

NETWORK APPLIANCE INC
Form DEF 14A
July 25, 2007

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant
Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement Soliciting Material Under Rule 14a-12
- Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials

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):

- No fee required.
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1) Title of each class of securities to which transaction applies:

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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, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

NETWORK APPLIANCE, INC.

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

Dear Network Appliance Stockholder:

Network Appliance, Inc., a Delaware corporation, will be holding our Annual Meeting of Stockholders on September 19, 2007, at 11:00 a.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 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, Jeffrey R. Allen, Carol A. Bartz, Alan L. Earhart, Edward Kozel, Mark Leslie, Nicholas G. Moore, George T. Shaheen, and Robert T. Wall;

2. To approve an amendment to the 1999 Stock Option Plan (1999 Plan) to:

- extend the term of the 1999 Plan for a period of 10 years,
- increase the limitation on the percentage of stock issuance and performance share awards or performance unit awards that may be granted under the 1999 Plan from 10% to 30% of the shares reserved,
- increase the limit on the initial value of performance units a participant may receive during any calendar year under the 1999 Plan from \$1,000,000 to \$2,000,000; and
- decrease the maximum term of options and stock appreciation rights granted under the 1999 Plan from 10 years to seven years;

3. To approve an amendment to our 1999 Plan to increase the share reserve by an additional 7,200,000 shares of common stock;

4. To approve an amendment to our Employee Stock Purchase Plan (Purchase Plan) to increase the share reserve under the Purchase Plan by an additional 1,600,000 shares of common stock;

5. To approve our Executive Compensation Plan to enable incentive compensation under such plan to qualify as deductible [performance based compensation] within the meaning of Section 162(m) of the Internal Revenue Code;

6. To ratify the appointment of Deloitte & Touche LLP as our independent auditors of the Company for the fiscal year ending April 25, 2008.

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. Of particular importance this year is the request for an increase in the share reserve under our 1999 Plan in Proposal No. 3 for 7,200,000 shares of common stock.

We continue to capture market share and to grow significantly faster than the competition. We intend to continue our strong track record of being a growth company and plan to take advantage of opportunities to generate future growth. In order to achieve our long term strategic goals, it is crucial to hire additional qualified employees. We request your support in amending the 1999 Plan in order to drive future growth and development of Network

Appliance by attracting and retaining high-quality candidates. We strongly believe that the amendments to the 1999 Plan are essential for us to compete for talent in the highly competitive labor markets in which we operate. In fiscal 2007, we added approximately 1,660 employees, a 33% increase, and approximately 50% of the gross stock grants went to new hires. Stock grants also remain an important incentive to retaining and motivating key employees who we view as our most valuable assets. Your support of these proposals is key to our success and allows us to plan for additional growth in 2008 and beyond. Thank you for your consideration and support.

Pursuant to new rules promulgated by the Securities and Exchange Commission (the SEC), we have elected to provide access to our proxy materials over the Internet. Accordingly, the Company will mail, on or about August 1, 2007, a Notice of Internet Availability of Proxy Materials to its stockholders of record and beneficial owners at the close of business on July 23, 2007. On the date of mailing of the Notice of Internet Availability of Proxy Materials, all stockholders and beneficial owners will have the ability to access all of the proxy materials on a Web site referred to in the Notice of Internet Availability of Proxy Materials. These proxy materials will be available free of charge.

The Notice of Internet Availability of Proxy Materials will identify the Web site where the proxy materials will be made available; the date, the time and location of the Annual Meeting; the matters to be acted upon at the meeting and the Board of Directors' recommendation with regard to each matter; a toll-free telephone number, an e-mail address, and a Web site where stockholders can request a paper or e-mail copy of the proxy statement, our Annual Report to stockholders and a form of proxy relating to the Annual Meeting; information on how to access the form of proxy; and information on how to obtain directions to attend the meeting and vote in person.

Your vote is extremely important. We appreciate your taking the time to vote promptly. After reading the Proxy Statement, please vote, at your earliest convenience by telephone or Internet, or request a proxy card to complete, sign and return by mail. If you decide to attend the Annual Meeting and would prefer to vote by ballot, your proxy will be revoked automatically and only your vote at the Annual Meeting will be counted. **YOUR SHARES CANNOT BE VOTED UNLESS YOU VOTE (i) BY TELEPHONE, (ii) BY INTERNET; OR (iii) REQUEST A PAPER PROXY CARD, TO COMPLETE, SIGN AND RETURN BY MAIL, OR (iv) ATTEND THE ANNUAL MEETING AND VOTE IN PERSON.**

Thank you for your participation in this important activity.

Sincerely yours,
Daniel J. Warmenhoven
Chief Executive Officer

Sunnyvale, California
July 25, 2007

YOUR VOTE IS EXTREMELY IMPORTANT

Please vote by telephone or Internet, or request a paper proxy card to complete, sign and return by mail so that your shares may be voted.

NETWORK APPLIANCE, INC.

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

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held September 19, 2007**

TO OUR STOCKHOLDERS:

The Annual Meeting of Stockholders (Annual Meeting) of Network Appliance, Inc., a Delaware corporation (Network Appliance or the Company), will be held on September 19, 2007, at 11:00 a.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, Jeffrey R. Allen, Carol A. Bartz, Alan L. Earhart, Edward Kozel, Mark Leslie, Nicholas G. Moore, George T. Shaheen, and Robert T. Wall;

2. To approve an amendment to the Company's 1999 Stock Option Plan (1999 Plan) to:

- extend the term of the 1999 Plan for a period of 10 years,
- increase the limitation on the percentage of stock issuance and performance share awards or performance unit awards that may be granted under the 1999 Plan from 10% to 30% of the shares reserved,
- increase the limit on the initial value of performance units a participant may receive during any calendar year under the 1999 Plan from \$1,000,000 to \$2,000,000; and
- decrease the maximum term of options and stock appreciation rights granted under the 1999 Plan from 10 years to seven years;

3. To approve an amendment to the Company's 1999 Plan to increase the share reserve by an additional 7,200,000 shares of common stock;

4. To approve an amendment to the Company's Employee Stock Purchase Plan (Purchase Plan) to increase the share reserve by an additional 1,600,000 shares of common stock;

5. To approve the Company's Executive Compensation Plan to enable incentive compensation under such plan to qualify as deductible "performance based compensation" within the meaning of Section 162(m) of the Internal Revenue Code;

6. To ratify the appointment of Deloitte & Touche LLP as independent auditors of the Company for the fiscal year ending April 25, 2008.

