or before Close of Escrow the following conditions precedent ("Conditions Precedent") shall be either satisfied or waived by Optionee as a condition to Optionee's obligation to proceed with the purchase of the Property:

(a) Title. The term "Conditions of Title" shall refer to those exceptions to title (including, without limitation, Title Company's standard printed exceptions to title with respect to an ALTA Owner's Extended Form policy of title insurance (an "ALTA Policy") listed on EXHIBIT B incorporated herein by reference, the lien for real property taxes not delinquent, any current assessments (subject to Owner's obligation to pay delinquent assessments or credit same to the Purchase Price at closing), the effect of the Lot Line Adjustment and the CC&R's, the effect of the Ground Lease and any improvements constructed by Lessee thereunder, and any other encumbrances or matters of title caused or approved in writing by Optionee. On the Closing Date, Title Company shall be unconditionally committed to issue (a) an American Land Title Association ("ALTA") Extended Title Policy Form B (1970) for the Property ("ALTA Title Policy"), with a liability limit in the amount of the Purchase Price and insuring fee title vested in Optionee, and (b)

endorsements to the ALTA Title Policy (i) to provide Optionee with assurance that the Property is the same as shown on the Survey, (ii) to provide Optionee with assurance that the Property is contiguous with the property known as 495 Java Drive, and (iii) such other endorsements as Optionee may reasonably request, including without limitation zoning, tax parcel, access, and owner's comprehensive (ALTA 100, modified for owner, or equivalent) endorsements (collectively, the "Endorsements"); provided, however, the availability of such Endorsements shall not be a Condition Precedent to Optionee's obligation hereunder. Optionee shall take title to the Property subject to the Conditions of Title.

(b) Survey. Optionee has approved a certified ALTA survey of the Property prepared by Kier & Wright dated April 15, 1998 ("Survey"). Any revisions (including certification to Optionee) to the ALTA survey previously provided to Optionee by Owner which are requested by Optionee shall be at Optionee's sole cost and expense. At Close of Escrow Owner shall deliver to Optionee the Survey.

(c) Property Documents. Optionee has reviewed and approved all of the reports listed on EXHIBIT C attached hereto and incorporation herein ("Property Documents"). As of the Close of Escrow there shall have been no material adverse change in the physical condition of the Property as described in the Property Documents which would materially, adversely effect Optionee's use and occupancy of the Property except for conditions caused by or otherwise the responsibility of Lessee under the Ground Lease and Owner shall deliver to Optionee its certificate representing and warranting (i) to the best of Owner's knowledge that there has been no such material adverse change between the Execution Date and the Close of Escrow and (ii) except as described in such certificate there are no agreements that would be

4

binding upon Optionee or the Property following Close of Escrow except as contemplated by this Agreement ("Owner's Closing Certificate").

(d) Completion of Demolition. Owner shall have completed the demolition of existing improvements in accordance with the specifications described in the Ground Lease and Owner shall deliver to Optionee its representation and warranty that it has completed such demolition in accordance with such specifications.

(e) Owner's Performance. Owner shall have performed all of its obligations under this Agreement.

5. No Incumbrance or Transfer. Except for the Ground Lease and as provided herein, Owner shall not incumber, lease, transfer, assign or sell all or any portion, or interest in, the Property, or enter into any agreement or contract effecting or relating to the Property without Optionee's prior written consent, which consent may be withheld in Optionee's sole discretion. Owner shall be entitled to encumber the Property for the purpose of securing one or more construction loans. Owner may also implement the Lot Line Adjustment, record the CC&R's and execute such other contracts (but not contracts or encumbrances that will be binding upon Optionee or the Property after the Close of Escrow) as may be necessary or advisable in connection with performing its obligations hereunder including demolition of the existing improvements.

6. Escrow.

(a) Escrow. Within two (2) Business Days after Optionee's Exercise Notice, Owner shall establish an escrow ("Escrow") with the Escrow Agent for the close of this transaction. An executed copy of this Agreement shall be deposited with the Escrow Agent by Optionee and this Agreement, together with Owner's Additional Escrow Instructions (as hereinafter defined), if any, and Optionee's Additional Escrow Instructions (as hereinafter defined), if any, shall constitute Escrow Agent's escrow instructions for closing Escrow. Escrow shall close ("Close of Escrow") on or before the Closing Date.

(b) Owner. On or prior to the Closing Date Owner shall deposit the following into Escrow:

(i) Grant Deed. A duly executed and acknowledged Grant Deed in usual form setting forth all exceptions to title created or suffered by Owner which are not to be removed at or prior to Closing;

(ii) Non-Foreign Person Certificates. Duly executed non-foreign person certificates ("Non-Foreign Person Certificates") in usual form sufficient to relieve Optionee of any withholding requirements pursuant to the provisions of Section 1445 of the Internal Revenue Code of 1986 as amended (the "Code") and Section 18805 of the California Revenue and Taxation Code and a California Form 590-RE certifying that Owner has a permanent place of business or is qualified to do business in the State of California;

5

(iii) Assignment of Intangible Property. An assignment, in a form reasonably approved by Optionee and Owner, of all Owner's rights, title, and interest to any and all plans, permits, approvals, entitlements and other intangible property relating to the Property (the "Assignment of Intangibles");

(iv) Assignment of Ground Lease. An assignment and assumption in a form reasonably approved by Optionee pursuant to which Owner shall assign to Optionee all of its rights as Lessor under the Ground Lease accruing from and after the Closing Date and Optionee assumes all of Owners obligations as Lessor under the Ground Lease arising after the Closing Date (including but not limited to the obligations of Lessor under Article 40 of the Ground Lease pertaining to the environmental conditions of the Property), except for Lessor's obligation to demolish the existing improvement pursuant to Section 4.1 of the Ground Lease and to indemnify Lessee in connection with that work ("Assignment and Assumption").

(v) Closing Certificate. Owner's Closing Certificate, in a form reasonably approved by Optionee and Owner; and

(vi) Additional Escrow Instructions and Documents. Such additional escrow instructions ("Owner's Additional Escrow Instructions") and documents as Escrow Agent may reasonably require of Owner to close the sale of the Property in accordance with this Agreement, which instructions shall not be inconsistent with the terms of this Agreement.

(c) Optionee. On or prior to the Closing Date Optionee shall deposit the following into Escrow:

(i) Cash Payment. The Cash Payment;

(ii) Additional Cash. Additional cash in the amount necessary to pay Optionee's share of closing costs and prorations, as hereinafter set forth;

(iii) Release and Assumption. The Release and Assumption provided for in Section 9(e);

(iv) Assignment and Assumption. The Assignment and Assumption executed by Optionee; and

(v) Additional Escrow Instructions and Documents. Such additional escrow instructions ("Optionee's Additional Escrow Instructions") and documents as Escrow Agent may reasonably require of Optionee to close the sale of the Property in accordance with this Agreement.

7. Close of Escrow.

(a) Time. When the Escrow Holder has confirmed that Title Company is in a position to issue an ALTA Extended Policy (Form B-1970) insuring title to the Property as being vested in Optionee in accordance with Section 5(a) and all documents and funds required hereby

6

have been deposited with Escrow Agent, Escrow Agent shall cause Close of Escrow to occur as provided below.

(b) Procedure. Escrow Agent shall close Escrow as follows:

(i) Record the following documents in the order set forth below:

(1) The Grant Deed.

(ii) Deliver to Owner the following:

- (1) The Cash Payment and the Deposit;
- (2) The Release and Assumption;
- (3) The Assignment and Assumption; and
- (4) A conformed copy of the Grant Deed.

