

NETWORK APPLIANCE INC
Form PRE 14A
June 24, 2002

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SCHEDULE 14A INFORMATION

**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934**

(AMENDMENT NO. __)

Filed by the Registrant [X]

Filed by a Party other than the Registrant []

Check the appropriate box:

[X] Preliminary Proxy Statement
 [] Definitive
Proxy
Statement []
Confidential, for
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Commission Only
(as permitted by
Rule 14a-6(e)(2)) []
Definitive
Additional
Materials []
Soliciting
Material Pursuant
to sec.
240.14a-11(c) or
sec. 240.14a-12

NETWORK APPLIANCE, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] Fee not required.
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(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

(2) Form,
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Statement No.:

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(4) Date Filed:

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NETWORK APPLIANCE, INC.

**495 East Java Drive
Sunnyvale, CA 94089**

Dear Network Appliance Stockholder:

Network Appliance, Inc. will be holding our Annual Meeting of Stockholders on August 29, 2002, at 3:00 p.m., local time. The meeting will be held at our company headquarters located at 495 East Java Drive, Sunnyvale, California 94089. At the meeting, you will be asked to consider and vote upon the following proposals:

1. To elect eight directors of the Company;
2. To approve an amendment to the 1999 Stock Option Plan;
3. To approve an amendment to the 1995 Employee Stock Purchase Plan;
4. To approve an amendment to the Company's Bylaws;
5. To ratify the appointment of Deloitte & Touche LLP as independent auditors of the Company for the fiscal year ending April 25, 2003; and
6. To transact such other business as may properly come before the meeting.

After careful consideration, our Board of Directors has unanimously approved the proposals and recommends that you vote FOR each of the proposals. Details of the proposals and business to be conducted at the meeting can be found in the enclosed Proxy Statement.

Your vote is extremely important and we appreciate you taking the time to vote promptly. After reading the Proxy Statement, please vote, date, sign and return the enclosed proxy card in the accompanying reply envelope. If you decide to attend the Annual Meeting and would prefer to vote in person, please notify the Secretary of the Company that you wish to vote in person and your proxy will not be voted. **YOUR SHARES CANNOT BE VOTED UNLESS YOU SIGN, DATE AND RETURN THE ENCLOSED PROXY OR ATTEND THE ANNUAL MEETING IN PERSON.**

A copy of the Company's 2002 Annual Report has been mailed to all stockholders entitled to notice of and to vote at the Annual Meeting.

Thank you for your participation in this important activity.

Sincerely yours,

Daniel Warmenhoven
Chief Executive Officer

Sunnyvale, California
July , 2002

YOUR VOTE IS EXTREMELY IMPORTANT

Please vote, date and sign the enclosed proxy and return it at your earliest convenience in the enclosed postage-prepaid return envelope so that your shares may be voted.

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NETWORK APPLIANCE, INC.

**495 East Java Drive
Sunnyvale, CA 94089**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To be held August 29, 2002**

TO OUR STOCKHOLDERS:

The Annual Meeting of Stockholders (the "Annual Meeting") of Network Appliance, Inc., a Delaware corporation (the "Company"), will be held on August 29, 2002 at 3:00 p.m., local time, at the Company's headquarters, 495 East Java Drive, Sunnyvale, California 94089, for the following purposes:

1. To elect the following individuals to serve as members of the Board of the Directors for the ensuing year or until their respective successors are duly elected and qualified: Daniel J. Warmenhoven, Donald T. Valentine, Sanjiv Ahuja, Carol A. Bartz, Michael R. Hallman, Nicholas G. Moore, Sachio Semmoto and Robert T. Wall.
2. To approve an amendment to the Company's 1999 Stock Option Plan (the "1999 Plan") which will increase the share reserve under the plan by an additional 14,000,000 shares of Common Stock.
3. To approve an amendment to the Company's Employee Stock Purchase Plan (the "Purchase Plan") which will increase the share reserve under the plan by an additional 2,400,000 shares of Common Stock.
4. To approve an amendment to the Company's By-laws.
5. To ratify the appointment of Deloitte & Touche LLP as independent auditors of the Company for the fiscal year ending April 25, 2003.
6. To transact such other business as may properly come before the meeting or any adjournment thereof.

The foregoing items of business are more fully described in the Proxy Statement that accompanies this Notice.

Stockholders of record at the close of business on July 1, 2002 are entitled to notice of and to vote at the Annual Meeting and at any continuation or adjournment thereof.

To ensure your representation at the meeting, please carefully read the accompanying Proxy Statement which describes the matters to be voted on at the Annual Meeting and sign, date and return the enclosed proxy card in the reply envelope provided. Should you receive more than one proxy because your shares are registered in different names and addresses, each proxy should be returned to ensure that all your shares will be voted. You may revoke your proxy at any time prior to the Annual Meeting. If you attend the Annual Meeting and vote by ballot, your proxy will be revoked automatically and only your vote at the Annual Meeting will be counted. The prompt return of your proxy card will assist us in preparing for the Annual Meeting.

Thank you for your participation.

BY ORDER OF THE BOARD OF DIRECTORS,

Daniel Warmenhoven
Chief Executive Officer

Sunnyvale, California
July , 2002

YOUR VOTE IS EXTREMELY IMPORTANT. TO ENSURE YOUR REPRESENTATION AT THE ANNUAL MEETING, YOU ARE URGED TO VOTE, SIGN, DATE AND RETURN THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE IN THE POSTAGE-PREPAID ENVELOPE ENCLOSED FOR THAT PURPOSE.

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PROXY STATEMENT

**FOR THE ANNUAL MEETING OF STOCKHOLDERS OF
NETWORK APPLIANCE, INC.
To be held August 29, 2002**

General

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of Network Appliance, Inc., a Delaware corporation (the Company or Network Appliance), of proxies to be voted at the Annual Meeting of Stockholders (the Annual Meeting) to be held on August 29, 2002, or at any adjournment or postponement thereof, for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders. Stockholders of record on July 1, 2002 will be entitled to vote at the Annual Meeting. The Annual Meeting will be held at 3:00 p.m., local time, at the Company's headquarters, 495 East Java Drive, Sunnyvale, California 94089.

It is anticipated that this Proxy Statement and the enclosed proxy card will be mailed to stockholders on or about July 10, 2002.

Voting Rights

The close of business on July 1, 2002 was the record date for stockholders entitled to notice of and to vote at the Annual Meeting and any adjournments thereof. At the record date, the Company had approximately _____ shares of its Common Stock outstanding and entitled to vote at the Annual Meeting, and approximately _____ registered stockholders. No shares of the Company's Preferred Stock were outstanding. Holders of Common Stock are entitled to one vote for each share of Common Stock held by such stockholder on July 1, 2002. A majority of the shares of Common Stock entitled to vote will constitute a quorum for the transaction of business at the Annual Meeting. Abstentions and broker non-votes are counted as present for the purpose of determining the presence of a quorum.

