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 (FEE REQUIRED) FOR THE FISCAL YEAR ENDED APRIL 26, 1996

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED) FOR THE TRANSITION PERIOD FROM --------------- TO ---------------

COMMISSION FILE NUMBER 0-27130

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

CALIFORNIA	77-0307520
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

319 NORTH BERNARDO AVENUE
MOUNTAIN VIEW, CALIFORNIA 94043
(Address of principal executive office, including Zip Code)

(415) 428-5100
(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. [X]

The aggregate market value of voting stock held by non-affiliates of the Registrant, as of May 31, 1996 was approximately $228,170,000 (based on the closing price for shares of the Registrant's Common Stock as reported by the Nasdaq National Market System 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, 1996 approximately 16,156,000 shares of the Registrant's Common Stock, no par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE.

Portions of the Registrant's Annual Report to Shareholders are incorporated by reference into Part II; such portions of the Annual Report to Shareholders incorporated by reference are filed as Exhibit 13.1 hereof.

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 filer products combine specialized proprietary software and state-of-the-art industry standard hardware to provide a unique solution for the NFS server market.

INDUSTRY BACKGROUND

In response to competitive pressures, businesses and other organizations are increasingly investing in information systems to shorten product development cycles, enhance customer responsiveness, lower costs, and improve the quality of their products and services. Networked computing offers these organizations the ability to increase productivity through the distribution of computing power across their enterprises, providing large numbers of users with access to applications, information and data. In this environment, it has become important for organizations to manage the storage of and access to large volumes of data, which increasingly represent critical information resources.

Data-Intensive Network Environment

Network computing environments that require large volumes of data, perform intensive processing or computation of data, or involve frequent user access to data can be characterized as "data-intensive." Increasingly, organizations are deploying data-intensive applications and services as core business resources. In addition, Internet and on-line service related businesses have grown significantly. The data-intensity of the network environment is expected to continue to increase substantially due to the development of new applications and services and the more prevalent use of stored digital graphics, voice and video, requiring dramatically more data capacity than equivalent alphanumeric information. Examples of data-intensive applications and services include:

Data-Intensive Applications. Data-intensive applications have become increasingly prevalent in a variety of industries. Computer-aided design, manufacturing and engineering ("CAD/CAM/CAE") are data-intensive applications in which teams of engineers collaborate on a common design for a product such as a semiconductor device, computer system, aircraft or automobile. Software development is also inherently data-intensive, involving the creation and compilation by teams of developers of hundreds of thousands of lines of software code which must be continuously tested, revised and recompiled. Energy, seismic and satellite-related applications also involve the storage and manipulation of large quantities of graphics and imaging data. Within the securities industry, large volumes of trading and other market data need to be compiled and rapidly processed in order to support trading decisions. Airline reservation systems also involve the access to and processing of large quantities of data related to flight schedules, equipment configurations, passenger information and seat availability.

Data-Intensive Services. Internet and public on-line services have become increasingly data intensive. Organizations are also providing internal on-line data repositories that can be accessed internally as well as by outside users. As these services have proliferated, they have become "information utilities" where increasing amounts of data are stored for broad availability to large numbers of distributed users.

Issues in Data Management and Network Computing. Organizations utilizing data-intensive applications and services in network computing environments generally share a common set of requirements in order to derive the benefits that they are designed to provide. In this context, data management has become increasingly complex and challenging. Specifically, three significant problem areas have emerged: (i) data access performance; (ii) data administration; and (iii) data availability and reliability.

Data Access Performance. Traditionally, management information systems ("MIS") managers and network providers improved performance on a network by increasing CPU performance or increasing the underlying network bandwidth. In today's data-intensive network environment, performance of applications and services is increasingly limited by the time to read or write to hard disk drives. Improvements in performance for most applications and services have been limited by disk input/output ("I/O") performance, which because of the mechanical nature of disk drives, has not improved as rapidly as central processing unit ("CPU") performance or network bandwidth.

Data Administration. A key requirement in data administration is the management of hardware and software systems that store the data. In the data-intensive network environment, data management is difficult and complex due to the large number of users accessing the data, the multiple servers storing the data and the large volume of data. Furthermore, because data may be widely distributed throughout the network, administrative functions such as back-up or expansion of the file system become substantially more difficult. Finally, the budgetary constraints of most organizations require that this increasingly complex administration be accomplished cost-effectively, without increased staffing.

Data Availability and Reliability. As the data-intensive network environment grows, data availability becomes critical to the organization's productivity, time-to-market and responsiveness to customers. Achieving a high level of data availability is particularly difficult because hard disk drives are mechanical devices, which are prone to failure over extended periods of intensive use. An organization may experience costly down-time or loss of data from the failure of a single low-cost, network-attached disk drive. This is particularly important to network service providers whose business is providing network-stored data to their users. Therefore, it is imperative that systems which are repositories of network-based data and services have low failure rates, rapid recovery times and the ability to provide uninterrupted service in the event of failure of a disk drive.

File Servers

The requirements of the data-intensive network environment have contributed to the growing importance of the network file service function, the process of reading and writing files to and from shared data storage over the network. Until recently, the file service function had been performed exclusively by larger, general purpose computer systems which also executed other tasks such as print serving, application processing and communications functions. As networks evolved, network managers increasingly dedicated general purpose systems specifically to the file service task in order to enhance performance, simplify administration and reduce vulnerability to other application-related failures. These dedicated systems became known as "file servers."

Systems vendors have offered a variety of specially configured and add-on solutions for general purpose systems deployed as file servers. Selected vendors have also introduced highly specialized, hardware-intensive systems architected to exclusively perform the file service task. These approaches, such as the use of hardware accelerators and the introduction of specialized hardware architectures, were generally optimized for throughput (the number of I/O requests processed by the CPU). Although these file server approaches addressed throughput issues, they were not designed to address the specific problem of response time (the speed at which an I/O request is satisfied) which is critical in the data intensive network environment. In addition, because these approaches lack the flexibility to easily integrate additional network, file system and/or disk interfaces or protocols associated with today's heterogeneous networks, these approaches do not directly address the reliability issues associated with data storage on a network. Consequently, users are searching for cost-effective, flexible solutions to address data access performance, data administration and data availability and reliability issues in the data-intensive network environment.

THE NETWORK APPLIANCE SOLUTION

Network Appliance pioneered the concept of a "network appliance," a fast, simple, reliable and cost-effective device designed to perform a specific network data management function. The network appliance concept is part of the trend towards the specialization of network devices, including the development of routers, dedicated devices that manage network communications functions previously performed by general purpose computer systems. The Company's first network appliance product line consists of network data storage appliances or "filers," developed to address the specific market requirements of data-intensive network environments. These products 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 core elements of the Network Appliance solution are:

Fast Response Time. Network Appliance uses its proprietary Write Anywhere File Layout ("WAFL") software architecture and a sophisticated caching scheme coupled with industry standard processor architectures and I/O buses to achieve response time over the network substantially faster than competing products. Faster response times result in faster execution of applications and services in data-intensive network environments. The filer's response time is significantly faster than either general purpose computers or specialized hardware-centric file servers. In addition, the Company's products are characterized by less variation in response times under increasing aggregate loads than competing products.

Network Appliance believes its approach enables its customers to meet the performance needs of future data-intensive applications and services. The Company's technology has allowed it to achieve substantial improvements in response time by adopting faster industry standard microprocessors, while competitive solutions have been generally limited by disk access time. For example, successive releases of Network Appliance software on the Intel 486-based platform, in addition to supporting incremental functionality, have succeeded in reducing response times.

Ease of Administration. Network Appliance products are easy to use and install. Installation by a systems administrator typically requires less than an hour. Administration requires knowledge of less than 40 system commands, versus the hundreds of commands typical of alternative products. Network Appliance's Snapshot feature allows on-line back-up of an active file system without interrupting users. This feature also allows users online access to earlier versions of their data without involving the systems administrator. Together, these features simplify administration, permit more efficient use of personnel resources and increase data availability.

High Levels of Data Availability and Reliability. Network Appliance products are designed to provide high levels of data availability. Traditional servers do not have an integrated facility to efficiently and reliably maintain the availability of data upon disk drive failure. The approach to provide increased data-availability for these systems has been to incrementally add RAID (redundant array of independent disks) devices which are costly and are often performance-limiting. Network Appliance's unique software integration of RAID provides a solution at no incremental cost that yields more reliable data with no performance penalties. In the event of a disk drive failure, the Network Appliance filer will reconstruct the failed data on a spare drive which may be hot-swapped with the failed drive on the NetApp F220 or NetApp F330 without any interruption of data availability to client users. Upon disruption of the system, Network Appliance servers automatically reboot (with full data availability) at a speed of approximately one minute regardless of storage capacity (versus alternative systems that may take up to one minute per gigabyte to reboot with full data availability). The Network Appliance architecture allows system administrators to add storage capacity or replace a failed disk drive without service interruption or loss of data.

Scalability. The architecture of Network Appliance products is designed to be scalable so that throughput and storage capacity can cost effectively grow on an incremental basis. Adding an additional server to a network under this architecture is as simple as adding an additional disk drive to many other systems. The system can be easily expanded to terabytes of data, while maintaining a relatively consistent response time.

Compatibility with Networking Environment. Network Appliance products are compatible with major network and peripheral interfaces and protocols. This is accomplished through the use of industry standard bus architectures, providing compatibility with common network interfaces and protocols and disk interconnects. Network Appliance's software is designed to be extendable to additional network environments and interface standards, as appropriate.

Cost-Effectiveness. By combining Network Appliance's software-centric architecture with state of-the-art industry standard microprocessors and hard disk products, Network Appliance is able to achieve fast response times at a low cost per unit of storage.

STRATEGIES

Network Appliance's goal is to be a leader in the network data storage appliance market, building on the initial success of its NFS filers. The Company seeks to achieve this goal by employing the following core strategies:

Focus on Software Differentiation. Network Appliance seeks to continue to differentiate its products by focusing on the development of specialized proprietary software. Network Appliance believes this approach allows it to cost-effectively integrate desirable features such as intelligent caching, the WAFL architecture, software integrated RAID and automated on-line backup through its Snapshot feature.

Embrace Industry Standards. Network Appliance will continue to integrate its specialized software solutions with state-of-the-art industry standard hardware components and software interfaces. Industry standard hardware is generally less expensive and more readily available than proprietary hardware. For instance, since its first product introduction, successive generations of Network Appliance products have migrated from industry standard architecture ("ISA") to peripheral connect interchange ("PCI")-bus. Network Appliance believes this approach allows more rapid and cost-effective development and the delivery of high performance products at attractive prices. Utilizing industry standard interfaces enables Network Appliance products to be adaptable to a variety of network environments.

Broaden Penetration Into NFS Market. Network Appliance's initial focus has been on providing NFS file servers for departmental and enterprise applications. The Company is seeking to expand its product offerings to include a wider range of price, performance and storage capacities.

Develop New Markets. Network Appliance is developing a multi-protocol file server capable of providing simultaneous NFS and System Management Block ("SMB") file service, the standard file service protocol for Microsoft Windows products. This product is being designed to meet file server requirements for the emerging Windows NT market. The Windows NT market is expected to be driven by trends toward the distributing and downsizing of centralized data-intensive applications, the consolidation of smaller, independent PC-based LANs, and the emergence of multi-media as a significant corporate communications and training tool.

Expand Distribution. Network Appliance seeks to market and distribute its products and technology globally. In North America, the Company employs a multi-tiered distribution strategy which focuses on product sales to end-users through a direct sales force, as well as selected value-added resellers in certain geographies. In the Pacific Rim and in Europe, Network Appliance products are sold through resellers, which are supported by Network Appliance channel managers and technical support personnel. In addition, the Company seeks to distribute its products through original equipment manufacturers ("OEMs") and, where appropriate, through licensing arrangements with computer systems companies.

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 internationally. Network Appliance has established several domestic selling locations, including in Colorado,

California, Massachusetts, Maryland, Michigan, Minnesota, New Jersey, New York, Oregon, Texas, Virginia and Washington, D.C. Additionally, the Company has international offices in London and Paris.

Network Appliance's sales personnel are responsible for the overall sales functions of the Company, including prospecting, lead processing, account strategies and development, distribution channels and other activities. The Company's marketing department is responsible for product planning, positioning, pricing, customer and sales force training, and overall promotion of Network Appliance products through press, direct mail, seminars, trade shows and advertising. Network Appliance expects to continue to increase its sales and marketing activities.