(iii) Deliver to Optionee the following:

(1) An ALTA Policy in accordance with

Section 5(a); and

(2) The Non-Foreign Person Certificates; and

(3) Conformed copies of the Grant Deed, Assignment and Assumption, Owner's Closing Certificates and Assignment of Intangibles, and the originals of such documents following their recordation.

(c) Closing Costs and Prorations.

(i) Closing Costs. Owner shall pay the cost for a basic CLTA owner's policy; Optionee shall pay all additional costs for the Title Policy and all Endorsements. Owner shall pay county transfer taxes and one-half of the escrow fees applicable to the sale. Optionee shall pay one-half of the escrow fees and all recording fees attributable to the conveyance documents, and Owner shall pay recording fees attributable to the release of any liens on the Property. All other costs and charges of the escrow for the sale shall be paid in accordance with custom.

(ii) Prorations. Real estate taxes and all other expenses normal to the operation and maintenance of the Property are paid by Lessee under the Ground Lease and are not pro rated. Base Monthly Rental under the Ground Lease shall be prorated as of 12:01 a.m. on the Closing Date.

(iii) Escrow Cancellation Costs. Notwithstanding the provisions of subsection (i) above, if Escrow fails to close due to Owner's default, Owner shall pay all Escrow cancellation charges. If Escrow fails to close due to Optionee's default, Optionee shall pay all Escrow cancellation charges. If Escrow fails to close for any reason other than the

7

foregoing, Optionee and Owner shall each pay one-half (1/2) of any Escrow cancellation charges. "Escrow cancellation charges" means all fees, charges, and expenses incurred by Escrow Agent, including all expenses incurred in connection with issuance of the Preliminary Report and other title matters.

8. Brokers. Each of Optionee and Owner represents to the other party that, other than Cornish & Carey representing Optionee and CPS representing Owner ("Brokers") in connection with the Ground Lease, such party has not engaged any broker or finder in connection with any of the transactions contemplated by this Agreement. Optionee shall indemnify, defend and hold Owner harmless from and against any loss, cost or expense, including, but not limited to, attorneys' fees and court costs, resulting from any claim against Owner for any fee or commission by any broker or finder claiming by or through Optionee, other than the Brokers in connection with the Ground Lease. Owner shall indemnify, defend and hold Optionee harmless from and against any loss, cost or expense, including, but not limited to, attorneys' fees and court costs, resulting from any claim for a fee or commission by any broker or finder claiming by or through Owner. Owner shall be responsible for the payment of any fees or commissions payable to the Brokers in connection with the Ground Lease transaction in accordance with Owner's written agreements with such brokers. The covenants contained herein shall survive the Close of Escrow.

9. Owner's Representations, Warranties and Covenants.

(a) Owner's Representations and Warranties. Owner hereby makes the following representations and warranties to Optionee, which

representations and warranties shall survive the Close of Escrow for a period of twelve (12) months (at which time these representations and warranties shall expire):

(i) Litigation; Government Action. Except as disclosed to Optionee in writing, there is no claim, litigation, notice that the Property is in violation of law, or governmental investigation presently pending with respect to which Owner has been served with process or other notice thereof or, to the best of Owner's knowledge (as defined below), otherwise pending or threatened, against or relating to the Property.

(ii) Condemnation. There is presently no pending condemnation of the Property or any part thereof with respect to which Owner has been served with process or other notice thereof nor, to the best of Owner's knowledge, is any such condemnation otherwise pending or contemplated.

(iii) Leases. There are no leases or other occupancy agreements relating to the Property other than the Ground Lease.

(iv) Hazardous Materials.

(1) For purposes hereof, "Hazardous Materials" shall mean any and all asbestos, radioactive material, hazardous waste, toxic substance or related material, including but not limited to those materials and substances defined as "hazardous substances", "hazardous materials", "hazardous wastes" or "toxic substances" in any California or federal law or regulation.

8

(2) Owner has not released or discharged, or caused to be released or discharged, upon the Property any Hazardous Materials, and to the best of Owner's knowledge, except as disclosed in the Property Documents, there are no Hazardous Materials present on, in, or under the Property.

(3) To the best of Owner's knowledge, the Property Documents are all of the documents and reports in Owner's possession pertaining to Hazardous Materials on or at the Property.

(v) Property Documents. To the best of Owner's knowledge there are no other documents or reports in Owner's possession or under Owner's control other than the Property Documents, describing the condition of the Property concerning the presence of Hazardous Materials, the geotechnical condition of the soils or other like physical condition of the Property as of the Execution Date; provided, however, the existing improvements to be demolished and removed by Owner contain asbestos. Owner acknowledges and agrees that the demolition and removal of the existing improvements including the asbestos containing materials therein and all costs in connection therewith is the sole responsibility of Owner.

(b) Organization and Authority. Owner is a California limited partnership validly existing and in good standing under the laws of California. Owner and has full power to enter into this Agreement and is duly qualified to transact business in California. The execution, delivery, and performance of this Agreement have been duly authorized and approved by all requisite action and the consummation of the transactions contemplated hereby will be duly authorized and approved by all requisite action of Owner and no other authorizations or approvals, whether of governmental bodies or otherwise, will be necessary in order to enable Owner enter into or to comply with the terms of this Agreement.

(c) Binding Effect of Documents. This Agreement and the other documents to be executed by Owner hereunder, upon execution and delivery thereof by Owner, will have been duly entered into by Owner, and will constitute legal, valid and binding obligations of Owner. Neither this Agreement nor anything provided to be done under this Agreement violates or shall violate any contract, document, understanding, agreement, or instrument to which Owner is a party or by which it is bound.

(d) "Best Knowledge" Definition. For purposes of this Section 11, the term "to the best of Owner's knowledge" shall mean the current actual knowledge of John Mozart and Steve Dostart after usual inquiry in

connection with the operation of the Property. Owner represents that John Mozart and Steve Dostart are the representatives of Owner with supervisory responsibilities concerning the Property who would, in the ordinary course of their responsibilities, receive notice from persons or entities of any of the matters described in the representations and warranties in this Section 11.

(e) "As-Is" Condition; Release and Assumption. If Owner breaches any representation, warranty, or covenant hereunder prior to Closing and Optionee closes escrow with knowledge thereof, Optionee shall be deemed to waive such breach. Except as expressly provided in this Agreement and in Owner's Closing Certificate, Owner makes no representations or warranties of any kind, express or implied, written or oral, as to the physical condition of the

9

Property; the uses of the Property or any limitations thereon, including, without limitation, zoning, environmental or other laws, regulations or governmental requirements; the utilities or other physical equipment and fixtures on the Property, the costs of operating the Property or any other aspect of the economic operations on the Property; the possibility of future assessments of charges being levied against the Property or imposed as a condition to development or construction; or the condition of the soils or groundwater of the Property. Except as provided herein, Optionee specifically acknowledges that it is acquiring the Property in an "as-is" condition (as such term is most broadly construed), in reliance upon its own inspection and investigation of the Property. Except as expressly provided herein, Owner makes no representation or warranties with respect to the condition of title to the Property, and Optionee agrees that it will rely solely on its policy of title insurance. At closing, and as a condition to Owner's obligations hereunder, Optionee shall, pursuant to a form of Release and Assumption ("Release and Assumption") prepared by Owner and delivered to Optionee for approval by Optionee within ten (10) days after the Execution Date, (1) release Owner from any and all claims, liability or causes of action (except for the express representations and warranties herein and in Owner's Closing Certificate to the extent the same survive closing) in connection with the Property and (2) assume all of Owner's obligations under any and all laws and regulations pertaining to the Property (except those accruing prior to Close of Escrow).