Stockholders may vote by proxy. The enclosed proxy is solicited by the Company's Board of Directors (the Board of Directors or the Board) and when the proxy card is returned properly completed, it will be voted as directed by the stockholder on the proxy card. Stockholders are urged to specify their choices on the enclosed proxy card. If a proxy card is signed and returned without choices specified, in the absence of contrary instructions, the shares of Common Stock represented by such proxy will be voted FOR Proposals 1, 2, 3, 4 and 5 and will be voted in the proxy holders' discretion as to other matters that may properly come before the Annual Meeting.

The eight director nominees receiving the highest number of affirmative votes will be elected. Approval of Proposals 2, 3 and 5 requires (i) the affirmative vote of a majority of those shares present and voting and (ii) the affirmative vote of the majority of the required quorum. Abstentions and broker non-votes will be counted as present for purposes of establishing a quorum, but will not be considered as voting with respect to such proposals. Thus abstentions and broker non-votes can have the effect of preventing approval of proposals 2, 3 and 5 where the number of affirmative votes, though a majority of the votes cast at the Annual Meeting, does not constitute a majority of the required quorum. Approval of Proposal 4 requires the affirmative vote of at least 66 2/3% of all the outstanding shares as of July 1, 2002. Thus abstentions and broker non-votes will have a negative effect on this proposal. All votes will be tabulated by the inspector of the election appointed for the Annual Meeting, who will separately tabulate affirmative and negative votes, abstentions and broker non-votes.

Revocability of Proxies

Any stockholder giving a proxy has the power to revoke it at any time before its exercise. You may revoke or change your proxy by filing with the Secretary of the Company an instrument of revocation or a duly executed proxy bearing a later date, or by attending the Annual Meeting and voting in person.

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The Company will bear the cost of soliciting proxies. Copies of solicitation material will be furnished to brokerage houses, fiduciaries, and custodians holding shares in their names that are beneficially owned by others to forward to such beneficial owners. The Company may reimburse such persons for their costs of forwarding the solicitation material to such beneficial owners. The original solicitation of proxies by mail may be supplemented by solicitation by telephone, electronic communication, or other means by directors, officers, employees or agents of the Company. No additional compensation will be paid to these individuals for any such services. The Company may retain a proxy solicitor to assist in the solicitations of proxies, for which the Company would expect to pay an estimated fee of \$10,000 plus reimbursement of expenses. Except as described above, the Company does not intend to solicit proxies other than by mail.

Annual Report

The Annual Report of the Company for the fiscal year ended April 26, 2002 has been mailed concurrently with the mailing of the Notice of Annual Meeting and Proxy Statement to all stockholders entitled to notice of and to vote at the Annual Meeting. The Annual Report is not incorporated into this Proxy Statement and is not considered proxy soliciting material.

PROPOSAL NO. 1:**ELECTION OF DIRECTORS**

At the Annual Meeting, eight directors constituting the entire board are to be elected to serve until the next Annual Meeting of Stockholders and until a successor for such director is elected and qualified, or until the death, resignation or removal of such director. It is intended that the proxies will be voted for the eight nominees named below for election to the Company's Board of Directors unless authority to vote for any such nominee is withheld. There are eight nominees, each of whom is currently a director of the Company. Except for Mr. Moore, all of the current directors were elected to the Board by the stockholders at the last Annual Meeting. Each person nominated for election has agreed to serve if elected, and the Board of Directors has no reason to believe that any nominee will be unavailable or will decline to serve. In the event, however, that any nominee is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for any nominee who is designated by the current Board of Directors to fill the vacancy. Unless otherwise instructed, the proxyholders will vote the proxies received by them for the nominees named below. The eight candidates receiving the highest number of affirmative votes of the shares entitled to vote at the Annual Meeting will be elected directors of the Company. The proxies solicited by this Proxy Statement may not be voted for more than eight nominees.

Nominees

The nominees for directors of the Company, and their ages as of May 31, 2002, are as follows:

Name	Age	Position
Daniel J. Warmenhoven	51	Chief Executive Officer and Director
Donald T. Valentine(3)	69	Chairman of the Board, Director
Sanjiv Ahuja(2)(3)	45	Director
Carol A. Bartz(1)(3)	53	Director
Michael R. Hallman(2)	57	Director
Nicholas G. Moore	60	Director
Sachio Semmoto	59	Director
Robert. T. Wall(1)(2)	56	Director

- (1) Member of Compensation Committee.
- (2) Member of Audit Committee.
- (3) Member of Nominating Committee.

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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. In May 2000, he resigned the role of President, and currently serves as Chief Executive Officer and Director of Network Appliance, Inc. 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. He presently serves on the Board of Directors of Redback Networks, Inc., a communications products 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 diCarta Inc, Vice Chairman of Cisco Systems, Inc., and serves on the Board of Directors of Procure Point (formerly EventSource.com). Mr. Valentine holds a B.A. degree from Fordham University.

SANJIV AHUJA has been a member of the Board of Directors since August 1998. Mr. Ahuja is the Founder and Chief Executive Officer of Comstellar Technologies, Inc., a telecommunications holding company. Prior to founding Comstellar Technologies, he was President and Chief Operating Officer of Telcordia Technologies (formerly Bellcore), a leading provider of telecommunications software and consulting, and a wholly-owned subsidiary of Science Applications International Corporation (SAIC). He joined Telcordia in 1994 as Corporate Vice President and President of the Software Systems Group after holding several key executive positions at IBM, where he began his career in 1979. Mr. Ahuja currently serves on the Board of Directors of Comstellar Technologies, Inc. and Avici Systems, Inc. He received a B.S. degree in electrical engineering from Delhi University, India and a Master of Science degree in computer science from Columbia University.

CAROL A. BARTZ has been a member of the Board of Directors since September 1995. From April 1992 to the present, Ms. Bartz has served as Chairman of the Board and Chief Executive Officer of Autodesk, Inc., a design software company. Prior to that, Ms. Bartz was with Sun Microsystems, Inc. from September 1983 to April 1992, most recently as Vice President of Worldwide Field Operations. In addition, Ms. Bartz currently serves on the Board of Directors of Cisco 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 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 InFocus Systems Inc., Digital Insight, Intuit Inc. and WatchGuard Technologies Inc. Mr. Hallman holds B.B.A. and M.B.A. degrees from the University of Michigan.

NICHOLAS G. MOORE served as Global Chairman, Chief Executive Officer U.S. from July 1998 until June 2001 of PricewaterhouseCoopers LLP. Prior to that, he served as Chairman and Chief Executive Officer of Coopers & Lybrand LLP from October 1994 until June 1998, when it was merged into PricewaterhouseCoopers LLP. Mr. Moore received a B.S. degree in Accounting from St. Mary's College and a J.D. degree from Hastings College of Law, University of California.