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 23, 2007, are entitled to Notice of Internet Availability of Proxy Materials and to vote at the Annual Meeting and at any adjournment or postponement thereof.

To assure your representation at the Annual Meeting, you are urged to cast your vote, as instructed in the Notice of Internet Availability of Proxy Materials, over the Internet or by telephone as promptly as possible. You may also request a paper proxy card to submit your vote by mail, if you prefer. Any stockholder of record attending the Annual Meeting may vote in person, even if she or he has voted over the Internet, by telephone or returned a completed proxy card.

Thank you for your participation.

BY ORDER OF THE BOARD OF DIRECTORS,
Daniel J. Warmenhoven
Chief Executive Officer

Sunnyvale, California
July 25, 2007

YOUR VOTE IS EXTREMELY IMPORTANT. TO ENSURE YOUR REPRESENTATION AT THE ANNUAL MEETING, YOU ARE URGED TO VOTE BY TELEPHONE OR INTERNET AS PROMPTLY AS POSSIBLE. ALTERNATIVELY, YOU MAY REQUEST A PAPER PROXY CARD, WHICH YOU MAY COMPLETE, SIGN AND RETURN BY MAIL.

PROXY STATEMENT

FOR THE ANNUAL MEETING OF STOCKHOLDERS OF NETWORK APPLIANCE, INC. To Be Held September 19, 2007

General

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors (the Board or Board of Directors) of the Company, of proxies to be voted at the Annual Meeting of Stockholders (the Annual Meeting) to be held on September 19, 2007, 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 23, 2007, will be entitled to vote at the Annual Meeting. The Annual Meeting will be held at 11:00 a.m. local time at the Company's headquarters, 495 East Java Drive, Sunnyvale, California 94089.

In accordance with rules and regulations recently adopted by the SEC, instead of mailing a printed copy of our proxy materials to each stockholder of record, we are now furnishing proxy materials to our stockholders on the Internet. If you received a Notice of Internet Availability of Proxy Materials by mail, you will not receive a printed copy of the proxy materials. Instead, the Notice of Internet Availability of Proxy Materials will instruct you as to how you may access and review all of the important information contained in the proxy materials. The Notice of Internet Availability of Proxy Materials also instructs you as to how you may submit your proxy on the Internet. If you received a Notice of Internet Availability of Proxy Materials by mail and would like to receive a printed copy of our proxy materials you should follow the instructions for requesting such materials included in the Notice of Internet Availability of Proxy Materials.

It is anticipated that the Notice of Internet Availability of Proxy Materials will be available to stockholders on or about August 1, 2007.

Record Date and Shares Outstanding

The close of business on July 23, 2007, was the record date for stockholders entitled to Notice of Internet Availability of Proxy Materials and to vote at the Annual Meeting and any adjournments or postponements thereof. At the record date, the Company had approximately 363,250,036 shares of its common stock outstanding and entitled to vote at the Annual Meeting and approximately 1,197 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 23, 2007.

Abstentions and Broker Nonvotes

While there is no definitive statutory or case law authority in Delaware as to the proper treatment of abstentions, the Company believes that abstentions should be counted for purposes of determining both (i) the presence or absence of a quorum for the transaction of business and (ii) the total number of shares entitled to vote in person or by proxy at the Annual Meeting (Votes Cast) with respect to a proposal (other than the election of directors). In the absence of controlling precedent to the contrary, the Company intends to treat abstentions in this manner. Accordingly, with the exception of the proposal for the election of directors, abstentions will have the same effect as a vote against the proposal. Because directors are elected by a plurality vote, abstentions in the election of directors have no impact on the election of Directors once a quorum exists.

Broker nonvotes (i.e., votes from shares held of record by brokers as to which the beneficial owners have given no voting instructions) will be counted for purposes of determining the presence or absence of a quorum for the transaction of business, but will not be counted for purposes of determining the number of Votes Cast with respect to the particular proposal on which the broker has expressly not voted. Accordingly, broker nonvotes will not affect the

outcome of the voting on a proposal that requires a majority of the Votes Cast (such as the approval of an amendment to an option plan). Thus, a broker nonvote will make a quorum more readily attainable, but the broker nonvote will not otherwise affect the outcome of the vote on a proposal.

If your shares are held in street name and you do not instruct your broker on how to vote your shares, your brokerage firm, in its discretion, may either leave your shares unvoted or vote your shares on routine matters. The election of directors (Proposal No. 1) and the proposal to ratify the appointment of our independent registered public accounting firm for the current fiscal year (Proposal No. 6) should be treated as routine matters. To the extent your brokerage firm votes your shares on your behalf on these two proposals, your shares also will be counted as present for the purpose of determining a quorum. The proposals to approve the Proposal Nos. 2, 3, 4 and 5 are not considered routine matters and, consequently, without your voting instructions, your brokerage firm cannot vote your shares.

Methods of Voting

Stockholders may vote by proxy. The Company is offering stockholders of record four methods of voting: (1) You may vote by telephone; (2) You may vote over the Internet; (3) You may vote in person at the Annual Meeting, and (4) Finally, you may request a proxy card from us, and indicate your vote by completing, signing and dating the card where indicated and by mailing or otherwise returning the card in the enclosed prepaid envelope. Each stockholder is entitled to one vote for each share of common stock on all matters presented at the Annual Meeting. Stockholders do not have the right to cumulate their votes for the election of directors.

If a proxy card is voted by telephone or Internet or signed and returned by mail, without choices specified, in the absence of contrary instructions, subject to Rule 14a-4(d)(1) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the shares of common stock represented by such proxy will be voted FOR Proposals 1, 2, 3, 4, 5, and 6 will be voted in the proxy holders' discretion as to other matters that may properly come before the Annual Meeting.

Votes Required for Proposals

For Proposal No. 1, the 10 director nominees receiving the highest number of affirmative votes will be elected. Approval of each of Proposal Nos. 2, 3, 4, 5, and 6 requires the affirmative vote of a majority of the number of Votes Cast. Votes will be tabulated by a representative of Broadridge, the independent inspector of elections appointed for the meeting, who will separately tabulate affirmative and negative votes, abstentions and broker nonvotes. Voting results will be published in the Company's Quarterly Report on Form 10-Q for the second fiscal quarter of 2008, which will be filed with the SEC. All votes will be tabulated by the inspector of elections appointed for the Annual Meeting, who will separately tabulate affirmative and negative votes, abstentions and broker nonvotes.