10. Loss by Fire or Other Casualty; Condemnation.

(a) Condemnation and General Casualty. Optionee shall be bound to purchase the Property for the full Purchase Price as required by the terms hereof, without regard to the occurrence or effect of any damage to or destruction of any improvements or condemnation of any portion of the Property; provided, however, at Closing the Purchase Price shall be credited by the amount of any insurance proceeds or condemnation awards collected by Owner (excluding proceeds or awards payable directly or indirectly, in respect of any delay in the receipt of the Purchase Price by Owner) as a result of any such damage or destruction or condemnation less any monies actually expended by Owner to repair any damage, plus any deductible amounts attributable to such damage or destruction, or such proceeds shall be assigned to Optionee if not then collected.

(b) Owner Cooperation. If Owner assigns the proceeds of any insurance policy to Optionee pursuant to Section 10(a), Owner shall cooperate with Optionee in presenting and prosecuting the claim with Owner's insurance carriers, shall follow Optionee's instructions with respect thereto (except to the extent Owner is advised by counsel that following a particular instruction would expose Owner to liability, or to the extent Owner would incur additional cost to follow such instruction which is not paid by Optionee), and will not settle any such claim without Optionee's written approval.

11. Successors and Assigns. The terms, covenants, and conditions herein contained shall be binding upon and inure to the benefit of the successors and assigns of the parties hereto. Optionee may assign its rights under this Agreement to a financing entity in connection with a synthetic lease transaction without the need for Owner's prior written consent. But no such assignment shall relieve the assignor from primary liability for its obligations hereunder. Prior to the acquisition of the Property, Optionee intends to assign Optionee's interest under this Agreement to an entity (the "Lessor"), who will then lease all of the acquired portions of the

property to Optionee, as tenant ("Tenant"), pursuant to a synthetic lease ("Lease") to be executed by Lessor and Tenant, pursuant to which Tenant shall have the right to construct certain improvements thereon, pursuant to plans and specifications approved by Lessor and Tenant. The parties acknowledge that (a) Tenant is intended to be the ultimate occupant and user of the Real Property, and (b) the improvements to be constructed thereon are being designed for Tenant's benefit and to Tenant's specifications. Therefore, the parties acknowledge that Tenant is an intended third party beneficiary of all of Owner's covenant, representations, warranties and obligations under this Agreement.

12. Entire Agreement. This Agreement contains all of the covenants, conditions and agreements between the parties and shall supersede all prior correspondence, agreements, and understandings, both oral and written. No provisions of this Agreement may be amended or modified in any manner except by an agreement in writing duly executed by the parties hereto.

13. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California as applied to agreements among California residents which are entered into and performed entirely within California.

14. Attorneys' Fees; Arbitration.

(a) Attorneys' Fees. In the event of any litigation or arbitration regarding the rights and obligations under this Agreement, the prevailing party shall be entitled to recover, in addition to damages, injunctive or other relief, reasonable attorneys' fees expert witness fees, and court costs.

(b) Arbitration of Disputes. ANY CONTROVERSY OR CLAIM ARISING OUT OF THIS AGREEMENT SHALL BE SETTLED BY ARBITRATION IN ACCORDANCE WITH THE RULES OF THE AMERICAN ARBITRATION ASSOCIATION FOR THE ARBITRATION OF COMMERCIAL DISPUTES, AND JUDGMENT ON THE AWARD RENDERED BY THE ARBITRATOR(S) MAY BE ENTERED IN ANY COURT HAVING JURISDICTION. THE PREVAILING PARTY IN SUCH ARBITRATION SHALL BE ENTITLED TO ATTORNEYS' FEES AND COSTS.

NOTICE: BY INITIALING IN THE SPACE BELOW YOU ARE AGREEING TO HAVE ANY DISPUTE ARISING OUT OF THE MATTERS INCLUDED IN THE "ARBITRATION OF DISPUTES" PROVISION DECIDED BY NEUTRAL ARBITRATION AS PROVIDED BY CALIFORNIA LAW AND YOU ARE GIVING UP ANY RIGHTS YOU MIGHT POSSESS TO HAVE THE DISPUTE LITIGATED IN A COURT OR JURY TRIAL. BY INITIALING IN THE SPACE BELOW YOU ARE GIVING UP YOUR JUDICIAL RIGHTS TO DISCOVERY AND APPEAL, UNLESS THOSE RIGHTS ARE SPECIFICALLY INCLUDED IN THE "ARBITRATION OF DISPUTES" PROVISION. IF YOU REFUSE TO SUBMIT TO ARBITRATION AFTER AGREEING TO THIS PROVISION, YOU MAY BE COMPELLED TO ARBITRATE UNDER THE AUTHORITY OF THE CALIFORNIA CODE OF CIVIL PROCEDURE. YOUR AGREEMENT TO THIS ARBITRATION PROVISION IS VOLUNTARY.

WE HAVE READ AND UNDERSTAND THE FOREGOING AND AGREE TO SUBMIT DISPUTES ARISING OUT OF THIS AGREEMENT TO NEUTRAL ARBITRATION.

CONSENT TO NEUTRAL ARBITRATION BY:

_____ (OWNER): _____ (OPTIONEE).

15. Notices. All notices required or permitted to be given pursuant to the terms hereof shall be in writing and either delivered by hand delivery, professional courier service which provides written evidence of delivery or deposited in the United States mail, registered or certified, postage prepaid and addressed as follows:

To Owner: 495 Java Drive Associates, L.P.
c/o Mozart Development Company
1068 East Meadow Circle
Palo Alto, California 94303
Attn: John Mozart and Steve Dostart
Tel. (415) 493-9000
FAX (415) 493-9050

With a copy to: Ellman, Burke, Hoffman & Johnson
One Ecker Building, Suite 200
San Francisco, California 94105
Attn: Jeffrey W. Johnson, Esq.
Tel. (415) 777-2727
FAX (415) 495-7587

To Optionee: Network Appliance Inc.
2770 San Tomas Expressway
Santa Clara, California 95051
Attn: Chris Carlton
Tel. (408) 367-3200
FAX (408) 367-3151

With a copy to: Network Appliance Inc.
2770 San tomas Expressway
Santa Clara, California 95051
Attn: Fran Bellet, Esq.
Tel. (408) 367-3200
FAX (408) 367-3151

The foregoing addresses may be changed by written notice to the other party as provided herein. Notices shall be deemed delivered and received, in the case of personal delivery or delivery by courier as aforesaid, on the day physically delivered to the indicated addressee, and in the case of delivery by United States mail, three (3) Business Days after deposit in the United States mail as aforesaid.

12

16. Exhibits. All exhibits are attached hereto and incorporated herein by this reference.

17. Authority. Each person executing this Agreement on behalf of a party to this Agreement hereby represents and warrants that he or she has authority to execute this Agreement on behalf of such party.

18. Tax Deferred Exchange. Optionee shall cooperate with Owner in connection with implementing the purchase and sale of the Property as a tax deferred exchange pursuant to Section 1031 of the Internal Revenue Code, provided, however, Optionee shall not be obligated to take title to any other property or incur any costs, liability, or delay in connection therewith.

19. Headings. Headings at the beginning of any paragraph or Section of this Agreement are solely for the convenience of the parties and are not a part of this Agreement or to be used in the interpretation hereof.

20. Survival. The representations, warranties and covenants of the parties hereto shall survive the Close of Escrow, or the termination of the Agreement if the Close of Escrow does not occur, subject to the express limitations on survivability contained in this Agreement.