DR. SACHIO SEMMOTO has been a member of the Board of Directors since December 1999. Dr. Semmoto is Founder and CEO of eAccess, Ltd., a leading broadband IP operator in Japan. Prior to that, he spent 30 years in senior management positions, including Nippon Telephone & Telegraph (NTT), Kyocera and DDI Corp. (KDDI) which he co-founded as Executive Vice President in 1984. Dr. Semmoto is recognized as a leading Japanese executive and academic in the areas of entrepreneurship and information technology. He was a Professor at the Graduate School of Business Administration, Keio University in Tokyo and a Visiting Professor at Haas School of Business, University of California, Berkeley. He is a frequent lecturer at Harvard, Stanford and University of Tokyo. He is also a Fellow of the IEEE. He co-founded the Japan Academic Society of Ventures and Entrepreneurs as Vice President and has been supporting high tech

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start-ups in the U.S. and Japan from high-level managing positions. He is a graduate of Kyoto University, Japan and received his Ph.D. (Electrical Engineering) from University of Florida.

ROBERT T. WALL has been a member of the Board of Directors since January 1993. Since August 1984, Mr. Wall has been the Founder and President of On Point Developments, LLC, a venture management and investment company. He was also a founder and since November 2000 the Chairman of the Board of Directors of Woodside Networks, Inc., a development-stage broadband mobile wireless data communications company. From June 1997 to November 1998, he was Chief Executive Officer and a member of the Board of Directors of Clarity Wireless, Inc., a broadband wireless data communications company that was acquired by Cisco Systems, Inc. in November 1998. Mr. Wall was Chairman of the Board, President and Chief Executive Officer of Theatrix Interactive, Inc., a consumer educational software publisher, from April 1994 to August 1997. He received an A.B. degree in economics from De Pauw University and a M.B.A. degree from Harvard Business School.

Board Meetings and Committees

The Board of Directors held six (6) meetings during fiscal 2002. Each member of the Board of Directors during fiscal 2002 attended more than seventy-five percent (75%) of the aggregate of (i) the total number of meetings of the Board of Directors held during such period and (ii) the total number of meetings held during such period by all Committees of the Board on which he or she served. There are no family relationships among executive officers or directors of the Company. The Board of Directors has an Audit Committee, Nominating Committee and a Compensation Committee.

During fiscal 2002, the Audit Committee was comprised of Directors Ahuja, Hallman, and Wall. The Audit Committee reviews, acts on and reports to the Board of Directors with respect to various auditing and accounting matters, including the selection of the Company's auditors, the scope of the annual audits, fees to be paid to the auditors, the performance of the Company's auditors and the accounting practices of the Company. The Audit Committee of the Board of Directors held four (4) meetings during fiscal 2002.

During fiscal 2002, the Board approved a Nominating Committee and appointed Directors Ahuja, Bartz and Wall as members. The committee evaluates and recommends to the Board of Directors candidates for Board membership and considers nominees recommended by stockholders. The Nominating Committee held one (1) meeting during fiscal 2002.

The Compensation Committee, which is comprised of Directors Bartz and Wall, establishes salaries, incentive bonus programs and other forms of compensation for officers and other employees of the Company and administers the incentive compensation and benefit plans of the Company. The Compensation Committee of the Board of Directors held two (2) meetings during fiscal 2002. In addition the Committee approved stock option grants on a monthly basis by means of Unanimous Written Consents.

Director Compensation

The members of the Board of Directors do not receive any cash compensation for services provided in such capacity. The Company also does not pay compensation for committee participation or special assignments of the Board of Directors. However, the directors are currently eligible to receive stock options under the Automatic Option Grant Program in effect under the 1999 Stock Option Plan (the 1999 Plan), under which option grants are automatically made at periodic intervals to eligible non-employee Board members to purchase shares of Common Stock at an exercise price equal to 100% of the fair market value of the option shares on the grant date.

At the 2001 Annual Stockholders Meeting held on October 18, 2001, each of the following individuals re-elected as a non-employee Board member at that meeting received an option grant for 15,000 shares of Common Stock under the Automatic Option Grant Program of the 1999 Plan with an exercise price of \$10.51 per share, the fair market value per share of Common Stock on the grant date: Messrs. Valentine, Ahuja, Hallman, and Wall, Ms. Bartz and Dr. Semmoto. Each of those options has a term of 10 years measured from the grant date, subject to earlier termination following the optionee's cessation of Board service, and is

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immediately exercisable for all the option shares. However, any shares purchased upon exercise of the option are subject to repurchase by the Company, at the option exercise price paid per share, should the optionee cease service on the Board prior to vesting in those shares. The shares subject to each such 15,000 share grant will vest upon the optionee's completion of one term of Board service measured from the grant date and continuing through the day immediately preceding the next Annual Stockholders Meeting.

On February 7, 2002, Dr. Semmoto received an additional option grant of 100,000 shares of Common Stock under the 1995 Stock Incentive Plan with an exercise price of \$15.32 per share, the fair market value per share on that grant date, in recognition for performance of outstanding service in furtherance of the Company's international business. The option has a term of 10 years measured from the grant date, subject to earlier termination following his cessation of Board service, and will vest in a series of 48 successive equal monthly installments upon his completion of each month of Board service over the 48 month period measured from the grant date.

Upon his appointment to the Board on April 9, 2002, Mr. Moore received an option grant for 55,000 shares of Common Stock under the Automatic Option Grant Program of the 1999 Plan with an exercise price of \$16.78 per share.

For further information concerning the Automatic Option Grant Program and the Automatic Option Program and the option grants made under such program, please see the discussion of such program in Proposal No. 2 below.

Recommendation of the Board of Directors

The Board of Directors recommends that the stockholders vote FOR the election of all of the above nominees as directors.

PROPOSAL NO. 2:

APPROVAL OF AMENDMENT TO THE 1999 STOCK OPTION PLAN

General

The stockholders are being asked to approve an amendment to the Company's 1999 Stock Option Plan (the 1999 Plan) which will increase the reserve of Common Stock available for issuance under the 1999 Plan by an additional 14,000,000 shares.

The Board approved the foregoing amendment on _____, subject to stockholder approval at the Annual Meeting. The affirmative vote of a majority of the shares of the Common Stock present or represented and voting at the Annual Meeting, together with the affirmative vote of the majority of the quorum, is required for approval of the proposed share increase.

The 1999 Plan is designed to serve as an equity incentive program to attract and retain the services of individuals essential to our long-term growth and financial success. The Board believes that the proposed increase to the share reserve is necessary to assure that there will be a sufficient number of shares available for future issuance under the 1999 Plan.

1999 Plan Background

The 1999 Plan was originally adopted by the Board on August 17, 1999 and approved by the stockholders at the 1999 Annual Meeting held on October 26, 1999.

