SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED JULY 28, 2000

OR

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

FOR THE TRANSITION PERIOD FROM ____________ TO ____________ .

COMMISSION FILE NUMBER 0-27130

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

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

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

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

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

Number of shares outstanding of the registrant's class of common stock, as of the latest practicable date.

CLASS	OUTSTANDING AT JULY 28, 2000
Common Stock............	316,049,875

TABLE OF CONTENTS

PAGE NO.

PART I -- FINANCIAL INFORMATION

PART II--OTHER INFORMATION

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NETWORK APPLIANCE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	JULY 28, 2000	APRIL 30, 2000
	(UNAUDITED)	**

ASSETS

CURRENT ASSETS:		
Cash and cash equivalents	$ 331,749	$ 279,014
Short-term investments	105,203	74,477
Accounts receivable, net	138,201	108,902
Inventories	22,866	20,434
Prepaid expenses and other assets	14,927	27,958
Deferred income taxes	16,850	22,215
Total current assets	629,796	533,000
PROPERTY AND EQUIPMENT, NET	65,787	47,949
INTANGIBLE ASSETS, NET	23,909	389
OTHER ASSETS	9,660	10,895
	$ 729,152	$ 592,233

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts payable	$ 49,967	$ 34,061
Accrued compensation and related benefits	33,456	34,902
Other accrued liabilities	32,961	21,288
Deferred revenue	31,648	23,182
Total current liabilities	148,032	113,433
LONG-TERM OBLIGATIONS	54	54
	148,086	113,487
SHAREHOLDERS' EQUITY:		
Common stock	437,232	351,519
Retained earnings	134,722	129,746
Cumulative other comprehensive income (loss)	9,112	(2,519)
Total shareholders' equity	581,066	478,746
	$ 729,152	$ 592,233

** Derived from audited consolidated financial statements.

See accompanying notes to condensed consolidated financial statements

NETWORK APPLIANCE, INC.

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

	THREE MONTHS ENDED	
	JULY 28, 2000	JULY 30, 1999
NET SALES	$ 231,159	$ 103,279
COST OF SALES	89,457	42,539
Gross Margin	141,702	60,740
OPERATING EXPENSES:		

Sales and marketing	64,059	26,884
Research and development	23,705	11,220
General and administrative	8,985	3,768
Amortization of intangible assets	666	50
In-process research and development	26,688	--
Total operating expenses	124,103	41,922
INCOME FROM OPERATIONS	17,599	18,818
OTHER INCOME (EXPENSE):		
Interest income	4,264	2,126
Other income (expense), net	116	(63)
Total other income, net	4,380	2,063
INCOME BEFORE INCOME TAXES	21,979	20,881
PROVISION FOR INCOME TAXES	17,003	7,413
NET INCOME	$ 4,976	$ 13,468
NET INCOME PER SHARE(1):		
Basic	$ 0.02	$ 0.05
Diluted	$ 0.01	$ 0.04
SHARES USED IN PER SHARE CALCULATIONS(1):		
Basic	313,559	292,376
Diluted	359,778	333,596

(1) Share and per share amounts have been adjusted to reflect the two-for-one stock splits which were effective December 20, 1999 and March 22, 2000.

See accompanying notes to condensed consolidated financial statements.

NETWORK APPLIANCE, INC.

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

	THREE MONTHS ENDED	
	JULY 28, 2000	JULY 30, 1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 4,976	$ 13,468
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,987	2,837
In-process research and development	26,688	--
Provision for doubtful accounts	172	304
Deferred income taxes	(2,114)	(3,400)
Deferred rent	--	(25)
Changes in assets and liabilities:		
Accounts receivable	(29,412)	(12,005)
Inventories	(4,988)	(1,219)
Prepaid expenses and other assets	9,141	2,595
Accounts payable	15,875	7,279
Income taxes payable	22,491	9,720
Accrued compensation and related benefits	(1,446)	(4,976)
Other accrued liabilities	7,137	1,257
Deferred revenue	8,308	1,485