No customers accounted for 10% or more of the Company's net sales in fiscal 1996. In fiscal 1995, sales to ITOCHU and MTI each accounted for approximately 10% of net sales. In fiscal 1994, sales to ITOCHU accounted for approximately 20% of net sales. The Company has entered into a Distributor Agreement with ITOCHU under which the Company granted ITOCHU a nonexclusive, nontransferable license to, among other things, market and distribute certain of the Company's products in Japan, with payments to the Company in U.S. dollars and a term that is automatically renewed each year. The Distributor Agreement had an initial term through March 31, 1994, which is automatically renewed for additional one year terms unless terminated 45 days prior to the end of a term. The agreement may also be terminated with or without cause upon 90 days written notice by either party and upon certain events of default by either party. The Company generally has not entered into long-term volume purchase contracts with its other end user customers or resellers. The Company terminated its relationship with MTI in the second quarter of fiscal 1996.

PRODUCTS

Network Appliance currently markets three filer products: the NetApp F220, the NetApp F330 and the NetApp F540. All filers are based on a PCI-bus architecture and come packaged in rack mountable enclosures. The NetApp F220 and F330 filers are based on Pentium processors. The NetApp F540 is based on a Digital Alpha processor and is the Company's first RISC-based NFS filer.

Network Appliance recently began shipments of Release 3.1, which is based on the Company's specialized proprietary software architecture. Release 3.1 is standard on all new filer products shipped as of February 1996. Installed base customers running previous versions of the software can upgrade to Release 3.1 at no charge if they are on the Company's Software Subscription Program, or by paying a per-incident upgrade price. Some customers are eligible for a free upgrade depending on the date of their filer purchase. Release 3.1 contains all of the core functionality available on prior releases and includes improvements in NFS throughput and NFS response time, as well as additional functionality, relative to prior releases of the software.

The current base list price for Network Appliance filers is $28,440 for the NetApp F220, $45,440 for the NetApp F330 and $66,135 for the NetApp F540 with four 4-gigabyte disk drive package. Network Appliance's discounting policy varies based primarily on volume purchases, sales geography and channels of distribution.

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. In providing service and support to customers, the Company uses its own products extensively.

Warranty coverage includes 24 hour telephone support plus next business day hardware repair. For an additional charge, the Company also offers upgraded service during the warranty period, providing for faster on-site hardware repair.

Post-warranty service programs include: telephone support only; cooperative maintenance where the customer purchases spares and performs self-maintenance tasks, and full-service programs (standard, premium and ultra) involving various combinations of telephone-based support and on-site repair. The

Company charges for service programs on an annual subscription basis, with discounts to sites with multiple filers.

MANUFACTURING

Network Appliance's manufacturing operations, located in Mountain View, California, consist of procurement of materials, 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.

The Company relies upon a limited number of suppliers of several key components utilized in the assembly of the Company's products. The Company purchases disk drives and enclosures from Digital Equipment Corporation. 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 suppliers of disk drives because in order to meet product performance requirements, the Company must obtain disk drives with extremely high quality and capacity. In addition, there is currently a significant market demand for disk drives 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 of on the Company's business, operating results and financial condition. Such delays could also damage relationships with current and prospective customers.

The Company's resellers often purchase minimally configured systems from the Company and source additional disk drives and memory components from other vendors. In addition, certain end-users also purchase disk drives and memories from other suppliers. Since these components do not undergo the Company's rigorous sourcing and testing procedures, they may experience more failures when deployed in the Company's products. Any such higher failure rate could negatively impact the Company's reputation and, as a result, could materially adversely affect its business, operating results and financial condition.

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 for the network file server market.

As part of the Company's ongoing development process, the Company introduced the NetApp F330 in September 1995 and the Netapp F220 in January 1996, and announced the NetApp F540 in May 1996. In addition, the Company has under development new network file servers that it anticipates announcing in fiscal 1997. 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. The Company has currently qualified disk drives manufactured by Seagate Technology Inc. If new products are delayed or do not achieve market acceptance, the Company's

business, operating results and financial condition will be materially adversely affected. In addition, there can be no assurance that customers will not defer orders in anticipation of new product introductions by the Company or its competitors.

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 requirements, the Company's business, operating results and financial condition 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 and financial condition.

The Company's total expenses for research and development for fiscal years 1996, 1995 and 1994 were $4.8 million, $2.6 million and $780,000, respectively. The Company anticipates that research and development expenses will increase in absolute dollars in future periods, however, the amount of such increases cannot be accurately determined.

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. ("Auspex"), as well as from traditional suppliers of UNIX systems and PC products that are used as network file servers such as Sun Microsystems, Digital Equipment Corporation, Hewlett-Packard Company, 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 expects new and emerging competition in the network file server market, including competition from manufacturers of PC-based file servers based upon Windows NT and other emerging standards. 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 and financial condition. 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 to 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 and financial condition.

The Company believes that the principal competitive factors affecting its market include product features such as response time, scalability and ease of use, price 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 protection. The Company has registered its FAServer trademark and 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 three U.S. patent applications pending and three corresponding 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. The Company is currently involved in litigation related to the alleged infringement of third party rights and other claims, which resulted not only in the Company incurring significant legal fees and related costs but also in a substantial diversion of management attention. In addition, the Company has from time to time received claims that it is infringing third parties' intellectual property rights, and 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 and financial condition. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Company or at all.

In July 1992, the Company received a letter from counsel to Auspex Systems, Inc. ("Auspex") expressing concern over the potential for misuse of Auspex trade secrets, infringement of Auspex copyrighted material, and infringement of Auspex patents. In March 1993, the Company filed suit against Auspex seeking a ruling that the Company had not taken Auspex trade secrets and damages based upon Auspex assertions, which was settled in December 1993 on terms mutually acceptable to Auspex and the Company. In October and November 1994, the Company received letters from counsel to Auspex requesting that the Company enter into negotiations regarding a license under a continuation in-part of a previously issued patent granted to

Auspex in October 1994. Based upon an opinion of D'Alessandro & Ritchie, the Company believes that it does not infringe any valid claims under the October 1994 patent. Although Auspex has not contacted the Company since late 1994 regarding this patent, there can be no assurance that Auspex will not bring a legal action against the Company on this patent and if Auspex does commence a lawsuit with regard to this patent, there can be no assurance that the outcome of any such litigation will not have a material adverse effect on the Company's business, operating results and financial condition. In addition, any claims or litigation against the Company could result in substantial expense and significant diversions of management attention.

EMPLOYEES

As of April 26, 1996, Network Appliance had a total of 145 employees. Of the total, 61 were in sales and marketing, 9 in customer support, 37 in research and development, 17 in finance and administration and 21 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 loss of the services of one or more of the Company's officers or other key employees could have a material adverse effect on the Company's business, operating results and financial condition. The Company's future success also depends on its continuing ability to attract and retain highly qualified technical and management personnel. Competition for such personnel is intense, and there can be no assurance that the Company can retain its key technical and management employees or that it can attract, assimilate or retain other highly qualified technical and management personnel in the future. The Company has not experienced any work stoppages and considers its relations with its employees to be good.

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. The Company had an accumulated deficit of $874,000 as of April 26, 1996. While the Company generated net income in fiscal 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 and timing 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. Although the Company has not experienced seasonality in the past, because of the significant seasonal effects experienced within the industry and the Company's goal to expand international sales, there can be no assurance that the Company's future operating results will not be adversely affected by seasonality.

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. The Company's expense levels are based, in part, on its expectations as to future sales. As a result, if sales levels are below expectations, net income may be disproportionately affected. Although the Company has experienced significant revenue growth in recent

periods, the Company does not believe such growth is indicative of future operating results. The Company believes that 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 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, such as Windows NT, will not adversely affect the growth of the NFS server market on which the Company has focused to date. 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 and financial condition would 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 and financial condition.

Expansion of International Operations. 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. International sales represented approximately 20%, 16% and 36% of the Company's net sales in fiscal 1996, 1995 and fiscal 1994, respectively. In order to successfully expand international sales in fiscal 1997 and subsequent periods, the Company must establish 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 and financial condition. 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 and financial condition 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, most significantly, ITOCHU, which in fiscal 1995, accounted for approximately 10% of the Company's net sales. There can be no assurance that ITOCHU or any of the Company's international resellers or customers will continue to distribute or purchase the Company's products.

The Company's international sales are principally denominated in U.S. dollars. An increase in the value of the U.S. dollar relative to foreign currencies could make the Company's products more expensive and, therefore, potentially less competitive in those markets. As the Company expands its foreign operations, it expects that it will face increasing pressure to denominate product sales in local currencies, which will subject the Company to risks associated with currency fluctuations. Additional risks inherent in the Company's international business activities generally include unexpected changes in regulatory requirements, tariffs and other trade barriers, if any, in foreign countries, longer accounts receivable payment cycles, difficulties in managing international operations, potentially adverse tax consequences including restrictions on the repatriation of earnings, and the burdens of complying with a wide variety of foreign laws. The Company has not received ISO 9000 certification which in the future could impact its ability to sell its products in international markets. 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 and financial condition.

Product Concentration; Changing Product Mix . The Company derives substantially all 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 and financial condition. Prior to fiscal 1996, the Company derived substantially all of its revenue from the sale of its FAServer 450 and 1400 products. The mix of products sold by the Company has changed substantially with the introduction of the NetApp F220, NetApp F330 and NetApp F540. Additional product introductions in fiscal 1997 are expected to impact the sales of existing products. If the Company is unable to introduce these 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 and financial condition 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 1996, no customers accounted for 10% or more of net sales. In fiscal 1995, sales to resellers ITOCHU Corporation ("ITOCHU") and MTI Technology Corporation ("MTI") each accounted for approximately 10% of net sales. In fiscal 1994, ITOCHU accounted for approximately 20% of net sales. The Company's relationship with MTI terminated in the second quarter of fiscal 1996. 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 and financial condition could be materially adversely affected.

Recent Management Additions and Management of Expanding Operations. Certain of the Company's senior management joined the Company during the last year. The Company's Chief Financial Officer/Vice President of Operations joined in May 1995, its Vice President of Engineering joined in September 1995 and its Vice President of Marketing joined in May 1996. The Company is in the process of implementing a number of new financial and management controls, reporting systems and procedures. In addition to its senior management, the Company has recently hired a significant number of employees, including sales staff, and plans to further increase its total employee base. The Company also plans to expand the geographic scope of its customer base and operations. This expansion has resulted and will continue to result in substantial demands on the Company's management systems and resources. The Company's ability to compete effectively and to manage future expansion of its operations, if any, will require the Company to continue to improve its financial and management controls, reporting systems and procedures on a timely basis and effectively expand, train and manage its work force. If the Company's efforts are not successful, the Company's business, operating results and financial condition could be materially adversely affected.

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.

Concentration of Stock Ownership. The present directors, executive officers and principal shareholders of the Company and their affiliates will beneficially own approximately 43% of the outstanding Common Stock. Upon the anticipated elimination of cumulative voting rights currently held by the Company's shareholders, the foregoing shareholders will be able to control all matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions. Such concentration of ownership may have the effect of delaying or preventing a change in control of the Company.

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.

ITEM 2. PROPERTIES

Network Appliance's principal administrative, sales, marketing, manufacturing and research and development facility is located in approximately 51,000 square feet of space in Mountain View, California. This facility is leased through October 1999. 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.