The following is a summary of the principal features of the 1999 Plan, as most recently amended. This summary, however, does not purport to be a complete description of all the provisions of the 1999 Plan. Any stockholder who wishes to obtain a copy of the actual plan document may do so by written request to our Corporate Secretary at our principal offices in Sunnyvale, California.

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Structure of the 1999 Plan

The 1999 Plan is divided into two separate components: (a) the Discretionary Option Grant Program and (b) the Automatic Option Grant Program. Under the Discretionary Option Grant Program, individuals in the Company's service may, at the discretion of the Plan Administrator, be granted options to purchase shares of Common Stock at an exercise price not less than the fair market value of those shares on the grant date. Under the Automatic Option Grant Program, option grants are automatically made at periodic intervals to non-employee members of the Board.

Administration

The Discretionary Option Grant Program is administered by the Compensation Committee of the Board. This committee (the Plan Administrator) will have complete discretion (subject to the provisions of the 1999 Plan) to authorize option grants under the Discretionary Option Grant Program. The Board may also appoint a secondary committee of two or more Board members to administer the Discretionary Option Grant Program with respect to individuals other than the Company's executive officers.

All grants under the Automatic Option Grant Program will be made in strict compliance with the provisions of that program and the Plan Administrator will exercise no administrative discretion with respect to the grants made thereunder.

Securities Subject to 1999 Plan

Fifty-five million six hundred thousand (55,600,000) shares of the Company's Common Stock are authorized for issuance over the 10-year term of the 1999 Plan assuming stockholder approval of the 14,000,000-share increase that is the subject of this Proposal. As of May 31, 2002, options for 32,512,393 shares were outstanding, and 9,029,329 shares remained available for future option grants, and 58,278 shares had been issued. The shares will be made available either from the Company's authorized but unissued Common Stock or from Common Stock re-acquired by the Company.

In no event may any one individual participating in the 1999 Plan be granted stock options for more than 3,000,000 shares of Common Stock in the aggregate per calendar year. Stockholder approval of this Proposal will also constitute re-approval of such 3,000,000-share limitation for purposes of Internal Revenue Code Section 162(m), which imposes certain limitations on the deductibility of non-performance based compensation paid to the Company's executive officers. This limitation, together with the requirement that all stock options under the Discretionary Option Grant Program have an exercise price per share equal to the fair market value per share of the Common Stock on the grant date, will assure that any deductions to which the Company would otherwise be entitled upon the exercise of stock options granted under the Discretionary Option Grant Program or the subsequent sale of the shares purchased under those options will not be subject to the \$1 million limitation on the income tax deductibility of compensation paid per executive officer imposed under Section 162(m) of the Internal Revenue Code.

In the event any change is made to the Common Stock issuable under the 1999 Plan by reason of any stock split, stock dividend, combination of shares, merger, reorganization, consolidation, recapitalization, exchange of shares, or other change in capitalization of the Company affecting the Common Stock as a class without the Company's receipt of consideration, appropriate adjustments will be made to (a) the maximum number and/or class of securities issuable under the 1999 Plan, (b) the maximum number and/or class of securities for which any one individual may be granted stock options under the 1999 Plan per calendar year, (c) the class and/or number of securities and option exercise price per share in effect under each outstanding option and (d) the class and/or number of securities for which automatic option grants are to be subsequently made to both new and continuing non-employee Board members under the Automatic Option Grant Program. The adjustments to the outstanding options will prevent the dilution or enlargement of benefits thereunder.

The grant of stock options under the 1999 Plan will not affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate, sell, or transfer all or any part of its business or assets.

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Other Stock Plans

The Company maintains two other equity incentive plans under which individuals in the Company's service may acquire shares of Common Stock:

The 1995 Plan

101,700,192 shares of Common Stock have been reserved for issuance over the term of the Company's 1995 Stock Incentive Plan (the "1995 Plan"). The 1995 Plan has been approved by the stockholders and is divided into three separate equity incentive programs: (a) the discretionary option grant program under which individuals in the Company's service, including officers, employees and non-employee Board members, may be granted options to purchase shares of Common Stock at an exercise price per share not less than the fair market value per share of Common Stock on the grant date, (b) the stock issuance program under which such individuals may be issued shares of Common Stock directly, through the purchase of such shares at a price per share not less than their fair market value at the time of issuance or as a fully paid bonus for services rendered to the Company or the attainment of designated performance goals and (c) the salary investment option grant program under which the Company's executive officers and other highly-compensated employees may elect to have a portion of their base salary applied each year to the acquisition of special below-market option grants which vest in a series of twelve successive equal monthly installments.

As of May 31, 2002, options covering 43,668,328 shares of Common Stock were outstanding under the 1995 Plan, 6,165,195 shares remained available for future option grants and direct stock issuances, and 51,866,669 shares had been issued.

The Non-Officer Plan

The Special Non-Officer Stock Option Plan (the "Non-Officer Plan") was implemented by the Board on April 30, 1997. The Non-Officer Plan is a non-shareholder approved plan. Options may be granted under the Non-Officer Plan to employees of the Company (or any parent or subsidiary corporation) who are neither officers nor Board members at the time of grant. 6,400,000 shares of Common Stock have been authorized by the Board for issuance under the Non-Officer Plan. All option grants will have an exercise price per share equal to the fair market value per share of Common Stock on the grant date. Each option has a maximum ten year term and will vest in installments over the optionee's period of service with the Company. The options will vest on an accelerated basis in the event the Company is acquired and those options are not assumed or replaced by the acquiring entity. All options are non-statutory options under the Federal tax law. As of May 31, 2002, options covering 2,193,314 shares of Common Stock were outstanding under the Non-Officer Plan, 285,881 shares remained available for future option grants, and 3,920,805 shares had been issued.

Share issuances under the 1999 Plan will not reduce or otherwise affect the number of shares of Common Stock available for issuance under the 1995 Plan or the Non-Officer Plan, and share issuances under those two plans will not reduce or otherwise affect the number of shares of Common Stock available for issuance under the 1999 Plan.

Eligibility

Employees (including officers), consultants and other independent advisors in the service of the Company (or its parent or subsidiary companies) who contribute to the management, growth and financial success of the Company (or its parent or subsidiary companies) will be eligible to participate in the Discretionary Option Grant Program of the 1999 Plan. Only non-employee Board members are eligible to participate in the Automatic Grant Program.

As of May 31, 2002, approximately 2307 employees (including 5 executive officers) were eligible to participate in the Discretionary Option Grant Program, and the 7 non-employee Board members were eligible to receive grants under the Automatic Option Grant Program.

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Valuation

The fair market value per share of Common Stock under the 1999 Plan on any relevant date will be the closing selling price on the date in question, as reported on the Nasdaq National Market and published in *The Wall Street Journal*. On May 31, 2002, the fair market value per share of the Common Stock determined on such basis was \$13.01 per share.