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.

Quorum Requirement

A majority of the shares of common stock issued and outstanding and entitled to vote, in person or by proxy, constitutes a quorum for the transaction of business at the Annual Meeting.

Solicitation of Proxies

The Company will bear the cost of soliciting proxies. Copies of solicitation material will be made available upon request 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 may be supplemented by solicitation by telephone, electronic communication, or other means by directors, officers, employees, or agents of

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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 solicitation of proxies, for which the Company will pay an estimated fee of \$10,000 plus reimbursement of expenses.

Annual Report

The Notice of Annual Meeting, this Proxy Statement and the Annual Report of the Company for the fiscal year ended April 27, 2007 have been made available to all stockholders entitled to Notice of Internet Availability of Proxy Materials and to vote at the Annual Meeting. The Annual Report is not incorporated into this Proxy Statement and is not considered proxy-soliciting material. The Annual Report is posted at the following Web site address: <http://investors.netapp.com/>

Stockholder Proposals

The Company's stockholders may submit proposals that they believe should be voted upon at the Company's next year's annual meeting of stockholders. Stockholders may also recommend candidates for election to our Board of Directors (See *Corporate Governance and Nominating/Corporate Governance Committee*). Pursuant to Rule 14a-8 under the Exchange Act, some stockholder proposals may be eligible for inclusion in our 2008 proxy statement. Any such stockholder proposals must be submitted in writing to the attention of the Corporate Secretary, Network Appliance, Inc., 495 East Java Drive, Sunnyvale, California 94089, no later than April 4, 2008, which is the date 120 calendar days prior to the anniversary of the mailing date of the Notice of Internet Availability. Stockholders interested in submitting such a proposal are advised to contact knowledgeable legal counsel with regard to the detailed requirements of applicable securities laws. The submission of a stockholder proposal does not guarantee that it will be included in our 2008 proxy statement.

If a stockholder gives notice of a proposal or a nomination after such deadline, the notice will not be considered timely, and the stockholder will not be permitted to present the proposal or the nomination to the stockholders for a vote at the meeting.

PROPOSAL NO. 1:

ELECTION OF DIRECTORS

At the Annual Meeting, 10 directors constituting the entire Board are to be elected to serve until the next Annual Meeting of Stockholders or 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 10 nominees named below for election to the Company's Board unless authority to vote for any such nominee is withheld. There are 10

nominees, each of whom is currently a director of the Company. 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 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 to fill the vacancy. Unless otherwise instructed, the proxy holders will vote the proxies received by them for the nominees named below. The 10 nominees 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 10 nominees. The Nominating/Corporate Governance Committee recommended the new nominees and inclusion of such nominees in this Proxy Statement was approved at a meeting of the Board.

Nominees

The nominees for directors of the Company, and their ages as of May 25, 2007, are as follows:

Name	Age	Position
Daniel J. Warmenhoven	56	Chief Executive Officer and Director
Donald T. Valentine*	74	Chairman of the Board, Director
Jeffrey R. Allen	55	Director
Carol A. Bartz*	58	Director
Alan L. Earhart*	63	Director
Edward Kozel*	51	Director
Mark Leslie*	61	Director
Nicholas G. Moore*	65	Director
George T. Shaheen*	62	Director
Robert T. Wall*	61	Director

* Independent Directors.

The members of the committees are identified in the following table:

Director	Audit	Investment	Compensation	Nominating/Corporate Governance
Daniel J. Warmenhoven				
Donald T. Valentine				Chair
Jeffrey R. Allen		Chair		
Carol A. Bartz			Chair	X
Alan L. Earhart	X	X		
Edward Kozel		X	X	
Mark Leslie		X		
Nicholas G. Moore	Chair			X
George T. Shaheen	X			
Robert T. Wall		X	X	

DANIEL J. WARMENHOVEN joined the Company in October 1994 as President and Chief Executive Officer and has been a member of the Board since October 1994. In May 2000, he resigned the role of President and currently serves as Chief Executive Officer and as a member of the Board of Directors 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. Prior to his work with Network Equipment Technologies, Mr. Warmenhoven held executive and managerial positions at Hewlett-Packard from 1985 to 1989

and IBM Corporation from 1972 to 1985. Mr. Warmenhoven is a Director of Aruba Networks. Mr. Warmenhoven holds a BS degree in electrical engineering from Princeton University.

DONALD T. VALENTINE has been a member of the Board and Chairman of the Board since September 1994. Mr. Valentine has been a general partner of Sequoia Capital, a venture capital firm, since 1972. He is also a Director on the Board of Directors of Traiana. Mr. Valentine holds a B.A. degree from Fordham University.

JEFFRY R. ALLEN has been a member of the Board since May 2005. Prior to his role on the Board, Mr. Allen was the Executive Vice President of Business Operations at the Company. Mr. Allen joined the company in 1996 as the Chief Financial Officer and Vice President of Finance and Operations. Before coming to the Company, Mr. Allen served as Senior Vice President of Operations for Bay Networks, where he was responsible for manufacturing and distribution functions. From 1990 to 1995, he held the position of Controller for SynOptics Communications and became Vice President and Controller for Bay Networks, the new company created via the merger of SynOptics

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and Wellfleet Communications. Previously, Mr. Allen had a 17-year career at Hewlett-Packard Company, where he served in a variety of financial, information systems, and financial management positions, including controller for the Information Networks Group. Mr. Allen holds a BS degree from San Diego State University.

CAROL A. BARTZ has been a member of the Board since September 1995. From April 1992 to May 2006, Ms. Bartz served as Chief Executive Officer of Autodesk, Inc., a design software company. Ms. Bartz became Executive Chairman of the Board of Directors of Autodesk, Inc. in May 2006. 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 also currently serves on the Board of Directors of Cisco Systems, Inc. Ms. Bartz received a BA degree in computer science from the University of Wisconsin.

