

CISCO SYSTEMS, INC.

FORM 10-K (Annual Report)

Filed 09/10/03 for the Period Ending 07/26/03

Address	170 WEST TASMAN DR SAN JOSE, CA 95134-1706
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Symbol	CSCO
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Industry	Communications Equipment
Sector	Technology
Fiscal Year	07/28

CISCO SYSTEMS INC

FORM 10-K (Annual Report)

Filed 9/10/2003 For Period Ending 7/26/2003

Address	170 WEST TASMAN DR SAN JOSE, California 95134-1706
Telephone	408-526-4000
CIK	0000858877
Industry	Communications Equipment
Sector	Technology
Fiscal Year	07/31

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

(Mark one)

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

For the fiscal year ended July 26, 2003

OR

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

For the transition period from _____ to _____

Commission file number 0-18225

CISCO SYSTEMS, INC.

(Exact name of Registrant as specified in its charter)

California

77-0059951

(State or other jurisdiction
of incorporation or organization)

(IRS Employer
Identification No.)

170 West Tasman Drive
San Jose, California

95134-1706

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (408) 526-4000

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common stock, \$0.001 par value
Preferred Stock Purchase Rights

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

Aggregate market value of registrant's common stock held by non-affiliates of the registrant, based upon the closing price of a share of the registrant's common stock on January 24, 2003 as reported by the Nasdaq National Market on that date: \$97,202,096,519

Number of shares of the registrant's common stock outstanding as of September 8, 2003: 6,953,996,891

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of the registrant's Annual Report to Shareholders for its fiscal year ended July 26, 2003 are incorporated by reference into Part I and Part II of this Annual Report on Form 10-K where indicated.

(2) Portions of the registrant's Proxy Statement relating to the registrant's 2003 Annual Meeting of Shareholders, to be held on November 11, 2003, are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

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This Annual Report on Form 10-K, including the “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” which is incorporated by reference from our 2003 Annual Report to Shareholders, contains forward-looking statements regarding future events and our future results that are based on current expectations, estimates, forecasts, and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as “expects,” “anticipates,” “targets,” “goals,” “projects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” variations of such words, and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances, are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Readers are referred to the risks and uncertainties identified below, under “Risk Factors,” and elsewhere and in the 2003 Annual Report to Shareholders. We undertake no obligation to revise or update any forward-looking statements for any reason.

PART I

ITEM 1. Business

General

We manufacture and sell networking and communications products and provide services associated with that equipment and its use. Our products are installed at corporations, public institutions, and telecommunication companies, and commercial businesses, and are also found in personal residences. We provide a broad line of products for transporting data, voice, and video within buildings, across campuses, and around the world. We conduct our business globally and are managed geographically in four segments: the Americas; Europe, the Middle East, and Africa (EMEA); Asia Pacific; and Japan. For information regarding these segments and our revenue derived in each segment, see Note 12 to the Consolidated Financial Statements in our 2003 Annual Report to Shareholders, which is incorporated into this report by reference.

We were incorporated in California in December 1984, and our headquarters is in San Jose. The mailing address of our headquarters is 170 West Tasman Drive, San Jose, California, 95134-1706, and our telephone number at that location is (408) 526-4000. Our Website is www.cisco.com. Through a link on our Investor Relations section of our Website, we make available the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the SEC: our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. All such filings are available free of charge.

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Products and Services

We sell scalable, standards-based networking products that cover a wide range of customers' networking needs. Our products and services help customers build their own network infrastructures while providing tools to allow them to communicate with key stakeholders, including customers, prospects, business partners, suppliers and employees.

Our products are used individually or in combinations to connect computing devices to networks or computer networks with each other—whether they are within a building, across a campus, or around the world. Our breadth of product and service offerings enables us to offer a wide range of products and services to meet customer requirements. We also provide products and services that allow customers to transition their various networks to a single multiservice data, voice and video network.

We refer to some of our products and technologies as Advanced Technologies, and we believe some of these Advanced Technologies may grow over time to become material contributors to our overall business. We have currently identified six Advanced Technologies for particular focus: IP telephony, security, optical networking, storage area networking, wireless technology, and home networking, although over time, additional Advanced Technologies may be identified for focus and investment. In addition, investments may be curtailed or eliminated in some presently identified Advanced Technologies depending on market developments and resource allocation decisions.

Over time, we believe that the Internet and the various networks associated with it, including but not limited to corporate intranets, cable, broadband and dialup networks, and voice and video networks, will converge into a “network of networks.” In that environment, we believe successful vendors will be capable of providing an end-to-end spectrum of products aimed not at a particular technology platform but at solutions to networking problems that span all the segments that currently define the industry. As such, many of our strategic initiatives and investments are aimed at meeting the requirements that such a network of networks would demand. For a discussion of the risks associated with that strategy, please see the section of this report entitled “Risk Factors,” including but not limited to the risk factor entitled, “We depend upon the development of new products and enhancements to existing products, and if we fail to predict and respond to emerging technological trends and customers' changing needs, our operating results and market share may suffer.” For information regarding sales of our major products and services, see Note 12 to the Consolidated Financial Statements in our 2003 Annual Report to Shareholders, which is incorporated into this report by reference.

Our offerings fall into several categories:

Routing

Routing is a foundation technology for computer networking. Routers interconnect computer networks and move information from one network to another. Our routing products offer features to increase security of transmissions and increase efficiency in use of transmission capacity. We offer a broad range of routers, from core backbone infrastructure at large telecommunications

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companies to small and home office deployments. Our routers are also used to interconnect storage networks that can be shared and managed globally.

Switching

Switching is another integral networking technology that is used in both local-area networks (LANs) and wide-area networks (WANs). Our switching products are designed to help users migrate from traditional shared LANs to fully switched networks. Our solutions employ several widely used switching technologies, including Ethernet, Gigabit Ethernet, Token Ring, and Asynchronous Transfer Mode (ATM).

Access

Our access products give remotely located groups and individuals similar levels of connectivity and information access to achieve seamless connections for users whether they are located at a company's head office, at home, or traveling. Asynchronous and integrated services digital network (ISDN) remote-access routers, dialup access servers, wireless solutions, digital subscriber line (DSL) technologies, and cable universal broadband routers provide telecommuters, mobile workers, students and other users with remote network access.

We offer a broad line of in-building wireless LAN and building-to-building wireless bridging solutions. These solutions include access points, wireless LAN client adapters, bridges, antennas and accessories. Our wireless products are designed to provide high-performance, secure, manageable, and reliable wireless LANs that enable mobility and increase productivity.

Other Products

IP Telephony

We provide IP telephony products for transmitting voice communications over a network using an open, standards-based Internet Protocol (IP). Our IP telephony products use a single network infrastructure for the transmission of data, voice, and video traffic to deliver IP voice and fully integrated communications. IP telephony products provide a seamless migration to full IP communications by interoperating with existing systems.

Security

We provide a broad range of security products and services to protect critical information systems from unauthorized use, defend against attack, and minimize the effect of Internet-borne worms and viruses. As part of our defense-in-depth strategy, we offer numerous network security technologies within our family of routers and switches, in standalone appliances, and as host-based software. Our network security offerings are designed to help ensure the integrity of the information network, simplify operations and lower total cost of ownership.

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Optical Networking

We provide optical networking products for both the enterprise and service provider markets. Our optical networking products provide a variety of functions: service interfaces with a variety of bit rates and options; scaling of customers' central offices to switch higher-bandwidth services; providing the core of the network where incremental, high-bandwidth channel capacity is required to connect multiple metropolitan markets; and enabling service providers to continue a rapid transition from legacy products to next generation products. Advances in next-generation Synchronous Optical Network/Synchronous Digital Hierarchy (SONET/SDH) provide an evolutionary path for telecommunications carriers from their existing infrastructures, as well as giving newer carriers and enterprises the capability to deploy cost-effective, multiservice networks. We also use optical technologies such as dense wave division multiplexing and coarse wave division multiplexing to scale optical bandwidth as high-bandwidth applications, such as Gigabit Ethernet and storage, become more commonplace.

Storage Area Networking

We provide storage networking products that deliver standards-based storage connectivity with intelligent networking features such as multi-protocol/multi-transport integration, virtual storage area networks, advanced security, and sophisticated debug/analysis tools, as well as intelligent storage services, such as network-based virtualization.

Home Networking

Home networking solutions and functionality attempt to replicate the efficiency of enterprise networking in a lower-cost, easy-to-use environment and allow users to share broadband access, music, movies and games throughout the home and over the Internet. The products and solutions include routers, network cards, USB adapters and other products that enable customers to deploy networking in their home or small office environment.

Network Management Software

Our network management offerings are built around CiscoWorks software, a family of management applications based on Internet standards. These applications are designed to enable customers to better secure, monitor and manage large, complex networks. For service providers, Cisco Internet OSS is a foundation and framework designed for next-generation, IP-based services and packet network infrastructure. Cisco Internet OSS provides management enablement of intelligent network services.

Cisco AVVID (Architecture for Voice, Video and Integrated Data) and Cisco IOS[®] Software are offered in conjunction with many of our product offerings. Cisco AVVID provides an intelligent network infrastructure for Internet business solutions and consists of several architectural building blocks for key Internet services. Cisco IOS Software is a common networking software platform deployed across a broad spectrum of our products.

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Service

In addition to our product offerings, we provide a broad range of service offerings, including technical support services and advanced services.

Technical support services are designed to help ensure that our products operate efficiently, remain highly available, and benefit from the most up-to-date system software. These services enable customers to protect their network investments and minimize downtime for systems running mission-critical applications.

Advanced services is a comprehensive program that provides responsive, preventive, and consultative support of our technologies for specific networking needs. The advanced services program supports networking devices, applications and complete infrastructures, allowing large organizations and service providers to realize the potential of a multi-service network.

Customers and Markets

Our customers' networking needs are influenced by numerous factors, including the size of an organization, number and types of computer systems, geographic location, and the applications requiring communications. Our customer base is not concentrated in any particular industry. In each of the past three fiscal years, no single customer has accounted for 10 percent or more of our net sales. Our customers are primarily in the following markets:

Large Enterprise Businesses

Large enterprise businesses are generally defined as organizations with 500 or more employees, located in multiple locations or branch offices, with complex networking needs within a multi-vendor environment for computer systems and IT support infrastructure. Our large enterprise customers span all major industries, including: government, education, retail, finance, health care, manufacturing and transportation. We have developed industry-focused solutions to address specific customer requirements. These solutions include a full range of our core products and advanced technology solutions such as: enterprise routing, switching, security, IP telephony, mobility and storage. In addition, we offer a broad range of value-added services including service and support packages, financing and managed service offerings through our service provider partners.

Service Providers

Service providers offer data, voice, and/or video communication services to businesses, governments, utilities and consumers. They include regional, national and international telecommunications carriers, as well as Internet, cable and wireless service providers. Many service providers resell our products to their own residential, enterprise or commercial customers. Additionally, service providers use a variety of our switching, routing and network management products in their own core networks. Compared to other end-user customers, service provider customers are more likely to require network design services, and their business is characterized by long design cycles.

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Commercial

Commercial customers, primarily small and medium-sized businesses, have fewer than 500 employees and a need for networks of their own, as well as connection to the Internet and to business partners. However, these customers generally have limited resources and expertise in networking technology. Therefore, we attempt to provide products that are affordable and easy to install and use. The commercial market remains an area of potential growth for network adoption and deployment of intelligent network solutions. The emerging technologies, which include network security, mobility and converged voice and data solutions, are of specific interest to small and medium-sized businesses.

Consumer

We participate in the consumer and small office/home office (SOHO) market through our recent acquisition of the business of The Linksys Group, Inc (“Linksys”). Linksys offers several solutions including routers, network cards, USB adapters and other products that enable customers to deploy networking in their homes or small office environments.

Sales Overview

At the end of fiscal 2003, our worldwide sales and marketing organization consisted of approximately 13,000 individuals, including managers, sales representatives and technical support personnel. We have field sales offices in more than 60 countries and sell our products and services both directly and through channel partners with support from our sales force. Channel partners include value-added resellers, system integrators and service providers. These partners sell directly to end customers and often provide system installation, technical support, professional services and support services in addition to the network equipment sale. We also have distributor channel partners who typically sell to smaller value-added resellers. We refer to this as a two-tier system of sales to the end customer. Many distributors also offer service and support to their customers. For more information regarding our channel partners, please see the section of this report entitled “Risk Factors,” including but not limited to the risk factors entitled, “Disruption of or changes in the mix of our product and service distribution model or customer base could harm our sales and margins” and “Our inventory management relating to our sales to distributors is complex, and excess finished goods may harm our gross margins.”

Our service offerings complement our products via a range of consulting, technical, project, quality and maintenance support-level services including 24-hour online and telephone support through technical assistance centers.

Cisco Systems Capital Corporation facilitates and provides lease and other financing to certain qualified customers for the purchase of equipment and other needs. For additional information regarding Cisco Systems Capital Corporation’s financing activities, see Note 6 to the Consolidated Financial Statements in our 2003 Annual Report to Shareholders, which is incorporated into this report by reference.