Net cash provided by operating activities	63,815	17,320
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of short-term investments	(51,699)	(12,419)
Redemptions of short-term investments	45,109	2,350
Purchases of property and equipment	(21,034)	(8,306)
Purchase of equity investment	(1,000)	--
Purchase of Orca Systems, net of cash acquired	(2,161)	--
Payment/refund of deposits, net	--	2,500
Net cash used in investing activities	(30,785)	(15,875)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of common stock, net	19,705	7,296
Net cash provided by financing activities	19,705	7,296
NET INCREASE IN CASH AND CASH EQUIVALENTS	52,735	8,741
CASH AND CASH EQUIVALENTS:		
Beginning of period	279,014	221,284
End of period	$ 331,749	$ 230,025
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Income tax benefit from employee stock transactions	$ 18,000	$ 6,900
Common stock issued and options assumed for Orca acquisition	$ 47,579	$ --
SUPPLEMENTAL CASH FLOW INFORMATION:		
Income taxes paid net of refund	$ (3,946)	$ 34

See accompanying notes to condensed consolidated financial statements.

NETWORK APPLIANCE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying condensed consolidated financial statements have been prepared by Network Appliance, Inc. without audit and reflect all adjustments, which are, in the opinion of management, necessary for a fair presentation of our financial position and results of operations for the interim periods. The statements have been prepared in accordance with the regulations of the Securities and Exchange Commission (SEC). Accordingly, they do not include all information and footnotes required by generally accepted accounting principles. The results of operations for the three-month period ended July 28, 2000 are not necessarily indicative of the operating results to be expected for the full fiscal year or future operating periods. The information included in this report should be read in conjunction with the audited consolidated financial statements and notes thereto for the fiscal year ended April 30, 2000 and the risk factors as set forth in our Annual Report on Form 10-K, including, without limitation, risks relating to fluctuating operating results, customer and market acceptance of new products, dependence on new products, rapid technological change, litigation, dependence on growth in the network file server market, expansion of international operations, product concentration, changing product mix, competition, management of expanding operations, dependence on high-quality components, dependence on proprietary technology, intellectual property rights, dependence on key personnel, volatility of stock price, shares eligible for future sale, effect of certain anti-takeover provisions and dilution.

2. FISCAL PERIODS

We operate on a 52-week or 53-week year ending on the last Friday in April. Fiscal 2001 is a 52-week year. Fiscal 2000 was a 52-week year. The quarter ended July 28, 2000 includes 13 weeks of operating activity, compared to 13 weeks of activity for the corresponding period of the prior fiscal year.

3. INVENTORIES

Inventories consist of the following:

	JULY 28, 2000	APRIL 30, 2000
	(IN THOUSANDS)	
Purchased components	$ 9,347	$ 9,230
Work in process	5,290	646
Finished goods	8,229	10,558
	$22,866	$20,434

NETWORK APPLIANCE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

4. NET INCOME PER SHARE

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

	THREE MONTHS ENDED	
	JULY 28, 2000	JULY 30, 1999
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
NET INCOME (NUMERATOR):		
Net income, basic and diluted	$ 4,976	$ 13,468
SHARES (DENOMINATOR):		
Weighted average common shares outstanding	313,750	292,620
Weighted average common shares outstanding subject to repurchase	(191)	(244)
Shares used in basic computation	313,559	292,376
Weighted average common shares outstanding subject to repurchase	191	244
Common shares issuable upon exercise of stock options	46,028	40,976
Shares used in diluted computation	359,778	333,596
NET INCOME PER SHARE:		
Basic	$ 0.02	$ 0.05
Diluted	$ 0.01	$ 0.04

5. COMPREHENSIVE INCOME

The components of comprehensive income, net of tax, are as follows:

(IN THOUSANDS)	THREE MONTHS ENDED JULY 28, 2000	THREE MONTHS ENDED JULY 30, 1999
Net income	$ 4,976	$13,468
Foreign currency translation adjustment	157	256
Unrealized gain on investments	11,474	8
Comprehensive income	$16,607	$13,732

NETWORK APPLIANCE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

6. NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," which defines derivatives, requires that all derivatives be carried at fair value, and provides for hedge accounting when certain conditions are met. This statement is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. Although we have not fully assessed the implications of this new statement, we do not believe adoption of this statement will have a material impact on our consolidated financial position, results of operations or cash flows.

7. COMMITMENTS

We have commitments related to operating lease arrangements, under which we have an option to purchase the Sunnyvale headquarters properties for an aggregate of $245.0 million, or arrange for the sale of the properties to a third party for at least the option price with a contingent liability for any deficiency. If the properties under these leases are not purchased or sold, we will be obligated for additional lease payments of approximately $214.0 million.