21. Waiver. No waiver by Optionee or Owner of a breach of any of the terms, covenants, or conditions of this Agreement by the other party shall be construed or held to be a waiver of any succeeding or preceding breach of the same or any other term, covenant or condition herein contained. No waiver of any default by Optionee or Owner hereunder shall be implied from any omission by the other party to take any action on account of such default if such default persists or is repeated, and no express waiver shall affect a default other than as specified in such waiver. The consent or approval by Optionee or Owner to or of any act by the other party requiring the consent or approval of the first party shall not be deemed to waive or render unnecessary such party's consent or approval to or of any subsequent similar acts by the other party.

22. Confidentiality. Optionee and Owner shall both maintain this Agreement in the terms and conditions of confidence except as required by law and except as required in connection with the performance of each of the obligations of Optionee and Owner hereunder. Notwithstanding anything to the contrary herein, the provisions of this Section 23 shall be separate and severable from all of the other provisions of this Agreement. A breach or alleged breach of the provisions of this Section 23 shall not be grounds for termination of this Agreement or otherwise excuse the performance of any other obligations hereunder. The maximum damages recoverable for a breach of the terms

of this Section 23 shall be Twenty-Five Thousand Dollars (\$25,000.00).

23. Withdrawal from Market. During the period that this Agreement is in effect Owner shall withdraw the Property from the market and shall not except any back-up offers for the sell or lease of all or any portion of the Property.

24. Severability. If any phrase, clause, sentence, paragraph, section, article, or other portion of this Agreement shall become illegal, null or void or against public policy, for

13

any reason, or shall be held by any court of competent jurisdiction to be illegal, null or void or against public policy, the remaining portions of this Agreement shall not be affected thereby and shall remain in force and effect to the fullest extent permissible by law. Optionee and Owner acknowledge and agree that Optionee and Owner have simultaneously executed a Purchase Agreement for the property adjoining the Property at 495 Java Drive ("Separate Transaction"). The parties agree that for all purposes hereunder the Separate Transaction is separate and independent of any and all rights and obligations of the parties hereunder.

25. Time. Time is of the essence of this Agreement.

26. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the dates set forth next to their respective signatures below.

OPTIONEE: Network Appliance, Inc.,
a Delaware corporation

By: /s/ CHRIS CARLTON

Its: Vice President

OWNER:

475 Java Drive Associates, L.P.
a California Limited Partnership

By M-D Venture, Inc.,
a California Corporation,
its general partner

By: /s/ STEVE DOSTART

Steve Dostart, Vice President

14

EXHIBIT A

[Description of Property]

15

ADDENDUM TO LEASE AND OPTION AGREEMENT

Notwithstanding anything to the contrary in the Lease and Option Agreement between Network Appliance, Inc. ("Network") and 475 Java Drive

Associates, L.P. ("475"), (i) Network warrants that it has authority to execute, deliver and perform the Lease and Option Agreement and (ii) 475 shall be entitled to terminate the Lease and Option Agreement at any time after July 10, 1998 if, prior to such termination Network has failed to deliver to 475 its Board of Directors Resolution certified by the Secretary or Assistant Secretary of Network authorizing the transactions contemplated by the Lease and Option Agreement. Upon such termination 475 shall return Network's Option Payment.

NETWORK:

NETWORK APPLIANCE, INC.

By _____
Its _____

475:

475 JAVA DRIVE ASSOCIATES, L.P.

By M-D Ventures, Inc.

By _____
Its _____

July 10, 1998

Network Appliance, Inc.
2770 San Tomas Expressway
Santa Clara, CA 95051

Gentlemen:

This letter is to confirm that Wells Fargo Bank, National Association ("Bank"), subject to all terms and conditions contained herein, has agreed to make available to Network Appliance, Inc. ("Borrower") a revolving line of credit under which Bank will make advances to Borrower from time to time up to and including July 10, 1999, not to exceed at any time the maximum principal amount of Five Million Dollars (\$5,000,000.00) ("Line of Credit"), the proceeds of which shall be used to finance Borrower's working capital requirements.

I. CREDIT TERMS:

1. LINE OF CREDIT:

(a) Line of Credit Note. Borrower's obligation to repay advances under the Line of Credit shall be evidenced by a promissory note substantially in the form of Exhibit A attached hereto ("Line of Credit Note"), all terms of which are incorporated herein by this reference.

(b) Letter of Credit Subfeature. As a subfeature under the Line of Credit, Bank agrees from time to time during the term thereof to issue standby and/or sight commercial letters of credit for the account of Borrower to finance (each, a "Letter of Credit" and collectively, "Letters of Credit"); provided however, that the form and substance of each Letter of Credit shall be subject to approval by Bank, in its sole discretion; and provided further, that the aggregate undrawn amount of all outstanding Letters of Credit shall not at any time exceed Five Million Dollars (\$5,000,000.00). No Letter of Credit shall have an expiration date more than ninety (90) days beyond the maturity date of the Line of Credit. The undrawn amount of all Letters of Credit shall be reserved under the Line of Credit and shall not be available for borrowings thereunder. Each Letter of Credit shall be subject to the additional terms and conditions of the

2

Network Appliance, Inc.
July 10, 1998
Page 2

Letter of Credit Agreement and related documents, if any, required by Bank in connection with the issuance thereof. Each draft paid by Bank under a Letter of Credit shall be deemed an advance under the Line of Credit and shall be repaid by Borrower in accordance with the terms and conditions of this letter applicable to such advances; provided however, that if advances under the Line of Credit are not available, for any reason, at the time any draft is paid by Bank, then Borrower shall immediately pay to Bank the full amount of such draft, together with interest thereon from the date such amount is paid by Bank to the date such amount is fully repaid by Borrower, at the rate of interest applicable to advances under the Line of Credit. In such event Borrower agrees that Bank, in its sole discretion, may debit any demand deposit account maintained by Borrower with Bank for the amount of any such draft.

(c) Borrowing and Repayment. Borrower may from time to time during the term of the Line of Credit borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions contained herein or in the Line of Credit Note; provided however, that the total outstanding borrowings under the Line of Credit shall not at any time exceed the maximum principal amount available thereunder, as set forth above.

II. INTEREST/FEEES:

1.(a) Interest. The outstanding principal balance of the Line of Credit shall bear interest at the rate of interest set forth in the Line of Credit Note.

(b) Computation and Payment. Interest shall be computed on the basis of a 360-day year, actual days elapsed. Interest shall be payable at the times and place set forth in the Line of Credit Note.

(c) Unused Commitment Fee. Borrower shall pay to Bank a fee equal to fifteen one-hundredths percent (0.15%) per annum (computed on the basis of a 360-day year, actual days elapsed) on the average daily unused amount of the Line of Credit, which fee shall be calculated on a calendar quarter basis by Bank and shall be due and payable by Borrower in arrears within ten (10) days after each billing is sent by Bank.

(d) Collection of Payments. Borrower authorizes Bank to collect all interest and fees due under the Line of Credit by charging Borrower's demand deposit account number 4311-790562 with Bank, or any other demand deposit account maintained by

3

Network Appliance, Inc.
July 10, 1998
Page 3

Borrower with Bank, for the full amount thereof. Should there be insufficient funds in any such demand deposit account to pay all such sums when due, the full amount of such deficiency shall be immediately due and payable by Borrower.

III. REPRESENTATIONS AND WARRANTIES:

Borrower makes the following representations and warranties to Bank, which representations and warranties shall survive the execution of this letter and shall continue in full force and effect until the full and final payment, and satisfaction and discharge, of all obligations of Borrower to Bank subject to this letter.