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Acquisitions, Investments and Alliances

The markets in which we compete require a wide variety of technologies, products and capabilities. The combination of technological complexity and rapid change within our markets make it difficult for a single company to develop all technological solutions that it desires to offer within its family of product and services. Through acquisitions, investments and alliances we are able to deliver a broader range of products and services to customers in target markets.

We employ the following strategies to satisfy the need for new or enhanced networking products and solutions: we develop new technologies and products internally; we enter into joint-development efforts with other companies; we resell other companies' products; and we acquire all or part of other companies.

Acquisitions

Since 1993, we have acquired several companies and we expect to make future acquisitions. Mergers and acquisitions of high-technology companies are inherently risky, especially if no product has been shipped by the acquired company. No assurance can be given that our previous or future acquisitions will be successful or will not materially adversely affect our financial condition or operating results. Prior acquisitions have resulted in a wide range of outcomes, from successful introduction of new products and technologies to an inability to do so. The risks associated with acquisitions are more fully discussed in the section of this report entitled "Risk Factors," including but not limited to the risk factor entitled, "We have made and expect to continue to make acquisitions that could disrupt our operations and harm our operating results."

Investments in Privately Held Companies

We make minority investments in privately held companies that develop technology or provide services that are complementary to our products or provide strategic value. By investing in new ventures, we strengthen our relationships with such companies. The risks associated with these investments are more fully discussed in the section of the report entitled "Risk Factors," including but not limited to the risk factor entitled, "We are exposed to fluctuations in the market values of our portfolio investments and in interest rates; impairment of our investments could harm our earnings."

Strategic Alliances

We pursue strategic alliances with other companies in areas where collaboration can produce industry advancement and acceleration of new markets. The objectives and goals for a strategic alliance can include one or more of the following: technology exchange, product and solution development, joint sales and marketing, or new-market creation. Currently, we have strategic alliances with AT&T, BearingPoint, Bell South, Cap Gemini/Ernst & Young, EDS, Hewlett-Packard, IBM, Intel, Italtel, Microsoft, Motorola, SBC and Sprint, among others.

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Backlog

Our backlog at July 26, 2003 was approximately \$2.0 billion, compared with a backlog of approximately \$2.3 billion at July 27, 2002. Our backlog at September 8, 2003 was approximately \$1.6 billion, compared with a backlog of approximately \$1.4 billion at September 9, 2002. Backlog includes orders confirmed with a purchase order for products scheduled to be shipped within 90 days to customers with approved credit status. Because of the generally short cycle between order and shipment and occasional customer changes in delivery schedules or cancellation of orders (which are made without significant penalty), we do not believe that our backlog, as of any particular date, is necessarily indicative of actual net sales for any future period.

Competition

We compete in the networking and communications equipment markets, providing products and services for transporting data, voice and video traffic across intranets, extranets, and the Internet. These markets are characterized by rapid change, converging technologies, and a migration to networking solutions that offer superior advantages. These market factors represent both an opportunity and a competitive threat to us. We compete with numerous vendors in each product category. The overall number of our competitors providing niche product solutions may increase. Also, the composition of competitors may change as we increase our activity in our advanced technology markets.

Our competitors include 3Com, Alcatel, Avaya, Avici, Check Point Software, Ciena, Dell, Ericsson, Enterasys, Extreme Networks, Foundry Networks, Fujitsu, Huawei, Juniper, Lucent, NetScreen, Nokia, Nortel Networks, Redback Networks, Riverstone, Siemens AG and Sycamore Networks, among others. Some of these companies compete across many of our product lines, while others are primarily focused in a specific product area. Barriers to entry are relatively low, and new ventures to create products that do or could compete with our products are regularly formed. In addition, several of our competitors may have greater resources, including technical and engineering resources, than we do. As we expand into new markets, we will face competition not only from our existing competitors but from other competitors as well, including existing companies with strong technological, marketing and sales positions in those markets. We also sometimes face competition from resellers and distributors of our products.

The principal competitive factors in the markets in which we presently compete and may compete in the future include:

- The ability to provide a broad range of networking products and services;
- Product performance;
- Price;
- The ability to provide new products;
- The ability to provide value-added features such as security, reliability and investment protection;
- Conformance to standards;
- Market presence; and
- The ability to provide financing.

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We also face competition from customers to whom we license or supply technology and suppliers from whom we transfer technology. The inherent nature of networking requires interoperability. As such, we must cooperate and at the same time compete with many companies. Any inability to effectively manage these complicated relationships with customers and suppliers could have a material adverse effect on our business, operating results, and financial condition and accordingly affect our chances of success.

Research and Development

We regularly seek to introduce new products and features in areas including, among others, data, voice, and video over IP; advanced access and aggregation technologies such as cable, wireless and other broadband technologies; advanced enterprise switching; optical transport; storage networking; content networking; security; network management; and advanced core and edge routing technologies.

The industry in which we compete is subject to rapid technological developments, evolving industry standards, changes in customer requirements, and new product introductions and enhancements. As a result, our success, in part, depends upon our ability, on a cost-effective and timely basis, to continue to enhance our existing products and to develop and introduce new products that improve performance and reduce total cost of ownership. In order to achieve these objectives, our management and engineering personnel work with customers to identify and respond to customer needs, as well as with other innovators of internetworking products, including universities, laboratories, and corporations. We also expect to continue to make acquisitions and investments where appropriate to provide us with access to new technologies. We intend to continue developing products that meet key industry standards and to support important protocol standards as they emerge. Still, there can be no assurance that we will be able to successfully develop products to address new customer requirements and technological changes, or that such products will achieve market acceptance.

Our research and development expenditures were \$3.1 billion, \$3.4 billion and \$3.9 billion in fiscal 2003, 2002 and 2001, respectively. All of our expenditures for research and development costs, as well as in-process research and development of \$4 million, \$65 million and \$855 million in fiscal 2003, 2002 and 2001, respectively, have been expensed as incurred.

Manufacturing

We primarily employ an outsourced manufacturing strategy that relies on contract manufacturers for manufacturing services. Our manufacturing operations primarily consist of quality assurance of materials and components, subassemblies, final assembly and testing of products. We presently use a variety of independent third-party companies to provide services related to printed circuit board assembly, in-circuit test, and product repair as well as product assembly. Proprietary software on electronically programmable memory chips is installed in our systems in order to configure products to customer needs and to maintain quality control and security. The manufacturing process enables us to configure the hardware and software in unique combinations to meet a wide variety of individual customer requirements. We also use automated testing equipment and burn-in procedures, as well as comprehensive inspection,

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testing, and statistical process control that are designed to help ensure the quality and reliability of our products. The manufacturing processes and procedures are generally ISO 9001 or ISO 9003 certified.

Our arrangements with contract manufacturers generally provide for quality, cost and delivery requirements, as well as manufacturing process terms, such as continuity of supply, inventory management, flexibility regarding capacity, quality and cost management, oversight of manufacturing and conditions for use of our intellectual property. We have not entered into any significant long-term contracts with any manufacturing service provider. We generally have the option to renew arrangements on an as needed basis, primarily annually. These arrangements generally do not commit us to purchase any particular amount, or any quantities beyond certain amounts covered by orders or forecasts that we submit covering discrete periods of time.

Patents, Intellectual Property, and Licensing

We seek to establish and maintain our proprietary rights in our technology and products through the use of patents, copyrights, trademarks, and trade secret laws. We have a program to file applications for and obtain patents, copyrights, and trademarks in the United States and in selected foreign countries where we believe filing for such protection is appropriate. We also seek to maintain our trade secrets and confidential information by non-disclosure policies and through the use of appropriate confidentiality agreements. We have obtained a substantial number of patents and trademarks in the United States and in other countries. There can be no assurance, however, that these patents are valid or can be enforced against competitive products in every jurisdiction. Although we believe the protection afforded by our patents, patent applications, copyrights, trademarks and trade secrets has value, the rapidly changing technology in the networking industry and uncertainties in the legal process make our future success dependent primarily on the innovative skills, technological expertise, and management abilities of our employees rather than on the protection afforded by patent, copyright, trademark, and trade secret laws.

Many of our products are designed to include software or other intellectual property licensed from third parties. While it may be necessary in the future to seek or renew licenses relating to various aspects of our products, we believe, based upon past experience and standard industry practice that such licenses generally could be obtained on commercially reasonable terms. Nonetheless, there can be no assurance that the necessary licenses would be available on acceptable terms, if at all. Our inability to obtain certain licenses or other rights or to obtain such licenses or rights on favorable terms, or the need to engage in litigation regarding these matters, could have a material adverse effect on our business, operating results, and financial condition. Moreover, inclusion in our products of software or other intellectual property licensed from third parties on a non-exclusive basis can limit our ability to protect our proprietary rights in our products.

The industry in which we compete is characterized by rapidly changing technology, a large number of patents, and frequent claims and related litigation regarding patent and other intellectual property rights. There can be no assurance that our patents and other proprietary rights will not be challenged, invalidated or circumvented, that others will not assert intellectual property rights to technologies that are relevant to us, or that our rights will give us a competitive

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advantage. In addition, the laws of some foreign countries may not protect our proprietary rights to the same extent as the laws of the United States. The risks associated with patents and intellectual property are more fully discussed in the section of this report entitled “Risk Factors,” including but not limited to the risk factors entitled, “Our proprietary rights may prove difficult to enforce,” “We may be found to infringe on intellectual property rights of others” and “We rely on the availability of third-party licenses.”

Employees

As of July 26, 2003, we had approximately 34,000 employees, including 6,000 in manufacturing and service; 12,000 in engineering; 13,000 in sales and marketing; and 3,000 in finance and administration. Approximately 9,000 employees are in locations outside the United States. We consider the relationships with our employees to be positive. Competition for technical personnel in the industry in which we compete is intense. We believe that our future success depends in part on our continued ability to hire, assimilate, and retain qualified personnel. To date, we believe that we have been successful in recruiting qualified employees, but there is no assurance that we will continue to be successful in the future.

Risk Factors

Set forth below and elsewhere in this report and in other documents we file with the SEC are risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this report.

OUR OPERATING RESULTS MAY FLUCTUATE IN FUTURE PERIODS, WHICH MAY ADVERSELY AFFECT OUR STOCK PRICE

Our operating results have been in the past, and will continue to be, subject to quarterly and annual fluctuations as a result of a number of factors. These factors include:

- Fluctuations in demand for our products and services, such as has occurred in the last three years, especially with respect to Internet businesses and telecommunications service providers;
- Changes in sales and implementation cycles for our products and reduced visibility into our customers' spending plans and associated revenue;
- Our ability to maintain appropriate inventory levels and purchase commitments;
- Price and product competition in the communications and networking industries, which can change rapidly due to technological innovation;
- The overall trend toward industry consolidation both among our competitors and our customers;
- The introduction and market acceptance of new technologies and products and our success in new markets, as well as the adoption of new networking standards;
- Variations in sales channels, product costs, or mix of products sold;
- The timing and size of orders from customers;
- Manufacturing lead times;
- Fluctuations in our gross margins, and the factors that contribute to this as described below;
- Our ability to achieve targeted cost reductions;
- The ability of our customers, channel partners and suppliers to obtain financing or to fund capital expenditures;
- The timing and amount of employer payroll tax to be paid on employees' gains on stock options exercised;
- Actual events, circumstances, outcomes, and amounts differing from judgments, assumptions, and estimates used in determining the values of certain assets (including the amounts of related valuation allowances), liabilities and other items reflected in our Consolidated Financial Statements;
- How well we execute on our strategy and operating plans; and
- Changes in accounting rules, such as recording expenses for employee stock option grants.

As a consequence, operating results for a particular future period are difficult to predict, and therefore, prior results are not necessarily indicative of results to be expected in future periods. Any of the foregoing factors, or any other factors discussed elsewhere herein, could have a material adverse effect on our business, results of operations, and financial condition that could adversely affect our stock price.

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OUR OPERATING RESULTS MAY BE ADVERSELY AFFECTED BY THE UNCERTAIN GEOPOLITICAL ENVIRONMENT AND UNFAVORABLE ECONOMIC AND MARKET CONDITIONS

Adverse economic conditions worldwide have contributed to slowdowns in the communications and networking industries and may continue to impact our business, resulting in:

- Reduced demand for our products as a result of continued constraints on information technology-related capital spending by our customers, particularly service providers;
- Increased price competition for our products, not only from our competitors but also as a consequence of customers disposing of unutilized products;
- Increased risk of excess and obsolete inventories;
- Excess facilities and manufacturing capacity; and
- Higher overhead costs as a percentage of revenues.

Recent turmoil in the geopolitical environment in many parts of the world, including terrorist activities and military actions, particularly the aftermath of the war in Iraq, may continue to put pressure on global economic conditions. If the economic and market conditions in the United States and globally do not improve, or if they deteriorate further, we may continue to experience material adverse impacts on our business, operating results, and financial condition as a consequence of the above factors or otherwise. We do not expect the trend of lower capital spending among service providers to reverse itself in the near term.