All of these operating leases require monthly payments, which vary, based on the London Interbank Offered Rate (LIBOR) plus a spread (8.0% at July 28, 2000).

The operating leases mentioned above require us to maintain specified financial covenants with which we were in compliance as of July 28, 2000.

8. ACQUISITION

In June 2000, we completed the acquisition of Orca Systems, Inc. (Orca), a developer of high performance Virtual Interface (VI) Architecture software for UNIX(R) and Windows NT(R) enterprise-class systems, based in Waltham, Massachusetts. The acquisition fits with our strategy of developing highly available and reliable intelligent storage solutions that improve the performance of today's Internet and enterprise applications and strengthen our ability to develop next generation storage networking architectures and protocols. The acquisition was accounted for as a purchase. Under terms of the agreement, we acquired Orca for $50.0 million in common stock, assumed options and cash, with an obligation to provide 264,497 shares of common stock (valued at $22.5 million based on our closing stock price on July 28, 2000), if certain performance criteria are achieved. We also paid certain transaction costs and assumed certain operating assets and liabilities.

The purchase price of the transaction was allocated to the acquired assets and liabilities based on their estimated fair values as of the date of the acquisition. Approximately $26.7 million was allocated to in-process research and development and charged to operations because the acquired technology had not reached technological feasibility and had no alternative uses. The value was determined by estimating the costs to develop the acquired in-process technology into commercially viable products, estimating the resulting net cash flows from such projects, and discounting the net cash flows back to their present value. The discount rate included a factor that took into account the uncertainty surrounding the successful development of the acquired in-process technology. These estimates are subject to change, given the uncertainties of the development process, and no assurance can be given that deviations from these estimates will not occur. Excluding the charge that may result from 264,497 contingently issuable common shares, research and development costs to bring the products from Orca to technological feasibility are not expected to have a material impact on our future results of operations or financial condition.

The total purchase price and final allocation among the tangible and intangible assets and liabilities acquired (including purchased in-process technology) is summarized as follows (in thousands):

Total Purchase Price:		Amortization Period (Years)
Total cash consideration	$ 2,000	
Shares issued	23,526	
Value of options assumed	24,053	
Transaction costs	458	
	$ 50,037	
Purchase Price Allocation:		
Tangible assets	$ 353	
Intangible assets:		
Existing Workforce	423	3
Goodwill	24,101	5
In-process R&D	26,688	Expensed
Tangible liabilities	(1,359)	
Deferred tax liabilities	(169)	
	$ 50,037	

Pro forma results of operations have not been presented since the effects of the acquisition were not material to our consolidated financial position, results of operations or cash flows for the periods presented.

9. SUBSEQUENT EVENT

In September 2000, we entered into a definitive agreement to acquire privately-held WebManage Technologies, Inc. ("WebManage"), a developer of content management, distribution, and analysis software solutions. Under terms of the agreement, we will acquire WebManage for approximately $75.0 million in common stock, assumed options, and cash. The acquisition will be accounted for using the purchase method of accounting.

This Form 10-Q contains forward-looking statements about future results, which are subject to risks and uncertainties, including those discussed below. Our actual results may differ significantly from the results discussed in the forward-looking statements. We are subject to a variety of other additional risk factors, more fully described in our Annual Report on Form 10-K filed with the Securities and Exchange Commission.

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

RESULTS OF OPERATIONS

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

	THREE MONTHS ENDED	
	JULY 28, 2000	JULY 30, 1999
Net sales	100.0%	100.0%
Cost of sales	38.7	41.2
Gross margin	61.3	58.8
Operating expenses:		
Sales and marketing	27.7	26.0
Research and development	10.3	10.9
General and administrative	3.9	3.7
Amortization of intangible assets	0.3	--
In-process research and development	11.5	--
Total operating expenses	53.7	40.6
Income from operations	7.6	18.2
Total other income, net	1.9	2.0
Income before income taxes	9.5	20.2
Provision for income taxes	7.4	7.2
Net income	2.1%	13.0%

Business Combinations -- During the first quarter of fiscal 2001, we acquired Orca, for a purchase price of $50.0 million, including common stock, assumed options and cash, with an obligation to provide 264,497 shares of common stock, if certain performance criteria are achieved. We also paid certain transaction costs and assumed certain operating assets and liabilities. The acquisition was accounted for as a purchase. The purchase price of the transaction was allocated to the acquired assets and liabilities based on their estimated fair values as of the date of the acquisition. Amounts allocated to existing workforce and goodwill are being amortized on a straight-line basis over three- and five-year periods, respectively. Approximately $26.7 million was allocated to in-process research and development and charged to operations because the acquired technology had not reached technological feasibility and had no alternative uses.