1. Legal Status. Borrower is a corporation, duly organized and existing and in good standing under the laws of the state of California, and is qualified or licensed to do business in all jurisdictions in which such qualification or licensing is required or in which the failure to so qualify or to be so licensed could have a material adverse effect on Borrower.

2. Authorization and Validity. This letter, the Line of Credit Note, and each other document, contract or instrument deemed necessary by Bank to evidence any extension of credit to Borrower pursuant to the terms and conditions hereof, or now or at any time hereafter required by or delivered to Bank in connection with this letter (collectively, the "Loan Documents") have been duly authorized, and upon their execution and delivery in accordance with the provisions hereof will constitute legal, valid and binding agreements and obligations of Borrower or the party which executes the same, enforceable in accordance with their respective terms.

3. No Violation. The execution, delivery and performance by Borrower of each of the Loan Documents do not violate any provision of any law or regulation, or contravene any provision of the Articles of Incorporation or By-Laws of Borrower, or result in a breach of or constitute a default under any contract, obligation, indenture or other instrument to which Borrower is a party or by which Borrower may be bound.

4. Litigation. There are no pending, or to the best of Borrower's knowledge threatened, actions, claims, investigations, suits or proceedings by or before any governmental authority, arbitrator, court or administrative agency which could have a material adverse effect on the financial condition or operation of Borrower other than those disclosed by Borrower to Bank in writing prior to the date hereof.

Network Appliance, Inc.
July 10, 1998
Page 4

5. Correctness of Financial Statement. The financial statement of Borrower dated January 23, 1998, a true copy of which has been delivered by Borrower to Bank prior to the date hereof, (a) is complete and correct and presents fairly the financial condition of Borrower, (b) discloses all liabilities of Borrower that are required to be reflected or reserved against under generally accepted accounting principles, whether liquidated or unliquidated, fixed or contingent, and (c) has been prepared in accordance with generally accepted accounting principles consistently applied. Since the date of such financial statement there has been no material adverse change in the financial condition of Borrower, nor has Borrower mortgaged, pledged, granted a security interest in or otherwise encumbered any of its assets or properties except in favor of Bank or as otherwise permitted by Bank in writing.

6. Income Tax Returns. Borrower has no knowledge of any pending assessments or adjustments of its income tax payable with respect to any year.

7. No Subordination. There is no agreement, indenture, contract or instrument to which Borrower is a party or by which Borrower may be bound that requires the subordination in right of payment of any of Borrower's obligations subject to this letter to any other obligation of Borrower.

8. Permits, Franchises. Borrower possesses, and will hereafter possess, all permits, consents, approvals, franchises and licenses required and all rights to trademarks, trade names, patents and fictitious names, if any, necessary to enable it to conduct the business in which it is now engaged in compliance with applicable law.

9. ERISA. Borrower is in compliance in all material respects with all applicable provisions of the Employee Retirement Income Security Act of 1974, as amended or recodified from time to time ("ERISA"); Borrower has not violated any provision of any defined employee pension benefit plan (as defined in ERISA) maintained or contributed to by Borrower (each, a "Plan"); no Reportable Event, as defined in ERISA, has occurred and is continuing with respect to any Plan initiated by Borrower; Borrower has met its minimum funding requirements under ERISA with respect to each Plan; and each Plan will be able to fulfill its benefit obligations as they come due in accordance with the Plan documents and under generally accepted accounting principles.

10. Other Obligations. Borrower is not in default on any obligation for borrowed money, any purchase money obligation or

Network Appliance, Inc.
July 10, 1998
Page 5

any other material lease, commitment, contract, instrument or obligation.

11. Environmental Matters. Except as disclosed by Borrower to Bank in writing prior to the date hereof, Borrower is in compliance in all material respects with all applicable federal or state environmental, hazardous waste, health and safety statutes, and any rules or regulations adopted pursuant thereto, which govern or affect any of Borrower's operations and/or properties, including without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Superfund Amendments and Reauthorization Act of 1986, the Federal Resource Conservation and Recovery Act of 1976, and the Federal Toxic Substances Control Act, as any of the same may be amended, modified or supplemented from time to time. None of the operations of Borrower is the subject of any federal or state investigation evaluating whether any remedial action involving a material expenditure is needed to respond to a release of any toxic or hazardous waste or substance into the environment. Borrower has no material contingent liability in connection with any release of any toxic or hazardous waste or substance into the environment.

IV. CONDITIONS:

1. Conditions of Initial Extension of Credit. The obligation of Bank to extend any credit contemplated by this letter is subject to fulfillment to Bank's satisfaction of all of the following conditions:

(a) Documentation. Bank shall have received each of the Loan Documents, duly executed and in form and substance satisfactory to Bank.

(b) Financial Condition. There shall have been no material adverse change, as determined by Bank, in the financial condition or business of Borrower, nor any material decline, as determined by Bank, in the market value of any collateral required hereunder or a substantial or material portion of the assets of Borrower.

2. Conditions of Each Extension of Credit. The obligation of Bank to make each extension of credit requested by Borrower hereunder shall be subject to the fulfillment to Bank's satisfaction of each of the following conditions:

(a) Compliance. The representations and warranties contained herein and in each of the other Loan Documents shall be true on and as of the date of the signing of this letter and on

6

Network Appliance, Inc.
July 10, 1998
Page 6

the date of each extension of credit by Bank pursuant hereto, with the same effect as though such representations and warranties had been made on and as of each such date, and on each such date, no default hereunder, and no condition, event or act which with the giving of notice or the passage of time or both would constitute such a default, shall have occurred and be continuing or shall exist.

(b) Documentation. Bank shall have received all additional documents which may be required in connection with such extension of credit.

V. COVENANTS:

Borrower covenants that so long as Bank remains committed to extend credit to Borrower pursuant hereto, or any liabilities (whether direct or contingent, liquidated or unliquidated) of Borrower to Bank under any of the Loan Documents remain outstanding, and until payment in full of all obligations of Borrower subject hereto, Borrower shall, unless Bank otherwise consents in writing:

1. Punctual Payment. Punctually pay all principal, interest, fees or other liabilities due under any of the Loan Documents at the times and place and in the manner specified therein.

2. Accounting Records. Maintain adequate books and records in accordance with generally accepted accounting principles consistently applied, and permit any representative of Bank, at any reasonable time, to inspect, audit and examine such books and records, to make copies of the same, and inspect the properties of Borrower.

3. Financial Statements. Provide to Bank all of the following, in form and detail satisfactory to Bank:

(a) not later than 120 days after and as of the end of each fiscal year, an audited financial statement of Borrower, prepared by a certified public accountant acceptable to Bank, to include a balance sheet and income statement;

(b) not later than 60 days after and as of the end of each fiscal quarter, a unaudited financial statement of Borrower, prepared by Borrower, to include a balance sheet and income statement;

7

(c) from time to time such other information as Bank may reasonably request.

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

5. Insurance. Maintain and keep in force insurance of the types and in amounts customarily carried in lines of business similar to that of Borrower, 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 Bank, and deliver to Bank from time to time at Bank's request schedules setting forth all insurance then in effect.

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

7. Taxes and Other Liabilities. 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 Borrower may in good faith contest or as to which a bona fide dispute may arise, and (b) for which Borrower has made provision, to Bank's satisfaction, for eventual payment thereof in the event that Borrower is obligated to make such payment.

8. Financial Condition. Maintain Borrower's financial condition as follows using generally accepted accounting principles consistently applied and used consistently with prior practices (except to the extent modified by the definitions herein):

(a) Tangible Net Worth not at any time less than \$57,000,000.00, with "Tangible Net Worth" defined as the aggregate of total stockholders' equity plus subordinated debt less any intangible assets.