ITEM 3. LEGAL PROCEEDINGS

WHIPSAW LITIGATION

In July 1994, the Whipsaw Group, Robert and Ellen Cousins, and certain other individuals filed suit alleging breach of contract, breach of fiduciary duty, fraud, misappropriation of trade secrets and other related claims against the Company, Michael Malcolm (a former officer), Owen Brown and Migration Software Systems, Ltd. (the "Whipsaw Litigation"). The plaintiffs allege that they disclosed trade secrets and proprietary information to Messrs. Brown and Malcolm under written and/or oral confidentiality agreements, that Messrs. Brown and Malcolm misappropriated those trade secrets and that Network Appliance is based entirely on the trade secrets and proprietary information misappropriated from the Whipsaw Group. These allegations are based upon contacts from September through November 1991 between Mr. Cousins and other members of the Whipsaw Group and Messrs. Malcolm and Brown. During November 1991, Messrs. Malcolm and Brown reviewed a business plan prepared by the Whipsaw Group and had various discussions with Mr. Cousins and other members of the Whipsaw Group relating to the formation and funding of a company to develop low cost network file servers. Although Mr. Malcolm had written an unpublished paper in 1988 on a similar file server concept, he did not actively pursue the formation and funding of a company based upon the concept until after his meetings with the Whipsaw Group. In December 1991, Mr. Malcolm initiated contact with Messrs. Hitz and Lau which ultimately led to the formation of Network Appliance. Mr. Brown was an early investor in the Company and Migration Software Systems, Ltd. is a company with which he is affiliated. Plaintiffs are seeking an injunction against further use of their trade secrets and confidential information, unspecified damages and the imposition of a constructive trust on the things of value defendants are alleged to have obtained by their use of the plaintiffs' alleged trade secrets and proprietary information. While the damages are unspecified, based upon settlement demands made by the plaintiffs to date, the Company believes that any demand for damages at trial would be substantial and could include a one-time or ongoing payments. The trial is currently scheduled to commence on August 5, 1996 in Santa Clara County Superior Court. The Company believes that it has meritorious defenses to such claims and intends to defend the litigation vigorously. However, due to the nature of the litigation, the Company cannot determine the total expense or possible loss, if any, that may ultimately be incurred either in the context of a trial or as a result of a negotiated settlement. Regardless of the ultimate outcome of the Whipsaw Litigation, it could result in significant diversion of time by the Company's technical and managerial personnel. While after consideration of the nature of the claims and facts relating to the litigation, including the results of preliminary discovery, and after consultation with legal counsel, management believes that the resolution of this matter will not have a material adverse effect on the Company's business, operating results and financial condition, the results of these proceedings, including any potential settlement, are uncertain and there can be no assurance that they will not have a material adverse effect on the Company's business, operating results and financial condition. In

connection with Mr. Malcolm's termination of services with the Company, the Company entered into a settlement and release agreement with Mr. Malcolm under which the Company may be required to indemnify and defend Mr. Malcolm in connection with the Whipsaw Litigation, and therefore, the costs incurred by the Company could be increased. Mr. Malcolm's employment relationship with the Company terminated for reasons unrelated to the Whipsaw Litigation. The Company does not have any agreement with Mr. Brown or Migration Software Systems, Ltd. regarding the Whipsaw Litigation. Mr. Brown settled with the plaintiffs in May 1996 and is no longer a defendant in this matter.

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.

EXECUTIVE OFFICERS AND DIRECTORS

The executive officers and directors of the Company, and their ages as of April 26, 1996, are as follows:

NAME	AGE	POSITION
Daniel J. Warmenhoven......	45	President, Chief Executive Officer and Director
Donald T. Valentine........	63	Chairman of the Board and Director
M. Helen Bradley...........	41	Vice President, Engineering
Michael J. McCloskey.......	38	Vice President, Finance and Operations, Chief Financial Officer, and Secretary
Thomas F. Mendoza..........	44	Vice President, North American Sales
Michael E. Paul............	54	Vice President, International Sales
Charles E. Simmons.........	47	Vice President, Marketing
Carol A. Bartz(1)..........	47	Director

Michael R. Hallman(2)......	50	Director
Kurt R. Jaggers(2).........	37	Director
Robert T. Wall(1)..........	50	Director

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(1) Member of Compensation Committee

(2) Member of Audit Committee

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 presently serves on the Board of Directors of Brooktree Corporation, a semiconductor company. Mr. Warmenhoven holds a B.S. degree in electrical engineering from Princeton University.

Donald T. Valentine has been a director of the Company and Chairman of the Board of Directors since September 1994. Mr. Valentine has been a general partner of Sequoia Capital, a venture capital firm, since 1972. He is also Chairman of the Board of C-Cube Microsystems Inc., a semiconductor video compression company, and Elantec Semiconductor, Inc., an analog integrated circuit company, Vice Chairman of Cisco Systems, Inc., an internetworking communications company, and a director of Sierra Semiconductor, Inc., a communications semiconductor company.

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.

Michael J. McCloskey joined the Company in May 1995 as Vice President, Finance and Operations, Chief Financial Officer and Secretary. From September 1993 to May 1995, Mr. McCloskey served as Executive Vice President and Chief Financial Officer at Digital Microwave Corporation, a telecommunications company. From September 1991 to September 1993, Mr. McCloskey was the Chief Operating Officer and a member of the Board of Directors of Wavefront Technologies, a 3-D graphics visualization software development company. From September 1986 to September 1991, he served as Chief Financial Officer at Everex Systems, Inc., a PC and PC peripherals company. Mr. McCloskey received his B.S. degree in business from Santa Clara University.

Thomas F. Mendoza joined the Company in May 1994 as Vice President, North American 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.

Michael E. Paul joined the Company as Vice President, International Sales in July 1994. Prior to that, Mr. Paul served as Vice President of World Wide Sales at Trade, Inc., an international trade statistics data-base company, from December 1993 to June 1994. In March 1991, Mr. Paul joined Ultra Network Technologies, a network company, as Vice President of Sales and was named President and Chief Executive Officer in March 1991 and served in that capacity until July 1993. Mr. Paul served as Vice President of North American Sales at MIPS Computer Systems, a RISC technology company, from April 1988 to February 1991. Mr. Paul holds a B.S. degree in electrical and mechanical engineering and naval science from the U.S. Naval Academy.

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 1995. 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.

Carol A. Bartz has been a member of the Board of Directors since September 1995. Since April 1992, Ms. Bartz has been Chairman of the Board, President and Chief Executive Officer of Autodesk, Inc., a PC software company and supplier of design software. Prior to that, Ms. Bartz was with Sun Microsystems from September 1983 to April 1992, most recently as Vice President of Worldwide Field Operations. Ms. Bartz also currently serves on the Board of Directors of Airtouch Communications, Cadence Design Systems, Inc. and BEA Systems, Inc. Ms. Bartz received a B.A. degree in computer science from the University of Wisconsin.

Michael R. Hallman has been a member of the Board of Directors since August 1994. Mr. Hallman is the President of The Hallman Group, a management consulting firm, which he founded in June 1992. Prior to that, he served as President and Chief Operating Officer of Microsoft Corporation, a microcomputer software company, from March 1990 to March 1992. He presently serves on the Board of Directors of Amdahl Corporation, a manufacturer of mainframe computers and peripherals, InFocus Systems, a computer peripherals company, Intuit, a microcomputer software company, Keytronics Corporation, an input device company, and Timeline, a developer of financial reporting software. Mr. Hallman holds B.B.A. and M.B.A. degrees from the University of Michigan.

Kurt R. Jaggers has been a member of the Board of Directors since August 1993. Mr. Jaggers has been at TA Associates, an equity investment firm, since August 1990 and has been a Principal there since January 1993. Mr. Jaggers presently serves on the Board of Directors of JDA Software Group, Inc. Mr. Jaggers received B.S. and M.S. degrees in electrical engineering and an M.B.A. degree from Stanford University.

Robert T. Wall has been a member of the Board of Directors since January 1993. Mr. Wall has been the Chairman of the Board, President and Chief Executive Officer of Theatrix Interactive, Inc., a consumer educational software publisher, since April 1994. From June 1989 to December 1990, Mr. Wall served as Co-Head of Investment and Merchant Banking at Cowen & Company, an investment banking firm. In August 1984, he founded On Point Developments Inc., a venture management and investment banking company, where he has served as President since its formation. He received an A.B. degree in economics from De Pauw University and an M.B.A. degree from Harvard Business School.

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, 1996 there were approximately 260 holders of record of the Common Stock. 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.

FISCAL 1996	HIGH	LOW
Third Quarter	$41.12	$13.50
Fourth Quarter	$38.75	$27.00

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

The information required by this item is included under the caption "Selected Consolidated Financial Data" in the Company's Annual Report to Shareholders and is incorporated herein by reference.

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

The information required by this item is included under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report to Shareholders and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is included under the captions "Independent Auditors' Report," "Consolidated Balance Sheets," "Consolidated Statement of Operations," "Consolidated Statements of Shareholders' Equity (Deficit)," "Consolidated Statements of Cash Flows" and "Notes to Consolidated Financial Statements" in the Company's Annual Report to Shareholders and is incorporated herein by reference.

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

In January 1995, the Company's Board of Directors retained Deloitte & Touche LLP as its independent auditors and dismissed the Company's former auditors, Coopers & Lybrand LLP. The decision to change independent auditors was approved by resolution of the Board of Directors. The former independent auditors' report on the Company's financial statements for the years ended March 31, 1993 and 1994 did not contain an adverse opinion, a disclaimer of opinion or any qualifications or modifications related to uncertainty, limitation of audit scope or application of accounting principles. In addition, the former independent auditors' report does not cover any of the consolidated financial statements of the Company incorporated by reference in this Annual Report on Form 10-K. Coopers & Lybrand LLP was not engaged to audit the Company's financial statements for any other period. There were no disagreements with the former auditors on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure with respect to the Company's consolidated financial statements up through the time of dismissal which, if not resolved to the former auditors' satisfaction, would have caused them to make reference to the subject matter of the disagreement in connection with their report. Prior to retaining Deloitte & Touche LLP, the Company had not consulted with Deloitte & Touche LLP regarding accounting principles.

PART III

ITEM 10. DIRECTORS AND OFFICERS OF THE REGISTRANT

The information required by this item relating to the Company's directors, executive officers and key employees is included under the caption "Executive Officers and Directors" in Part I of this Annual Report on Form 10-K.

Section 16(a) of the Securities and Exchange Act of 1934 requires the Company's directors and executive officers, and persons who own more than ten percent (10%) of a registered class of the Company's equity securities, to file with the Securities and Exchange Commission (the "SEC") initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Officers, directors and greater than ten percent (10%) shareholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

Based upon (i) the copies of Section 16(a) reports which the Company received from such persons for their 1996 fiscal year transactions in the Common Stock and their Common Stock holdings, and (ii) the written representations received from one or more of such persons that no annual Form 5 reports were required to be filed by them for the 1996 fiscal year, the Company believes that all executive officers and Board members complied with all their reporting requirements under Section 16(a) for such fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

SUMMARY OF CASH AND CERTAIN OTHER COMPENSATION

The following Summary Compensation Table sets forth the compensation earned by the Company's Chief Executive Officer and the four other most highly compensated executive officers for the 1996 fiscal year for services rendered in all capacities to the Company and its subsidiaries for the 1996 and 1995 fiscal years. The listed individuals shall be hereinafter referred to as the "Named Officers."

SUMMARY COMPENSATION TABLE

	ANNUAL COMPENSATION			LONG-TERM COMPENSATION AWARDS	
NAME AND PRINCIPAL POSITION	YEARS	SALARY($)	BONUS	SECURITIES UNDERLYING OPTIONS(#)(1)	ALL OTHER COMPENSATION(2)
Daniel J. Warmenhoven..........	1996	$ 190,615	$147,000	100,000	$ 1,306
President and Chief Executive Officer	1995	96,230	--	700,000	--
Michael J. McCloskey(3).........	1996	148,269	85,000	200,000	391
Vice President, Finance and Operations, Chief Financial Officer, and Secretary	1995	--	--	--	--
Thomas F. Mendoza..............	1996	120,000	186,539	--	835
Vice President, North American Sales	1995	117,694	60,077	200,000	--
Michael E. Paul................	1996	120,000	43,179	--	1,383
Vice President, International Sales	1995	90,923	26,191	125,000	--
M. Helen Bradley(4)............	1996	86,538(5)	55,000(6)	100,000	353
Vice President, Engineering	1995	--	--	--	--

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(1) The options listed in the table were granted under the Company's 1993 Stock Option/Stock Issuance Plan. The options were incorporated into the Company's 1995 Stock Incentive Plan at the time of the Company's initial public offering, but will continue to be governed by their existing terms.

(2) Represents the cost of term life insurance.

(3) Mr. McCloskey joined the Company in May of 1995.

(4) Ms. Bradley joined the Company in September of 1995.

(5) Ms. Bradley's salary on an annual basis is $150,000.

(6) Includes a $10,000 signing bonus.

STOCK OPTIONS

The following table contains information concerning the stock option grants made to each of the Named Officers for the 1996 fiscal year. No stock appreciation rights were granted to those individuals during such year.

	INDIVIDUAL GRANT				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM (1)	
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED(2)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE ($/SHARE)(3)	EXPIRATION DATE	5%	10%

Daniel J. Warmenhoven........	100,000	7.7%	$ 8.10	10/30/05	$509,404	$1,290,930
Michael J. McCloskey.........	200,000	15.3%	.28	05/24/05	35,218	89,250
Thomas F. Mendoza...........	--	--	--	--	--	--
Michael E. Paul.............	--	--	--	--	--	--
M. Helen Bradley............	100,000	7.7%	7.20	09/25/05	452,804	1,147,495

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(1) There is no assurance provided to the option holder or any other holder of the Company's securities that the actual stock price appreciation over the 10-year option term will be at the 5% and 10% assumed annual rates of compounded stock price appreciation.