Pro forma results of operations have not been presented since the effects of the acquisition were not material to our consolidated financial position, results of operations or cash flows for the periods presented.

Net Sales -- Net sales increased by 123.8% to $231.2 million for the three-month period ended July 28, 2000, from $103.3 million for the three-month period ended July 30, 1999. Net sales growth was across all geographies, products and markets. This increase in net sales was primarily attributable to a higher volume of units shipped, as compared to the corresponding period of the prior fiscal year. Factors impacting unit growth include:

- strong demand for our F700 filer product family utilizing primarily fibre-channel connectivity;

- increased worldwide demand for our NetCache(TM) solutions;

- increased worldwide shipment of NetApp(R) Cluster Failover solutions, which require another filer to take over in the event of a hardware failure;

- increased demand for the SnapMirror(TM) software option, which requires multiple filers to provide remote mirroring of data for quick disaster recovery and backup at remote sites;

- expansion of our sales organization to 704 as of July 28, 2000 from 344 as of July 30, 1999; and

- increased sales through indirect channels, representing 26.6% and 32.5% of total sales for the first quarter of fiscal 2001 and 2000, respectively, including sales through our OEM partners.

Net sales growth was also positively impacted by:

- a higher average selling price due to the introduction of new software features: SnapMirror, SnapRestore(TM) and SnapManager(TM) for Microsoft(R) Exchange and Cluster Failover, supporting mission-critical applications;

- the increase in storage capacity;

- increased add-on software revenue from multi-protocol solutions; and

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

Overall net sales growth was partially offset by:

- declining average selling price of the F700 and caching product family due to competitive pricing pressure; and

- declining unit sales of our older product family.

International net sales (including United States exports) grew by 157.3% for the three-month period ended July 28, 2000, as compared to the comparable period of the prior fiscal year. International net sales were $73.1 million, or 31.6% of total net sales, for the three-month period ended July 28, 2000. The increase in international sales for the three-month period ended July 28, 2000, was primarily a result of European and Asia Pacific net sales growth, due to increased headcount in the direct sales force, increased indirect channel sales, increased shipments of filers, Cluster Failover solutions, NetCache appliances and increased sales of add-on software licenses as compared to the corresponding period of the prior fiscal year. We believe that our continued growth and profitability is dependent in part on the successful expansion of our international operations, and therefore, have committed significant resources to increase international sales.

We cannot assure you that our net sales will continue to increase in absolute dollars or at the rate at which they have grown in recent fiscal periods.

Gross Margin -- Gross margin increased to 61.3% for the three-month period ended July 28, 2000 from 58.8% for the three-month period ended July 30, 1999.

Gross margin was favorably impacted by:

- increased licensing of add-on software options such as: multi-protocol, Cluster Failover, SnapMirror, SnapRestore and SnapManager;

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

- lower costs of key components;

- the increase in product volume; and

- increased manufacturing efficiencies.

Gross margin was negatively impacted by sales price reductions on storage products due to competitive pricing pressure from other storage vendors and increased investments in customer service personnel in areas such as logistics and professional services.

Our gross margin has been and may continue to be affected by a variety of factors, including:

- competition;

- product configuration;

- direct versus indirect sales;

- the mix of software as a percentage of revenue;

- the mix and average selling prices of products;

- new product introductions and enhancements; and

- the cost of components and manufacturing labor.

Sales and Marketing -- Sales and marketing expenses consist primarily of salaries, commissions, advertising and promotional expenses and certain customer service and support costs. Sales and marketing expenses increased 138.3% to $64.1 million for the three-month period ended July 28, 2000 from $26.9 million for the three-month period ended July 30, 1999. These expenses were 27.7% and 26.0% of net sales for the three-month periods ended July 28, 2000 and July 30, 1999, respectively. The increase in absolute dollars was primarily related to the continued worldwide expansion, increased headcount growth of our sales and customer service organizations, expansion of various marketing and industry initiatives and increased commission expenses. Sales and marketing headcount increased to 916 at July 28, 2000 from 451 at July 30, 1999. We expect to continue to increase our sales and marketing expenses in an effort to expand domestic and international markets, introduce new products, establish and expand new distribution channels and increase product and company awareness.