Stockholder Rights and Option Transferability

No optionee will have any stockholder rights with respect to the option shares until such optionee has exercised the option and paid the exercise price for the purchased shares. Options are generally not assignable or transferable other than by will or the laws of inheritance and, during the optionee's lifetime, the option may be exercised only by such optionee. However, the Plan Administrator may allow non-statutory options to be transferred or assigned during the optionee's lifetime to one or more members of the optionee's immediate family or to a trust established exclusively for one or more such family members, to the extent such transfer or assignment is in furtherance of the optionee's estate plan.

Discretionary Option Grant Program

Options granted under the Discretionary Option Grant Program may be either incentive stock options under the federal tax laws or non-statutory options which are not intended to meet such requirements. The principal features of the grants made under the Discretionary Option Grant Program may be summarized as follows:

Price and Exercisability

The exercise price per share must not be less than 100% of the fair market value per share of the Common Stock on the grant date. No option may be outstanding for more than a 10-year term. The options will generally become exercisable in a series of installments over the optionee's period of service with the Company.

The exercise price is payable in cash or with shares of the Company's common stock. The exercise price may also be paid through a same-day sale program, pursuant to which a designated brokerage firm is to effect the immediate sale of the shares purchased under the option and pay over to the Company, out of the sale proceeds available on the settlement date, sufficient funds to cover the exercise price for the purchased shares plus all applicable withholding taxes.

Termination of Service

The Plan Administrator has complete discretion to establish the period of time for which any option is to remain exercisable following the optionee's cessation of service with the Company. Under no circumstances may an option be exercised after the specified expiration date of the option term. Each option under the Discretionary Option Grant Program will be exercisable only to the extent of the number of shares for which such option is exercisable at the time of the optionee's cessation of employment or service. However, the Plan Administrator has the discretion, exercisable at any time while the option remains outstanding, to accelerate the vesting of such option in whole or in part or to extend the post-termination exercise period.

The shares of Common Stock acquired upon the exercise of one or more options may be unvested and subject to repurchase by the Company, at the original exercise price paid per share, upon the optionee's cessation of service prior to vesting in such shares. The Plan Administrator will have complete discretion in establishing the vesting schedule for any such unvested shares and will have full authority to cancel the Company's outstanding repurchase rights with respect to one or more unvested shares held by the optionee and may exercise this discretion at any time, whether before or after the optionee's service actually ceases.

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Cancellation and Regrant of Options

The Plan Administrator has the authority to effect the cancellation of any or all options outstanding under the Discretionary Option Grant Program and to grant in substitution therefor new options covering the same or different numbers of shares of common stock but with an exercise price per share not less than 100% of the fair market value of the common stock on the new grant date. However, such option cancellation/regrant program will be subject to the following two limitations: (a) only options held by employees who are neither executive officers of the Company nor members of the Board may be so cancelled and regranted and (b) the total number of shares subject to options which are so cancelled and regranted from time to time will not in the aggregate exceed ten percent (10%) of the total number of shares of Common Stock authorized for issuance under the 1999 Plan.

Corporate Transaction

In the event of a Corporate Transaction (defined below), each outstanding option under the Discretionary Option Grant Program will vest and become exercisable for all the option shares as fully vested shares, unless that option is to be assumed by the successor corporation or to be replaced with a cash incentive program which preserves the existing option spread on the unvested option shares and provides for subsequent payout of that spread in accordance with the same vesting schedule for the shares. The Plan Administrator will have the discretion to structure one or more option grants under the Discretionary Option Grant Program so that those options will automatically vest in the event the individual's service is subsequently terminated within a specified period (not to exceed twelve (12) months) following a Corporate Transaction in which those options do not otherwise vest on an accelerated basis. The Plan Administrator may also structure one or more option grants under the Discretionary Option Grant Program so that those options will automatically vest in full upon a Corporate Transaction.

A Corporate Transaction includes any of the following stockholder-approved transactions: (a) a merger or consolidation in which more than fifty percent (50%) of the Company's outstanding voting stock is transferred to persons different from the persons holding those securities immediately prior to such transaction, or (b) the sale, transfer or other disposition of all or substantially all of the Company's assets in complete liquidation or dissolution of the Company.

Change in Control

The Plan Administrator will have the discretionary authority to provide for accelerated vesting of one or more outstanding options under the Discretionary Option Grant Program in connection with a Change in Control, with such accelerated vesting to occur either at the time of the Change in Control or upon the subsequent termination of the optionee's service.

A Change in Control will be deemed to occur under the 1999 Plan upon: (a) the acquisition of more than 50% of the Company's outstanding voting stock pursuant to a tender or exchange offer made directly to the Company's stockholders or (b) a change in the composition of the Board of Directors over a period of 36 months or less such that a majority of the Board members ceases, by reason of one or more proxy contests for the election of Board members, to be comprised of individuals who either (x) have been members of the Board continuously since the beginning of such period or (y) have been elected or nominated for election as Board members during such period by at least a majority of the Board members described in clause (x) who were still in office at the time such election or nomination was approved by the Board.

The acceleration of vesting in the event of a change in the ownership or control of the Company may be seen as an anti-takeover provision and may have the effect of discouraging a merger proposal, a takeover attempt or other efforts to gain control of the Company.

Special Tax Election

The Plan Administrator may provide one or more holders of non-statutory options under the Discretionary Option Grant Program with the right to have the Company withhold a portion of the shares of Common

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Stock otherwise issuable to such individuals upon the exercise of those options or vesting of those shares in order to satisfy the Federal and state income and employment withholding taxes to which such individuals may become subject in connection with such exercise or vesting. Alternatively, the Plan Administrator may allow such individuals to deliver already existing shares of the Company's Common Stock in payment of such withholding tax liability.

Automatic Option Grant Program

Under the Automatic Option Grant Program, non-employee Board members will receive option grants at specified intervals over their period of Board service. All grants under such program will be made in strict compliance with the express provisions of the program.

Each individual who is first elected or appointed to the Board as a non-employee member will, at the time of such initial election or appointment, be granted an option to purchase 55,000 shares of Common Stock under the Automatic Option Grant Program, provided such individual has not previously been in the employ of the Company.

On the date of each annual Stockholders Meeting, each individual who will continue to serve as a non-employee Board member will be granted an option to purchase an additional 15,000 shares of Common Stock under the Automatic Option Grant Program, provided such individual has served as a non-employee Board member for at least six months. There is no limit on the number of annual option grants any one non-employee Board member may receive over his or her period of continued Board service.