(2) The options were granted under the Company's 1993 Stock Option/Stock Issuance Plan on the following dates: Mr. Warmenhoven, November 1, 1995; Mr. McCloskey, May 25, 1995, and Ms. Bradley, September 26, 1995. Each option has a maximum term of 10 years measured from the grant date, subject

to earlier termination upon the optionee's cessation of service with the Company. Mr. Warmenhoven's option is immediately exercisable for 87,655 shares and exercisable for the remaining 12,345 shares on January 3, 1996. Each of the other granted options is immediately exercisable for all the option shares. However, any shares purchased under the options are subject to repurchase by the Company at the option exercise price paid per share, should the optionee leave the Company prior to vesting in the shares. With respect to the option granted to Mr. Warmenhoven, the option will vest as to ten percent (10%) of the shares on the first anniversary of the date of grant; another twenty percent (20%) of the shares in equal monthly installments over the twenty-four (24) month period starting from the first anniversary of the grant date; another thirty percent (30%) of the shares in equal monthly installments over the twelve-month period starting from the third anniversary of the grant date; and the remaining forty percent (40%) of the shares in equal monthly installments over the twelve-month period starting from the fourth anniversary of the grant date. With respect to the options granted to Mr. McCloskey and Ms. Bradley, the options will vest as to twenty-five percent (25%) of the shares upon the optionee's completion of one year of service measured from May 25, 1995 and September 8, 1995, respectively, and with respect to the balance of the shares in a series of equal monthly installments over the thirty-six (36) months of service thereafter. Full and immediate vesting of Messrs. Warmenhoven's and McCloskey's options will occur in the event the Company is acquired by merger or asset sale. Full and immediate vesting of Ms. Bradley's option will occur in the event the Company is acquired by merger or asset sale, unless the option is assumed by the acquiring company.

(3) The exercise price may be paid in cash, in shares of Common Stock valued at fair market value on the exercise date or through a cashless exercise procedure involving a same-day sale of the purchased shares. The Company may also finance the option exercise by loaning the optionee sufficient funds to pay the exercise price for the purchased shares and the Federal and state income and employment tax liability incurred by the optionee in connection with such exercise.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

The following table sets forth information concerning option exercises and option holdings for the 1996 fiscal year by each of the Named Officers. No stock appreciation rights were exercised during such year or were outstanding at the end of the year.

			NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FY-END		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FY-END(2)	
NAME	NUMBER OF SHARES ACQUIRED ON EXERCISE	VALUE REALIZED(1)	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Daniel E. Warmenhoven....	--	$ --	100,000(3)	--	$ 2,615,000	--
Michael J. McCloskey.....	200,000	--	--	--	--	--
Thomas F. Mendoza........	200,000	30,000	--	--	--	--
Michael E. Paul..........	125,000	18,750	--	--	--	--

M. Helen Bradley.........	--	--	100,000(3)	--	2,705,000	--

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(1) Based on the fair market value (as determined by the Board of Directors) of the purchased option shares at the time of exercise less the option exercise price paid for those shares.

(2) Based on the fair market value of the shares at the end of the 1996 fiscal year ($34.25 per share) less the option exercise price payable for those shares.

(3) The options are fully exercisable as of the fiscal year end, but any shares purchased thereunder will be subject to repurchase by the Company at the original option exercise price paid per share should the optionee leave the Company prior to vesting in the shares. As of April 26, 1996, Mr. Warmenhoven and Ms. Bradley had not vested in any shares.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding beneficial ownership of the Company's Common Stock as of May 31, 1996 by (i) each person who is known by the Company to own beneficially more than five percent of the Company's Common Stock, (ii) each of the Company's directors and Named Officers and (iii) all current executive officers and directors as a group.

5% SHAREHOLDERS, NAMED OFFICERS, DIRECTORS AND EXECUTIVE OFFICERS AND DIRECTORS AS A GROUP	SHARES BENEFICIALLY OWNED(1) NUMBER	PERCENT
TA Associates Group(2) 435 Tasso St., Suite 200 Palo Alto, CA 94301	2,135,263	13.2%
Entities Affiliated with Sequoia Capital(3) 3000 Sand Hill Road Bldg. 4, Suite 280 Menlo Park, CA 94025	1,768,353	11.0%
Michael A. Malcolm 48 South Avalon Drive Los Altos, CA 94022	884,868	5.5%
David Hitz 319 North Bernardo Avenue Mountain View, CA 94043	827,500	5.1%
Daniel J. Warmenhoven(4)	457,000	2.8%
Michael J. McCloskey	200,500	1.2%
Thomas F. Mendoza(5)	200,000	1.2%
Michael E. Paul	126,000	*
M. Helen Bradley(6)	100,000	*
Donald T. Valentine(3)	1,768,353	10.9%
Robert T. Wall(7)	197,857	1.2%
Michael R. Hallman(8)	133,478	*
Carol A. Bartz(9)	81,423	*
Kurt R. Jaggers(10)	55,737	*
All directors and executive officers as a group (10 persons)(11)	7,142,242	43.5%

- - - ---------------

* Less than 1%

(1) Except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of Common Stock.

(2) Includes 1,835,226 shares held by Advent VII L.P., 378,818 shares held by Advent Atlantic and Pacific II Limited Partnership, 183,456 shares held by Advent New York L.P., 136,540 shares held by Advent Industrial II L.P. and

27,518 shares held by TA Venture Investors, L.P. Advent VII L.P., Advent Atlantic and Pacific II Limited Partnership, Advent Industrial II Limited Partnership, Advent New York L.P., and TA Venture Investors, L.P. are part of an affiliated group of investment partnerships referred to, collectively, as the TA Associates Group. The general partner of Advent VII L.P. is TA Associates VII L.P. The general partner of each of Advent New York L.P. and Advent Industrial II L.P. is TA Associates VI, L.P. The general partner of Advent Atlantic and Pacific II Limited Partnership is TA Associates AAP II Partners, L.P. The general partner of each of TA Associates VII, L.P., TA Associates VI, L.P. and TA Associates AAP II Partners, L.P. is TA Associates, Inc. In such capacity, TA Associates, Inc. exercises sole voting and investment power with respect to all of the shares held of record by the named investment partnerships, with the exception of those shares held by TA Venture Investors, L.P.; individually no stockholder, director or officer of TA Associates, Inc. is deemed to have or share such voting or investment power. Principals and employees of TA Associates, Inc. (including Mr. Jaggers, a director of the Company) comprise the general partners of TA Venture

Investors, L.P. In such capacity, Mr. Jaggers may be deemed to share voting and investment power with respect to the 27,518 shares held of record by TA Venture Investors, L.P. Mr. Jaggers disclaims beneficial ownership of such shares, except to the extent of the 5,860 shares as to which he holds a pecuniary interest.

(3) Includes 999,566 shares held by Sequoia Capital Growth Fund, 641,539 shares held by Sequoia Capital VI, 63,801 shares held by Sequoia Technology Partners III, 35,248 shares held by Sequoia Technology Partners VI and 28,199 shares held by Sequoia XXIV. Mr. Valentine, the Chairman of the Company's Board of Directors, is an affiliate of the foregoing entities and may be deemed to share voting and investment power with respect to such shares. Mr. Valentine disclaims beneficial ownership of such shares, except to the extent of his pecuniary interest in such shares arising from his interests in the entities referred to above.

(4) Includes 457,000 shares held by Daniel J. Warmenhoven & Charmaine A. Warmenhoven, trustees to The Warmenhoven 1987 Revocable Trust UTA dated 12/16/87, as amended, of which Mr. Warmenhoven is a trustee and shares voting and investment powers. Excludes 8,500 shares held by Charmaine A. Warmenhoven, Mr. Warmenhoven's spouse, as separate property. Also excludes 200,000 shares held by Richard A. Andre, trustee to The Warmenhoven 1995 Children's Trust, under trust agreement dated 5/1/95, and 9,000 shares held by Richard A. Andre, trustee to the Daniel J. Warmenhoven 1991 Children's Trust, as Mr. Warmenhoven disclaims beneficial ownership over the shares held by such trusts.

(5) Does not include 16,000 shares held by Mr. Mendoza's spouse.

(6) Includes 100,000 shares of Common Stock issuable upon exercise of a currently exercisable option granted under the 1993 Plan.

(7) Includes 40,000 shares of Common Stock issuable upon exercise of a currently exercisable option granted under the 1993 Plan. Some of these shares are subject to a repurchase right of the Company. In addition, includes 17,857 shares held by Wampum Partners II. Mr. Wall, a director of the Company, is the Managing Joint Venturer of Wampum Partners II, an investment joint venture. In such capacity, Mr. Wall exercises sole voting and investment power with respect to all of the shares held of record by Wampum Partners II. Mr. Wall disclaims beneficial ownership of such shares held by Wampum Partners II, except to the extent of his pecuniary interest in 3,657 of such shares. Also includes 1,000 shares held by Mr. Wall as custodian for each of his two adult children and 1,000 shares held by Mr. Wall as trustee of a trust for the benefit of his children. Mr. Wall disclaims beneficial ownership of these 3,000 shares.

(8) Includes 80,000 shares of Common Stock issuable upon exercise of a currently exercisable option granted under the 1993 Plan.

(9) Includes 30,000 shares of Common Stock issuable upon exercise of a currently exercisable option granted under the 1993 Plan. In addition, includes 51,423 shares held by the Carol Ann Bartz Trust UAD 10/14/87.

(10) Includes 30,000 shares of Common Stock issuable upon exercise of a currently exercisable option granted under the 1993 Plan. In addition, includes 27,518 shares held by TA Venture Investors, L.P., all of which shares are included in the 2,041,933 shares described in footnote (2) above. Mr. Jaggers disclaims beneficial ownership to such shares, except to the extent of the 5,860 shares as to which he holds a pecuniary interest. Does not include any shares beneficially owned by Advent VII L.P., Advent Atlantic and Pacific II Limited Partnership, Advent Industrial II L.P. or Advent New York L.P., of which Mr. Jaggers disclaims beneficial ownership.

(11) Includes a total of 280,000 shares of Common Stock issuable upon the exercise of options exercisable within 60 days of May 31, 1996. Also, includes all shares held by TA Associates Group and entities affiliated with Sequoia Capital. Mr. Jaggers disclaims beneficial ownership of the shares held by TA Associates Group except to the extent of his pecuniary interest in TA Venture Investors, L.P., and Mr. Valentine disclaims beneficial ownership of the shares held by entities affiliated by Sequoia Capital except to the extent of his pecuniary interest in such entities.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In June 1995, the Company and Mr. Michael Malcolm, a greater than five percent shareholder and former director and executive officer of the Company, entered into a Settlement Agreement and General Release (the "Settlement Agreement") relating to Mr. Malcolm's termination of services with the Company. Under the material terms of the Settlement Agreement, Mr. Malcolm and the Company release each other of any claims, damages, and causes of action that they might have against each other arising out of Mr. Malcolm's employment with the Company. The Company also agreed to pay Mr. Malcolm the lump sum of $220,000 and a monthly consulting fee, which terminated in November 1995, of $15,000. In addition, the Company agreed to indemnify and defend Mr. Malcolm under certain circumstances in connection with the Whipsaw Litigation.

The Company has also granted options to certain of its directors and executive officers.

The Company believes that all of the transactions set forth above were made on terms no less favorable to the Company than could have been obtained from unaffiliated third parties. All future transactions, including loans, between the Company and its officers, directors, principal shareholders and their affiliates will be approved by a majority of the Board of Directors, including a majority of the independent and disinterested outside directors on the Board of Directors, and will continue to be on terms no less favorable to the Company than could be obtained from unaffiliated third parties.