OUR REVENUES FOR A PARTICULAR PERIOD ARE DIFFICULT TO PREDICT, AND A SHORTFALL IN REVENUES MAY HARM OUR OPERATING RESULTS

As a result of a variety of factors discussed in this report, our revenues for a particular quarter are difficult to predict. Our net sales may grow at a slower rate than in past periods and, in particular periods, may decline. Our ability to meet financial expectations could also be adversely affected if the nonlinear sales pattern seen in some of our past quarters recurs in future periods. We have experienced periods of time during which shipments exceeded net bookings, leading to nonlinearity in shipping patterns. This can increase costs, as irregular shipment patterns result in periods of underutilized capacity and periods when overtime expenses may be incurred, as well as leading to additional costs arising out of inventory management.

In addition, to improve customer satisfaction, we continue to attempt to reduce our manufacturing lead times, which may result in corresponding reductions in order backlog. A decline in backlog levels could result in more variability and less predictability in our quarter-to-quarter net sales and operating results. Long manufacturing lead times have caused our customers in the past to place the same order multiple times within our various sales channels and cancel the duplicative orders when the product is received, or place orders with other vendors with shorter manufacturing lead times. Such multiple ordering (along with other factors) may cause difficulty in predicting our sales and, as a result, could impair our ability to manage parts inventory effectively.

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We plan our operating expense levels based primarily on forecasted revenue levels. These expenses and the impact of long-term commitments are relatively fixed in the short-term. A shortfall in revenue could lead to operating results being below expectations as we may not be able to quickly reduce these fixed expenses in response to short-term business changes.

Any of the above factors could have a material adverse impact on our operations and financial results.

WE EXPECT THAT GROSS MARGIN VARIABILITY AND OUR RECENT LEVEL OF PRODUCT GROSS MARGIN MAY NOT BE SUSTAINABLE

Although we have experienced increasing product gross margins, our recent level of product gross margins may not be sustainable and may be adversely affected in the future by numerous factors, including but not limited to:

- Changes in customer, geographic or product mix, including mix of configurations within each product group;
- Increases in material or labor costs;
- Excess inventory;
- Obsolescence charges;
- Changes in shipment volume;
- Loss of cost savings due to changes in component pricing or charges incurred due to inventory holding periods if parts ordering does not correctly anticipate product demand;
- Increased price competition;
- Changes in distribution channels;
- Increased warranty costs;
- How well we execute on our strategy and operating plans; and
- Introduction of new products or entering new markets, and different pricing and cost structures of new markets.

Changes in service gross margin may result from various factors such as changes in the mix between technical support services and advanced services, as well as the timing of technical support service contract initiations and renewals.

DISRUPTION OF OR CHANGES IN THE MIX OF OUR PRODUCTS AND SERVICES DISTRIBUTION MODEL OR CUSTOMER BASE COULD HARM OUR SALES AND MARGINS

If we fail to manage distribution of our products and services properly, or if our distributors' financial condition or operations weaken, our revenues and gross margins could be adversely affected. Furthermore, a change in the mix of our customers between service provider and

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enterprise, or a change in the mix of direct and indirect sales, could adversely affect our revenues and gross margins.

We use a variety of channels to bring our products and services to our end-user customers, including system integrators, two-tier distributors and direct sales. System integrators integrate our products and services into an overall network solution that they typically resell to an end user. Two-tier distributors stock inventory and sell to resellers who may themselves be system integrators. Direct sales occur to both enterprise accounts and service providers. A substantial portion of our products and services is distributed through our channel partners and the remainder is distributed through direct sales. If sales through indirect channels increase, this may lead to greater difficulty in forecasting the mix of our products, and to a certain degree, the timing of orders from our customers.

Historically, we have seen fluctuations in our gross margins based on changes in the balance of our distribution channels. Although variability to date has not been significant, because each distribution channel has a unique profile, there can be no assurance that changes in the balance of our distribution model in future periods would not have an adverse effect on our gross margins and profitability.

For example:

- We could compete with our channel partners through our direct sales, which may lead these channel partners to use other suppliers that do not directly sell their own products, which could adversely affect our distribution model.
- Some of our system integrators may demand that we absorb a greater share of the risks that their customers may ask them to bear, which may affect our gross margin.
- Some of our channel partners may have insufficient financial resources and may not be able to withstand changes in business conditions, including the current economic downturn. Revenues from indirect sales could suffer if our distributors' financial condition or operations weaken.
- Service provider customers may demand rigorous acceptance testing or prime contracting. As we develop more solution oriented products, enterprise customers may demand similar terms and conditions. Such terms and conditions can lower gross margin and defer revenue recognition.

OUR INVENTORY MANAGEMENT RELATING TO OUR SALES TO DISTRIBUTORS IS COMPLEX, AND EXCESS FINISHED GOODS MAY HARM OUR GROSS MARGINS

We must manage our inventory relating to sales to our distributors effectively. With respect to finished goods, inventory held by our two-tier distributors could affect our results of operations. Distributors may increase orders during periods of product shortages, cancel orders if their inventory is too high, or delay orders in anticipation of new products. Distributors also may adjust their orders in response to the supply of our products and the products of our competitors that are available to the distributor and in response to seasonal fluctuations in end-user demand.

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If we have excess inventory, we may have to reduce our prices and write down inventory, which in turn could result in lower gross margins. Our two-tier distribution channels, in contrast to our one-tier distributors, are given business terms that allow them to return a portion of inventory and participate in various cooperative marketing programs. We recognize revenue to two-tier distributors based on a sell-through method utilizing information provided by our distributors, and we also maintain accruals and allowances for all cooperative marketing and other programs.

SALES TO THE SERVICE PROVIDER MARKET ARE ESPECIALLY VOLATILE, AND CONTINUED DECLINES OR DELAYS IN SALES ORDERS FROM THIS INDUSTRY MAY HARM OUR OPERATING RESULTS AND FINANCIAL CONDITION

Sales to the service provider market have been characterized by large and often sporadic purchases with longer sales cycles. Although we continue to invest in development of new products aimed at this market segment, we have experienced significant decreases in sales to service providers as market conditions have changed. Sales activity in this industry depends upon the stage of completion of expanding network infrastructures, the availability of funding, and the extent that service providers are affected by regulatory, economic and business conditions in the country of operations. Continued declines or delays in orders from this industry could have a material adverse effect on our business, operating results and financial condition. The slowdown in the general economy, over-capacity, changes in the service provider market, and the constraints on capital availability have had a material adverse effect on many of our service provider customers, with numerous such customers going out of business or substantially reducing their expansion plans. These conditions have had a material adverse effect on our business and operating results, and we expect that these conditions may continue for the foreseeable future. Finally, service provider customers typically have longer implementation cycles, require a broader range of service including design services, demand that vendors take on a larger share of risks, often require acceptance provisions which can lead to a delay in revenue recognition, and expect financing from vendors. All these factors can add further risk to business conducted with service providers.

A SHORTAGE OF ADEQUATE COMPONENT SUPPLY OR MANUFACTURING CAPACITY COULD INCREASE OUR COSTS OR CAUSE A DELAY IN OUR ABILITY TO FULFILL ORDERS, AND OUR FAILURE TO ESTIMATE CUSTOMER DEMAND PROPERLY MAY RESULT IN EXCESS OR OBSOLETE COMPONENT SUPPLY THAT COULD ADVERSELY AFFECT OUR GROSS MARGINS

Our growth and ability to meet customer demands depend in part on our ability to obtain timely deliveries of parts from our suppliers. We have experienced component shortages in the past that have adversely affected our operations. We may in the future experience a shortage of certain component parts as a result of strong demand in the industry for those parts or problems experienced by suppliers. If shortages or delays persist, the price of these components may increase, or the components may not be available at all. We may not be able to secure enough components at reasonable prices or of acceptable quality to build new products in a timely

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manner in the quantities or configurations needed. Accordingly, our revenues and gross margins could suffer until other sources can be developed. There can be no assurance that we will not encounter these problems in the future. Although in many cases we use standard parts and components for our products, certain components are presently available only from a single source or limited sources. We may not be able to diversify sources in a timely manner, which could harm our ability to deliver products to customers and seriously impact present and future sales.

We believe that we may be faced with the following challenges going forward:

- New markets in which we participate may grow quickly, and thus consume significant component capacity;
- As we continue to acquire companies and new technologies, we are dependent, at least initially, on unfamiliar supply chains or relatively small supply partners; and
- We face competition for certain components, which are supply constrained, from existing competitors and companies in other markets.

Manufacturing capacity and component supply constraints could be significant issues for us. We use several contract manufacturers and suppliers to provide manufacturing services for our products. During the normal course of business, in order to reduce manufacturing lead times and ensure adequate component supply, we enter into agreements with certain contract manufacturers and suppliers that allow them to procure inventory based upon criteria as defined by us. If we fail to anticipate customer demand properly, an oversupply of parts could result in excess or obsolete components that could adversely affect our gross margins. For additional information regarding our purchase commitments, see Note 8 to the Consolidated Financial Statements in our 2003 Annual Report to Shareholders. A reduction or interruption in supply, a significant increase in the price of one or more components, a failure to adequately authorize procurement of inventory by our contract manufacturers, or a decrease in demand of products could materially adversely affect our business, operating results and financial condition and could materially damage customer relationships. Furthermore, as a result of binding price or purchase commitments with suppliers, we may be obligated to purchase components at prices that are higher than those available in the current market. In the event that we become committed to purchase components at prices in excess of the current market price when the components are actually utilized, our gross margins could decrease.

The fact that we do not own the bulk of our manufacturing facilities could have an adverse impact on the supply of our products and on operating results. Financial problems of contract manufacturers on whom we rely, or reservation of manufacturing capacity by other companies, inside or outside of our industry, could either limit supply or increase costs.

THE MARKETS IN WHICH WE COMPETE ARE INTENSELY COMPETITIVE, WHICH COULD ADVERSELY AFFECT OUR REVENUE GROWTH

For information regarding our competition, and the risks arising out of the competitive environment in which we operate, see the section entitled "Competition" contained in Item 1 of this report.

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WE DEPEND UPON THE DEVELOPMENT OF NEW PRODUCTS AND ENHANCEMENTS TO EXISTING PRODUCTS, AND IF WE FAIL TO PREDICT AND RESPOND TO EMERGING TECHNOLOGICAL TRENDS AND CUSTOMERS' CHANGING NEEDS, OUR OPERATING RESULTS AND MARKET SHARE MAY SUFFER

The markets for our products are characterized by rapidly changing technology, evolving industry standards, new product introductions, and evolving methods of building and operating networks. Our operating results depend on our ability to develop and introduce new products into existing and emerging markets and to reduce the production costs of existing products. We believe the Internet and other data, voice and video networks are evolving into a “network of networks,” which will require common technology platforms and broad end-to-end solutions for particular applications rather than products aimed at particular market segments. In that environment, customers will be more concerned with overall solutions rather than with whether the solution is built around a particular technology, such as routing or switching. The process of developing new technology is complex and uncertain, and if we fail to accurately predict customers’ changing needs and emerging technological trends, our business could be harmed. We must commit significant resources to develop new products before knowing whether our investments will result in products the market will accept. In particular, if the “network of networks” model does not emerge as we believe it will, many of our investments may prove to be without value. Furthermore, we may not execute successfully on that vision because of errors in product planning or timing, technical hurdles that we fail to overcome in a timely fashion, or a lack of appropriate resources. This could result in competitors providing those solutions before we do, and loss of market share, revenues and earnings. The success of new products is dependent on several factors, including proper new product definition, component costs, timely completion and introduction of these products, differentiation of new products from those of our competitors, and market acceptance of these products. There can be no assurance that we will successfully identify new product opportunities, develop and bring new products to market in a timely manner, or achieve market acceptance of our products, or that products and technologies developed by others will not render our products or technologies obsolete or noncompetitive. Specifically, the products and technologies that we have identified as “Advanced Technologies” may not prove to have the market success we anticipate, and we may not successfully identify and invest in other advanced technologies that will be important for our future success.

OUR BUSINESS SUBSTANTIALLY DEPENDS UPON THE CONTINUED GROWTH OF THE INTERNET AND INTERNET-BASED SYSTEMS; CHANGES IN INDUSTRY STRUCTURE AND MARKET CONDITIONS COULD LEAD TO DISCONTINUANCES OF CERTAIN OF OUR PRODUCTS OR BUSINESSES

A substantial portion of our business and revenue depends on growth of the Internet and on the deployment of our products by customers that depend on the continued growth of the Internet. As a result of the current economic slowdown and reduction in capital spending, which have particularly affected telecommunications service providers, spending on Internet infrastructure has declined, which has had a material adverse effect on our business. To the extent that the economic slowdown and reduction in capital spending continue to adversely affect spending on

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Internet infrastructure, we could continue to experience material adverse effects on our business, operating results, and financial condition.

Because of the rapid introduction of new products, and changing customer requirements related to matters such as cost-effectiveness and security, we believe that there could be certain performance problems with Internet communications in the future, which could receive a high degree of publicity and visibility. As we are a large supplier of networking products, our business, operating results, and financial condition may be materially adversely affected, regardless of whether or not these problems are due to the performance of our own products. Such an event could also result in a material adverse effect on the market price of our common stock independent of direct effects on our business.