Research and Development -- Research and development expenses consist primarily of salaries and benefits, prototype expenses, non-recurring engineering charges and fees paid to outside consultants. Research and development expenses increased 111.3% to $23.7 million for the three-month period ended July 28, 2000 from $11.2 million for the three-month period ended July 30, 1999. These expenses represented 10.3% and 10.9% of net sales, respectively, for the three-month periods ended July 28, 2000 and July 30, 1999. Research and development expenses increased in absolute dollars, primarily as a result of increased headcount, ongoing support of current and future product development and enhancement efforts, prototyping expenses and non-recurring engineering charges associated with the development of new products and technologies. Research and development headcount increased to 381 at July 28, 2000 from 215 at July 30, 1999. In the first quarter of fiscal 2001, we shipped the NetCache C1100, our low-end content delivery product designed for enterprise customers and Internet Service Providers. We also announced a new release of Data ONTAP(TM) software that offers expanded storage capacity, increased memory-accessing efficiencies, quicker Snapshot(TM) creation, improved mirroring performance and additional reliability. In fiscal 2000, we shipped new enterprise software offerings and data management tools with SnapManager for Microsoft Exchange and ApplianceWatch(TM). We also introduced new caching products which included NetCache software release 4.0 and NetCache 4.1, adding streaming media support for MMS/RTSP protocols, Microsoft(R) Windows Media(TM) , Apple(R) Quicktime(TM), delivering live broadcasting on the Internet. We believe that our future performance will depend in large part on our ability to maintain and enhance our current product line, develop new products that achieve market acceptance, maintain technological competitiveness and meet an expanding range of customer requirements. We intend to continuously expand our existing product offerings and introduce new products and expect that such expenditures will continue to increase in absolute dollars. For the three-month periods ended July 28, 2000 and July 30, 1999, no software development costs were capitalized.

General and Administrative -- General and administrative expenses increased 138.5% to $9.0 million for the three-month period ended July 28, 2000, from $3.8 million for the three-month period ended July 30, 1999. These expenses represented 3.9% and 3.7% of net sales for the three-month periods ended for such periods. Increases in absolute dollars were primarily due to increased headcount, expenses associated with initiatives to implement enterprise-wide management information systems, increases in professional services, consulting fees and outside service fees. General and administrative headcount increased to 181 at July 28, 2000 from 92 at July 30, 1999. We believe that our general and administrative expenses will increase in absolute dollars as we continue to build our infrastructure.

Amortization of Intangible Assets -- Amortization of intangible assets represents the excess of the aggregate purchase price over the fair value of the tangible and identifiable intangible assets acquired by us. Intangible assets as of July 28, 2000, including goodwill, are being amortized over the estimated useful life of three to five-year periods. We assess the recoverability of goodwill by determining whether the amortized asset over its useful life may be recovered through estimated useful cash flows. Amortization of intangible assets charged to operations in the first quarter of fiscal 2001 was approximately $0.7 million.

In-process Research and Development -- We incurred in-process research and development charges of approximately $26.7 million in the first quarter of fiscal 2001 related to the acquisition of Orca. The purchase price of the transaction was allocated to the acquired assets and liabilities based on their estimated fair values as of the date of the acquisition. Approximately $26.7 million was allocated to in-process research and development and charged to operations, because the acquired technology had not reached technological feasibility and had no alternative uses. The value was determined by estimating the costs to develop the acquired in-process technology into commercially viable products, estimating the resulting net cash flows from such projects, and discounting the net cash flows back to their present value. The discount rate included a factor that took into account the uncertainty surrounding the successful development of the acquired in-process technology. These estimates are subject to change, given the uncertainties of the development process, and no assurance can be given that deviations from these estimates will not occur. Excluding the charge that may result from 264,497 contingently issuable common shares, research and development costs to bring the products from Orca to technological feasibility are not expected to have a material impact on our future results of operations or financial condition.