ALAN L. EARHART has been a member of the Board since December 2004. Mr. Earhart has more than three decades of financial and accounting expertise that includes close involvement with many technology companies, including Cisco Systems, Legato, Varian and Polycm. A former PricewaterhouseCoopers office managing partner, Mr. Earhart began his career as a certified public accountant in 1970 with Coopers & Lybrand's San Francisco office. He rose through the company to become regional managing partner before its merger with Price Waterhouse. After the merger, Mr. Earhart was named managing partner for PricewaterhouseCoopers' Silicon Valley offices. In addition, he previously served as chair of Coopers & Lybrand's National Venture Capital Industry Group. Mr. Earhart, who retired from PricewaterhouseCoopers in 2001, also serves on the Board of Directors and is chairman of the audit committee of Foundry Networks, Quantum Corporation and Monolithic Power Systems. Mr. Earhart is currently an independent consultant. Mr. Earhart received a BS degree in accounting from the University of Oregon.

EDWARD KOZEL has been a member of the Board since May 2006. Mr. Kozel is President and Chief Executive Officer of Skyriider, Inc., a search-based marketing company for peer-to-peer networks. Previously, he was a Managing Director of Integrated Finance, Ltd., a private advisory services firm and he spent five years as Managing Member of Open Range LLC., a private venture firm. Mr. Kozel joined Cisco Systems in 1989 and served as its Chief Technology Officer and Senior Vice President of Business Development until 2001, helping Cisco become a multinational technology leader. Mr. Kozel previously worked at Boeing, McDonnell Douglas and SRI International, where he participated in the early design and development of the Internetwork Protocol (IP) model and TCP/IP, packet radio networks and highly distributed information systems. Mr. Kozel currently serves on the Board of Yahoo! Inc. Mr. Kozel has a BS degree in electrical engineering from the University of California, Davis.

MARK LESLIE has been a member of the Board since July 2004. Mr. Leslie is currently the managing director of Leslie Ventures. Mr. Leslie was the founding CEO of Veritas Software. He joined the Board of Directors of Veritas Software in May of 1988, and became the Chairman, President and Chief Executive Officer when Veritas was restarted as a software company in 1990. Mr. Leslie currently serves on the boards of Avaya Corporation (NYSE: AV) and a number of privately held high-technology corporations, including db4objects, Cassat, Doostang, Model N Software, Panta Systems and Xsigo, and is on the boards of nonprofit organizations Leslie Family Foundation and TKCJL. Mr. Leslie is also a Lecturer at Stanford Graduate School of Business teaching courses in entrepreneurship and sales. Mr. Leslie received a BA degree in physics and mathematics from New York

University in 1966 and completed Harvard Business School's program for management development in 1980.

NICHOLAS G. MOORE has been a member of the Board since April 2002. Mr. Moore served as Global Chairman, Chief Executive Officer-U.S. of PricewaterhouseCoopers LLP from July 1998 until June 2001. 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 retired in 2001. Mr. Moore presently serves on the Board of Directors of Bechtel Group, Inc., Gilead Sciences, Wells Fargo Bank, and two privately held companies, E2open and AmberPoint. Mr. Moore received a BS degree in accounting from St. Mary's College and a JD from Hastings College of Law, University of California.

GEORGE T. SHAHEEN has been a member of the Board since June 2004. Mr. Shaheen is the Chairman and Chief Executive Officer of Entity Labs. He was the Chief Executive Officer of Siebel Systems, Inc from April 2005 until January 2006. He was the Chief Executive Officer and Global Managing Partner of Andersen Consulting, which later became Accenture, from 1989 to 1999. He then became the CEO and Chairman of the Board of Webvan Group, Inc. Mr. Shaheen serves on the boards of think3, 24/7 Customer, newScale and Entity Labs. He is a member of the Advisory Boards of the Marcus & Millichap Company and Genstar Capital. He has served as an IT Governor

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of the World Economic Forum and he is a member of the Board of Advisors for the Northwestern University Kellogg Graduate School of Management. He has also served on the Board of Trustees of Bradley University. Mr. Shaheen is a graduate of Bradley University (BS 1966 and MBA 1968).

ROBERT T. WALL has been a member of the Board 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. Mr. Wall was a founder and from November 2000 to December 2006, the Chairman of the Board of Directors of Airgo Networks, Inc., a Wi-Fi wireless networking systems company that was acquired by QUALCOMM, Inc. in December 2006. 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 an MBA degree from Harvard Business School.

Board Meetings and Committees

The Board of Directors held six (6) regular meetings during fiscal 2007. Each member of the Board of Directors during fiscal 2007 attended more than 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, directors or nominees of the Company. The Board of Directors has an Audit Committee, a Nominating/Corporate Governance Committee, an Investment Committee and a Compensation Committee.

During fiscal 2007, the Audit Committee was composed of Directors Shaheen, Earhart, and Moore, all of whom are independent in accordance with the requirements of applicable SEC and NASDAQ rules and regulations. The Company's Board has determined that Mr. Moore qualifies as an "audit committee financial expert" under the rules and regulations of the SEC. 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, the accounting practices of the Company and other such functions as detailed in the Audit Committee Charter, which can be found on the Company's Web site at www.netapp.com. The Audit Committee of the Board of Directors held ten (10) meetings during fiscal 2007.

During fiscal 2007, the Nominating/Corporate Governance Committee was composed of Directors Moore, Bartz and Valentine, all of whom are independent in accordance with applicable NASDAQ rules. The committee evaluates and recommends to the Board of Directors candidates for Board membership and considers nominees recommended by stockholders. The committee also develops and recommends corporate governance policies and other governance guidelines and procedures to the Board of Directors. The Nominating/Corporate Governance

Committee held one (1) meeting during fiscal 2007.

During fiscal 2007, the Investment Committee was composed of Directors Allen, Earhart, Kozel, Leslie and Wall. The Investment Committee was formed for the purpose of reviewing, evaluating, and approving acquisitions and divestitures for the Company. The Investment Committee held five (5) meetings during fiscal 2007.

The Compensation Committee, which is composed of Directors Bartz, Kozel, and Wall, establishes salaries, incentive compensation 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. Directors Bartz, Kozel and Wall are independent in accordance with applicable NASDAQ rules. The Compensation Committee of the Board of Directors held eight (8) meetings during fiscal 2007. In addition, the Committee approved stock option and award grants as needed by means of Unanimous Written Consents.

Vote Required

Directors shall be elected by a plurality vote. The nominees for director receiving the highest number of affirmative votes of the shares entitled to be voted for them shall be elected as directors. Votes against, abstentions and broker nonvotes have no legal effect on the election of directors due to the fact that such elections are by plurality.