8

(b) Total Liabilities divided by Tangible Net Worth not at any time greater than 0.75 to 1.0, with "Total Liabilities" defined as the aggregate of current liabilities and non-current liabilities less subordinated debt, and with "Tangible Net Worth" as defined above.

(c) Quick Ratio not at any time less than 1.5 to 1.0, with "Quick Ratio" defined as the aggregate of unrestricted cash, unrestricted marketable securities and receivables convertible into cash divided by total current liabilities.

(d) Net income after taxes not less than \$1.00 on an annual basis, determined as of each fiscal year end, and pre-tax profit not less than \$1.00 on a quarterly basis, determined as of each fiscal quarter end; irrespective of the profitability requirement noted above, Borrower may post one quarterly pre-tax loss per fiscal year as an exclusive result of acquisition related non-cash write-offs and associated cash expenses (such as legal, accounting, or M&A advising fees).

9. Capital Expenditures. Not make any additional investment in fixed assets in any fiscal year in excess of an aggregate of \$20,000,000.00.

10. Other Indebtedness. Not create, incur, assume or permit to exist

any indebtedness or liabilities resulting from borrowings, loans or advances, whether secured or unsecured, matured or unmatured, liquidated or unliquidated, joint or several, except (a) the liabilities of Borrower to Bank, and (b) any other liabilities of Borrower existing as of, and disclosed to Bank prior to, the date hereof, (c) to the extent not included in clause (b), indebtedness incurred in the ordinary course of business for the purpose of purchasing inventory, equipment and/or real estate not to exceed \$10,000,000.00 outstanding at any time, and (d) subordinated indebtedness pursuant to subordination agreements in form and content acceptable to Bank; and (e) extensions, modifications, refinancings and refundings of the foregoing, so long as the maximum principal amount is not increased.

11. Merger, Consolidation, Transfer of Assets. Not merge into or consolidate with any other entity; unless Borrower is the surviving entity and remains in compliance of all provisions of this Agreement, nor make any substantial change in the nature of Borrower's business as conducted as of the date hereof; nor sell, lease, transfer or otherwise dispose of all or a substantial or material portion of Borrower's assets except in the ordinary course of its business.

9

Network Appliance, Inc.
July 10, 1998
Page 9

12. Loans, Advances, Investments. Not 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 Bank 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 Borrower's investment policy, as in effect from time to time, (d) existing investments in subsidiaries and joint ventures which have been disclosed to Bank 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 Borrower.

13. Dividends, Distributions. Not declare or pay any dividend or distribution either in cash, stock or any other property on Borrower's stock now or hereafter outstanding, nor redeem, retire, repurchase or otherwise acquire any shares of any class of Borrower's stock now or hereafter outstanding.

14. Pledge of Assets. Not mortgage, pledge, grant or permit to exist a security interest in, or lien upon, all or any portion of Borrower's assets now owned or hereafter acquired, except (a) purchase money security interests in real property, inventory or equipment securing indebtedness permitted under Section V.10(b) and (c), (b) any of the foregoing in favor of Bank, (c) liens for taxes, assessments or other governmental charges which are not due and which remain payable without penalty or which are being contested in good faith, provided that adequate reserves therefor have been established, which reserves in accordance with generally accepted accounting principles, consistently applied, (d) liens in connection with insurance or compensation funds, pensions, social security obligations, bids, tender, leases, statutory obligations, surety and appeal bonds and other liens arising in the ordinary course of Borrower's business, including mechanics and materialman's which do not adversely affect Borrower's business operations, (e) liens reflected in Borrower's financial statements dated January 23, 1998, previously submitted to Bank, (f) liens (otherwise permitted in this section) on assets that existed at the time such assets were acquired by Borrower or any of its subsidiaries, and (g) liens on deposit accounts in the nature of set off rights, banker's liens or other customary rights.

15. Year 2000 Compliance. Perform all acts reasonably necessary to ensure that (a) Borrower and any business in which Borrower holds a substantial interest, and (b) all customers, suppliers and vendors that are material to Borrower's business, become Year 2000 Compliant in a timely manner. Such acts shall

10

include, without limitation, performing a comprehensive review and assessment of all of Borrower's systems and adopting a detailed plan, with itemized budget, for the remediation, monitoring and testing of such systems. As used herein, "Year 2000 Compliant" shall mean, in regard to any entity, that all software, hardware, firmware, equipment, goods or systems utilized by or material to the business operations or financial condition of such entity, will properly perform date sensitive functions before, during and after the year 2000. Borrower shall, immediately upon request, provide to Bank such certifications or other evidence of Borrower's compliance with the terms hereof as Bank may from time to time require.

VI. DEFAULT, REMEDIES:

1. Default, Remedies. Upon the violation of any term or condition of any of the Loan Documents, or upon the occurrence of any default or defined event of default under any of the Loan Documents: (a) all indebtedness of Borrower under each of the Loan Documents, any term thereof to the contrary notwithstanding, shall at Bank's option and without notice become immediately due and payable without presentment, demand, protest or notice of dishonor, all of which are expressly waived by Borrower; (b) the obligation, if any, of Bank to extend any further credit under any of the Loan Documents shall immediately cease and terminate; and (c) Bank shall have all rights, powers and remedies available under each of the Loan Documents, or accorded by law, including without limitation the right to resort to any or all security for any credit extended by Bank to Borrower under any of the Loan Documents and to exercise any or all of the rights of a beneficiary or secured party pursuant to the applicable law. All rights, powers and remedies of Bank may be exercised at any time by Bank and from time to time after the occurrence of any such breach or default, are cumulative and not exclusive, and shall be in addition to any other rights, powers or remedies provided by law or equity.

2. No Waiver. No delay, failure or discontinuance of Bank in exercising any right, power or remedy under any of the Loan Documents shall affect or operate as a waiver of such right, power or remedy; nor shall any single or partial exercise of any such right, power or remedy preclude, waive or otherwise affect any other or further exercise thereof or the exercise of any other right, power or remedy. Any waiver, permit, consent or approval of any kind by Bank of any breach of or default under any of the Loan Documents must be in writing and shall be effective only to the extent set forth in such writing.

11

VII. MISCELLANEOUS:

1. Notices. All notices, requests and demands which any party is required or may desire to give to any other party under any provision of this letter must be in writing delivered to each party at its address first set forth above, or to such other address as any party may designate by written notice to all other parties. Each such notice, request and demand shall be deemed given or made as follows: (a) if sent by hand delivery, upon delivery; (b) if sent by mail, upon the earlier of the date of receipt or three (3) days after deposit in the U.S. mail, first class and postage prepaid; and (c) if sent by telecopy, upon receipt.

2. Costs, Expenses and Attorneys' Fees. Borrower shall pay to Bank immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of Bank's in-house counsel), expended or incurred by Bank in connection with (a) the negotiation and preparation of this letter and the other Loan Documents, Bank's continued administration hereof and thereof, and the preparation of amendments and waivers hereto and thereto, (b) the enforcement of Bank's rights and/or the collection of any amounts which become due to Bank under any of the Loan Documents, and (c) the prosecution or

defense of any action in any way related to any of the Loan Documents, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to any Borrower or any other person or entity.

3. Successors, Assignment. This letter shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the parties; provided however, that Borrower may not assign or transfer its interest hereunder without Bank's prior written consent. Bank reserves the right to sell, assign, transfer, negotiate or grant participations in all or any part of, or any interest in, Bank's rights and benefits under each of the Loan Documents. In connection therewith Bank may disclose all documents and information which Bank now has or hereafter may acquire relating to any credit extended by Bank to Borrower, Borrower or its business, or any collateral required hereunder.