In response to changes in industry and market conditions, we may be required to strategically realign our resources and consider restructuring, disposing of, or otherwise exiting businesses. Any decision to limit investment in or dispose of or otherwise exit businesses may result in the recording of special charges, such as inventory and technology related write-offs, workforce reduction costs, charges relating to consolidation of excess facilities, or claims from third parties who were resellers or users of discontinued products. Our estimates with respect to the useful life or ultimate recoverability of our carrying basis of assets, including purchased intangible assets, could change as a result of such assessments and decisions. Further, our estimates relating to the liabilities for excess facilities are affected by changes in real estate market conditions. Additionally, we are required to perform goodwill impairment tests on an annual basis and between annual tests in certain circumstances. There can be no assurance that future goodwill impairment tests will not result in a charge to earnings.

WE HAVE MADE AND EXPECT TO CONTINUE TO MAKE ACQUISITIONS THAT COULD DISRUPT OUR OPERATIONS AND HARM OUR OPERATING RESULTS

Our growth is dependent upon market growth, our ability to enhance our existing products, and our ability to introduce new products on a timely basis. We intend to continue to address the need to develop new products and enhance existing products through acquisitions of other companies, product lines, technologies and personnel. Acquisitions involve numerous risks, including the following:

- Difficulties in integrating the operations, technologies, products and personnel of the acquired companies;
- Diversion of management's attention from normal daily operations of the business;
- Potential difficulties in completing projects associated with in-process research and development;
- Difficulties in entering markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions;
- Initial dependence on unfamiliar supply chains or relatively small supply partners;
- Insufficient revenues to offset increased expenses associated with acquisitions; and
- The potential loss of key employees of the acquired companies.

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Acquisitions may also cause us to:

- Issue common stock that would dilute our current shareholders' percentage ownership;
- Assume liabilities;
- Record goodwill and non-amortizable intangible assets that will be subject to impairment testing on a regular basis and potential periodic impairment charges;
- Incur amortization expenses related to certain intangible assets;
- Incur large and immediate write-offs, and restructuring and other related expenses; or
- Become subject to litigation.

Mergers and acquisitions of high-technology companies are inherently risky, and no assurance can be given that our previous or future acquisitions will be successful and will not materially adversely affect our business, operating results or financial condition. Failure to manage and successfully integrate acquisitions we make could harm our business and operating results in a material way. Prior acquisitions have resulted in a wide range of outcomes, from successful introduction of new products and technologies to an inability to do so. Even when an acquired company has already developed and marketed products, there can be no assurance that product enhancements will be made in a timely fashion or that preacquisition due diligence will have identified all possible issues that might arise with respect to such products.

From time to time, we have made acquisitions that result in in-process research and development expenses being charged in an individual quarter. These charges may occur in any particular quarter, resulting in variability in our quarterly earnings.

See also the discussion of risks related to new product development, which also applies to acquisitions, above under the risk factor entitled, "We depend upon the development of new products and enhancements to existing products, and if we fail to predict and respond to emerging technological trends and customers' changing needs, our operating results and market share may suffer."

ENTRANCE INTO NEW OR DEVELOPING MARKETS EXPOSES US TO ADDITIONAL COMPETITION AND WILL LIKELY INCREASE DEMANDS ON OUR SERVICE AND SUPPORT OPERATIONS

As we focus on new market opportunities, such as storage, wireless, security, transporting data, voice, and video traffic across the same network, we will increasingly compete with large telecommunications equipment suppliers as well as startup companies. Several of our competitors may have greater resources, including technical and engineering resources, than we do. Additionally, as customers in these markets complete infrastructure deployments, they may require greater levels of service, support and financing than we have provided in the past. Demand for these types of service or financing contracts may increase in the future. There can be no assurance that we can provide products, service, support and financing to effectively compete for these market opportunities. Further, provision of greater levels of services by us may result in a delay in the timing of revenue recognition. In addition, if we successfully move into other

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markets, such as the consumer market, we will be subject to additional risks associated with that market, including the effects of general market conditions and reduced consumer confidence.

PRODUCT QUALITY PROBLEMS COULD LEAD TO REDUCED REVENUES, GROSS MARGINS AND NET INCOME

We produce highly complex products that incorporate leading-edge technology, including both hardware and software. Software typically contains bugs that can unexpectedly interfere with expected operations. There can be no assurance that our pre-shipment testing programs will be adequate to detect all defects—either in individual products or which could affect numerous shipments—which might interfere with customer satisfaction, reduce sales opportunities, or affect gross margins. In the past, we have had to recall certain components and provide remediation in response to the discovery of bugs in products that we had shipped. While the cost of such recalls and remediation has not been material in the past, there can be no assurance that such a recall or remediation, depending on the product involved, would not have a material impact. An inability to cure a product defect could result in the failure of a product line, temporary or permanent withdrawal from a product or market segment, damage to our reputation, inventory costs, or product reengineering expenses, any of which could have a material impact on revenues, margins and net income.

INDUSTRY CONSOLIDATION MAY LEAD TO INCREASED COMPETITION AND MAY HARM OUR OPERATING RESULTS

There has been a trend toward industry consolidation in our markets for several years. We expect this trend toward industry consolidation to continue as companies attempt to strengthen or hold their market positions in an evolving industry and as companies are acquired or are unable to continue operations. We believe that industry consolidation may result in stronger competitors that are better able to compete as sole-source vendors for customers. This could lead to more variability in operating results and could have a material adverse effect on our business, operating results, and financial condition. Furthermore, particularly in the service provider market, rapid consolidation will lead to fewer customers, with the effect that loss of a major customer could have a material impact on results not anticipated in a customer marketplace composed of more numerous participants.

DUE TO THE GLOBAL NATURE OF OUR OPERATIONS, POLITICAL OR ECONOMIC CHANGES, OR OTHER FACTORS, IN A SPECIFIC COUNTRY OR REGION COULD HARM OUR COSTS, EXPENSES AND FINANCIAL CONDITION

We conduct significant sales and customer support operations in countries outside of the United States and also depend on non-U.S. operations of our contract manufacturers and our distribution partners. For fiscal 2003, we derived 48.9% of our revenues from sales outside the United States. Accordingly, our future results could be materially adversely affected by a variety of uncontrollable and changing factors including, among others, foreign currency exchange rates; political or social unrest or economic instability in a specific country or region; trade protection measures and other regulatory requirements which may affect our ability to import or export our

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products from various countries; political considerations that affect service provider and government spending patterns; difficulties in staffing and managing international operations; and adverse tax consequences, including imposition of withholding or other taxes on payments by subsidiaries. In addition, if the outbreak of Severe Acute Respiratory Syndrome (SARS) in Asia continues or recurs, this could have an adverse impact on our Asian operations. If there is a significant spread of SARS beyond Asia, other aspects of our operations could be negatively impacted. Any or all of these factors could have a material adverse impact on our costs, expenses and financial condition.

WE ARE EXPOSED TO FLUCTUATIONS IN CURRENCY EXCHANGE RATES THAT COULD NEGATIVELY IMPACT OUR FINANCIAL RESULTS AND CASH FLOWS

Because a significant portion of our business is conducted outside the United States, we face exposure to adverse movements in foreign currency exchange rates. These exposures may change over time as business practices evolve and could have a material adverse impact on our financial results and cash flows. Historically, our primary exposures have related to non-dollar-denominated sales in Japan, Canada, and Australia, and certain non-dollar-denominated operating expenses in Europe, Latin America, and Asia, where we sell primarily in U.S. dollars. Additionally, we have exposures to emerging market currencies, which can have extreme currency volatility. An increase in the value of the dollar could increase the real cost to our customers of our products in those markets outside the United States where we sell in dollars, and a weakened dollar could increase the cost of local operating expenses and procurement of raw materials to the extent we must purchase components in foreign currencies.

Currently, we enter into foreign exchange forward contracts to minimize the short-term impact of foreign currency fluctuations on certain foreign currency receivables, investments and payables. In addition, we periodically will hedge anticipated foreign currency cash flows. Our attempts to hedge against these risks may not be successful, resulting in an adverse impact on our net income.

WE ARE EXPOSED TO THE CREDIT RISK OF SOME OF OUR CUSTOMERS AND TO CREDIT EXPOSURES IN WEAKENED MARKETS, WHICH COULD RESULT IN MATERIAL LOSSES

Most of our sales are on an open credit basis, with typical payment terms of 30 days in the United States, and, because of local customs or conditions, longer in some markets outside the United States. We monitor individual customer payment capability in granting such open credit arrangements, seek to limit such open credit to amounts we believe the customers can pay, and maintain reserves we believe are adequate to cover exposure for doubtful accounts. Beyond our open credit arrangements, we have also experienced demands for customer financing and facilitation of leasing arrangements. We expect demand for customer financing to continue. We believe customer financing is a competitive factor in obtaining business, particularly in supplying customers involved in significant infrastructure projects. Our loan financing arrangements may include not only financing the acquisition of our products and services but also providing additional funds for other costs associated with network installation and

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integration of our products and services and for working capital purposes. We do not recognize revenue on such loan financing arrangements until cash payments are received.

Because of the current slowdown in the global economy, our exposure to the credit risks relating to our financing activities described above has increased. Although we have programs in place that are designed to monitor and mitigate the associated risk, including monitoring of particular risks in certain geographic areas, there can be no assurance that such programs will be effective in reducing our credit risks. There have been significant bankruptcies among customers both on open credit and with loan or lease financing arrangements, particularly among Internet businesses and service providers, causing us to incur economic or financial losses. There can be no assurance that additional losses will not be incurred. Although these losses have not been material to date, future losses, if incurred, could harm our business and have a material adverse effect on our operating results and financial condition.

A portion of our sales is derived through our resellers in two-tier distribution channels. These resellers/customers are generally given business terms that allow them to return a portion of inventory, receive credits for changes in selling prices, and participate in various cooperative marketing programs. We maintain estimated accruals and allowances for such exposures. However, such resellers tend to have more limited financial resources than other resellers and end-user customers and therefore represent potential sources of increased credit risk because they may be more likely to lack the reserve resources to meet payment obligations.

OUR PROPRIETARY RIGHTS MAY PROVE DIFFICULT TO ENFORCE

We generally rely on patents, copyrights, trademarks, and trade secret laws to establish and maintain proprietary rights in our technology and products. While we have been issued a number of patents and other patent applications are currently pending, there can be no assurance that any of these patents will not be challenged, invalidated, or circumvented, or that any rights granted under these patents will in fact provide competitive advantages to us. Furthermore, many key aspects of networking technology are governed by industry-wide standards, which are usable by all market entrants. In addition, there can be no assurance that patents will be issued from pending applications, or that claims allowed on any patents will be sufficiently broad to protect our technology. In addition, the laws of some foreign countries may not protect our proprietary rights to the same extent as do the laws of the United States. The outcome of any actions taken in these foreign countries may be different than if such actions were determined under the laws of the United States. While we are not dependent on any individual patents or group of patents for particular segments of the business for which we compete, if we are unable to protect our proprietary rights to the totality of the features (including aspects of products protected other than by patent rights) in a market, we may find ourselves at a competitive disadvantage to others who need not incur the substantial expense, time and effort required to create the innovative products which have enabled us to be successful.

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WE MAY BE FOUND TO INFRINGE ON INTELLECTUAL PROPERTY RIGHTS OF OTHERS

Third parties, including customers, have in the past and may in the future assert claims or initiate litigation related to exclusive patent, copyright, trademark and other intellectual property rights to technologies and related standards that are relevant to us. These assertions have increased over time as a result of our growth and the general increase in the pace of patent claims assertions, particularly in the United States. Because of the existence of a large number of patents in the networking field, the secrecy of some pending patents and the rapid rate of issuance of new patents, it is not economically practical nor even possible to determine in advance whether a product or any of its components infringe or will infringe the patent rights of others. The asserted claims and/or initiated litigation, can include claims against us or our manufacturers, suppliers, or customers, alleging infringement of their proprietary rights with respect to our existing or future products or components of those products. Regardless of the merit of these claims, they can be time-consuming, result in costly litigation and diversion of technical and management personnel, or require us to develop a non-infringing technology or enter into license agreements. Where claims are made by customers, resistance even to unmeritorious claims could damage customer relationships. There can be no assurance that licenses will be available on acceptable terms and conditions, if at all, in all such circumstances, or that our indemnification by their suppliers will be adequate to cover their costs if a claim were brought directly against us or our customers. Furthermore, because of the potential for high court awards which are not necessarily predictable, it is not unusual to find even arguably unmeritorious claims settled for significant funds. If any infringement or other intellectual property claim made against us by any third party is successful, or if we fail to develop non-infringing technology or license the proprietary rights on commercially reasonable terms and conditions, our business, operating results and financial condition could be materially and adversely affected.

Our exposure to risks associated with the use of intellectual property may be increased as a result of acquisitions, as we have a lower level of visibility into the development process with respect to such technology or the care taken to safeguard against infringement risks. Further, in the past third parties have made infringement and similar claims after we have acquired technology that had not been asserted prior to our acquisition.

WE RELY ON THE AVAILABILITY OF THIRD-PARTY LICENSES

Many of our products are designed to include software or other intellectual property licensed from third parties. It may be necessary in the future to seek or renew licenses relating to various aspects of these products. There can be no assurance that the necessary licenses would be available on acceptable terms, if at all. The inability to obtain certain licenses or other rights or to obtain such licenses or rights on favorable terms, or the need to engage in litigation regarding these matters, could have a material adverse effect on our business, operating results, and financial condition. Moreover, the inclusion in our products of software or other intellectual property licensed from third parties on a non-exclusive basis could limit our ability to protect our proprietary rights in our products.