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**The Board of Directors Unanimously Recommends That Stockholders
Vote FOR Proposal No. 1.**

PROPOSAL NO. 2

AMENDMENT TO THE COMPANY'S 1999 STOCK OPTION PLAN

The Company is asking its stockholders to approve the amendments to the 1999 Stock Option Plan (the "1999 Plan") so that it can continue to use the 1999 Plan to achieve the Company's goals. The Board has approved the amended 1999 Plan, subject to approval from our stockholders at the Annual Meeting. Approval of the amended 1999 Plan requires the affirmative vote of a majority of the Votes Cast. Our named executive officers have an interest in this proposal.

Amendments to the 1999 Plan

The following is a summary of some of the changes being made to the 1999 Plan pursuant to this Proposal No. 2:

- The current 1999 Plan is set to expire on August 16, 2009. The proposed amended 1999 Plan extends the term of the 1999 Plan by 10 years so that it will expire on August 16, 2019, or earlier upon the date on which all shares of Company common stock ("Shares") available for issuance under the 1999 Plan have been issued or the termination of all outstanding awards in connection with a Corporate Transaction (as defined in the 1999 Plan).
- The amended 1999 Plan provides that the number of Shares subject to awards granted under the Stock Issuance Program and the Performance Share and Performance Unit Program may not exceed 30% of the sum of (1) the number of Shares added to the 1999 Plan at the 2007 Annual Meeting, (2) the number of Shares available to be granted pursuant to awards under the 1999 Plan (i.e., reserved but unissued) as of May 25, 2007, and (3) the number of Shares subject to outstanding awards as of May 25, 2007 that actually return to the 1999 Plan upon the repurchase or reacquisition of unvested shares or that were subject to awards that terminated without any shares actually having been issued pursuant thereto, which is an increase from the 10% of approximately the same sum permitted under the current 1999 Plan.
- The amended 1999 Plan provides that during any calendar year, no participant will receive performance units having an initial value greater than \$2,000,000, which is an increase from the \$1,000,000 maximum

value permitted under the current 1999 Plan.

- The amended 1999 Plan provides that options granted under the Discretionary Option Grant Program and Automatic Option Grant Program and stock appreciation rights granted under the Stock Appreciation Rights Program may have a maximum term of seven years, decreased from the maximum term of 10 years provided for under the current 1999 Plan.

The Company believes strongly that the approval of the amendment of the 1999 Plan as described above is essential to our continued success. The Company's employees are its most valuable assets. Offering a broad-based equity compensation program is vital to attracting and retaining the most highly skilled people in our industry. The Company believes that employees who have a stake in the future success of the Company's business become highly motivated to achieve its long-term business goals and increase stockholder value. At this important time in the Company's history, the Company's employees' innovation and productivity are even more critical to its success in a highly competitive and fast-paced industry. The 1999 Plan is designed to assist in recruiting, motivating and retaining talented employees who help the Company achieve its business goals, including creating long-term value for stockholders.

Description of the 1999 Plan

The following paragraphs provide a summary of the principal features of the 1999 Plan and its operation, including a description of the amendments to the 1999 Plan if stockholders approve Proposal No. 2 and Proposal No. 3 of this Proxy Statement. The amended 1999 Plan is set forth in its entirety and has been filed as

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Appendix A to this Proxy Statement with the SEC. The following summary is qualified in its entirety by reference to the complete text of the 1999 Plan. Any stockholder who 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.

Background and Purpose of the 1999 Plan

The 1999 Plan is divided into five separate components: (a) the Discretionary Option Grant Program, (b) the Stock Issuance Program, (c) the Automatic Option Grant Program, (d) the Stock Appreciation Rights Program and (e) the Performance Share and Performance Unit Program. Under the Discretionary Option Grant Program, participants may be granted options to purchase Shares at an exercise price not less than the fair market value of those Shares on the grant date. Under the Stock Issuance Program, the Plan Administrator is able to make direct issuances of Shares either through the issuance or immediate purchase of such Shares or as a bonus for services rendered by participants on such terms as the Plan Administrator deems appropriate. Under the Automatic Option Grant Program, option grants are automatically made at periodic intervals to nonemployee directors. Under the Stock Appreciation Rights Program, the Plan Administrator is able to grant stock appreciation rights that will allow individuals to receive the appreciation in fair market value of the Shares subject to the award between the exercise date and the date of grant. Under the Performance Share and Performance Unit Program, the Plan Administrator is able to grant performance shares and performance units, which are awards that will result in a payment to a participant only if the performance goals or other vesting criteria established by the Plan Administrator are achieved or the awards otherwise vest. The 1999 Plan is intended to increase incentives and to encourage share ownership on the part of eligible employees, nonemployee directors and consultants who provide significant services to the Company. In addition, the Company is unable (without the approval of stockholders) to reprice any outstanding awards of options granted under the 1999 Plan or cancel any outstanding stock option and immediately replace it with a new stock option with a lower exercise price.

Administration of the 1999 Plan

The Compensation Committee of the Board of Directors (["Plan Administrator"]) administers the 1999 Plan. The members of the Compensation Committee must qualify as nonemployee directors under Rule 16b-3 of the Exchange Act of 1934 and as outside directors under Section 162(m) of the Internal Revenue Code (the Code) so that the Company can receive a federal tax deduction for certain compensation paid under the 1999 Plan.

Subject to the terms of the 1999 Plan, the Plan Administrator has the sole discretion to select the employees and consultants who will receive awards, determine the terms and conditions of awards (for example, the exercise price and vesting schedule), and interpret the provisions of the 1999 Plan and outstanding awards. The Compensation Committee may delegate any part of its authority and powers under the 1999 Plan to one or more directors and/or officers of the Company, but only the Compensation Committee itself can make awards to participants who are executive officers of the Company.

Shares Subject to the 1999 Plan

If stockholders approve Proposal No. 3, a total of 94,500,000 Shares will be reserved for issuance under the 1999 Plan, an increase of 7,200,000 Shares from the number of Shares currently reserved under the 1999 Plan. As of May 25, 2007, 47,801,534 Shares were subject to outstanding awards granted under the 1999 Plan, 16,372,574 Shares remained available for any new awards to be granted in the future and 23,125,892 Shares have been issued pursuant to awards thereunder.

If an award expires or is cancelled without having been fully exercised or vested, the unvested or cancelled Shares generally will be returned to the available pool of Shares reserved for issuance under the 1999 Plan. Also, in the event any change is made to our 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, stock appreciation rights, stock issuances, or performance shares and performance units

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under the 1999 Plan per calendar year, (c) the class and/or number of securities and the purchase price per share in effect under each outstanding award, and (d) the class and/or number of securities for which automatic option grants are to be subsequently made to both new and continuing nonemployee Board members under the Automatic Option Grant Program. The adjustments to the outstanding awards will prevent the dilution or enlargement of benefits thereunder.