12

Network Appliance, Inc.
July 10, 1998
Page 12

4. Entire Agreement; Amendment. This letter and the other Loan Documents constitute the entire agreement between Borrower and Bank with respect to any extension of credit by Bank subject hereto and supersede all prior negotiations, communications, discussions and correspondence concerning the subject matter hereof. This letter may be amended or modified only in writing signed by each party hereto.

5. No Third Party Beneficiaries. This letter is made and entered into for the sole protection and benefit of the parties hereto and their respective permitted successors and assigns, and no other person or entity shall be a third party beneficiary of, or have any direct or indirect cause of action or claim in connection with, this letter or any other of the Loan Documents to which it is not a party.

6. Severability of Provisions. If any provision of this letter shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity without invalidating the remainder of such provision or any remaining provisions of this letter.

7. Governing Law. This letter shall be governed by and construed in accordance with the laws of the State of California.

8. Arbitration.

(a) Arbitration. Upon the demand of any party, any Dispute shall be resolved by binding arbitration (except as set forth in (e) below) in accordance with the terms of this letter. A "Dispute" shall mean any action, dispute, claim or controversy of any kind, whether in contract or tort, statutory or common law, legal or equitable, now existing or hereafter arising under or in connection with, or in any way pertaining to, any of the Loan Documents, or any past, present or future extensions of credit and other activities, transactions or obligations of any kind related directly or indirectly to any of the Loan Documents, including without limitation, any of the foregoing arising in connection with the exercise of any self-help, ancillary or other remedies pursuant to any of the Loan Documents. Any party may by summary proceedings bring an action in court to compel arbitration of a Dispute. Any party who fails or refuses to submit to arbitration following a lawful demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any Dispute.

(b) Governing Rules. Arbitration proceedings shall be administered by the American Arbitration Association ("AAA") or such other administrator as the parties shall mutually agree upon

13

in accordance with the AAA Commercial Arbitration Rules. All Disputes submitted to arbitration shall be resolved in accordance with the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the Loan Documents. The arbitration shall be conducted at a location in California selected by the AAA or other administrator. If there is any inconsistency between the terms hereof and any such rules, the terms and procedures set forth herein shall control. All statutes of limitation applicable to any Dispute shall apply to any arbitration proceeding. All discovery activities shall be expressly limited to matters directly relevant to the Dispute being arbitrated. Judgment upon any award rendered in an arbitration may be entered in any court having jurisdiction; provided however, that nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. Section 91 or any similar applicable state law.

(c) No Waiver; Provisional Remedies, Self-Help and Foreclosure. No provision hereof shall limit the right of any party to exercise self-help remedies such as setoff, foreclosure against or sale of any real or personal property collateral or security, or to obtain provisional or ancillary remedies, including without limitation injunctive relief, sequestration, attachment, garnishment or the appointment of a receiver, from a court of competent jurisdiction before, after or during the pendency of any arbitration or other proceeding. The exercise of any such remedy shall not waive the right of any party to compel arbitration or reference hereunder.

(d) Arbitrator Qualifications and Powers; Awards. Arbitrators must be active members of the California State Bar or retired judges of the state or federal judiciary of California, with expertise in the substantive law applicable to the subject matter of the Dispute. Arbitrators are empowered to resolve Disputes by summary rulings in response to motions filed prior to the final arbitration hearing. Arbitrators (i) shall resolve all Disputes in accordance with the substantive law of the state of California, (ii) may grant any remedy or relief that a court of the state of California could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award, and (iii) shall have the power to award recovery of all costs and fees, to impose sanctions and to take such other actions as they deem necessary to the same extent a judge could pursuant to the Federal Rules of Civil Procedure, the California Rules of Civil Procedure or other applicable law. Any Dispute in which the amount in controversy is \$5,000,000 or less shall be decided by a single arbitrator who shall not render an award of greater than \$5,000,000 (including damages, costs, fees

14

and expenses). By submission to a single arbitrator, each party expressly waives any right or claim to recover more than \$5,000,000. Any Dispute in which the amount in controversy exceeds \$5,000,000 shall be decided by majority vote of a panel of three arbitrators; provided however, that all three arbitrators must actively participate in all hearings and deliberations.

(e) Judicial Review. Notwithstanding anything herein to the contrary, in any arbitration in which the amount in controversy exceeds \$25,000,000, the arbitrators shall be required to make specific, written findings of fact and conclusions of law. In such arbitrations (i) the arbitrators shall not have the power to make any award which is not supported by substantial evidence or which is based on legal error, (ii) an award shall not be binding upon the parties unless the findings of fact are supported by substantial evidence and the conclusions of law are not erroneous under the substantive law of the state of California, and (iii) the parties shall have in addition to the grounds referred to in the Federal Arbitration Act for vacating, modifying or correcting an award the right to judicial review of (A) whether the findings of fact rendered by the arbitrators are supported by substantial evidence, and (B) whether the conclusions of law are erroneous under the substantive law of the state of

California. Judgment confirming an award in such a proceeding may be entered only if a court determines the award is supported by substantial evidence and not based on legal error under the substantive law of the state of California.

(f) Real Property Collateral; Judicial Reference. Notwithstanding anything herein to the contrary, no Dispute shall be submitted to arbitration if the Dispute concerns indebtedness secured directly or indirectly, in whole or in part, by any real property unless (i) the holder of the mortgage, lien or security interest specifically elects in writing to proceed with the arbitration, or (ii) all parties to the arbitration waive any rights or benefits that might accrue to them by virtue of the single action rule statute of California, thereby agreeing that all indebtedness and obligations of the parties, and all mortgages, liens and security interests securing such indebtedness and obligations, shall remain fully valid and enforceable. If any such Dispute is not submitted to arbitration, the Dispute shall be referred to a referee in accordance with California Code of Civil Procedure Section 638 et seq., and this general reference agreement is intended to be specifically enforceable in accordance with said Section 638. A referee with the qualifications required herein for arbitrators shall be selected pursuant to the AAA's selection procedures.

15

Network Appliance, Inc.
July 10, 1998
Page 15

Judgment upon the decision rendered by a referee shall be entered in the court in which such proceeding was commenced in accordance with California Code of Civil Procedure Sections 644 and 645.

(g) Miscellaneous. To the maximum extent practicable, the AAA, the arbitrators and the parties shall take all action required to conclude any arbitration proceeding within 180 days of the filing of the Dispute with the AAA. No arbitrator or other party to an arbitration proceeding may disclose the existence, content or results thereof, except for disclosures of information by a party required in the ordinary course of its business, by applicable law or regulation, or to the extent necessary to exercise any judicial review rights set forth herein. If more than one agreement for arbitration by or between the parties potentially applies to a Dispute, the arbitration provision most directly related to the Loan Documents or the subject matter of the Dispute shall control. This arbitration provision shall survive termination, amendment or expiration of any of the Loan Documents or any relationship between the parties.

Your acknowledgment of this letter shall constitute acceptance of the foregoing terms and conditions. Bank's commitment to extend any credit to Borrower pursuant to the terms of this letter shall terminate on August 10, 1998, unless this letter is acknowledged by Borrower and returned to Bank on or before that date.

Sincerely,

WELLS FARGO BANK,
NATIONAL ASSOCIATION

By: _____
Gus Martin
Vice President

Acknowledged and accepted as of _____ :

NETWORK APPLIANCE, INC.