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OUR OPERATING RESULTS AND FUTURE PROSPECTS COULD BE MATERIALLY HARMED BY UNCERTAINTIES OF REGULATION OF THE INTERNET

Currently, few laws or regulations apply directly to access or commerce on the Internet. We could be materially adversely affected by regulation of the Internet and Internet commerce in any country where we operate. Such regulations could include matters such as voice over the Internet or using Internet Protocol, encryption technology, and access charges for Internet service providers. The adoption of regulation of the Internet and Internet commerce could decrease demand for our products, and at the same time, increase the cost of selling our products, which could have a material adverse effect on our business, operating results, and financial condition.

OUR SUCCESS LARGELY DEPENDS ON OUR ABILITY TO RETAIN AND RECRUIT KEY PERSONNEL, AND ANY FAILURE TO DO SO WOULD HARM OUR ABILITY TO MEET KEY OBJECTIVES

Our success has always depended in large part on our ability to attract and retain highly skilled technical, managerial, sales and marketing personnel. In spite of the economic slowdown, competition for these personnel is intense, especially in the Silicon Valley area of Northern California. Volatility or lack of positive performance in our stock price may also adversely affect our ability to retain key employees, all of whom have been granted stock options. The loss of services of any of our key personnel, the inability to retain and attract qualified personnel in the future, or delays in hiring required personnel, particularly engineering and sales personnel, could make it difficult to meet key objectives, such as timely and effective product introductions. In addition, companies in the networking industry whose employees accept positions with competitors frequently claim that competitors have engaged in improper hiring practices. We have received these claims in the past and may receive additional claims to this effect in the future.

ADVERSE RESOLUTION OF LITIGATION MAY HARM OUR OPERATING RESULTS OR FINANCIAL CONDITION

We are a party to lawsuits in the normal course of our business. Litigation can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. An unfavorable resolution of a particular lawsuit could have a material adverse effect on our business, operating results, or financial condition. For additional information regarding certain of the lawsuits in which we are involved, see Item 3, "Legal Proceedings," contained in Part I of this report.

CHANGES IN EFFECTIVE TAX RATES OR ADVERSE OUTCOMES RESULTING FROM EXAMINATION OF OUR INCOME TAX RETURNS COULD ADVERSELY AFFECT OUR RESULTS

Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates, by changes in the valuation of our

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deferred tax assets and liabilities, or by changes in tax laws or interpretations thereof. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these continuous examinations will not have an adverse effect on our operating results and financial condition.

OUR BUSINESS AND OPERATIONS ARE ESPECIALLY SUBJECT TO THE RISKS OF EARTHQUAKES, FLOODS, AND OTHER NATURAL CATASTROPHIC EVENTS

Our corporate headquarters, including certain of our research and development operations and our manufacturing facilities, are located in the Silicon Valley area of Northern California, a region known for seismic activity. Additionally, a certain number of our facilities, including one of our manufacturing facilities, are located near rivers that have experienced flooding in the past. A significant natural disaster, such as an earthquake or a flood, could have a material adverse impact on our business, operating results, and financial condition.

MANMADE PROBLEMS SUCH AS COMPUTER VIRUSES OR TERRORISM MAY DISRUPT OUR OPERATIONS AND HARM OUR OPERATING RESULTS

Despite our implementation of network security measures, our servers are vulnerable to computer viruses, break-ins, and similar disruptions from unauthorized tampering with our computer systems. Any such event could have a material adverse effect on our business, operating results and financial condition. In addition, the effects of war or acts of terrorism could have a material adverse effect on our business, operating results and financial condition. The continued threat of terrorism and heightened security and military action in response to this threat, or any future acts of terrorism, may cause further disruptions to these economies and create further uncertainties. Similarly, events such as the recent blackouts in the eastern United States, and recurrences of these blackouts, could have similar negative impacts. To the extent that such disruptions or uncertainties result in delays or cancellations of customer orders, or the manufacture or shipment of our products, our business, operating results and financial condition could be materially and adversely affected.

WE ARE EXPOSED TO FLUCTUATIONS IN THE MARKET VALUES OF OUR PORTFOLIO INVESTMENTS AND IN INTEREST RATES; IMPAIRMENT OF OUR INVESTMENTS COULD HARM OUR EARNINGS

We maintain an investment portfolio of various holdings, types and maturities. These securities are generally classified as available for sale and, consequently, are recorded on the Consolidated Balance Sheets at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income (loss), net of tax. Part of this portfolio includes equity investments in several publicly traded companies, the values of which are subject to market price volatility. The current economic downturn and other factors have adversely affected the public equities market, and general economic conditions may continue to worsen. As a result, we may

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recognize in earnings the decline in fair value of our publicly traded equity investments below the cost basis when the decline is judged to be other- than- temporary. For information regarding the sensitivity of and risks associated with the market value of portfolio investments and interest rates, refer to the section titled “Quantitative and Qualitative Disclosures About Market Risk” in our 2003 Annual Report to Shareholders, which is incorporated by reference in Item 7A of this report. Furthermore, our equity investments in both publicly traded companies and private companies are subject to risk of loss of investment capital. These investments are inherently risky as the market for the technologies or products they have under development are typically in the early stages and may never materialize. We could lose our entire investment in these companies.

IF WE DO NOT SUCCESSFULLY MANAGE OUR STRATEGIC ALLIANCES, WE MAY EXPERIENCE INCREASED COMPETITION OR DELAYS IN PRODUCT DEVELOPMENT

We have several strategic alliances with large and complex organizations and other companies with whom we work to offer complementary products and services. These arrangements are generally limited to specific projects, the goal of which is generally to facilitate product compatibility and adoption of industry standards. If successful, these relationships may be mutually beneficial and result in industry growth. However, these alliances carry an element of risk because, in most cases, we must compete in some business areas with a company with which we have a strategic alliance and, at the same time, cooperate with that company in other business areas. Also, if these companies fail to perform or if these relationships fail to materialize as expected, we could suffer delays in product development or other operational difficulties.

CHANGES IN TELECOMMUNICATIONS REGULATION AND TARIFFS COULD HARM OUR PROSPECTS AND FUTURE SALES

Changes in telecommunications requirements in the United States or other countries could affect the sales of our products. In particular, we believe that there may be future changes in U.S. telecommunications regulations that could slow the expansion of the service providers’ network infrastructures and materially adversely affect our business, operating results, and financial condition. Future changes in tariffs by regulatory agencies or application of tariff requirements to currently untariffed services could affect the sales of our products for certain classes of customers. Additionally, in the United States, our products must comply with various Federal Communications Commission requirements and regulations. In countries outside of the United States, our products must meet various requirements of local telecommunications authorities. Changes in tariffs or failure by us to obtain timely approval of products could have a material adverse effect on our business, operating results, and financial condition.

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OUR STOCK PRICE MAY CONTINUE TO BE VOLATILE

Our common stock has experienced substantial price volatility, particularly as a result of variations between our actual financial results and the published expectations of analysts, and as a result of announcements by our competitors and us. Furthermore, speculation in the press or investment community about our strategic position, financial condition, results of operations, business or significant transactions can cause changes in our stock price. In addition, the stock market has experienced extreme price and volume fluctuations that have affected the market price of many technology companies, in particular, and that have often been unrelated to the operating performance of these companies. These factors, as well as general economic and political conditions, may materially adversely affect the market price of our common stock in the future. Additionally, volatility or a lack of positive performance in our stock price may adversely affect our ability to retain key employees, all of whom are compensated in part based on the performance of our stock price.

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Executive Officers of the Registrant

The following table shows the name, age and position of each of our executive officers as of August 31, 2003:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Larry R. Carter	60	<u>Senior Vice President, Office of the President, and Director</u> Mr. Carter has been a member of the Board of Directors since July 2000. He joined Cisco in January 1995 as Vice President of Finance and Administration, Chief Financial Officer, and Secretary. In July 1997, he was promoted to Senior Vice President of Finance and Administration, Chief Financial Officer, and Secretary. In May 2003 upon his retirement as Chief Financial Officer and Secretary, he was appointed to his current position. Before joining Cisco, he was employed by Advanced Micro Devices, Inc. as the Vice President and Corporate Controller. Mr. Carter currently serves on the Board of Directors of eSpeed, Inc. and QLogic Corporation; and is on the Board of Trustees for Loyola Marymount University.
John T. Chambers	54	<u>President, Chief Executive Officer, and Director</u> Mr. Chambers has been a member of the Board of Directors since November 1993. He joined Cisco as Senior Vice President in January 1991 and was promoted to Executive Vice President in June 1994. Mr. Chambers was promoted to his current position as of January 31, 1995. Before joining Cisco, he was employed by Wang Laboratories, Inc. for eight years, where, in his last role, he was the Senior Vice President of U.S. Operations.
Mark Chandler	47	<u>Vice President, Legal Services, General Counsel and Secretary</u> Mr. Chandler joined Cisco in July 1996, as Cisco's Managing Attorney for Europe, the Middle East and Africa and was promoted to Vice President, Worldwide Legal Services in February 2001. In October 2001, he was promoted to Vice President, Legal Services and General Counsel. In May 2003, he was appointed to his current position. Before joining Cisco, he was General Counsel of Stratacom, Inc. Stratacom was acquired by Cisco in July 1996. Before joining Stratacom, he served as Vice President, Corporate Development and General Counsel of Maxtor Corporation.
Richard J. Justice	53	<u>Senior Vice President, Worldwide Field Operations</u> Mr. Justice joined Cisco in December 1996 as Senior Vice President of the Americas. In February 2000, he was promoted to his current position. Before joining Cisco, Mr. Justice spent 22 years at Hewlett-Packard Company where, in his last role, he was responsible for Worldwide Enterprise Sales and Marketing.
Mario Mazzola	56	<u>Senior Vice President, Chief Development Officer</u> Mr. Mazzola joined Cisco in September 1993 as Vice President and General Manager of the Workgroup Business Unit. He was promoted to Senior Vice President of the Enterprise Line of Business in April 1997. In June 2000, Mr. Mazzola took on the leadership of Cisco's new technology development efforts as Senior Vice President of New Business Ventures. In August 2001, he was promoted to his current position. Before joining Cisco, he served as President and Chief Executive Officer of Crescendo Communications, Inc. from 1990 until Crescendo was acquired by Cisco in September 1993.

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<u>Name</u>	<u>Age</u>	<u>Position</u>
Randy Pond	49	<u>Senior Vice President, Operations, Systems, and Processes</u> Mr. Pond joined Cisco in September 1993. In 1994, Mr. Pond assumed leadership of Cisco's Supply/Demand group. In 1994, he was appointed Director of Manufacturing Operations. He was promoted to Vice President of Manufacturing in 1995. In June 1999, Mr. Pond was promoted to Senior Vice President of West Coast and Asia operations. He was promoted to Senior Vice President, Worldwide Manufacturing Operations and Logistics in June 2001. In August 2003, he was promoted to his current position. Before joining Cisco, Mr. Pond held the position of Vice President Finance, Chief Financial Officer and Vice President of Operations at Crescendo Communications, Inc.
Dennis D. Powell	55	<u>Senior Vice President and Chief Financial Officer</u> Mr. Powell joined Cisco in January 1997 as Vice President, Corporate Controller. In June 2002, he was promoted to Senior Vice President, Corporate Finance. Mr. Powell was promoted to Senior Vice President and Chief Financial Officer in May 2003. Before joining Cisco, Mr. Powell was employed by Coopers & Lybrand LLP for 26 years, most recently as a senior partner.
Betsy Rafael	42	<u>Vice President, Corporate Controller and Principal Accounting Officer</u> Ms. Rafael joined Cisco in April 2002 as Vice President, Corporate Controller. In July 2003 she was also named to the role of Principal Accounting Officer. Before joining Cisco, from December 2000 until March 2002, Ms. Rafael was employed by Aspect Communications Corporation, most recently as Executive Vice President, Finance, Chief Financial Officer and Chief Administrative Officer. From May 2000 until November 2000, she was employed by Escalate Corporation as Senior Vice President and Chief Financial Officer. From November 1994 until May 2000, she was employed by Silicon Graphics, Inc., most recently as Senior Vice President and Chief Financial Officer.
James Richardson	46	<u>Senior Vice President, Chief Marketing Officer</u> Mr. Richardson joined Cisco in May 1990, founded Cisco's Canadian operations, and was promoted to Vice President of Intercontinental Operations in June 1992. Mr. Richardson was promoted to Vice President of North American Operations in June 1994. He was promoted to President of EMEA and Senior Vice President in August 1996. In September 1999, he was promoted to Senior Vice President, Office of the President. In January 2000, he was promoted to Senior Vice President of the Enterprise Line of Business and Internet Communications Software Group. In August 2001, Mr. Richardson was promoted to his current position.

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ITEM 2. Properties

Our headquarters is located on an owned site in San Jose, California. In addition to this site, we have certain owned sites in the United States, which include facilities in the surrounding areas of San Jose, California; Boxborough, Massachusetts; Salem, New Hampshire; Richardson, Texas; and Research Triangle Park, North Carolina. We also own land for expansion in some of these locations. In addition, we also lease office space in several U.S. locations.