Each option grant under the Automatic Option Grant Program will have an exercise price per share equal to 100% of the fair market value per share of Common Stock on the grant date and a maximum term of 10 years measured from such date, subject to earlier termination upon the optionee's cessation of Board service. Each option will be immediately exercisable for the option shares. However, any shares purchased under the option will be subject to repurchase by the Company at the option exercise price paid per share, upon the Optionee's cessation of Board service prior to vesting in those shares. The shares subject to each initial 55,000-share automatic grant will vest as follows: (a) 25,000 shares will vest upon the optionee's completion of one (1) year of Board service measured from the grant date, and (b) the balance of the shares will vest in a series of three (3) successive equal annual installments upon the optionee's completion of each year of Board service over the three (3)-year period measured from the first anniversary of such grant date. The shares subject to each annual 15,000-share grant will vest upon the optionee's continuation in Board service through the day immediately preceding the next Annual Stockholders Meeting following the grant date of that option.

The shares subject to each automatic option grant will immediately vest in full upon (a) the optionee's death or permanent disability while a Board member or (b) the occurrence of a Corporate Transaction or Change in Control.

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The table below shows, as to each of the Named Executive Officers and the various indicated groups, the following information with respect to stock option transactions effected during the period from October 26, 1999, the effective date of the 1999 Plan to May 31, 2002: (i) the number of shares of Common Stock subject to options granted under the 1999 Plan during that period and (ii) the weighted average exercise price payable per share under such options.

Name and Position	Options Granted (Number of Shares)	Weighted Average Exercise Price
Daniel J. Warmenhoven, Chief Executive Officer	1,660,000	\$29.28
Jeffry R. Allen, Executive Vice President Finance and Operations and Chief Financial Officer	1,060,000	\$28.52
David Hitz, Executive Vice President Engineering	890,000	\$30.50
James K. Lau, Executive Vice President and Chief Strategy Officer	890,000	\$30.50
Thomas F. Mendoza, President	1,235,000	\$29.64
All executive officers as a group (Five persons)	5,735,000	\$29.60
Donald T. Valentine, Chairman of the Board and Director	70,000	\$37.85
Sanjiv Ahuja, Director	70,000	\$37.85
Carol A. Bartz, Director	70,000	\$37.85
Michael R. Hallman, Director	70,000	\$37.85
Nicholas G. Moore, Director	55,000	\$16.78
Sachio Semmoto, Director	190,000	\$36.75
Robert T. Wall, Director	70,000	\$37.85
All directors who are not officers (Seven persons)	595,000	\$35.55
All employees, including current officers who are not executive officers, as a group	28,872,192	\$30.68

Amendment and Termination of the 1999 Plan

The Board may amend or modify the 1999 Plan in any or all respects whatsoever subject to any stockholder approval required under applicable law or regulation. The Board may terminate the 1999 Plan at any time, but in no event will the 1999 Plan continue beyond August 16, 2009.

Federal Tax Consequences*Option Grants*

Options granted under the 1999 Plan may be either incentive stock options which satisfy the requirements of Section 422 of the Internal Revenue Code or non-statutory options which are not intended to satisfy such requirements. All options granted under the Automatic Option Grant Program will be non-statutory options. The Federal income tax treatment for the two types of options differs as follows:

Incentive Stock Options

No taxable income is recognized by the optionee at the time of the option grant, and no taxable income is recognized for regular tax purposes at the time the option is exercised, although taxable income may arise at that time for alternative minimum tax purposes. The optionee will recognize taxable income in the year in which the purchased shares are sold or otherwise made the subject of a taxable disposition.

For Federal tax purposes, dispositions are divided into two categories: (i) qualifying and (ii) disqualifying. A qualifying disposition occurs if the sale or other disposition is made more than two (2) years after the date the option for the shares involved in such sale or disposition is granted and more than one (1) year after the date the option is exercised for those shares. If the sale or disposition occurs before these two periods are satisfied, then a disqualifying disposition will result.

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Upon a qualifying disposition, the optionee will recognize long-term capital gain in an amount equal to the excess of (i) the amount realized upon the sale or other disposition of the purchased shares over (ii) the exercise price paid for the shares. If there is a disqualifying disposition of the shares, then the excess of (i) the fair market value of those shares on the exercise date or, if less, the amount realized upon such disposition of the shares, over (ii) the exercise price paid for the shares will be taxable as ordinary income to the optionee. Any additional gain or loss recognized upon the disposition will be recognized as a capital gain or loss by the optionee.

If the optionee makes a disqualifying disposition of the purchased shares, then the Company will be entitled to an income tax deduction, for the taxable year in which such disposition occurs, equal to the excess of (i) the fair market value of such shares on the option exercise date over (ii) the exercise price paid for the shares. The Company will not be entitled to any income tax deduction if the optionee makes a qualifying disposition of the shares.

Non-Statutory Options

No taxable income is recognized by an optionee upon the grant of a non-statutory option. The optionee will in general recognize ordinary income in the year in which the option is exercised equal to the excess of the fair market value of the purchased shares on the exercise date over the exercise price paid for the shares, and the optionee will be required to satisfy the tax withholding requirements applicable to such income.

If the shares acquired upon exercise of the non-statutory option are unvested and subject to repurchase by the Company in the event of the optionee's termination of service prior to vesting in those shares, then the optionee will not recognize any taxable income at the time of exercise but will have to report as ordinary income, as and when our repurchase right lapses, an amount equal to the excess of (i) the fair market value of the shares on the date the repurchase right lapses over (ii) the exercise price paid for the shares. The optionee may, however, elect under Section 83(b) of the Internal Revenue Code to include as ordinary income in the year of exercise of the option an amount equal to the excess of (i) the fair market value of the purchased shares on the exercise date over (ii) the exercise price paid for such shares. If the Section 83(b) election is made, the optionee will not recognize any additional income as and when the repurchase right lapses.

The Company will be entitled to an income tax deduction equal to the amount of ordinary income recognized by the optionee with respect to the exercised non-statutory option. The deduction will in general be allowed for the Company's taxable year in which such ordinary income is recognized by the optionee.

Deductibility of Executive Compensation

The Company anticipates that any compensation deemed paid by it in connection with the disqualifying disposition of incentive stock option shares or the exercise of non-statutory options under the 1999 Plan will qualify as performance-based compensation for purposes of Code Section 162(m) and will not have to be taken into account for purposes of the \$1 million limitation per covered individual on the deductibility of the compensation paid to certain executive officers of the Company. Accordingly, all compensation deemed paid with respect to those options will remain deductible by the Company without limitation under Code Section 162(m).

Accounting Treatment

Option grants to officers and other employees under the Discretionary Option Grant Program and non-employee Board members under the Automatic Option Grant Program will not result in any direct charge to the Company's reported earnings. However, the fair value of those options is required to be disclosed in the notes to the Company's financial statements, and the Company must also disclose, in footnotes to its financial statements, the pro-forma impact those options would have upon the Company's reported earnings were the fair value of those options at the time of grant treated as a compensation expense.