We believe we could utilize the Orca acquisition to develop the first virtual interface-based (VI) next generation of network attached storage systems. We are leveraging VI architecture to develop the Direct File Access System (DAFS) protocol. DAFS enables block data transfers straight from the file server, allowing clusters of application servers in heterogeneous environments to share data from the memory of one system to the memory of another without involving general-purpose operating systems, thereby improving CPU utilization and speeding up data access. We expect to continue the development of products using this protocol and believe that there is a reasonable chance of successfully completing such development efforts by the middle of year 2001. However, there is risk associated with the completion of the in-process project and there can be no assurance that such project will meet with either technological or commercial success. Failure to successfully develop and commercialize this in-process project would result in the loss of the expected economic return inherent in the fair value allocation. Additionally, the value of other intangible assets acquired may become impaired. The risks associated with the research and development are still considered high and no assurance can be made that upcoming products will meet market expectations or gain market acceptance.

Total Other Income, net -- Total other income, net, was $4.4 million and

$2.1 million for the three-month periods ended July 28, 2000 and July 30, 1999, respectively. The increase was due primarily to cash generated from operations, net proceeds from stock option exercises and interest income earned on the net proceeds from the March 1999 follow-on public offering.

Provision for Income Taxes -- Our estimated effective tax rate for the three-month period ended July 28, 2000 was 34.5%, excluding the effect of the write-off of acquired in-process research and development of $26.7 million, which is not deductible for income tax purposes. The effective tax rate for the three-month period ended July 30, 1999 was 35.5%. The effective tax rates differed from the U.S. statutory rate primarily due to state taxes, credits and tax exempt interest.

CERTAIN RISK FACTORS

Although we have experienced significant revenue growth in recent periods, this growth may not be indicative of our future operating results. As a result, we believe that period-to-period comparisons of our results of operation are not necessarily meaningful and should not be relied upon as indicators of future performance. Many of the factors that could cause our quarterly operating results to fluctuate significantly in the future are beyond our control and include the following:

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

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

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

We conduct business internationally. For the three-month period ended July 28, 2000, approximately 31.6% of our net sales were to international customers (including U.S. exports). Accordingly, our future operating results could be materially adversely affected by a variety of factors, some of which are beyond our control, including regulatory, political or economic conditions in a specific country or region, trade protection measures and other regulatory requirements and government spending patterns.

Our international sales are denominated in U.S. dollars and in foreign currencies. An increase in the value of the U.S. dollar relative to foreign currencies could make our products more expensive and, therefore, potentially less competitive in foreign markets. For international sales and expenditures denominated in foreign currencies, we are subject to risks associated with currency fluctuations. We hedge risks associated with foreign currency transactions in order to minimize the impact of changes in foreign currency exchange rates on earnings. We utilize forward contracts to hedge trade and intercompany receivables and payables. All hedge contracts are marked to market through earnings every period.

Additional risks inherent in our international business activities generally include, among others, longer accounts receivable payment cycles, difficulties in managing international operations and potentially adverse tax consequences. We cannot assure you that such factors will not materially adversely affect our future international sales and, consequently, our operating results.

Although operating results have not been materially and adversely affected by seasonality in the past, because of the significant seasonal effects experienced within the industry, particularly in Europe, we cannot assure you that our future operating results will not be adversely affected by seasonality.

We believe that continued growth and profitability will require successful expansion of our international operations and sales and therefore we have committed significant resources to such expansion. In order to successfully expand international sales in fiscal 2001 and subsequent periods, we must strengthen foreign operations, hire additional personnel and recruit additional international distributors and resellers. This will require significant management attention and financial resources and could materially adversely affect our operating results. To the extent that we are unable to effect these additions in a timely manner, our growth, if any, in international sales will be limited, and our operating results could be materially adversely affected. In addition, we cannot assure you that we will be able to maintain or increase international market demand for our products.

LIQUIDITY AND CAPITAL RESOURCES

As of July 28, 2000, as compared to the April 30, 2000 balances, our cash, cash equivalents and short-term investments increased by $83.5 million to $437.0 million. Working capital increased by $62.2 million to $481.8 million. The increase was also a result of unrealized gain on a publicly held investment. We generated cash from operating activities totaling $63.8 million and $17.3 million for the three-month periods ended July 28, 2000 and July 30, 1999, respectively. Net cash provided by operating activities for the three-month period ended July 28, 2000 was principally related to net income of $5.0 million, increases in accounts payable, income taxes payable, deferred revenue and other accrued liabilities, decreases in prepaid expenses and other, coupled with depreciation and amortization, in-process research and development, partially offset by increases in accounts receivable, inventories and deferred income taxes and decreases in accrued compensation and related benefits.