Outside the United States, we have operations, primarily in leased sites, in the Americas; EMEA; Asia Pacific; and Japan. Larger site locations include the United Kingdom, France, Belgium, the Netherlands, Singapore, Hong Kong, Australia, Japan, and India. We own and lease manufacturing facilities, which are primarily test and assembly operations, in three locations in the United States and none internationally. We believe that our existing properties are in good condition and suitable for the conduct of our business.

For additional information regarding obligations under leases, see Note 8 to the Consolidated Financial Statements in our 2003 Annual Report to Shareholders, which is incorporated by reference herein. For additional information regarding properties by operating segment, see Note 12 to the Consolidated Financial Statements in our 2003 Annual Report to Shareholders, which is incorporated by reference herein.

ITEM 3. Legal Proceedings

Beginning on April 20, 2001, a number of purported shareholder class action lawsuits were filed in the United States District Court for the Northern District of California against us and certain of our officers and directors. The lawsuits have been consolidated, and the consolidated action is purportedly brought on behalf of those who purchased our publicly traded securities between August 10, 1999 and February 6, 2001. Plaintiffs allege that defendants have made false and misleading statements, purport to assert claims for violations of the federal securities laws, and seek unspecified compensatory damages and other relief. We believe the claims are without merit and intend to defend the actions vigorously.

In addition, beginning on April 23, 2001, a number of purported shareholder derivative lawsuits were filed in the Superior Court of California, County of Santa Clara and in the Superior Court of California, County of San Mateo. There is a procedure in place for the coordination of such actions. Two purported derivative suits have also been filed in the United States District Court for the Northern District of California, and those federal court actions have been consolidated. The consolidated federal court derivative action was dismissed by the court, and plaintiffs have appealed from that decision. The complaints in the various derivative actions include claims for breach of fiduciary duty, waste of corporate assets, mismanagement, unjust enrichment, and violations of the California Corporations Code; seek compensatory and other damages, disgorgement, and other relief; and are based on essentially the same allegations as the class actions.

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In addition, we are subject to legal proceedings, claims, and litigation arising in the ordinary course of business. While the outcome of these matters is currently not determinable, we do not expect that the ultimate costs to resolve these matters will have a material adverse effect on our consolidated financial position, results of operations, or cash flows.

ITEM 4. Submission of Matters to a Vote of Security Holders

None.

PART II

ITEM 5. Market for Registrant's Common Equity and Related Stockholder Matters

On May 7, 2003, we issued an aggregate of 773,717 shares of our common stock in connection with the acquisition of SignalWorks, Inc. On May 31, 2003, we issued an aggregate of 28,961,987 shares of our common stock in connection with the acquisition of the business of The Linksys Group, Inc. The offers and sales of these securities were effected without registration in reliance on the exemption afforded by Section 3(a)(10) of the Securities Act of 1933, as amended. Each issuance was approved, after a hearing upon the fairness of the terms and conditions of the transaction, by the California Department of Corporations under authority to grant such approval as expressly authorized by the laws of the State of California.

The remaining information required by this item is incorporated by reference to page 63 of our 2003 Annual Report to Shareholders.

ITEM 6. Selected Financial Data

The information required by this item is incorporated by reference to page 17 of our 2003 Annual Report to Shareholders.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information required by this item is incorporated by reference to pages 18 to 32 of our 2003 Annual Report to Shareholders.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

The information required by this item is incorporated by reference to pages 33 to 34 of our 2003 Annual Report to Shareholders.

ITEM 8. Financial Statements and Supplementary Data

The information required by this item is incorporated by reference to pages 35 to 63 of our 2003 Annual Report to Shareholders.

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ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None.

ITEM 9A. Controls and Procedures

Evaluation of disclosure controls and procedures . Based on our management’s evaluation (with the participation of our principal executive officer and principal financial officer), as of the end of the period covered by this report, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, (the “Exchange Act”)) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Changes in internal control over financial reporting . There was no change in our internal control over financial reporting during our fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III

ITEM 10. Directors and Executive Officers of the Registrant

The information required by this item relating to our directors and nominees, and compliance with Section 16(a) of the Securities Act of 1934 is included under the captions “Proposal No. 1:–Election of Directors” and “Ownership of Securities–Section 16(a) Beneficial Ownership Reporting Compliance” in our Proxy Statement related to the 2003 Annual Meeting of Shareholders and is incorporated herein by reference.

The information required by this item relating to our executive officers is included under the caption “Executive Officers of the Registrant” in Part I of this report and is incorporated by reference into this section.

We have adopted a code of ethics that applies to our principal executive officer and all members of our finance department, including the principal financial officer and principal accounting officer. This code of ethics, which consists of the “Special Ethics Obligations for Employees with Financial Reporting Responsibilities” section of our Code of Business Conduct and Corporate Governance that applies to employees generally, is posted on our Website. The Internet address for our Website is <http://www.cisco.com>, and the code of ethics may be found as follows:

1. From our main Web page, first click on “About Cisco,” and then on “Investor Relations.”
2. Next, click on “Corporate Governance.”
3. Finally, click on “Code of Business Conduct.”

We intend to satisfy the disclosure requirement under Item 10 of Form 8-K regarding an amendment to, or waiver from, a provision of this code of ethics by posting such information on our website, at the address and location specified above.

ITEM 11. Executive Compensation

The information required by this item is included under the captions “Proposal No. 1:–Election of Directors–Director Compensation” and Executive Compensation and Related Information” in our Proxy Statement related to the 2003 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item relating to security ownership of certain beneficial owners and management, and securities authorized for issuance under equity compensation plans is included under the captions “Ownership of Securities” and “Equity Compensation Plan Information” in our Proxy Statement related to the 2003 Annual Meeting of Shareholders and is incorporated herein by reference.

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ITEM 13. Certain Relationships and Related Transactions

The information required by this item is included under the caption “Executive Compensation and Related Information–Certain Relationships and Related Transactions” in our Proxy Statement related to the 2003 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 14. Principal Accountant Fees and Services

The information required by this item is included under the captions “Proposal No. 3:–Ratification of Independent Auditors–Principal Accountant Fees and Services” and “–Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors” in our Proxy Statement related to the 2003 Annual Meeting of Shareholders and is incorporated herein by reference.

PART IV

ITEM 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) 1. Financial Statements

The Index to Financial Statements and Financial Statement Schedule on Page 39 is incorporated herein by reference as the list of financial statements required as part of this report.

2. Financial Statement Schedule

The Index to Financial Statements and Financial Statement Schedule on Page 39 is incorporated herein by reference as the list of financial statement schedules required as part of this report.

3. Exhibits

The exhibit list in the Index to Exhibits on page 44 is incorporated herein by reference as the list of exhibits required as part of this report.

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(b) Reports on Form 8-K

We filed or furnished three reports on Form 8-K during our fourth quarter ended July 26, 2003. Information regarding the items reported on is as follows:

<u>Date Filed or Furnished</u>	<u>Item No.</u>	<u>Description</u>
May 6, 2003	Items 7 and 9*	On May 6, 2003, we announced our results of operations for our fiscal third quarter ended April 26, 2003 (Consolidated Financial Statements for this period were furnished with this report).
June 5, 2003	Item 5	We reported the completion of our acquisition of the business of The Linksys Group, Inc. on May 31, 2003.
July 18, 2003	Items 5 and 7	On July 16, 2003, we announced the appointment of a new board member and appointment of an executive officer.

* Pursuant to SEC Release No. 33-8216, the information required to be furnished under Item 12 was furnished under Item 9.

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AND FINANCIAL STATEMENT SCHEDULE****Item 15(a)**

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SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
(In millions)

	Valuation Allowance for Deferred Tax Assets	Allowance for Doubtful Accounts	Allowance for Inventory	Liability for Purchase Commitments
Year ended July 28, 2001:				
Balance at beginning of fiscal year	\$ 299	\$ 43	\$ 395	\$ —
Charged to expenses or other accounts	—	268	2,057	718
Deductions	299	(23)	(770)	(121)
Balance at end of fiscal year	<u>\$ —</u>	<u>\$ 288</u>	<u>\$ 1,682</u>	<u>\$ 597</u>
Year ended July 27, 2002:				
Balance at beginning of fiscal year	\$ —	\$ 288	\$ 1,682	\$ 597
Charged to expenses or other accounts	—	91	131	18
Deductions	—	(44)	(1,587)	(377)
Balance at end of fiscal year	<u>\$ —</u>	<u>\$ 335</u>	<u>\$ 226</u>	<u>\$ 238</u>
Year ended July 26, 2003:				
Balance at beginning of fiscal year	\$ —	\$ 335	\$ 226	\$ 238
Charged (credited) to expenses or other accounts	—	(59)	70	3
Deductions	—	(93)	(174)	(142)
Balance at end of fiscal year	<u>\$ —</u>	<u>\$ 183</u>	<u>\$ 122</u>	<u>\$ 99</u>

The allowance for inventory for fiscal 2002 and 2001 has been reclassified in order to conform to the current year presentation of allowance for inventory and liability for purchase commitments. The liability for purchase commitments is reported as other accrued liabilities on the Consolidated Balance Sheets.

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REPORT OF INDEPENDENT AUDITORS ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors and Shareholders of Cisco Systems, Inc.:

Our audits of the consolidated financial statements referred to in our report dated August 5, 2003, appearing in the 2003 Annual Report to Shareholders of Cisco Systems, Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 15(a) (2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ P RICEWATERHOUSE C OOPERS LLP

San Jose, California

August 5, 2003

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

September 9, 2003

CISCO SYSTEMS, INC.

/s/ JOHN T. CHAMBERS

John T. Chambers
(President and Chief Executive Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints John T. Chambers and Dennis D. Powell, jointly and severally, his attorney in fact, each with the full power of substitution, for such person, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might do or could do in person hereby ratifying and confirming all that each of said attorneys-in-fact and agents, or his substitute, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report on Form 10-K has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ JOHN T. CHAMBERS</u> John T. Chambers	President and Chief Executive Officer (Principal Executive Officer and Director)	September 9, 2003
<u>/s/ DENNIS D. POWELL</u> Dennis D. Powell	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	September 9, 2003
<u>/s/ BETSY RAFAEL</u> Betsy Rafael	Vice President, Corporate Controller and Principal Accounting Officer (Principal Accounting Officer)	September 9, 2003

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<hr/> <i>/s/</i> JOHN P. MORGRIDGE	Chairman of the Board and Director	September 9, 2003
John P. Morgridge		
<hr/> <i>/s/</i> DONALD T. VALENTINE	Vice Chairman of the Board and Director	September 9, 2003
Donald T. Valentine		
<hr/> <i>/s/</i> CAROL A. BARTZ	Director	September 9, 2003
Carol A. Bartz		
<hr/> <i>/s/</i> LARRY R. CARTER	Director	September 9, 2003
Larry R. Carter		
<hr/> <i>/s/</i> CARLY FIORINA	Director	September 9, 2003
Carly Fiorina		
<hr/> <i>/s/</i> DR. JAMES F. GIBBONS	Director	September 9, 2003
Dr. James F. Gibbons		
<hr/> <i>/s/</i> DR. JOHN L. HENNESSY	Director	September 9, 2003
Dr. John L. Hennessy		
<hr/> <i>/s/</i> RODERICK C. MCGEARY	Director	September 9, 2003
Roderick C. McGeary		
<hr/> <i>/s/</i> JAMES C. MORGAN	Director	September 9, 2003
James C. Morgan		
<hr/> <i>/s/</i> STEVEN M. WEST	Director	September 9, 2003
Steven M. West		
<hr/> <i>/s/</i> JERRY YANG	Director	September 9, 2003
Jerry Yang		

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Index to Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
3.1	Restated Articles of Incorporation of Cisco Systems, Inc., as currently in effect	S-3	333-56004	4.1	2/21/2001	
3.2	Amended and Restated Bylaws of Cisco Systems, Inc., as currently in effect	S-3	333-56004	4.2	2/21/2001	
4.1	Rights Agreement dated as of June 10, 1998 between Cisco Systems, Inc. and Bank Boston, N.A.					X
4.2	First Amendment to the Rights Agreement and Certification of Compliance with Section 27 Thereof between Cisco Systems, Inc. and Fleet National Bank (f/k/a Bank Boston, N.A.)	10-K	000-18225	4.2	9/29/2000	
4.3	Second Amendment to the Rights Agreement and Certification of Compliance with Section 27 Thereof by and among Cisco Systems, Inc., Fleet National Bank (f/k/a Bank Boston, N.A.), and EquiServe Trust Company, N.A.	10-Q	000-18225	4.1	12/10/2001	
10.1*	Cisco Systems, Inc. Amended and Restated 1996 Stock Incentive Plan (including related agreements)	10-Q	000-18225	10.2	5/19/2003	
10.2*	1997 Supplemental Stock Incentive Plan (including related agreements)					X
10.3*	Professional and Leadership Incentive Plan- Fiscal Year 2003					X
10.4*	Cisco Systems, Inc. Employee Stock Purchase Plan					X
10.5*	Cisco Systems, Inc. International Employee Stock Purchase Plan	S-8	333-91258	99.1	6/26/2002	
13.1	Pages 17 to 63 of the Registrant's 2003 Annual Report to Shareholders					X
21.1	Subsidiaries of the Registrant					X
23.1	Consent of Independent Auditors					X
24.1	Power of Attorney (included on page 42 of this Annual Report on Form 10-K)					X
31.1	Section 302 Certification of Principal Executive Officer					X
31.2	Section 302 Certification of Principal Financial Officer					X
32.1	Section 906 Certification of Principal Executive Officer					X
32.2	Section 906 Certification of Principal Financial Officer					X

* Indicates a management contract or compensatory plan or arrangement.