Option grants made to non-employee consultants under the 1999 Plan will result in a direct charge to the Company's reported earnings based upon the fair value of the option measured initially as of the grant date

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and then subsequently on the vesting date of each installment of the underlying option shares. Such charge will accordingly include the appreciation in the value of the option shares over the period between the grant date of the option and the vesting date of each installment of the option shares. In addition, any options which are repriced (under the cancellation and re-grant provisions of the 1999 Plan) will also trigger a direct charge to the Company's reported earnings measured by the appreciation in value of the underlying shares between the grant date of the option and the date the option is exercised for those shares or otherwise terminates.

The number of outstanding options, whether granted with exercise prices at or below fair market value, will be a factor in determining our earnings per share on a fully-diluted basis.

New Plan Benefits

No option grants have been made to date on the basis of the 14,000,000-share increase that is the subject of this Proposal. However, each individual who is reelected to serve as a non-employee Board member at the Annual Meeting will be granted an option to purchase 15,000 shares of Common Stock under the Automatic Option Grant Program with an exercise price equal to the fair market value per share on such grant date, provided such individual has served as a non-employee Board member for at least six months.

Vote Required

The affirmative vote of a majority of the shares of Common Stock present in person or represented by proxy and voting at the Annual Meeting, together with the affirmative vote of a majority of the required quorum for such meeting, is required for approval of the foregoing amendment to the 1999 Plan. If such stockholder approval is not obtained, then the 14,000,000-share increase will not be implemented.

Recommendation of the Board of Directors

The Board of Directors believes that the foregoing amendment to the 1999 Plan is necessary in order ensure that the Company will continue to have a sufficient number of shares in order to provide equity incentives to attract and retain the services of key individuals essential to the Company's long-term financial success and to attract talented and experienced non-employee Board members.

For this reason, the Board of Directors recommends that the stockholders vote FOR the proposal to approve this amendment.

PROPOSAL NO. 3:

AMENDMENT TO THE COMPANY'S EMPLOYEE STOCK PURCHASE PLAN

Introduction

The stockholders are being asked to approve an amendment to the Company's Employee Stock Purchase Plan (the "Purchase Plan") which will increase the number of shares of Common Stock authorized for issuance under the Purchase Plan by an additional 2,400,000 shares.

The purpose of the amendment is to ensure the Company will continue to have a sufficient reserve of Common Stock available under the Purchase Plan to provide eligible employees of the Company and its participating affiliates (whether now existing or subsequently established) with the opportunity to purchase shares of Common Stock at semi-annual intervals through their accumulated periodic payroll deductions.

The Purchase Plan was adopted by the Board on September 25, 1995 and became effective on November 20, 1995 in connection with the Company's initial public offering of the Common Stock.

The terms and provisions of the Purchase Plan, as most recently amended, are summarized below. This summary, however, does not purport to be a complete description of the Purchase Plan. Any stockholder that wishes to obtain a copy of the actual plan document may do so by written request to the Corporate Secretary at the Company's principal offices in Sunnyvale, California.

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DESCRIPTION OF THE PURCHASE PLAN

Administration

The Purchase Plan is administered by the Compensation Committee of the Board. Such committee as plan administrator has full authority to adopt administrative rules and procedures and to interpret the provisions of the Purchase Plan. All costs and expenses incurred in plan administration are paid by the Company without charge to participants.

Share Reserve

The maximum number of shares of Common Stock reserved for issuance over the term of the Purchase Plan is limited to 13,600,000 shares, assuming stockholder approval of the 2,400,000-share increase that is the subject of this Proposal. As of May 31, 2002, 7,746,972 shares had been issued under the Purchase Plan, and 5,853,028 shares were available for future issuance, assuming stockholder approval of the 2,400,000-share increase.

The shares issuable under the Purchase Plan may be made available from authorized but unissued shares of the Common Stock or from shares of Common Stock repurchased by the Company, including shares repurchased on the open market.

In the event that any change is made to the outstanding Common Stock (whether by reason of any stock split, stock dividend, recapitalization, exchange or combination of shares or other change affecting the outstanding Common Stock as a class without the Company's receipt of consideration), appropriate adjustments will be made to (a) the maximum number and class of securities issuable under the Purchase Plan, (b) the number and class of securities subject to each outstanding purchase right and the purchase price per share in effect thereunder, (c) the maximum number and class of securities purchasable per participant on any one semi-annual purchase date, and (d) the maximum number and class of securities purchasable in total by all participants on any one purchase date. Such adjustments will be designed to preclude any dilution or enlargement of benefits under the Purchase Plan or the outstanding purchase rights thereunder.

Offering Period and Purchase Rights

Shares of Common Stock are offered under the Purchase Plan through a series of overlapping offering periods, each with a maximum duration of twenty-four (24) months. Such offering periods will begin on the first business day of June and on the first business day of December each year over the term of the Purchase Plan. Accordingly, two (2) separate offering periods will begin in each calendar year.

Each offering period will consist of a series of one or more successive purchase intervals. Purchase intervals will run from the first business day in June to the last business day in November each year and from the first business day in December each year to the last business day in May in the immediately succeeding year. Accordingly, shares will be purchased on the last business day in May and November each year with the payroll deductions collected from the participants for the purchase interval ending with each such semi-annual purchase date.

If the fair market value per share of Common Stock on any semi-annual purchase date within a particular offering period is less than the fair market value per share of Common Stock on the start date of that offering period, then the participants in that offering period will automatically be transferred from that offering period after the semi-annual purchase of shares on their behalf and enrolled in the new offering period which begins on the next business day following such purchase date.

Eligibility and Participation

Any individual who is employed on a basis under which he or she is regularly expected to work for more than twenty (20) hours per week for more than five (5) months per calendar year in the employ of the Company or any participating parent or subsidiary corporation (including any corporation which subsequently becomes such at any time during the term of the Purchase Plan) is eligible to participate in the Purchase Plan.

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An individual who is an eligible employee on the start date of any offering period may join that offering period at that time. However, no employee may participate in more than one offering period at a time.

As of May 31, 2002, approximately 2,307 employees, including 5 executive officers, were eligible to participate in the Purchase Plan.

Purchase Price

The purchase price of the Common Stock purchased on behalf of each participant on each semi-annual purchase date will be equal to 85% of the lower of (i) the fair market value per share of Common Stock on the start date the offering period in which the participant is enrolled or (ii) the fair market value on the semi-annual purchase date.

The fair market value per share of Common Stock on any particular date under the Purchase Plan will be deemed to be equal to the closing selling price per share on such date reported on the Nasdaq National Market and published in *The Wall Street Journal*. On May 31, 2002, the closing selling per share of Common Stock on the Nasdaq National Market was \$13.01 per share.

Payroll Deductions and Stock Purchases

Each participant may authorize periodic payroll deductions in any multiple of 1% up to a maximum of 10% of his or her total cash earnings (generally base salary, bonuses, overtime pay and commissions) to be applied to the acquisition of Common Stock at semi-annual intervals. Accordingly, on each semi-annual purchase date (the last business day in May and November each year), the accumulated payroll deductions of each participant will automatically be applied to the purchase of whole shares of Common Stock at the purchase price in effect for the participant for that purchase date.