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 incorporated by reference into Part II, Item 8 of this Report on Form 10-K from the Company's Annual Report to Shareholders filed as Exhibit 13.1 hereof:

Independent Auditors' Report
Consolidated Balance Sheets -- April 30, 1996 and 1995
Consolidated Statements of Operations for the years ended April 30, 1996, 1995 and 1994
Consolidated Statements of Shareholders' Equity (Deficit) for the years ended April 30, 1996, 1995 and 1994
Consolidated Statements of Cash Flows for the years ended April 30, 1996, 1995 and 1994
Notes to Consolidated Financial Statements

2. Financial Statement Schedules.

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
3.1	--	Restated Articles of Incorporation of the Company
3.2(1)	--	Bylaws of the Company
4.1(1)	--	Reference is made to Exhibits 3.1 and 3.2
4.2(1)	--	Specimen Common Stock certificate
4.3(1)	--	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(1)	--	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(1)	--	Forms of Warrants to Purchase Shares of Series A and Series C Preferred Stock
10.1(1)(2)	--	Distributor Agreement, dated June 1, 1993, by and among the Company, ITOCHU Corporation and CTC Supply Sales
10.2(1)	--	Forms of Indemnification Agreements entered into between the Company and its directors and officers
10.3(1)	--	The Company's 1993 Stock Option/Stock Issuance Plan
10.4(1)	--	The Company's 1993 Stock Incentive Plan
10.5(1)	--	The Company's Employee Stock Purchase Plan
10.6(1)	--	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(1)	--	Office Lease dated October 21, 1993, between Company and Vanni Business Park General Partnership ("Vani") and Office Lease Amendment, dated October 20, 1994, between Company and Vani

EXHIBIT NO.		DESCRIPTION
10.8(1)	--	Agreement dated June 19, 1995, between Company and Imperial Bank, as amended, Promissory Note issued thereunder and ancillary documents
10.9(1)	--	Settlement Agreement and General Release, dated June 28, 1995, between the Company and Michael Malcolm
10.10(1)	--	Security and Loan Agreement, Credit Terms and Conditions and General Security Agreement between Company and Imperial Bank, dated August 31, 1994, as amended
13.1	--	The Company's Annual Report to Shareholders, portions of which are incorporated by reference into this Annual Report on Form 10-K and only such portions are deemed filed as part of this Annual Report on Form 10-K
16.1(1)	--	Letter Regarding Change in Independent Auditors
23.1	--	Independent Auditors' Consent and Report on Schedule (see page 28)
24.1	--	Power of Attorney (see signature page)
27.1	--	Financial Data Schedule

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

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

(b) Reports on Form 8-K.

No reports on Form 8-K were filed during the last quarter of the fiscal year covered by this Annual Report on Form 10-K.

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 25, 1996.

NETWORK APPLIANCE, INC.

By: DANIEL J. WARMENHOVEN

Daniel J. Warmenhoven
President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Daniel J. Warmenhoven and Michael J. McCloskey, 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 substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

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

SIGNATURE	TITLE	DATE
DANIEL J. WARMENHOVEN (Daniel J. Warmenhoven)	President and Chief Executive Officer (Principal Executive Officer)	July 25, 1996
DONALD T. VALENTINE (Donald T. Valentine)	Chairman of the Board, Director	July 25, 1996
MICHAEL J. MCCLOSKEY (Michael J. McCloskey)	Vice President, Finance and Operations, Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	July 25, 1996
CAROL A. BARTZ (Carol A. Bartz)	Director	July 25, 1996
MICHAEL R. HALLMAN (Michael R. Hallman)	Director	July 25, 1996
KURT R. JAGGERS (Kurt R. Jaggers)	Director	July 25, 1996
ROBERT T. WALL (Robert T. Wall)	Director	July 25, 1996

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT AND REPORT ON SCHEDULE

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

We consent to the incorporation by reference in Registration Statement No. 33-99638 on Form S-8 of our report dated May 10, 1996, incorporated by reference in this Annual Report on Form 10-K of Network Appliance, Inc. for the year ended April 30, 1996.

Our audits of the financial statements referred to in our aforementioned report also included the financial statement schedule of Network Appliance, Inc., listed in Item 14.(a)2. The financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

DELIOTTE & TOUCHE LLP

San Jose, California
July 23, 1996

SCHEDULE II

NETWORK APPLIANCE, INC.

VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED APRIL 30, 1996, 1995 AND 1994
(IN THOUSANDS)

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	DEDUCTIONS	BALANCE AT END OF PERIOD
Allowance for doubtful accounts:				
1996....................................	$220	$110	$ --	$ 330
1995....................................	10	210	--	220
1994....................................	--	10	--	10
Excess and obsolescence inventory reserve:				
1996....................................	$345	$698	$ --	$1,043
1995....................................	45	300	--	345
1994....................................	--	45	--	45

EXHIBIT 3.1

RESTATED ARTICLES OF INCORPORATION OF NETWORK APPLIANCE, INC. a California Corporation

The undersigned, Daniel J. Warmenhoven and Michael J. McCloskey, hereby certify that:

ONE: They are the duly elected and acting President and Secretary respectively, of said corporation.

TWO: The Articles of Incorporation of said corporation shall be amended and restated to read in full as follows:

ARTICLE I

The name of this corporation is Network Appliance, Inc..

ARTICLE II

The purpose of this corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of California other than the banking business, the trust company business or the practice of a profession permitted to be incorporated by the California Corporations Code.

ARTICLE III

A. Classes of Stock. This corporation is authorized to issue two classes of stock to be designated, respectively, "Common Stock" and "Preferred Stock." The total number of shares that this corporation is authorized to issue is sixty million (60,000,000) shares. Fifty five million (55,000,000) shares shall be Common Stock and five million (5,000,000) shares shall be Preferred Stock.

B. Rights, Preferences and Restrictions of Preferred Stock. The Preferred Stock authorized by these Amended and Restated Articles of Incorporation may be issued from time to time in one or more series. The Board of Directors is hereby authorized to fix or alter the rights, preferences, privileges and restrictions granted to or imposed upon additional series of Preferred Stock, and the number of shares constituting any such series and the designation thereof, or of any of them. Subject to compliance with applicable protective voting rights that have been or may be granted to the Preferred Stock or series thereof in Certificates of Determination or this corporation's Articles of Incorporation ("Protective Provisions"), but notwithstanding any other rights of the Preferred Stock or any

series thereof, the rights, privileges, preferences and restrictions of any such additional series may be subordinated to, pari passu with (including, without limitation, inclusion in provisions with respect to liquidation and acquisition preferences, redemption and/or approval of matters by vote or written consent), or senior to any of those of any present or future class or series of Preferred or Common Stock. Subject to compliance with applicable Protective Provisions, the Board of Directors is also authorized to increase or decrease the number of shares of any series, prior or subsequent to the issue of that series, but not below the number of shares of such series then outstanding. In case the number of shares of any series shall be so decreased, the shares constituting such decrease shall resume the status that they had prior to the adoption of the resolution originally fixing the number of shares of such series.

1. Repurchase of Shares. In connection with repurchases by this Corporation of its Common Stock pursuant to its agreements with certain of the holders thereof, Sections 502 and 503 of the California General Corporation Law shall not apply in whole or in part with respect to such repurchases.

C. Common Stock.

1. Dividend Rights. Subject to the prior rights of holders of all classes of stock at the time outstanding having prior rights as to dividends,

the holders of the Common Stock shall be entitled to receive, when and as declared by the Board of Directors, out of any assets of this corporation legally available therefor, such dividends as may be declared from time to time by the Board of Directors.

2. Liquidation Rights. Subject to the prior rights of holders of all classes of stock at the time outstanding having prior rights as to liquidation, upon the liquidation, dissolution or winding up of this corporation, the assets of this corporation shall be distributed to the holders of Common Stock.

3. Redemption. The Common Stock is not redeemable.

4. Voting Rights. The holder of each share of Common Stock shall have the right to one vote, and shall be entitled to notice of any shareholders' meeting in accordance with the bylaws of this corporation, and shall be entitled to vote upon such matters and in such manner as may be provided by law.

ARTICLE IV

Section 1. The liability of the directors of this corporation for monetary damages shall be eliminated to the fullest extent permissible under California law.

Section 2. This corporation is authorized to provide indemnification of agents (as defined in Section 317 of the California Corporations Code) through bylaw provisions,

agreements with the agents, vote of shareholders or disinterested directors, or otherwise in excess of the indemnification otherwise permitted by Section 317 of the California Corporations Code, subject only to applicable limits set forth in Section 204 of the California Corporations Code with respect to actions for breach of duty to this corporation and its shareholders.

* * *

THREE: The foregoing amendment has been approved by the Board of Directors of said corporation.

FOUR: All of the outstanding Series A, Series B and Series C Preferred Stock, including any options, warrants or rights to purchase such shares of Series A, Series B or Series C Preferred Stock, have been converted into Common Stock, or options, warrants or rights to purchase such shares of Common Stock, of the corporation pursuant to Section 4.(b) of Division B of Article III of the present Articles of Incorporation.

FIVE: The present Articles of Incorporation of the corporation provide in Section 7 of Division (B) of Article III that in the event shares of Series A, Series B or Series C Preferred Stock shall be converted pursuant to Section 4 thereof, the shares so converted shall be cancelled and shall not be issuable by the corporation. Therefore upon such conversion and cancellation, the total authorized number of shares of the corporation became 60,000,000 and the authorized number of shares of Preferred Stock of the corporation became 5,000,000.

SIX: The foregoing amendments reducing the number of shares of authorized Preferred Stock and deleting reference to Series A, Series B and Series C Preferred Stock do not require approval of the shareholders of the corporation pursuant to Section 510(b) of the California Corporations Code, which states that if all of the shares of a series are acquired by the issuer and their reissue is prohibited by the articles, then the articles shall also be amended, without shareholder approval, to reduce the authorized number of shares of that class accordingly and to eliminate therefrom any statement of rights, preferences, privileges and restrictions relating solely to that series.

IN WITNESS WHEREOF, the undersigned have executed this certificate on December 20, 1995.

____
Daniel J. Warmenhoven

President

____

Michael McCloskey
Secretary

Each of the undersigned declares under penalty of perjury that the statements contained in the foregoing certificate are true and correct of his knowledge, and that this declaration was executed on December 20, 1995, at Palo Alto, California.

____

Daniel J. Warmenhoven
President

____

Michael McCloskey
Secretary

Network Appliance, Inc.

1996

ANNUAL REPORT

COMPANY DESCRIPTION

Network Appliance, Inc., also known as NetApp, supplies high-performance network data access devices that provide fast, simple, reliable and cost-effective file service for network-attached storage environments. Combining specialized, proprietary software and standards-compliant hardware, the Company pioneered the concept of the "network appliance," an extension of the industry trend towards dedicated, specialized devices which perform a single networking function, similar to the adoption of the router for network communications management. Customers include leading organizations in the on-line services, financial services, manufacturing and telecommunications industries, as well as companies that design computer hardware and software. Products are available through the Company's direct sales force and resellers worldwide.

Selected Consolidated Financial Data	1996	1995	1994	1993
Net Sales	$ 46,632	$ 14,796	$ 2,244	$ --
Income (Loss) From Operations	$ 6,000	$ (4,913)	$ (1,955)	$ (825)
Net Income (Loss)	$ 6,600	$ (4,764)	$ (1,874)	$ (836)
Net Income (Loss) Per Share	$ .42	$ (.38)	$ --	$ --
Total Assets	$ 45,449	$ 10,628	$ 4,055	$ 612
Long-Term Obligations	$ 318	$ 11,607		
$ 4,799 $ --				
Total Shareholders' Equity (Deficit)	$ 39,029	$ (5,923)	$ (1,324)	$ 545

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TO OUR SHAREHOLDERS

Fiscal 1996 was a year of significant progress and profitable growth for Network Appliance, Inc. Revenues tripled over the prior year, a reflection of the strength of our product offerings and the robustness of the market that we address. During the year we revamped our product line, introducing two new systems which received rapid market acceptance. We also marked a major milestone in November with an initial public offering of the Company's common stock.

As we review the year just ended and reflect on our prospects, the trends encourage us. The market we address is large and rapidly growing; network-attached data storage and access are increasing in importance in the world of information technology. Indeed, to quote the Wall Street Journal (April

22, 1996), products such as ours are "taking the spotlight in the computer industry" as computer usage becomes more centered upon data storage and access. This fundamental shift in emphasis underway in computing, is a shift in which our innovative technology positions us for continued rapid growth. The era when customers focused on their network infrastructure is giving way to a new era, one in which they are emphasizing and investing heavily in their information infrastructure. Their focus is on creating an information utility that contains all of the critical data and which can be accessed by all of the network clients at any and all times. It is here where our products offer a unique value proposition: the appliance approach to building a network information utility.

The accelerating adoption of the appliance approach to information systems, an approach which Network Appliance pioneered and which is a cornerstone of our strategy, is another of the trends fueling our success. Data storage and access appliances which are designed specifically for that purpose are faster, simpler, more reliable and more cost effective than general purpose alternatives. Customers receive the benefits of lower cost and higher availability of the data they need, and a reduced administrative burden in managing it. And during the next year we will provide them with another exceptional capability - the ability to have a variety of different types of clients such as PCs and UNIX workstations, which use different network data access technologies, simultaneously access the same information on a single server.

During the year, we introduced two new system products based on the Intel Pentium architecture which offer higher performance and greater expandability than the products they replaced. By embracing industry standards, we have been able to derive the benefits of rapid time to market with minimal R&D investment. We have also enjoyed the benefit of significant cost reductions through the use of high-volume industry standard components.