Discretionary Option Grant Program

A stock option is the right to acquire Shares at a fixed exercise price for a fixed period of time. Under the Discretionary Option Grant Program, the Plan Administrator may grant nonstatutory stock options and/or incentive stock options (which entitle employees, but not the Company, to more favorable tax treatment). The Plan Administrator will determine the number of Shares covered by each option, but during any calendar year of the Company, no participant may be granted options and/or stock appreciation rights covering more than 3,000,000 Shares.

The exercise price of the Shares subject to each option is set by the Plan Administrator but cannot be less than 100% of the fair market value (on the date of grant) of the Shares covered by the option. The exercise price of an incentive stock option must be at least 110% of fair market value if (on the grant date) the participant owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any of its subsidiaries.

An option granted under the Discretionary Option Grant Program of the 1999 Plan cannot be exercised until it becomes vested. The Plan Administrator establishes the vesting schedule of each option at the time of grant. Options become exercisable at the times and on the terms established by the Plan Administrator. To the extent the aggregate fair market value of the Shares (determined on the grant date) covered by incentive stock options first becomes exercisable by any participant during any calendar year is greater than \$100,000, the excess above \$100,000 will be treated as a nonstatutory stock option. Options granted under the 1999 Plan expire at the times established by the Plan Administrator, but not later than seven (7) years after the grant date (assuming the stockholders approve this Proposal No. 2).

Stock Appreciation Rights Program

A stock appreciation right is the right to receive the appreciation in fair market value of the Shares subject to the award between the exercise date and the date of grant. We can pay the appreciation in either cash or Shares. Stock appreciation rights will become exercisable at the times and on the terms established by the Plan Administrator, subject to the terms of the 1999 Plan. No participant will be granted stock appreciation rights and/or options covering more than 3,000,000 Shares during any calendar year. The exercise price of the Shares subject to each stock appreciation right is set by the Plan Administrator but cannot be less than 100% of the fair market value (on the date of grant) of the Shares covered by the award. A stock appreciation right granted under the 1999 Plan cannot be exercised until it becomes vested. The Plan Administrator establishes the vesting schedule of each stock appreciation right at the time of grant. Stock appreciation rights granted under the 1999 Plan expire at the times established by the Plan Administrator, but not later than seven (7) years after the grant date (assuming the stockholders approve this Proposal No. 2).

Stock Issuance Program

Stock issuances are Shares that vest in accordance with the terms and conditions established by the Plan Administrator. The number of Shares granted to any employee or consultant pursuant to a stock issuance will be determined by the Plan Administrator, but during any calendar year of the Company no participant may be granted more than 200,000 Shares pursuant to such an award. Also, no more than 30% of the sum of (1) the number of Shares added to the 1999 Plan at the 2007 Annual Meeting, (2) the number of Shares available to be granted pursuant to awards under the 1999 Plan (i.e., reserved but unissued) as of May 25, 2007, and (3) the number of Shares subject to outstanding awards as of May 25, 2007, that actually return to the 1999 Plan upon the repurchase or reacquisition of unvested shares or that were subject to awards that terminated without any shares actually having been issued pursuant thereto may be issued pursuant to awards under the Stock Issuance and Performance Share and Performance Unit Programs. In determining whether a stock issuance should be made and/or the vesting schedule for any such award,

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the Plan Administrator may impose whatever conditions to vesting as it determines to be appropriate. For example, the Plan Administrator may determine to make a stock issuance only if the participant satisfies performance goals established by the Plan Administrator (assuming approval of this Proposal No. 2).

Performance Share and Performance Unit Program

Performance shares and performance units are awards that will result in a payment to a participant only if the performance goals or other vesting criteria established by the Plan Administrator are achieved or the awards otherwise vest. The Plan Administrator will establish organizational, individual performance goals or other vesting criteria in its discretion, which, depending on the extent to which they are met, will determine the number and/or the value of performance units and performance shares to be paid out to participants. Assuming the stockholders approve this Proposal 2, no participant will receive performance units with an initial value greater than \$2,000,000 and no participant will receive more than 200,000 performance Shares during any calendar year. Performance units will have an initial dollar value established by the Committee prior to the grant date. Performance shares will have an initial value equal to the fair market value of a Share on the grant date. Also, no more than 30% of the sum of (1) the number of Shares added to the 1999 Plan at the 2007 Annual Meeting, (2) the number of Shares available to be granted pursuant to awards under the 1999 Plan (i.e., reserved but unissued) as of May 25, 2007, and (3) the number of Shares subject to outstanding awards as of May 25, 2007 that actually return to the 1999 Plan upon the repurchase or reacquisition of unvested shares or that were subject to awards that terminated without any shares actually having been issued pursuant thereto, may be issued pursuant to awards under the Stock Issuance and Performance Share and Performance Unit Programs (assuming approval of this Proposal No. 2).

Performance Goals

The Plan Administrator (in its discretion) may make performance goals applicable to a participant with respect to an award. At the Plan Administrator's discretion, one or more of the following performance goals may apply: annual revenue, cash position, earnings per share, individual objectives, net income, operating cash flow, operating income, return on assets, return on equity, return on sales and total stockholder return.

Automatic Option Grant Program

Under the 1999 Plan, our nonemployee directors will receive annual, automatic, nondiscretionary grants of nonstatutory stock options.

Each new nonemployee director will receive an option to purchase 55,000 Shares as of the date he or she first becomes a nonemployee director. Each nonemployee director also will receive an option to purchase 20,000 Shares on the date of each annual stockholder meeting, provided that he or she has been a nonemployee director for at least six months prior to the grant date and remains an eligible nonemployee director through each such meeting.

The exercise price of each option granted to a nonemployee director is equal to 100% of the fair market value (on the date of grant) of the Shares covered by the option. An option granted under the Automatic Option Grant Program is immediately exercisable. However, any shares purchased under the option program are subject to repurchase by the Company if the Optionee ceases Board service prior to vesting. The option granted to a nonemployee director when he or she first becomes a nonemployee director vests as to 25,000 Shares on the first anniversary of the date of grant and as to 10,000 Shares each anniversary thereafter (assuming that he or she remains a non-employee director on each scheduled vesting date). All options granted thereafter to the nonemployee director become 100% vested on the day preceding the Annual Stockholders Meeting following the grant date. However, if a nonemployee director terminates his or her service on the Board due to death or disability his or her options would immediately vest.