CISCO SYSTEMS, INC.
 AND
 BANK BOSTON, N.A.
 (RIGHTS AGENT)
 RIGHTS AGREEMENT
 DATED AS OF JUNE 10, 1998

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EXHIBITS

Exhibit A—Form of Certificate of Determination of Series A Junior Participating Preferred Stock

Exhibit B—Form of Rights Certificate

Exhibit C—Summary of Rights to Purchase Shares of Series A Junior Participating Preferred Stock

RIGHTS AGREEMENT

RIGHTS AGREEMENT, dated as of June 10, 1998, between Cisco Systems, Inc., a California corporation (the "Company"), and Bank Boston N.A., a national banking association (the "Rights Agent").

WHEREAS, effective June 10, 1998 (the "Rights Dividend Declaration Date"), the Board of Directors authorized and declared a distribution of one Right (each, a "Right") for each share of Common Stock (as hereinafter defined) of the Company outstanding as of the Close of Business (as hereinafter defined) on June 22, 1998 (the "Record Date"), each Right initially representing the right to purchase one ten-thousandth of a share (a "Unit") of Preferred Stock (as hereinafter defined) upon the terms and subject to the conditions herein set forth, and has further authorized and directed the issuance of one Right with respect to each share of Common Stock that shall become outstanding between the Record Date and the earliest of the Distribution Date, the Redemption Date or the Final Expiration Date (as such terms are hereinafter defined).

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein set forth, the parties hereby agree as follows:

Section 1. Certain Definitions. For purposes of this Agreement, the following terms have the meanings indicated:

"Acquiring Person" shall mean any Person (as such term is hereinafter defined) who or which, together with all Affiliates and Associates (as such terms are hereinafter defined) of such Person, shall be the Beneficial Owner (as such term is hereinafter defined) of 15% or more of the shares of Common Stock of the Company then outstanding, but shall not include the Company, any Subsidiary (as such term is hereinafter defined) of the Company, any employee benefit plan of the Company or any Subsidiary of the Company, or any entity holding shares of Common Stock for or pursuant to the terms of any such plan. Notwithstanding the foregoing:

(i) no Person shall become an "Acquiring Person" as the result of an acquisition of shares of Common Stock by the Company which, by reducing the number of shares outstanding, increases the proportionate number of shares beneficially owned by such Person to 15% or more of the shares of Common Stock of the Company then outstanding; provided, however, that if a Person shall become the Beneficial Owner of 15% or more of the shares of Common Stock of the Company then outstanding by reason of share purchases by the Company and shall, after such share purchases by the Company, become the Beneficial Owner of any additional shares of Common Stock of the Company (or, in the case of the members of the Investor Group, become the Beneficial Owner of any additional shares of Common Stock of the Company), then such Person shall be deemed to be an "Acquiring Person" hereunder; and

(ii) if the Board of Directors of the Company determines (upon approval by a majority of the Continuing Directors (as such term is hereinafter defined)) in good faith that a Person who would otherwise be an “Acquiring Person” as defined pursuant to the foregoing provisions of this paragraph (a), has become such inadvertently, and such Person divests as promptly as practicable a sufficient number of shares of Common Stock so that such Person would no longer be an “Acquiring Person” (as defined pursuant to the foregoing provisions of this paragraph (a)), then such Person shall not be deemed to be an “Acquiring Person” for any purpose of this Agreement.

“Adjustment Shares” has the meaning set forth in Section 11(a)(ii).

“Affiliate” and “Associate” shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Exchange Act (as such term is hereinafter defined).

A Person shall be deemed the “Beneficial Owner” of, and shall be deemed to “beneficially own,” any securities:

(i) which such Person or any of such Person’s Affiliates or Associates beneficially owns, directly or indirectly, for purposes of Section 13(d) of the Exchange Act and Rule 13d-3 thereunder (or any comparable or successor law or regulation); or

(ii) which such Person or any of such Person’s Affiliates or Associates, directly or indirectly, has (A) the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding (whether or not in writing, other than customary agreements with and between underwriters and selling group members with respect to a bona fide public offering of securities), or upon the exercise of conversion rights, exchange rights, rights (other than the Rights), warrants or options, or otherwise; provided, however, that a Person shall not be deemed the Beneficial Owner of, or to beneficially own, securities tendered pursuant to a tender or exchange offer made by or on behalf of such Person or any of such Person’s Affiliates or Associates until such tendered securities are accepted for purchase or exchange; or (B) the right to vote pursuant to any agreement, arrangement or understanding; provided further, however, that a Person shall not be deemed the “Beneficial Owner” of, or to “beneficially own,” any security under this subparagraph (ii) as a result of an agreement, arrangement or understanding to vote such security if such agreement, arrangement or understanding: (x) arises solely from a revocable proxy given in response to a public proxy or consent solicitation made pursuant to, and in accordance with, the applicable provisions of the Exchange Act and the Exchange Act Regulations, and (y) is not reportable by such Person on Schedule 13D under the Exchange Act (or any comparable or successor report); or

(iii) which are beneficially owned, directly or indirectly, by any other Person (or any Affiliate or Associate thereof) with which such Person (or any of such Person’s

Affiliates or Associates) has any agreement, arrangement or understanding, (whether or not in writing, other than customary agreements with and between underwriters and selling group members with respect to a bona fide public offering of securities), for the purpose of acquiring, holding, voting (except to the extent contemplated by the proviso to subparagraph (i) of this paragraph (e)) or disposing of any securities of the Company; provided, however, that in no case shall an officer or director of the Company be deemed (A) the Beneficial Owner of any securities beneficially owned by another officer or director of the Company solely by reason of actions undertaken by such persons in their capacity as officers or directors of the Company or (B) the Beneficial Owner of securities held of record by the trustee of any employee benefit plan of the Company or any Subsidiary of the Company for the benefit of any employee of the Company or any Subsidiary of the Company, other than the officer or director, by reason of any influence that such officer or director may have over the voting of the securities held in the plan;

Notwithstanding anything in this definition of “Beneficial Owner” and “beneficially own” to the contrary, the phrase “then outstanding,” when used with reference to a Person who is the Beneficial Owner of securities of the Company, shall mean the number of such securities then issued and outstanding together with the number of such securities not then actually issued and outstanding which such Person would be deemed to beneficially own hereunder.

“Business Day” shall mean any day other than a Saturday, a Sunday, or a day on which banking institutions in the State of California or the state in which the principal office of the Rights Agent is located are authorized or obligated by law or executive order to close.

“Close of Business” on any given date shall mean 5:00 P.M., Massachusetts time, on such date; provided, however, that if such date is not a Business Day it shall mean 5:00 P.M., Massachusetts time, on the next succeeding Business Day.

“Common Stock” when used with reference to the Company shall mean the shares of common stock, par value \$.001 per share, of the Company. “Common Stock” when used with reference to any Person other than the Company shall mean the capital stock (or other equity interest) with the greatest voting power of such other Person or, if such other Person is a Subsidiary of another Person, the Person or Persons which ultimately control such first-mentioned Person.

“Company” shall have the meaning set forth in the recitals to this Agreement.

“Continuing Director” shall mean a member of the Board of Directors of the Company who is not an Acquiring Person, or an Affiliate or Associate of an Acquiring Person, or a representative or agent of an Acquiring Person or of any such Affiliate or Associate, and who was either (i) a member of the Board of Directors prior to the date of this Agreement, or (ii) subsequently became a member of the Board of Directors and whose election or nomination for election is recommended or approved by a majority of the Continuing Directors then on the Board of Directors.

“current per share market price” shall have the meaning set forth in Section 11(d)(i) hereof.

“Current Value” shall have the meaning set forth in Section 11(a)(iii) hereof.

“Distribution Date” shall have the meaning set forth in Section 3(a) hereof.

“equivalent preferred shares” shall have the meaning set forth in Section 11(b) hereof.

“Exchange Act” shall mean the Securities Exchange Act of 1934, as amended.

“Exchange Act Regulations” shall mean the General Rules and Regulations under the Exchange Act.

“Exchange Ratio” shall have the meaning set forth in Section 24 hereof.

“Expiration Date” shall have the meaning set forth in Section 7(a) hereof.

“Final Expiration Date” shall have the meaning set forth in Section 7(a) hereof.

“NASDAQ” shall have the meaning set forth in Section 11(d) hereof.

“Person” shall mean any individual, firm, corporation or other entity, and shall include any successor (by merger or otherwise) of such entity.

“Preferred Stock” shall mean shares of Series A Junior Participating Preferred Stock, no par value, of the Company having the rights and preferences set forth in the Form of Certificate of Determination attached to this Agreement as Exhibit A.

“preferred stock equivalents” shall have the meaning set forth in Section 11(a)(iii) hereof.

“Purchase Price” shall have the meaning set forth in Section 7(b) hereof.

“Record Date” shall have the meaning set forth in the recitals to this Agreement.

“Redemption Date” shall have the meaning set forth in Section 7(a) hereof.

“Redemption Price” shall have the meaning set forth in Section 23(a) hereof.

“Right” shall have the meaning set forth in the recitals to this Agreement.

“Rights Agent” shall have the meaning set forth in the recitals to this Agreement.

“Rights Certificate” shall have the meaning set forth in Section 3(a) hereof.

“Rights Dividend Declaration Date” shall have the meaning set forth in the recitals to this Agreement.

“Section 11(a)(ii) Event” shall mean any event described in Section 11(a)(ii)(A), (B) or (C) hereof.

“Section 11(a)(ii) Trigger Date” shall have the meaning set forth in Section 11(a)(iii) hereof.

“Section 13 Event” shall mean any event described in clause (x), (y) or (z) of Section 13(a) hereof.

“Section 24(a) Exchange Ratio” has the meaning set forth in Section 24(a) hereof.

“Securities Act” shall mean the Securities Act of 1933, as amended.

“Shares Acquisition Date” shall mean the first date of public announcement (which, for purposes of this definition, shall include, without limitation, a report filed pursuant to Section 13(d) of the Exchange Act) by the Company or an Acquiring Person that an Acquiring Person has become such.

“Spread” shall have the meaning set forth in Section 11(a)(iii) hereof.

“Subsidiary” of any Person shall mean any corporation or other entity of which a majority of the voting power of the voting equity securities or equity interest is owned, directly or indirectly, by such Person.

“Summary of Rights” shall have the meaning set forth in Section 3(b) hereof.

“Trading Day” shall have the meaning set forth in Section 11(d)(i) hereof.

“Triggering Event” shall mean any Section 11(a)(ii) Event or any Section 13 Event.

Section 2. Appointment of Rights Agent. The Company hereby appoints the Rights Agent to act as agent for the Company in accordance with the terms and conditions hereof, and the Rights Agent hereby accepts such appointment. The Company may from time to time appoint such co-Rights Agents as it may deem necessary or desirable, upon ten (10) days notice to the Rights Agent. The Rights Agent shall have no duty to supervise, and in no event be liable for, the acts or omissions of any such co-Rights Agent.

Section 3. Issue of Rights Certificate.

(a) Until the earlier of (i) the Close of Business on the Shares Acquisition Date and (ii) the Close of Business on the tenth Business Day (or such later date as may be determined by action of the Company's Board of Directors upon approval by a majority of the Continuing Directors prior to such time as any Person becomes an Acquiring Person and of which the Company will give the Rights Agent prompt written notice) after the date that a tender or exchange offer by any Person (other than the Company, any Subsidiary of the Company, any employee benefit plan of the Company or of any Subsidiary of the Company or any entity holding shares of Common Stock for or pursuant to the terms of any such plan) is first published or sent or given within the meaning of Rule 14d-4(a) of the Exchange Act Regulations or any successor rule or of the first public announcement of the intention of any Person (other than the Company, any Subsidiary of the Company, any employee benefit plan of the Company or of any Subsidiary of the Company or any entity holding shares of Common Stock for or pursuant to the terms of any such plan) to commence, a tender or exchange offer, if upon consummation thereof such Person would be the Beneficial Owner of 15% or more of the shares of Company Common Stock then outstanding (the earlier of (i) and (ii) above being the "Distribution Date"), (x) the Rights will be evidenced (subject to the provisions of Section 3(b) hereof) by the certificates for shares of Common Stock registered in the names of the holders thereof (which certificates shall also be deemed to be Rights Certificate) and not by separate Rights Certificate, and (y) the right to receive Rights Certificate will be transferable only in connection with the transfer of shares of Common Stock. As soon as practicable after the Distribution Date, the Company will notify the Rights Agent thereof and the Company will prepare and execute, the Rights Agent will countersign, and the Company will send or cause to be sent (and the Rights Agent will, if requested, send) by first-class, insured, postage-prepaid mail, to each record holder of shares of Common Stock as of the Close of Business on the Distribution Date, at the address of such holder shown on the records of the Company, a Rights Certificate, in substantially the form of Exhibit B hereto (a "Rights Certificate"), evidencing one Right for each share of Common Stock so held. As of the Distribution Date, the Rights will be evidenced solely by such Rights Certificate.