We used $21.0 million and $8.3 million of cash during the three-month periods ended July 28, 2000 and July 30, 1999, respectively, for capital expenditures. The increase was primarily attributed to upgrades of software and computer equipment purchases and furniture and fixtures for the Sunnyvale headquarters facility. We have used $6.6 million and $10.1 million during the three-month periods ended July 28, 2000 and July 30, 1999, respectively, for net short-term investments. In June 2000, we acquired Orca for a purchase price of approximately $50.0 million, including common stock, contingently issuable common stock, assumed options, cash payments of $2.0 million and related transaction costs. Investing activities in the three-month period ended July 28, 2000 also included an equity investment of $1.0 million, recorded at cost, which approximated fair market value.

Financing activities provided $19.7 million and $7.3 million during the three-month periods ended July 28, 2000 and July 30, 1999, respectively. The increase in cash provided by financing activities for the three-month period ended July 28, 2000, compared to the corresponding period of the prior fiscal year, was due to an increased quantity of stock options exercised at a higher average exercise price and a greater number of employees participating in the employee stock purchase plan.

Excluding the commitments related to operating lease arrangements for various properties in our Sunnyvale headquarters, which aggregate $245.0 million, we currently have no significant commitments other than commitments under operating leases. We believe that our existing liquidity and capital resources, including the available amounts under our $5.0 million line of credit, are sufficient to fund our operations for at least the next twelve months.

NEW ACCOUNTING STANDARDS

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which defines derivatives, requires that all derivatives be carried at fair value, and provides for hedging accounting when certain conditions are met. This statement is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. Although we have not fully assessed the

implications of this new statement, we do not believe adoption of this statement will have a material impact on our consolidated financial position, results of operations or cash flows.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Market Interest Risk

Short-term Investments - As of July 28, 2000, we had short-term investments of $105.2 million. Our investment portfolio consists of highly liquid investments with original maturities at the date of purchase between three and twelve months. These investments are subject to interest rate risk and will decrease in value if market interest rates increase. A hypothetical 10 percent increase in market interest rates from levels at July 28, 2000, would cause the fair value of these short-term investments to decline by an immaterial amount. Because we have the ability to hold these investments until maturity we would not expect any significant decline in value of our investments caused by market interest rate changes. Declines in interest rates over time will, however, reduce our interest income. We do not use derivative financial instruments in our investment portfolio.

Our investment portfolio also includes common stock holdings in a certain publicly held technology company. We are exposed to fluctuations in the market price of our equity investment in this company. At the same time, we are precluded from selling the value of any of our holdings until December 2000, due to the typical 180 day lockup provision. As a result of these factors, the amount of income and cash flow that we ultimately realize from this investment in future periods may vary materially from the current unrealized amount.

Operating Lease Commitments - As of July 28, 2000, we have outstanding lease commitments to a third-party entity under operating lease agreements, which vary based on a monthly LIBOR rate plus a spread. A hypothetical 10 percent increase in interest rates would increase our annual rent expense under operating lease commitments by approximately $2.0 million. Increases in interest rates could, however, increase our rent expenses associated with future lease payments. We do not currently hedge against interest rate increases. Our investment portfolio offers a natural hedge against interest rate risk from our operating lease commitments in the event of a significant increase in the market interest rate.

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

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

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

The following table provides information about our foreign exchange forward contracts outstanding on July 28, 2000, (in thousands):

CURRENCY	BUY/ SELL	FOREIGN CURRENCY AMOUNT	CONTRACT VALUE USD	FAIR VALUE IN USD
EUR	Sell	46,218	$50,125	$50,183
EUR	Buy	89,681	$96,511	$97,373
GBP	Sell	21,987	$35,344	$35,804
GBP	Buy	15,597	$25,262	$25,398
CHF	Sell	14,987	$ 9,644	$ 9,644
CHF	Buy	4,684	$ 3,015	$ 3,014

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

27 Financial Data Schedule

(b) REPORTS ON FORM 8-K

None

SIGNATURE

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

NETWORK APPLIANCE INC.
(Registrant)

/s/ JEFFRY R. ALLEN

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

Date: September 11, 2000

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
27	Financial Data Schedule

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