Assuming the stockholders approve this Proposal No. 2, options granted to nonemployee directors generally expire no later than seven (7) years after the date of grant. If a non-employee director terminates his or her service on the Board prior to an option's normal expiration date, the option will remain exercisable for 12 months to the extent it has vested. However, the option may not be exercised later than the original expiration date.

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Awards to be Granted to Certain Individuals and Groups

The number of awards that an employee or consultant may receive under the Plan is in the discretion of the Plan Administrator and therefore cannot be determined in advance. The following table* sets forth (a) the aggregate number of Shares subject to options granted under the Plan during the last fiscal year, (b) the average per Share exercise price of such options, (c) the aggregate number of Shares subject to awards of restricted stock units granted under the 1999 Plan during the last fiscal year, and (d) the dollar value of such Shares based on \$31.80 per Share, the fair market value on May 25, 2007.

AMENDED PLAN BENEFITS* 1999 Plan

Name of Individual or Group	Number of Options Granted	Average per Share Exercise Price	Number of	Dollar Value of
			Restricted Stock Units Granted	Restricted Stock Units Granted
Daniel J. Warmenhoven Chief Executive Officer	450,000	\$32.50	□	\$ □
Thomas Georgens Executive Vice President Product Operations	100,000	\$32.50	□	\$ □
Steven J. Gomo Executive Vice President and Chief Financial Officer	100,000	\$32.50	□	\$ □
Thomas F. Mendoza President	150,000	\$32.50	□	\$ □
Robert E. Salmon Executive Vice President Field Operations	100,000	\$32.50	□	\$ □

All current executive officers, as a group	900,000	\$32.50	□	\$	□
All directors who are not executive officers, as a group	215,000	\$33.82	□	\$	□
All employees who are not executive officers, as a group	8,014,800	\$35.56	752,590	\$	23,932,362

* The table does not represent equity awards granted under the Company's 1995 Stock Incentive Plan. Please see pages 34-35 for greater detail on the equity awards that have been granted to the Company's executive officers and directors.

Limited Transferability of Awards

Awards granted under the 1999 Plan generally may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the applicable laws of descent and distribution. However, participants may, in a manner specified by the Plan Administrator, transfer nonstatutory stock options (1) to a member of the participant's family, (2) to a trust or other entity for the sole benefit of the participant and/or a member of his or her family, (3) to a former spouse pursuant to a domestic relations order.

Federal Tax Aspects

The following paragraphs are a summary of the general federal income tax consequences to U.S. taxpayers and the Company of awards granted under the 1999 Plan. Tax consequences for any particular individual may be different.

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Nonstatutory Stock Options

No taxable income is reportable when a nonstatutory stock option is granted to a participant. Upon exercise, the participant will recognize ordinary income in an amount equal to the excess of the fair market value (on the exercise date) of the Shares purchased over the exercise price of the option. Any taxable income recognized in connection with an option exercise by an employee of the Company is subject to tax withholding by the Company. Any additional gain or loss recognized upon any later disposition of the shares would be capital gain or loss.

As a result of Section 409A of the Code and the Treasury regulations promulgated thereunder (Section 409A), however, nonstatutory stock options granted with an exercise price below the fair market value of the underlying stock or with a deferral feature may be taxable to the recipient in the year of vesting in an amount equal to the difference between the then fair market value of the underlying stock and the exercise price of such awards and may be subject to an additional 20% tax plus penalties and interest. In addition, certain states, such as California, have adopted similar tax provisions.

Incentive Stock Options

No taxable income is reportable when an incentive stock option is granted or exercised (except for purposes of the alternative minimum tax, in which case taxation is the same as for nonstatutory stock options). If the participant exercises the option and then later sells or otherwise disposes of the Shares more than two years after the grant date and more than one year after the exercise date, the difference between the sale price and the exercise price will be taxed as capital gain or loss. If the participant exercises the option and then later sells or otherwise disposes of the Shares before the end of the two- or one-year holding periods described above, he or she generally will have ordinary income at the time of the sale equal to the fair market value of the Shares on the exercise date (or the sale price, if less) minus the exercise price of the option.

Stock Appreciation Rights

No taxable income is reportable when a stock appreciation right is granted to a participant. Upon exercise, the participant will recognize ordinary income in an amount equal to the amount of cash received and the fair market value of any shares received. Any additional gain or loss recognized upon any later disposition of the shares would be capital gain or loss.

As a result of Section 409A of the Code, however, stock appreciation rights granted with an exercise price below the fair market value of the underlying stock or with a deferral feature may be taxable to the recipient in the year of vesting in an amount equal to the difference between the then fair market value of the underlying stock and the exercise price of such options and may be subject to an additional 20% tax plus penalties and interest. In addition, certain states, such as California, have adopted similar tax provisions.

Stock Issuance, Performance Units and Performance Shares

A participant generally will not have taxable income at the time an award of stock, performance shares or performance units is granted. Instead, he or she will recognize ordinary income in the first taxable year in which his or her interest in the Shares underlying the award becomes either (i) freely transferable or (ii) no longer subject to substantial risk of forfeiture. However, the recipient of an award of restricted stock may elect to recognize income at the time he or she receives the award in an amount equal to the fair market value of the Shares underlying the award (less any cash paid for the shares) on the date the award is granted.

Tax Effect for the Company

The Company generally will be entitled to a tax deduction in connection with an award under the 1999 Plan in an amount equal to the ordinary income realized by a participant and at the time the participant recognizes such income (for example, the exercise of a nonstatutory stock option). Special rules limit the deductibility of compensation paid to our Chief Executive Officer and to each of our four most highly compensated executive officers. Under Section 162(m) of the Code, the annual compensation paid to any of these specified executives will be deductible only to the extent that it does not exceed \$1,000,000. However, the Company can preserve the deductibility of

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certain compensation in excess of \$1,000,000 if the conditions of Section 162(m) are met. These conditions include stockholder approval of the 1999 Plan, setting limits on the number of awards that any individual may receive and for awards other than stock options, establishing performance criteria that must be met before the award actually will vest or be paid. The 1999 Plan has been designed to permit the Plan Administrator to grant awards that qualify as performance-based for purposes of satisfying the conditions of Section 162(m), thereby permitting the Company to continue to receive a federal income tax deduction in connection with such awards.