Special Limitations

The Purchase Plan imposes certain limitations upon a participant's rights to acquire Common Stock, including the following limitations:

Purchase rights granted to a participant may not permit such individual to purchase more than \$25,000 worth of Common Stock (valued at the time each purchase right is granted) for each calendar year those purchase rights are outstanding.

Purchase rights may not be granted to any individual if such individual would, immediately after the grant, own or hold outstanding options or other rights to purchase, stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or any of its affiliates.

No participant may purchase more than 1,500 shares of Common Stock on any one purchase date.

The maximum number of shares of Common Stock purchasable in total by all participants on any one purchase date is limited to 1,000,000 shares.

The Compensation Committee will have the discretionary authority to increase or decrease the per participant and total participant limitations prior to the start date of any new offering period under the Purchase Plan.

Withdrawal Rights and Termination of Employment

The participant may withdraw from the Purchase Plan at any time, and his or her accumulated payroll deductions may either be applied to the purchase of shares on the next semi-annual purchase date or refunded.

Upon the participant's cessation of employment or loss of eligible employee status, payroll deductions will automatically cease. Any payroll deductions which the participant may have made for the semi-annual period in which such cessation of employment or loss of eligibility occurs will be immediately refunded.

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Stockholder Rights

No participant will have any stockholder rights with respect to the shares covered by his or her purchase rights until the shares are actually purchased on the participant's behalf. No adjustment will be made for dividends, distributions or other rights for which the record date is prior to the date of such purchase.

Assignability

Purchase rights are not assignable or transferable by the participant, and may be exercised only by the participant.

Change in Ownership

In the event a change in ownership occurs, all outstanding purchase rights will automatically be exercised immediately prior to the effective date of such change. The purchase price in effect for each participant will be equal to 85% of the lower of (a) the fair market value per share of Common Stock on the start date of the offering period in which the participant is enrolled at the time the change in ownership occurs or (b) the fair market value per share of Common Stock immediately prior to the effective date of such change in ownership. The limitation on the maximum number of shares purchasable in total by all participants on any one purchase date will not be applicable to any purchase date attributable to a change in ownership.

A *change in ownership* will be deemed to occur if (a) the Company is acquired through a merger or consolidation in which more than 50% of the Company's outstanding voting stock is transferred to a person or persons different from those who held stock immediately prior to such transaction, (b) the Company sells, transfers or disposes of all or substantially all of its assets or (c) any person or related group of persons acquires ownership of securities possessing more than 50% of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the Company's stockholders.

Share Pro-ration

Should the total number of shares of Common Stock to be purchased pursuant to outstanding purchase rights on any particular date exceed either (a) the maximum number of shares purchasable in total by all participants on any one purchase date or (b) the number of shares then available for issuance under the Purchase Plan, then the plan administrator will make a pro-rata allocation of the available shares on a uniform and nondiscriminatory basis. In such an event, the plan administrator will refund the accumulated payroll deductions of each participant, to the extent in excess of the purchase price payable for the Common Stock pro-rated to such individual.

Amendment and Termination

The Purchase Plan will terminate upon the earliest of (a) the last business day in May 2011, (b) the date on which all shares available for issuance thereunder are sold pursuant to exercised purchase rights or (c) the date on which all purchase rights are exercised in connection with a change in ownership.

The Board may at any time alter, suspend or terminate the Purchase Plan. However, the Board may not, without stockholder approval, (a) increase the number of shares issuable under the Purchase Plan, (b) alter the purchase price formula so as to reduce the purchase price, or (c) modify the requirements for eligibility to participate in the Purchase Plan.

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The table below shows, as to the Named Executive Officers and specified groups, the number of shares of Common Stock purchased under the Purchase Plan between January 1, 2001 and May 31, 2002 the most recent purchase date, together with the weighted average purchase price paid per share.

Purchase Plan Transactions

Name	Number of Purchased Shares	Weighted Average Purchase Price
Daniel J. Warmenhoven Chief Executive Officer	1,739	\$ 13.24
Jeffry R. Allen Executive Vice President, Finance and Operations and Chief Financial Officer	2,156	\$ 12.82
David Hitz Executive Vice President, Engineering		
Thomas F. Mendoza President	800	\$ 15.81
James Lau Executive Vice President and Chief Strategy Officer	1,994	\$ 13.56
All current executive officers as a group (5 persons)	6,689	\$ 13.51
All employees, including current officers who are not executive officers, as a group (2,127 persons)	1,804,996	\$ 13.20

New Plan Benefits

No purchase rights have been granted, and no shares have been issued, on the basis of the 2,400,000-share increase which form part of this Proposal.

Federal Tax Consequences

The Purchase Plan is intended to be an employee stock purchase plan within the meaning of Section 423 of the Internal Revenue Code. Under a plan which so qualifies, no taxable income will be recognized by a participant, and no deductions will be allowable to the Company, upon either the grant or the exercise of the purchase rights. Taxable income will not be recognized until there is a sale or other disposition of the shares acquired under the Purchase Plan or in the event the participant should die while still owning the purchased shares.

If the participant sells or otherwise disposes of the purchased shares within two (2) years after the start date of the offering period in which such shares were acquired or within one (1) year after the actual semi-annual purchase date of those shares, then the participant will recognize ordinary income in the year of sale or disposition equal to the amount by which the fair market value of the shares on the purchase date exceeded the purchase price paid for those shares, and the Company will be entitled to an income tax deduction, for the taxable year in which such disposition occurs, equal in amount to such excess. The participant will also recognize capital gain equal to the amount by which the amount realized upon the sale or disposition exceeds the sum of the aggregate purchase price paid for the shares and the ordinary income recognized in connection with their acquisition.

If the participant sells or disposes of the purchased shares more than two (2) years after the start date of the offering period in which the shares were acquired and more than one (1) year after the actual semi-annual purchase date of those shares, then the participant will recognize ordinary income in the year of sale or disposition equal to the lesser of (a) the amount by which the fair market value of the shares on the sale or disposition date exceeded the purchase price paid for those shares or (b) fifteen percent (15%) of the fair market value of the shares on the start date of that offering period. Any additional gain upon the disposition will be taxed as a long-term capital gain. The Company will not be entitled to an income tax deduction with respect to such disposition.

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If the participant still owns the purchased shares at the time of death, the lesser of (a) the amount by which the fair market value of the shares on the date of death exceeds the purchase price or (b) fifteen percent (15%) of the fair market value of the shares on the start date of the offering period in which those shares were acquired will constitute ordinary income in the year of death.

Accounting Treatment

Under current accounting principles applicable to employee stock purchase plans qualified under Section 423 of the Internal Revenue Code, the issuance of Common Sto