The rapid time to market is reflected in the introduction rate of our new products. In September 1995, we introduced the NetApp F330(TM), a departmental server with capacity up to 100 gigabytes of disk storage. Our workgroup-level filer, the NetApp F220(TM), was introduced only five months later. In the first quarter of the new year, FY97, we introduced yet another new product, the NetApp F540(TM), our third in eight months.

Fiscal 1996 was a year of achievement for Network Appliance, and we established a solid foundation for our future success. We enter 1997 with a strong product line, a customer list we reference with pride, and a conviction about our vision for the future of network data access.

Sincerely,

/s/DANIEL J. WARMENHOVEN
- - - -----------------------
DANIEL J. WARMENHOVEN

President and Chief Executive Officer
Network Appliance, Inc.

THE BUSINESS OF NETWORK APPLIANCE

Our customers invest in information tools and technology to shorten product development cycles, enhance service to their own customers, lower costs and improve quality, among other reasons. Moreover, as these organizations continue to stockpile more data at a faster rate, demand for storage and access grows in proportion. Disk storage consumption is forecasted to double every year through the end of this decade, in terms of gigabytes shipped. The market for storage/access equipment, services and software is expected to reach a dollar level of more than $87 billion by the year 2000, compared to $44.6 billion in 1995. (source: International Data Corporation).

THE MARKET NEED

As corporations require greater storage and improved access for the increasingly important data they continue to amass, their investment in technology tools and infrastructure is shifting away from the high-powered computers wired to networks, to the data attached to the networks. At the same time, the World Wide Web is evolving into a worldwide platform for commercial transactions, altering the patterns and systems by which corporations conduct business. As it evolves, and as customers rely increasingly upon their intranetworks for communication and information sharing, the information technologies that deliver faster, simpler, more reliable and cost-effective access to the data will become central to these organizations' new data infrastructures.

NETAPP FILERS DELIVER CUSTOMER VALUE THAT HAS PROPELLED THE COMPANY'S THREE-FOLD GROWTH IN THE PAST YEAR.

Along with the rise of Web-based commerce and corporate intranetworking, today's data-intensive applications - software and computer hardware design, brokerage and government to name a few - create additional data management needs. The high-performance hardware and software used for information storage and access must be affordable, highly available, and easy to manage. It must deliver uninterrupted service in the event of disk failure. Equally important, today's networked-computer environments are heterogeneous: different operating systems, network protocols and interfaces from a myriad of equipment and software suppliers. The problems of sharing, accessing and managing data in such networks call for solutions that can easily and inexpensively accommodate this technological diversity.

THE NETAPP SOLUTION

NETWORK APPLIANCE DELIVERS THE INDUSTRY'S BEST PRICE-PERFORMANCE AND AN ATTRACTIVE COST PER UNIT OF STORAGE.

Network Appliance pioneered the concept of a "network appliance", a device uniquely designed for storing data in network environments. NetApp's custom software-based technology is ideal for the new era of storage-centric data infrastructures. Specifically designed for simple and reliable high-performance access to data files of all types, NetApp filers deliver customer value that has propelled the Company's three-fold growth in the past year.

SIMPLE. Installable typically in an hour, NetApp filers are designed to be easy for customers to manage. This enables more productive use of staff time, and helps make the data more available for users on a network.

RELIABLE. Simplicity of design delivers a solution that yields more reliable data with no cost or performance penalties. Should a disk drive fail, the NetApp filer will reconstruct the data on a spare drive, with no interruption of data availability. Other system components, such as power supplies, are designed for redundancy.

AFFORDABLE. Data infrastructures benefit from inexpensive, expandable solutions that can scale: grow in cost effective increments. This enables customers to add or make changes to their network as easily as adding disk drives. NetApp filers deliver this value without compromising high-performance response time to users. Appliance-like product features also simplify administration, which enables more cost-effective deployment of system administrators and further lowers the cost of ownership. Moreover, Network Appliance delivers the industry's best price-performance and an attractive cost per unit of storage.

COMPATIBLE. Our multi-protocol approach results in compatibility with a wide variety of heterogeneous network environments. NetApp's unique software architecture readily accommodates new file access technologies such as HTTP and Microsoft's NT. As more network environments contain elements of UNIX and NT, NetApp filers will bridge those environments and provide shared data access and administration. Moreover, the simplicity of appliance-like design is particularly well suited to address data availability and reliability issues associated with data storage in complex, diverse network environments.

HIGH PERFORMANCE. Response times of NetApp filers exceed general-purpose computers and specialized hardware-centric file servers. They enable software and hardware designers to complete projects faster and bring their products to market more rapidly. Geologists can manipulate seismic data more effectively. Securities traders can process orders more rapidly. Users of the World Wide Web and corporate intranets can access data repositories more quickly.

NEW PRODUCTS
IN FISCAL 1996...AND SO FAR IN FISCAL 1997

In September 1995 we introduced the NetApp F330, our department-level server intended for up to 200 users on a network.

NetApp F220, a filer designed for workgroup computing, was introduced in January 1996. With its attractive entry-level price, low cost per gigabyte and fast response time, it offers exceptionally high value.

In May 1996, we announced the NetApp F540 - the Company's first enterprise-class NFS filer - delivering the fastest NFS performance in its class and substantial improvements in end-user applications. The F540 marked our third new product in eight months. It is also the Company's first RISC-based system, evidence of the portability of its custom operating software which is optimized for file service. All of these products, as well as earlier models, are capable of running the most current software revisions.

[TIME LINE CHART]

LOOKING AHEAD

Our goal is to be a leader in network data-access appliances. To achieve this objective, we will differentiate our products through software, utilize industry standards, further penetrate our current market while developing new markets, and expand the distribution of our products.

SOFTWARE DIFFERENTIATION. NetApp's competitive advantage is derived from our innovative software technology. By focusing on specialized software we are able to integrate into future offerings features that provide our customers with increased performance and value.

INDUSTRY STANDARDS. By utilizing industry-standard processor platforms, we are able to realize rapid time-to-market of new systems and the benefits of the industry cost curves. Our software-centric approach, combined with using industry-standard interfaces, allows our products to adapt to a variety of network environments.

MARKET PENETRATION AND DEVELOPMENT. NetApp intends to expand its product offerings to address a wider scope of price, performance and storage capacity. Our software architecture easily accommodates new file access technologies, including HTTP, and Microsoft's CIFS protocol which is used in the Windows family of products. We will continue to extend functionality and platform support for new standards as they emerge.

DISTRIBUTION. We plan to continue marketing and distributing products globally through multiple channels: direct sales, selected value-added resellers, and OEMs.

NETWORK APPLIANCE INTENDS TO BE THE LEADER IN ADDRESSING OPPORTUNITIES FOR NEW DATA APPLIANCES IN THE ERA OF NETWORK-ATTACHED INFORMATION INFRASTRUCTURE.

Our mission is to deliver single-purpose, network data access appliances. The appliance approach - high-performance products that are simple, reliable and cost-effective - will continue to be fundamental to the Company's design philosophy. With the enormous growth in on-line information, new opportunities will emerge for additional specialized appliances. Network Appliance intends to be the leader in addressing opportunities for new network-attached data appliances in the era of the information infrastructure.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Network Appliance, Inc. was incorporated in April 1992 to design, manufacture, market and support network data storage appliances. In September 1995, the Company introduced the NetApp F330, a rack-mounted, Pentium and PCI bus-based filer, and in January 1996, the Company introduced the NetApp F220, a rack-mounted, Pentium and PCI bus-based filer designed for workgroup and LAN environments. 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 server market.

The Company initially focused primarily on indirect/reseller sales channels, and began expansion of its direct sales force in the second half of fiscal 1995. The significant growth in net sales in fiscal 1996 was due primarily to the shift in Network Appliance's distribution focus to direct sales in domestic markets, as well as increased market acceptance of Network Appliance's products and the "network appliance" concept.

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.

RESULTS OF OPERATIONS

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

	YEARS ENDED APRIL 30,		
	1996	1995	1994
Net sales	100.0%	100.0%	100.0%
Cost of sales	44.1	53.8	48.3
Gross margin	55.9	46.2	51.7
Operating expenses:			
Sales and marketing	27.3	42.5	67.4
Research and development	10.2	17.6	34.8
General and administrative	5.5	19.3	36.7
Total operating expenses	43.0	79.4	138.9
Income (loss) from operations	12.9	(33.2)	(87.2)
Other income (expense), net	1.3	1.0	3.6
Net income (loss)	14.2%	(32.2)%	(83.6)%

FISCAL 1996 COMPARED TO FISCAL 1995

NET SALES. Net sales increased by approximately 215% from $14.8 million in fiscal 1995 to $46.6 million in fiscal 1996. In fiscal 1995, the Company sold its products primarily through indirect channels. The increase in net sales in fiscal 1996 resulted primarily from the Company's expansion of its domestic direct sales force, increased market acceptance of the Company's products, and the introduction of two new system products, the NetApp F330 and F220. The Company also shipped a greater number of units directly to end users in fiscal 1996, which generally purchase more highly configured systems at higher average selling prices than resellers.

GROSS MARGIN. Gross margin increased from 46.2% in fiscal 1995 to 55.9% in fiscal 1996. This increase in gross margin was primarily attributable to more efficient absorption of manufacturing overhead, lower costs of key components and manufacturing efficiencies achieved during fiscal 1996, all of which were related to the significant increase in production volume. These factors offset the effect of increased sales of highly configured systems during fiscal 1996 which generally generate lower gross margins per system.

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. The Company offers both highly configured and minimally configured systems. Typically, highly configured systems generate lower overall gross margin percentages due to greater disk drive and memory content. Highly configured systems are generally sold directly to end users.

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 102.3% from $6.3 million in fiscal 1995 to $12.7 million in fiscal 1996. These expenses were 27.3% and 42.5% of net sales in fiscal 1996 and 1995, 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. The Company expects to continue to increase its sales and marketing expenses in an effort to expand domestic and international markets, introduce new products, and establish and expand new distribution channels.

RESEARCH AND DEVELOPMENT. Research and development expenses consist primarily of salaries and benefits, prototype expenses, and fees paid to outside consultants. Research and development expenses increased 82.6% from $2.6 million in fiscal 1995 to $4.8 million in fiscal 1996. These expenses represented 10.2% and 17.6%, of net sales in fiscal 1996 and 1995, respectively. These expenses 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. 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. To date, no software development costs have been capitalized as amounts that qualify for capitalization have been immaterial.

GENERAL AND ADMINISTRATIVE. General and administrative expenses were approximately $2.6 million in fiscal 1996, compared to $2.9 million in fiscal 1995. These expenses represented 5.5% and 19.3%, respectively, of net sales for such periods. The higher level of general and administrative expenses during fiscal 1995 related primarily to certain litigation expenses, severance costs and increases in the provision for bad debts. In fiscal 1996, the Company continued its investments in additional staffing, facilities expansion and related occupancy costs and information system investments necessary to manage and support the Company's growth. The Company believes that its general and administrative expenses will increase in absolute dollars as the Company continues to build its infrastructure and incurs the additional expenses of being a public company. In addition, the Company may incur significant legal expenses related to the Whipsaw Litigation in the future. See Note 10 of Notes to Consolidated Financial Statements.

OTHER INCOME, NET. Other income, net, was approximately $600,000 and $149,000 in fiscal 1996 and 1995, respectively. In both of these periods, other income, net, represented less than 2% of net sales. Other income, net, increased in fiscal 1996 due primarily to interest income earned on the net proceeds of approximately $25.7 million from the Company's initial public offering that was completed in November 1995.

PROVISION FOR INCOME TAXES. The Company did not incur state or federal income taxes in fiscal 1994 or 1995 due to operating losses incurred during those periods. 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 has recognized a benefit for its net deferred tax assets to the extent that they are recoverable through tax refunds in the event of future net operating losses. The Company has recorded a valuation allowance for the balance of its net deferred tax assets as a result of significant uncertainties regarding the realization of the assets, including the limited operating history of the Company, a recent history of losses and the variability of operating results.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 123 (SFAS 123). In October 1995, the Financial Accounting Standards Board issued SFAS 123, "Accounting for Stock-Based Compensation." The new standard defines a fair value method of accounting for stock options and other equity instruments, and will be effective for the Company beginning in fiscal 1997. As provided under SFAS 123, the Company will continue to account for equity transactions under the provisions of existing accounting rules and will disclose in the footnotes to the financial statements the pro forma effect that adoption of SFAS 123 would have on net income and net income per share.