Amendment and Termination of the Plan

The Board generally may amend or terminate the 1999 Plan at any time and for any reason, subject to stockholder approval if applicable.

Summary

We believe strongly that the approval of the amended and restated 1999 Plan is essential to our continued success. Awards such as those provided under the 1999 Plan constitute an important incentive for key employees of the Company and help us to attract, retain and motivate people whose skills and performance are critical to our success. Our employees are our most valuable assets. We strongly believe that the amended and restated 1999 Plan is essential for us to compete for talent in the very difficult labor markets in which we operate.

Vote Required

The affirmative vote by a majority of the Votes Cast is required to approve this proposal. The effect of an abstention is the same as that of a vote against the proposal. Unless you indicate otherwise, your proxy will vote FOR the proposal.

**The Board of Directors Unanimously Recommends That Stockholders
Vote FOR Proposal No. 2**

PROPOSAL NO. 3:

AMENDMENT TO THE COMPANY'S 1999 STOCK OPTION PLAN

The Company is asking the stockholders to approve an amendment to the 1999 Plan to increase by 7,200,000 the number of shares of the Company's common stock that may be issued thereunder. The Board has approved the increase in the number of Shares reserved for issuance under the 1999 Plan, subject to approval from stockholders at the Annual Meeting. Approval of this amendment to the 1999 Plan requires the affirmative vote of a majority of the Votes Cast. The Company's named executive officers and directors have an interest in this proposal.

The Company believes strongly that the approval of the amendment to the 1999 Plan is essential to our continued success. The Company's employees are our most valuable assets. Offering a broad-based equity compensation program is vital to attracting and retaining the most highly skilled people in our industry. The Company believes that employees who have a stake in the future success of our business become highly motivated to achieve our long-term business goals and increase stockholder value. At this important time in our history, the Company's employees' innovation and productivity are even more critical to its success in a highly competitive and fast-paced industry. The 1999 Plan is designed to assist in recruiting, motivating and retaining talented employees who help us achieve the Company's business goals, including creating long-term value for stockholders.

Description of the 1999 Plan

Please refer to the summary of principal features of the 1999 Plan and its operation as set forth in Proposal No. 2. That summary is qualified in its entirety by reference to the 1999 Plan as set forth in Appendix A to this Proxy statement.

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Summary

The Company is and intends to continue to be a growth company. However, in order to grow, it is critical to hire additional people to achieve its long-term strategic goals. The Company strongly believes that the amendment to the 1999 Plan to increase the number of Shares we can use to grant awards is essential for us to compete for talent in the very competitive labor markets in which we operate.

Vote Required

The affirmative vote by a majority of the Votes Cast is required to approve this proposal. The effect of an abstention is the same as that of a vote against the proposal. Unless you indicate otherwise, your proxy will vote FOR the proposal.

**The Board of Directors Unanimously Recommends That Stockholders
Vote FOR Proposal No. 3**

PROPOSAL NO. 4:

AMENDMENT TO THE COMPANY'S EMPLOYEE STOCK PURCHASE PLAN

Introduction

The Company is asking the stockholders to approve an amendment to the Company's Employee Stock Purchase Plan (the Purchase Plan), which will increase the number of Shares authorized for issuance under the Purchase Plan by an additional 1,600,000 Shares.

The purpose of the amendment is to ensure that the Company will continue to have a sufficient reserve of Shares of the Company's 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 at semiannual intervals through their accumulated periodic payroll deductions.

The Purchase Plan was adopted by the Board on September 26, 1995, and became effective on November 20, 1995, in connection with the Company's initial public offering of its 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. The Purchase Plan is set forth in its entirety and has been filed as Appendix B to this Proxy Statement with the SEC. The following summary is qualified in its entirety by reference to the complete text of the Purchase Plan. Any stockholder who 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.

Description of the Purchase Plan

The Purchase Plan is administered by the Compensation Committee of the Board, serving as the plan administrator. As plan administrator, such committee has full authority to adopt administrative rules and procedures and to interpret the provisions of the Purchase Plan.

Share Reserve

The maximum number of Shares reserved for issuance over the term of the Purchase Plan is limited to 20,600,000 Shares, assuming stockholder approval of the 1,600,000-Share increase that is the subject of this Proposal No. 4. As of May 25, 2007, 14,734,224 Shares had been issued under the Purchase Plan, and 5,865,776 Shares were available for future issuance, assuming stockholder approval of the 1,600,000 Share increase.

The Shares issuable under the Purchase Plan may be made available from authorized but unissued Shares or from Shares of common stock reacquired by the Company, including Shares purchased 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 semiannual 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 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 semiannual purchase date.

If the fair market value per share of common stock on any semiannual 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 semiannual 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.

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 25, 2007, approximately 6,592 employees, including five executive officers, were eligible to participate in the Purchase Plan.

Purchase Price

The purchase price of the Shares 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 on the start date of the offering period in which the participant is enrolled or (ii) the fair market value on the semiannual purchase date.

The fair market value per Share 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 Global Select Market. On May 25, 2007, the closing selling price per share of common stock on the NASDAQ Select Market was \$31.80 per share.

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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 Shares at semiannual intervals. Accordingly, on each semiannual 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 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 Shares (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 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 on any one purchase date.
- The maximum number of Shares purchasable in total by all participants on any one purchase date is limited to 1,000,000 Shares.

The Plan Administrator 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 semiannual 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 semiannual period in which such cessation of employment or loss of eligibility occurs will be immediately refunded.

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 Control

In the event a change in control 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 on the start date of the offering period in which the participant is enrolled at the time the change in control occurs, or (b) the fair market value per Share immediately prior to the effective date of such change in control. 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 control.

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A change in control 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 Proration

Should the total number of Shares 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 Shares prorated 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 control.

The Board may at any time alter, amend, suspend or discontinue 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.

Plan Benefits

The table below shows, as to the named executive officers and specified groups, the number of Shares purchased under the Purchase Plan during fiscal 2007, together with the value of those Shares as of the date of purchase.

Participation in the ESPP

Participation in the Purchase Plan is voluntary and dependent on each eligible employee's election to participate and his or her determination as to the level of payroll deductions. Accordingly, future purchases under the Purchase Plan are not determinable. Nonemployee directors are not eligible to participate in the Purchase Plan. The