By: _____

Title: _____

SUBSIDIARIES OF THE COMPANY

SUBSIDIARIES:

Network Appliance Ltd. (U.K.)
Network Appliance Corporation France
Network Appliance Srl. (Italy)
Network Appliance GmbH (Germany)
Network Appliance FSC Incorporated
Network Appliance KK (Japan)
Network Appliance Ltd. (Ireland)
Network Appliance GmbH (Switzerland)
Network Appliance BV (Netherlands)

INDEPENDENT AUDITORS' CONSENT

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

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

DELOITTE & TOUCHE LLP

San Jose, California
July 17, 1998

<ARTICLE> 5
<MULTIPLIER> 1,000

<PERIOD-TYPE>	YEAR	
<FISCAL-YEAR-END>	APR-24-1998	
<PERIOD-START>	APR-26-1997	
<PERIOD-END>	APR-24-1998	
<CASH>		37,315
<SECURITIES>		10,800
<RECEIVABLES>		34,313
<ALLOWANCES>		811
<INVENTORY>		8,707
<CURRENT-ASSETS>		98,939
<PP&E>		21,723
<DEPRECIATION>		9,506
<TOTAL-ASSETS>		115,736
<CURRENT-LIABILITIES>		29,308
<BONDS>		0
<PREFERRED-MANDATORY>		0
<PREFERRED>		0
<COMMON>		65,924
<OTHER-SE>		20,341
<TOTAL-LIABILITY-AND-EQUITY>		115,736
<SALES>		166,163
<TOTAL-REVENUES>		166,163
<CGS>		67,549
<TOTAL-COSTS>		67,549
<OTHER-EXPENSES>		65,956
<LOSS-PROVISION>		0
<INTEREST-EXPENSE>		0
<INCOME-PRETAX>		33,547
<INCOME-TAX>		12,582
<INCOME-CONTINUING>		20,965
<DISCONTINUED>		0
<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		20,965
<EPS-PRIMARY>		.65
<EPS-DILUTED>		.58

<ARTICLE> 5
<MULTIPLIER> 1,000

<PERIOD-TYPE>	YEAR	YEAR
<FISCAL-YEAR-END>	APR-25-1997	APR-26-1996
<PERIOD-START>	APR-27-1996	MAY-01-1995
<PERIOD-END>	APR-25-1997	APR-26-1996
<CASH>	21,520	24,637
<SECURITIES>	6,916	2,982
<RECEIVABLES>	13,911	5,330
<ALLOWANCES>	330	330
<INVENTORY>	9,920	4,825
<CURRENT-ASSETS>	56,620	40,402
<PP&E>	13,752	6,582
<DEPRECIATION>	4,514	1,733
<TOTAL-ASSETS>	68,941	45,449
<CURRENT-LIABILITIES>	14,701	6,121
<BONDS>	0	0
<PREFERRED-MANDATORY>	0	0
<PREFERRED>	0	0
<COMMON>	54,653	39,903
<OTHER-SE>	(624)	0
<TOTAL-LIABILITY-AND-EQUITY>	68,941	45,449
<SALES>	93,333	46,632
<TOTAL-REVENUES>	93,333	46,632
<CGS>	38,061	20,557
<TOTAL-COSTS>	38,061	20,557
<OTHER-EXPENSES>	52,189	20,075
<LOSS-PROVISION>	0	110
<INTEREST-EXPENSE>	0	(600)
<INCOME-PRETAX>	4,043	6,600
<INCOME-TAX>	3,793	0
<INCOME-CONTINUING>	250	6,600
<DISCONTINUED>	0	0
<EXTRAORDINARY>	0	0
<CHANGES>	0	0
<NET-INCOME>	250	6,600
<EPS-PRIMARY>	.01	.37
<EPS-DILUTED>	.01	.21

<ARTICLE> 5
<MULTIPLIER> 1,000

<PERIOD-TYPE>	3-MOS	6-MOS
<FISCAL-YEAR-END>	APR-24-1998	APR-24-1998
<PERIOD-START>	APR-26-1997	APR-26-1997
<PERIOD-END>	JUL-25-1997	OCT-24-1997
<CASH>	25,578	28,520
<SECURITIES>	4,850	5,250
<RECEIVABLES>	16,852	23,113
<ALLOWANCES>	296	421
<INVENTORY>	12,719	11,718
<CURRENT-ASSETS>	63,855	73,361
<PP&E>	15,161	17,014
<DEPRECIATION>	5,543	6,783
<TOTAL-ASSETS>	76,492	86,598
<CURRENT-LIABILITIES>	16,891	20,479
<BONDS>	0	0
<PREFERRED-MANDATORY>	0	0
<PREFERRED>	0	0
<COMMON>	55,814	57,457
<OTHER-SE>	3,597	8,482
<TOTAL-LIABILITY-AND-EQUITY>	76,492	86,598
<SALES>	33,420	71,821
<TOTAL-REVENUES>	33,420	71,821
<CGS>	13,570	29,316
<TOTAL-COSTS>	13,570	29,316
<OTHER-EXPENSES>	13,264	28,332
<LOSS-PROVISION>	0	125
<INTEREST-EXPENSE>	0	0
<INCOME-PRETAX>	6,754	14,570
<INCOME-TAX>	2,533	5,464
<INCOME-CONTINUING>	4,221	9,106
<DISCONTINUED>	0	0
<EXTRAORDINARY>	0	0
<CHANGES>	0	0
<NET-INCOME>	4,221	9,106
<EPS-PRIMARY>	.13	.28
<EPS-DILUTED>	.12	.26

<ARTICLE> 5
<MULTIPLIER> 1,000

<PERIOD-TYPE>	3-MOS	6-MOS	9-MOS
<FISCAL-YEAR-END>	APR-25-1997	APR-25-1997	APR-25-1997
<PERIOD-START>	APR-27-1996	APR-27-1996	APR-27-1996
<PERIOD-END>	JUL-26-1996	OCT-25-1996	JAN-24-1997
<CASH>	21,758	15,244	20,938
<SECURITIES>	6,350	8,850	6,850
<RECEIVABLES>	6,751	10,866	12,336
<ALLOWANCES>	330	0	0
<INVENTORY>	6,993	8,318	9,585
<CURRENT-ASSETS>	44,891	46,314	53,007
<PP&E>	5,704	5,841	6,148
<DEPRECIATION>	0	0	0
<TOTAL-ASSETS>	50,803	52,345	59,357
<CURRENT-LIABILITIES>	11,475	10,225	12,833
<BONDS>	0	0	0
<PREFERRED-MANDATORY>	0	40,448	0
<PREFERRED>	0	0	0
<COMMON>	40,416	0	41,495
<OTHER-SE>	(1,365)	1,416	4,796
<TOTAL-LIABILITY-AND-EQUITY>	50,803	52,345	59,357
<SALES>	18,460	39,508	64,353
<TOTAL-REVENUES>	18,460	39,508	64,353
<CGS>	7,593	16,176	26,292
<TOTAL-COSTS>	7,593	16,176	26,292
<OTHER-EXPENSES>	11,913	20,361	30,131
<LOSS-PROVISION>	0	0	0
<INTEREST-EXPENSE>	0	0	0
<INCOME-PRETAX>	(755)	3,523	8,723
<INCOME-TAX>	(264)	1,233	3,053
<INCOME-CONTINUING>	(491)	2,290	5,670
<DISCONTINUED>	0	0	0
<EXTRAORDINARY>	0	0	0
<CHANGES>	0	0	0
<NET-INCOME>	(491)	2,290	5,670
<EPS-PRIMARY>	(.02)	.08	.19
<EPS-DILUTED>	(.02)	.07	.16