FISCAL YEAR 1995 COMPARED TO FISCAL 1994

NET SALES. Net sales increased 559.4% from $2.2 million in fiscal 1994 to $14.8 million in fiscal 1995. The increase in net sales was primarily due to the introduction of new products at the end of fiscal 1994, the growing market acceptance of the Company's products, as well as a shift in focus during fiscal 1995 towards direct sales.

GROSS MARGIN. The Company's gross margin decreased from 51.7% in fiscal 1994 to 46.2% in fiscal 1995. This decrease was primarily attributable to a significant increase in shipments of highly configured systems to end users through direct sales, higher manufacturing costs associated with the establishment and growth of manufacturing operations and the introduction of three new system products in late fiscal 1994. In addition, in fiscal 1995, the Company significantly increased the level of its inventories in anticipation of higher demand for its products, and as a result it incurred higher inventory carrying costs, including procurement costs, and increased its reserves by $300,000 for excess and obsolete inventory.

SALES AND MARKETING. Sales and marketing expenses were $6.3 million and $1.5 million in fiscal 1995 and 1994, respectively. For fiscal 1995 and fiscal 1994, such expenses represented 42.5% and 67.4% of net sales, respectively. The increase in absolute dollars was primarily related to the expansion of the Company's sales and marketing organization and increased commission expenses related to higher sales volumes.

RESEARCH AND DEVELOPMENT. Research and development expenses were $2.6 million and $780,000 in fiscal 1995 and 1994, respectively. For fiscal 1995 and 1994, such expenses represented 17.6% and 34.8% of net sales, respectively. The increase in absolute dollars from fiscal 1994 to fiscal 1995 was primarily due to increases in headcount and prototype expenses associated with the development of the Company's NetApp F330 product.

GENERAL AND ADMINISTRATIVE. General and administrative expenses were $2.9 million and $823,000 in fiscal 1995 and 1994, respectively. For fiscal 1995 and 1994, such expenses represented 19.3% and 36.7% of net sales, respectively. The increase from fiscal 1994 to fiscal 1995 was primarily the result of increased staffing, severance costs (including settlement costs of approximately $400,000 related to the termination in April 1995 of Michael Malcolm, a former executive officer) and other legal and settlement costs of approximately $500,000, an increase to the provision for bad debts of $210,000, and to a lesser extent, facilities expansion and related occupancy costs, and information system investments necessary to manage and support the Company's growth.

LIQUIDITY AND CAPITAL RESOURCES

As of April 30, 1996, the Company's liquidity primarily consisted of cash and cash equivalents of $24.6 million and short-term investments of $3.0 million.

The Company generated cash from operating activities totaling $3.5 million in fiscal 1996 and used cash for operating activities totaling $5.8 million in fiscal 1995. The use of cash in fiscal 1995 was primarily attributable to significant operating losses and increased levels of accounts receivable and inventories. Net cash provided by operating activities in fiscal 1996 principally related to net income of $6.6 million, offset by increases in accounts receivable, inventory and prepaid expenses, and a decrease in accounts payable. The increase in prepaid expenses related primarily to the Company's realization of $2.1 million of its net deferred tax assets.

The Company used approximately $1.5 million and $4.3 million of cash during fiscal 1995 and 1996, respectively, to purchase property and equipment. In addition, the Company used approximately $3.0 million in fiscal 1996 to purchase short-term investments. Financing activities provided $6.7 million and $26.6 million during fiscal 1995 and 1996, respectively, due primarily to the sale of preferred stock in fiscal 1995 and the initial public offering of the Company's common stock in November 1995, which generated proceeds of $25.7 million.

The Company currently has no significant capital commitments other than commitments under operating and capital leases. The Company believes that its existing liquidity and capital resources are sufficient to fund its operations for at least the next twelve months.

This Annual Report to shareholders contains forward-looking statements about future results which are subject to risks and uncertainties. Network Appliance's actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, the level of competition; the size and timing 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. Although the Company has not experienced seasonality in the past, because of the significant seasonal effects experienced within the industry and the Company's goal to expand international sales, there can be no assurance that the Company's future operating results will not be adversely affected by seasonality. The Company is subject to a variety of other additional risk factors, more fully described in the Company's Annual Report on Form 10-K. Shareholders are strongly encouraged to review the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Network Appliance, Inc. (formerly Network Appliance Corporation) and its subsidiaries as of April 30, 1996 and 1995, and the related consolidated statements of operations, shareholders' equity (deficit) and cash flows for each of the three years in the period ended April 30, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have 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 statement referred to above present fairly, in all material respects, the financial position of Network Appliance, Inc. and its subsidiaries as of April 30, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended April 30, 1996 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP

San Jose, California
May 10, 1996

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)	April 30, 1996	April 30, 1995
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 24,637	$ 1,791
Short-term investments	2,982	--
Accounts receivable, net of allowances of $330 and $220	5,330	3,170
Inventories	4,825	3,644
Prepaid expenses and other	2,628	136
Total current assets	40,402	8,741
Property and Equipment, net	4,849	1,822
Other Assets	198	65
	$ 45,449	$ 10,628
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current Liabilities:		
Current portion of long-term obligations	$ 19	$ 27
Accounts payable	2,099	3,514
Income taxes payable	500	--
Accrued compensation and related benefits	2,015	950
Other accrued liabilities	1,110	472
Deferred revenue	378	8
Total current liabilities	6,121	4,971
Long-Term Obligations, net of current portion	31	45
Deferred Rent	268	181
Commitments and Contingencies (Notes 5 and 10)		
Redeemable Convertible Preferred Stock, no par value:		
Series B shares outstanding: none in 1996 and 3,800,000 in 1995	--	4,799
Series C shares outstanding: none in 1996 and 2,349,461 in 1995	--	6,555
	--	11,354
SHAREHOLDERS' EQUITY (DEFICIT)		
Convertible preferred stock, no par value; 20,000,000 shares authorized; Series A shares outstanding: none in 1996 and 1,186,922 in 1995	--	1,340
Common stock, no par value; 40,000,000 shares authorized; shares outstanding: 16,140,083 in 1996 and 5,066,146 in 1995	40,286	211
Deferred stock compensation	(383)	--
Accumulated deficit	(874)	(7,474)
Total shareholders' equity (deficit)	39,029	(5,923)
	$ 45,449	$ 10,628

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended April 30,

(In thousands, except per share amounts)	1996	1995	1994
NET SALES	$ 46,632	$ 14,796	$ 2,244
Cost of Sales	20,557	7,957	1,083
Gross margin	26,075	6,839	1,161
OPERATING EXPENSES			
Sales and marketing	12,735	6,284	1,513
Research and development	4,762	2,608	780
General and administrative	2,578	2,860	823
Total operating expenses	20,075	11,752	3,116
INCOME (LOSS) FROM OPERATIONS	6,000	(4,913)	(1,955)
OTHER INCOME (EXPENSE)			
Interest income	668	157	84
Interest and other expense	(68)	(8)	(3)
Total other income (expense)	600	149	81
NET INCOME (Loss)	$ 6,600	$ (4,764)	$ (1,874)
NET INCOME (Loss) per Share	$ .42	$ (.38)	
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES	15,820	12,590	

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)

	SERIES A CONVERTIBLE PREFERRED STOCK		COMMON STOCK		DEFERRED STOCK	ACCUMULATED	
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)	SHARES	AMOUNT	SHARES	AMOUNT	COMPENSATION	DEFICIT	TOTAL
BALANCES, APRIL 30, 1993	1,186,922	$ 1,340	4,039,500	$ 41	$ --	$ (836)	$ 545
Sale of common stock	--	--	50,000	5	--	--	5
Net loss	--	--	--	--	--	(1,874)	(1,874)
BALANCES, APRIL 30, 1994	1,186,922	1,340	4,089,500	46	--	(2,710)	(1,324)
Sale of common stock	--	--	375,635	59	--	--	59
Exercise of stock options	--	--	843,589	108	--	--	108
Repurchase of common stock	--	--	(242,578)	(2)	--	--	(2)
Net loss	--	--	--	--	--	(4,764)	(4,764)
BALANCES, APRIL 30, 1995	1,186,922	1,340	5,066,146	211	--	(7,474)	(5,923)
Exercise of stock options	--	--	1,437,328	274	--	--	274
Exercise of warrants	--	--	359,690	708	--	--	708
Issuance of common stock in connection with the Company's initial public offering, net	--	--	2,155,000	25,714	--	--	25,714
Repurchase of common stock	--	--	(214,464)	(68)	--	--	(68)
Conversion of Series A preferred stock into common stock	(1,186,922)	(1,340)	1,186,922	1,340	--	--	--
Conversion of Series B and C preferred stock into common stock	--	--	6,149,461	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	--	$ --	16,140,083	$ 40,286	$ (383)	$ (874)	$ 39,029

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	1996	1995	1994
	Years Ended April 30,		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ 6,600	$ (4,764)	$ (1,874)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,254	389	79
Amortization of deferred stock compensation	132	--	--
Provision for doubtful accounts	110	210	10
Deferred income taxes	(2,100)	--	--
Deferred rent	87	125	56
Changes in assets and liabilities:			
Accounts receivable	(2,270)	(2,860)	(530)
Inventories	(1,181)	(3,214)	(372)
Prepaid expenses and other	(525)	(154)	(43)
Accounts payable	(1,415)	3,119	330
Accrued compensation and related benefits	1,065	869	79
Income taxes payable	500	--	--
Other accrued liabilities	876	424	48
Deferred revenue	370	8	--
Net cash provided by (used in) operating activities	3,503	(5,848)	(2,217)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	(4,281)	(1,504)	(625)
Purchases of short-term investments	(2,982)	--	--
Net cash used in investing activities	(7,263)	(1,504)	(625)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of long-term debt	1,250	--	--
Repayments of long-term obligations	(1,272)	(3)	--
Proceeds from issuance of convertible notes payable	--	--	500
Proceeds from sale of common stock, net	26,628	165	5
Proceeds from sale of preferred stock, net	--	6,555	4,299
Net cash provided by financing activities	26,606	6,717	4,804
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	22,846	(635)	1,962
CASH AND CASH EQUIVALENTS			
Beginning of year	1,791	2,426	464
End of year	$ 24,637	$ 1,791	$ 2,426
SUPPLEMENTAL CASH FLOW INFORMATION			
Interest paid	$ 60	$ 8	$ 3
Income taxes paid	$ 1,362	$ --	$ --
NONCASH INVESTING AND FINANCING ACTIVITIES			
Deferred stock compensation	$ 515	$ --	$ --
Conversion of preferred stock into common stock	$ 12,694	$ --	$ --
Income tax benefit from employee stock transactions	$ 238	$ --	$ --
Equipment acquired under capital lease	$ --	$ 75	$ --
Conversion of convertible notes and accrued interest into preferred stock	$ --	$ --	$ 500

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. THE COMPANY

Network Appliance, Inc., incorporated in the state of California on April 22, 1992, and its subsidiaries (the Company) operates in a single industry segment and is involved in the design, manufacturing, marketing and support of network data storage appliances. Effective October 3, 1995, the Company changed its name from Network Appliance Corporation to Network Appliance, Inc.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. The consolidated financial statements include the Company and its wholly-owned subsidiaries. Intercompany accounts and transactions are eliminated in consolidation. Beginning in fiscal 1996, the Company's fiscal year ends on the Friday nearest to April 30, which in fiscal 1996 was April 26. For presentation purposes, the Company reflects April 30 as the fiscal year end for all periods presented in the accompanying financial statements.

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 certificates of deposit and commercial paper with original maturities of more than three months and less than one year. All of the Company's investments are classified as available-for-sale, and are stated at amortized cost (specific identification basis), which approximates fair market value. There were no realized gains and losses in fiscal 1996.

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

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 three to five years. Equipment under capital lease is stated at the present value of the future minimum lease payments at the inception of the lease. Such equipment and leasehold improvements are amortized over their estimated useful lives or the term of the lease, whichever is shorter.

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 revenues are recognized over the term of the related contractual period, and were not significant in any periods presented. Software revenues consist primarily of subscriptions for software updates, and are recognized over the term of the related contractual period. Software revenues were not significant in any of the periods presented. The Company extends limited product return and price protection rights to certain distributors and resellers. Such rights are generally limited to a certain percentage of sales over a three-month period. Historically, actual amounts of product returns and price protection have not been significant.

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. In fiscal 1996, 1995 and 1994, costs which were eligible for capitalization were insignificant, and thus, the Company has charged all software development costs to research and development expense in the accompanying consolidated statements of operations.

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 and translation gains and losses, which are included in other income (expense) in the accompanying consolidated statements of operations, have not been significant.

INCOME TAXES. Income taxes are provided under the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," (SFAS 109) for all periods presented. This statement requires an asset and liability approach to account for income taxes and requires recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities and net operating loss and tax credit carryforwards.

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, certain accruals, valuation allowances for deferred tax assets and warranty reserves. Actual results could differ from those estimates.

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents and accounts receivable. Cash equivalents consist primarily of money market funds and are held with two financial institutions. 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. While the Company maintains an allowance for potential credit losses, such losses have not been significant.

The Company is subject to certain risks as more fully described in its Form S-1 Registration Statement, including without limitation risks relating to history of operating losses, fluctuating operating results, dependence on new products, rapid technological change, the Whipsaw 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, concentration of stock ownership, effect of certain anti-takeover provisions and dilution.

NET INCOME (LOSS) PER SHARE. Net income (loss) per share is computed using the weighted average number of common and common equivalent shares outstanding during the period. Common equivalent shares include preferred stock (using the "if converted" method) and stock options and warrants (using the treasury stock method). Common equivalent shares are excluded from the computation if their effect is anti-dilutive except that, pursuant to the Securities and Exchange Commission's Staff Accounting Bulletins and staff policy, such computations include all common and common equivalent shares issued within the 12 months preceding the initial filing date of the Company's Form S-1 Registration Statement (October 6, 1995) as if they were outstanding for all periods presented. In addition, all outstanding preferred stock that converted in connection with the initial public offering is included in the computation as common equivalent shares even when the effect is anti-dilutive. Historical net income (loss) per share information prior to fiscal 1995 has not been presented since such amounts are not deemed meaningful due to the significant change in the Company's capital structure that occurred in connection with its initial public offering.

Supplementary net income (loss) per share data giving effect to the use of a portion of the proceeds from the initial public offering for the retirement of debt has not been presented as such amounts do not differ materially from amounts presented.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 123 (SFAS 123). In October 1995, the Financial Accounting Standards Board issued SFAS 123, "Accounting for Stock-Based Compensation." The new standard defines a fair value method of accounting for stock options and other equity instruments, such as stock purchase plans. Under this method, compensation cost is measured based on the fair market value of the stock award when granted and is recognized as an expense over the related service period, which is usually the vesting period. This standard will be effective for the Company beginning in fiscal 1997, and requires measurement of awards made beginning in fiscal 1996.

As provided under SFAS 123, the Company will continue to account for equity transactions under the provisions of existing accounting rules. The Company will disclose in the footnotes to the financial statements the pro forma effect that adoption of SFAS 123 would have on net income and net income per share.

NOTE 3. INVENTORIES

Inventories consist of the following:

	April 30,	
(in thousands)	1996	1995

Purchased components	$2,161	$3,205
Work in process	970	--
Finished goods	1,694	439
	$4,825	$3,644

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

(in thousands)	April 30, 1996	1995
Computers, related equipment and purchased software	$ 5,691	$ 2,036
Furniture and fixtures	397	175
Leasehold improvements	494	90
	6,582	2,301
Accumulated depreciation and amortization	(1,733)	(479)
	$ 4,849	$ 1,822

NOTE 5. COMMITMENTS AND CAPITAL LEASE OBLIGATIONS

Certain equipment is leased under capital lease agreements. As of April 30, 1996 and 1995, the net book value of equipment under capital lease was $43,000 and $63,000 (net of accumulated amortization of $17,000 and $12,000), respectively.

The Company leases its facilities under operating leases. The Company is responsible for certain maintenance costs, taxes and insurance under the leases. Future minimum annual lease payments as of April 30, 1996 are as follows:

YEARS ENDING APRIL 30, (IN THOUSANDS)	OPERATING	CAPITAL
1997	$ 635	$ 25
1998	593	25
1999	612	10
2000	260	--
Total lease payments	$ 2,100	60
Amounts representing interest at 15% to 16%		(10)
		50
Current portion		(19)
Long-term portion		$ 31

Rent expense was approximately $755,000, $566,000 and $110,000 for the years ended April 30, 1996, 1995 and 1994, respectively. Rent expense under the Company's primary facility lease 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 deferred rent in the accompanying consolidated balance sheets.

NOTE 6. PREFERRED STOCK AND COMMON STOCK

INITIAL PUBLIC OFFERING. In November 1995, the Company completed its initial public offering of 2,155,000 shares of its common stock. Net proceeds from the offering were approximately $25.7 million. In conjunction with the offering, all outstanding shares of preferred stock automatically converted into common stock. In addition, the Company issued 181,119 shares of common stock upon the exercise of Series A warrants, and 178,571 shares of common stock upon the exercise of Series C warrants. The Company received total proceeds of approximately $708,000 from the exercise of these warrants.

STOCK OPTION PLANS. The Company adopted the 1993 Stock Option/Stock Issuance Plan (the 1993 Plan) in April 1993. In September 1995, the Board of Directors and shareholders 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. Accordingly, all options and shares issued under the 1993 Plan were incorporated into the 1995 Plan upon the effectiveness of the Company's initial public offering. No further options will be granted under the 1993 Plan.

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 are immediately exercisable, subject to a right of repurchase in favor of the Company for all unvested shares. Options granted under the 1995 Plan generally vest, and the Company's rights to repurchase shares sold pursuant to the 1995 Plan lapse, 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.

A summary of the combined activity under the 1993 and 1995 Plans is as follows:

	SHARES AVAILABLE FOR GRANT	OUTSTANDING OPTIONS NUMBER OF SHARES	PRICE PER SHARE
Balances, April 30, 1993	898,000	102,000	$ .10
Options granted	(457,000)	457,000	.10 .13
Options canceled	10,000	(10,000)	.10
Balances, April 30, 1994	451,000	549,000	.10 - .13
Shares reserved for plan	1,400,000		
Options granted	(1,832,500)	1,832,500	.13 - .20
Options exercised		(843,589)	.10 - .20
Options canceled	149,428	(149,428)	.10 - .20
Balances, April 30, 1995	167,928	1,388,483	.10 - .20
Shares reserved for plan	3,250,000		
Options granted	(1,793,190)	1,793,190	.28 - 27.00
Options exercised		(1,437,328)	.10 - 3.00
Options canceled	147,721	(147,721)	.10 - 11.00
Balances, April 30, 1996	1,772,459	1,596,624	$ .10 - $ 27.00

As of April 30, 1996, options for the purchase of approximately 98,000 shares of common stock were vested and approximately 1,383,000 of unvested common shares issued under the 1995 Plan are subject to repurchase by the Company. The Company has reserved a total of 3,369,083 shares of common stock for issuance under the 1995 plan.

EMPLOYEE STOCK PURCHASE PLAN. The Company's Employee Stock Purchase Plan ("The Purchase Plan") was adopted by the Company's Board of Directors and shareholders in September 1995. The Purchase Plan enables eligible employees to purchase common stock at 85% of the lower of the fair market value of the Company's common stock on the first day or last day of each semiannual purchase date. A total of 350,000 shares of common stock have been reserved for sale under the Purchase Plan, none of which have been issued as of April 30, 1996.

DEFERRED STOCK COMPENSATION. In May 1995, the Company issued stock options for the purchase of 531,500 shares of common stock at $.28 per share. The Company recognized $515,000 of deferred compensation in May 1995 equal to the difference between the option price as determined by the Board of Directors and $1.25 (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.

NOTE 7. EMPLOYEE BENEFIT PLAN

The Company has established a 401(k) tax-deferred savings plan. Employees meeting the eligibility requirements, as defined, may contribute specified percentages of their salaries. The Company has not contributed to the 401(K) plan to date.

NOTE 8. INCOME TAXES

The Company generated losses for financial reporting and tax purposes in fiscal 1995 and 1994, and accordingly did not record a provision for income taxes in these periods. In fiscal 1996, the provision for income taxes consisted of the following:

(in thousands)	
CURRENT	
Federal	$ 1,880
State	220
Total current	2,100
DEFERRED (PREPAID)	
Federal	(1,880)
State	(220)
Total deferred (prepaid)	(2,100)
Provision for income taxes	$ --

Deferred (prepaid) income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and amounts used for income tax purposes, as well as net operating loss and credit carryforwards.

The provision for income taxes in fiscal 1996 differs from the amount computed by applying the statutory federal income tax rate as follows:

(in thousands)	
Statutory tax	$ 2,310
State income taxes, net of Federal benefit	405
Research and development credit	(50)
Investment tax credit	(150)
Change in valuation allowance	(2,510)
Other	(5)
Provision for income taxes	$ --

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The components of the Company's net deferred tax asset are as follows:

(IN THOUSANDS)	APRIL 30, 1996	APRIL 30, 1995
DEFERRED TAX ASSETS:		
Capitalized research and development costs	$ 696	$ 1,635
Reserves not currently deductible for tax purposes	1,828	689
Net operating loss carryforwards	141	663
Research and development credits	--	270
Other	108	(74)
	2,773	3,183
Valuation allowance	(673)	(3,183)
Net deferred tax asset	$ 2,100	$ --

The Company has recorded a valuation allowance based upon management's assessment under the guidelines of SFAS 109 that it is more likely than not that a portion of the deferred tax assets will not be realized due to certain factors, including the limited operating history of the Company, a recent history of losses and the variability of operating results.

As of April 30, 1996, the Company had federal net operating loss carryforwards of approximately $400,000 available to offset future taxable income. These carryforwards expire in 2010.

NOTE 9. SIGNIFICANT CUSTOMERS AND INTERNATIONAL SALES

No customer accounted for 10% or more of net sales in fiscal 1996. One customer accounted for 10% and 20% of net sales in fiscal 1995 and 1994, respectively. In fiscal 1995, another customer accounted for 10% of net sales. A third customer accounted for 10% of net sales in fiscal 1994.

International sales, substantially all of which were export sales to Asia and Europe, accounted for approximately 20%, 16% and 36% of net sales in fiscal 1996, 1995, and 1994, respectively.

NOTE 10. 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"). A trial date of August 5, 1996 has been set for this lawsuit. The Company believes it has meritorious defenses to the claims under this lawsuit and intends to defend this litigation vigorously. Although the ultimate outcome of this matter is not presently determinable, after consideration of the nature of the claims and facts relating to the litigation and after consultation with legal counsel, management believes that the resolution of this matter will not have a material adverse effect on the Company's operating results and financial condition. However, litigation of this nature is inherently uncertain and there can be no assurance that the outcome of this matter will not have a material adverse effect on the Company's operating results and financial condition.

CORPORATE DIRECTORY

DIRECTORS

CORPORATE OFFICERS

Donald Valentine (Chairman)
Founder, Sequoia Capital

Carol Bartz
Chairman, President, and CEO
Autodesk, Inc.

Michael Hallman
President, The Hallman Group

Kurt Jaggers
Principal, TA Associates

Robert Wall
Chairman, President and CEO
Theatrix Interactive, Inc.

Daniel Warmenhoven
President and Chief Executive Officer
Network Appliance, Inc.

Daniel Warmenhoven
President and Chief Executive Officer

Helen Bradley
Vice President, Engineering

Christabel Carlton
Vice President, Human Resources

James Lau
Chief Technical Officer

Michael McCloskey
Vice President Operations,
Chief Financial Officer and Secretary

Thomas Mendoza
Vice President, North American Sales

Michael Paul
Vice President, International Sales

Charles Simmons
Vice President, Marketing

TRANSFER AGENT AND REGISTRAR

The Harris Trust Company of California

INDEPENDENT AUDITORS

Deloitte & Touche LLP
San Jose, California

SEC FORM 10-K

If you would like a copy of our Annual Report on SEC Form 10-K, you mauy obtain it without charge. Please direct your request to:

Network Appliance, Inc.
319 North Bernardo Avenue
Mountain View, CA 94043

STOCK PRICES AND DIVIDEND POLICY

The Company's common stock is traded on the Nasdaq Stock Market under the symbol "NTAP". As of May 31, 1996, there were approximately 260 shareholders of record of the Company's common stock.

The following table sets forth for the periods indicated the range of high and low sales prices for the Company's common stock.

Quarter	High	Low
Q3 1996	$ 41.12	$13.50
Q4 1996	$ 38.75	$27.00

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.

[LOGO]

NETWORK APPLIANCE, INC.

Network Appliance, Inc.
319 North Bernardo Avenue
Mountain View, CA 94043
Phone: 415.428.5100
Fax: 415.428.5151
http://www.netapp.com

CORP-AR96

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM 4/30/96
CONSOLIDATED BALANCE SHEET; 4/30/96 CONSOLIDATED STATEMENT OF OPERATIONS AND IS
QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH ANNUAL REPORT ON FORM 10-K FOR
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