(b) On the Record Date, or as soon as practicable thereafter, the Company will send a copy of a Summary of Rights to Purchase Preferred Stock, in substantially the form of Exhibit C hereto (the "Summary of Rights"), by first-class, postage-prepaid mail, to each record holder of shares of Common Stock as of the Close of Business on the Record Date, at the address of such holder shown on the records of the Company. With respect to certificates for shares of Common Stock outstanding as of the Record Date, until the Distribution Date, the Rights will be evidenced by such certificates registered in the names of the holders thereof together with a copy of the Summary of Rights attached thereto. Until the Distribution Date (or the Expiration Date), the surrender for transfer of any certificate for shares of Common Stock outstanding on the Record Date, with or without a copy of the Summary of Rights attached thereto, shall also constitute the transfer of the Rights associated with the shares of Common Stock represented thereby.

(c) Articles for shares of Common Stock which become outstanding (including, without limitation, reacquired shares of Common Stock referred to in the last sentence of this paragraph (c)) after the Record Date but prior to the earlier of the Distribution Date and the Expiration Date shall have impressed on, printed on, written on or otherwise affixed to them the following legend:

This certificate also evidences and entitles the holder hereof to certain rights as set forth in a Rights Agreement between Cisco Systems, Inc. and Bank Boston, N.A., dated as of June 10, 1998 (the "Rights Agreement"), the terms of which are hereby incorporated herein by reference and a copy of which is on file at the principal executive offices of Cisco Systems, Inc. Under certain circumstances, as set forth in the Rights Agreement, such Rights will be evidenced by separate certificates and will no longer be evidenced by this certificate. Cisco Systems, Inc. will mail to the holder of this certificate a copy of the Rights Agreement without charge after receipt of a written request therefor. Under certain circumstances, as set forth in the Rights Agreement, Rights issued to any Person who becomes an Acquiring Person (as defined in the Rights Agreement), whether currently held by or on behalf of such person or by any subsequent holder, may become null and void.

With respect to such certificates containing the foregoing legend, until the earlier of the Distribution Date and the Expiration Date, the Rights associated with the shares of Common Stock represented by such certificates shall be evidenced by such certificates alone, and the surrender for transfer of any such certificate shall also constitute the transfer of the Rights associated with the shares of Common Stock represented thereby. In the event that the Company purchases or acquires any shares of Common Stock after the Record Date but prior to the Distribution Date, any Rights associated with such shares of Common Stock shall be deemed cancelled and retired so that the Company shall not be entitled to exercise any Rights associated with the shares of Common Stock which are no longer outstanding.

Section 4. Form of Rights Certificate.

(a) The Rights Certificate (and the forms of election to purchase Units of Preferred Stock and of assignment to be printed on the reverse thereof) shall be substantially the same as Exhibit B hereto and may have such marks of identification or designation and such legends, summaries or endorsements printed thereon as the Company may deem appropriate and as are not inconsistent with the provisions of this Agreement, or as may be required to comply with any applicable law or with any rule or regulation made pursuant thereto or with any rule or regulation of any stock exchange or transaction reporting system on which the Rights may from time to time be listed, or to conform to usage. Subject to the provisions of Section 11 and Section 22 hereof, the Rights Certificate shall entitle the holders thereof to purchase the number of Units of Preferred Stock as shall be set forth therein at the price per Unit of Preferred Stock

set forth therein, but the number of such Units of Preferred Stock and the Purchase Price shall be subject to adjustment as provided herein.

(b) Any Rights Certificate issued pursuant hereto that represents Rights beneficially owned by: (i) an Acquiring Person or any Associate or Affiliate of an Acquiring Person, (ii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee after the Acquiring Person becomes such or (iii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee prior to or concurrently with the Acquiring Person becoming such and receives such Rights pursuant to either (A) a transfer (whether or not for consideration) from the Acquiring Person to holders of equity interests in such Acquiring Person or to any Person with whom such Acquiring Person has any continuing agreement, arrangement or understanding regarding the transferred Rights or (B) a transfer which a majority of the Continuing Directors of the Company has determined is part of a plan, arrangement or understanding which has as a primary purpose or effect avoidance of Section 7(e) hereof shall contain (to the extent feasible) the following legend:

The Rights represented by this Rights Certificate are or were beneficially owned by a Person who was or became an Acquiring Person or an Affiliate or Associate of an Acquiring Person (as such terms are defined in the Rights Agreement between Cisco Systems, Inc. and Bank Boston, N.A., as Rights Agent, dated as of June 10, 1998 (the "Rights Agreement"). Accordingly, this Rights Certificate and the Rights represented hereby may become null and void in the circumstances specified in Section 7(e) of the Rights Agreement.

Section 5. Countersignature and Registration.

(a) The Rights Certificate shall be executed on behalf of the Company by its Chairman of the Board, its President, any of its Vice Presidents, or its Chief Financial Officer, either manually or by facsimile signature, shall have affixed thereto the Company's seal or a facsimile thereof, and shall be attested by the Secretary or an Assistant Secretary of the Company, either manually or by facsimile signature. The Rights Certificate shall be manually countersigned by the Rights Agent and shall not be valid for any purpose unless countersigned. In case any officer of the Company who shall have signed any of the Rights Certificate shall cease to be such officer of the Company before countersignature by the Rights Agent and issuance and delivery by the Company, such Rights Certificate, nevertheless, may be countersigned by the Rights Agent and issued and delivered by the Company with the same force and effect as though the person who signed such Rights Certificate had not ceased to be such officer of the Company; and any Rights Certificate may be signed on behalf of the Company by any person who, at the actual date of the execution of such Rights Certificate, shall be a proper officer of the Company to sign such Rights Certificate, although at the date of the execution of this Rights Agreement any such person was not such an officer.

(b) Following the Distribution Date, the Rights Agent will keep or cause to be kept, at its office designated for such purpose, books for registration and transfer of the Rights Certificate issued hereunder. Such books shall show the names and addresses of the respective holders of the Rights Certificate, the number of Rights evidenced on its face by each of the Rights Certificate and the date of each of the Rights Certificate.

Section 6. Transfer, Split-Up, Combination and Exchange of Rights Certificate; Mutilated, Destroyed, Lost or Stolen Rights Certificate.

(a) Subject to the provisions of Sections 4(b), 7(e) and 14 hereof, at any time after the Close of Business on the Distribution Date, and at or prior to the Close of Business on the Expiration Date, any Rights Certificate or Rights Certificate may be transferred, split up, combined or exchanged for another Rights Certificate or Rights Certificate, entitling the registered holder to purchase a like number of Units of Preferred Stock (or, following a Triggering Event, other securities, cash or other assets, as the case may be) as the Rights Certificate or Rights Certificate surrendered then entitled such holder to purchase. Any registered holder desiring to transfer, split up, combine or exchange any Rights Certificate or Rights Certificate shall make such request in writing delivered to the Rights Agent, and shall surrender the Rights Certificate or Rights Certificate to be transferred, split up, combined or exchanged at the office of the Rights Agent designated for such purpose. Neither the Rights Agent nor the Company shall be obligated to take any action whatsoever with respect to the transfer of any such surrendered Rights Certificate until the registered holder shall have completed and signed the certificate contained in the form of assignment on the reverse side of such Rights Certificate and shall have provided such additional evidence of the identity of the Beneficial Owner (or former Beneficial Owner) or Affiliates or Associates thereof as the Company shall reasonably request. Thereupon the Rights Agent shall, subject to Sections 4(b), 7(e) and 14 hereof, countersign and deliver to the person entitled thereto a Rights Certificate or Rights Certificate, as the case may be, as so requested. The Company may require payment of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any transfer, split up, combination or exchange of Rights Certificate.

(b) Upon receipt by the Company and the Rights Agent of evidence reasonably satisfactory to them of the loss, theft, destruction or mutilation of a Rights Certificate, and, in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to them, and, at the Company's request, reimbursement to the Company and the Rights Agent of all reasonable expenses incidental thereto, and upon surrender to the Rights Agent and cancellation of the Rights Certificate if mutilated, the Company will make and deliver a new Rights Certificate of like tenor to the Rights Agent for delivery to the registered holder in lieu of the Rights Certificate so lost, stolen, destroyed or mutilated.

Section 7. Exercise of Rights; Purchase Price; Expiration Date of Rights.

(a) Except as provided in Sections 23(c) and 7(e), the registered holder of any Rights Certificate may exercise the Rights evidenced thereby (except as otherwise provided

herein) in whole or in part at any time after the Distribution Date upon surrender of the Rights Certificate, with the form of election to purchase and certification on the reverse side thereof duly executed, to the Rights Agent at the office of the Rights Agent designated for such purpose, together with payment of the Purchase Price for each Unit of Preferred Stock as to which the Rights are exercised, at or prior to the earliest of (i) the Close of Business on the tenth anniversary hereof (the "Final Expiration Date"), (ii) the time at which the Rights are redeemed as provided in Section 23 hereof (the "Redemption Date"), or (iii) the time at which such Rights are exchanged as provided in Section 24 hereof (the earlier of (i), (ii) and (iii) being the "Expiration Date").

(b) The Purchase Price for each Unit of Preferred Stock pursuant to the exercise of a Right shall initially be \$650.00, shall be subject to adjustment from time to time as provided in Sections 11 and 13 hereof and shall be payable in lawful money of the United States of America in accordance with paragraph (c) below.

(c) Upon receipt of a Rights Certificate representing exercisable Rights, with the form of election to purchase duly executed, accompanied by payment of the Purchase Price for the number of Units of Preferred Stock (or other securities or property, as the case may be) to be purchased and an amount equal to any applicable transfer tax required to be paid by the holder of such Rights Certificate in accordance with Section 9 hereof in cash, or by certified check or cashier's check payable to the order of the Company, the Rights Agent shall, subject to Section 20(k) hereof, thereupon promptly (i) (A) requisition from any transfer agent of the Preferred Stock (or make available, if the Rights Agent is the transfer agent for the Preferred Stock) a certificate or certificates for the number of Units of Preferred Stock to be purchased and the Company hereby irrevocably authorizes its transfer agent to comply with all such requests or (B) if the Company shall have elected to deposit the total number of Units of Preferred Stock issuable upon exercise of the Rights hereunder with a depository agent, requisition from the depository agent of a depository receipt or depository receipts representing such number of Units of Preferred Stock as are to be purchased (in which case certificates for the Units of Preferred Stock represented by such receipt or receipts shall be deposited by the transfer agent with the depository agent) and the Company hereby directs the depository agent to comply with such request, (ii) when appropriate, requisition from the Company the amount of cash to be paid in lieu of issuance of fractional shares in accordance with Section 14 hereof, (iii) after receipt of such certificates or depository receipts, cause the same to be delivered to or upon the order of the registered holder of such Rights Certificate, registered in such name or names as may be designated by such holder and (iv) when appropriate, after receipt thereof, deliver such cash to or upon the order of the registered holder of such Rights Certificate. The payment of the Purchase Price (as such amount may be reduced (including to zero) pursuant to Section 11(a)(iii) hereof) may be made in cash or by certified bank check or bank draft payable to the order of the Company. In the event that the Company is obligated to issue other securities of the Company, pay cash and/or distribute other property pursuant to Section 11(a) hereof, the Company will make all arrangements necessary so that such other securities, cash and/or other property are available for distribution by the Rights Agent, if and when appropriate.

(d) In case the registered holder of any Rights Certificate shall exercise less than all the Rights evidenced thereby, a new Rights Certificate evidencing a number of Rights equivalent to the number of Rights remaining unexercised shall be issued by the Rights Agent to the registered holder of such Rights Certificate or to such registered holder's duly authorized assigns, subject to the provisions of Section 14 hereof.

(e) Notwithstanding anything in this Agreement to the contrary, from and after the first occurrence of a Triggering Event, any Rights beneficially owned by (i) an Acquiring Person or an Associate or Affiliate of an Acquiring Person, (ii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee after the Acquiring Person becomes such, (iii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee prior to or concurrently with the Acquiring Person becoming such and receives such Rights pursuant to either (A) a transfer (whether or not for consideration) from the Acquiring Person to holders of equity interests in such Acquiring Person or to any Person with whom the Acquiring Person has any continuing agreement, arrangement or understanding regarding the transferred Rights or (B) a transfer which the a majority of the Continuing Directors of the Company has determined is part of a plan, arrangement or understanding which has as a primary purpose or effect the avoidance of this Section 7(e) or (iv) any subsequent transferee shall become null and void without any further action and no holder of such Rights shall have any rights whatsoever with respect to such Rights, whether under any provision of this Agreement or otherwise. The Company shall use all reasonable efforts to ensure that the provisions of this Section 7(e) and Section 4(b) hereof are complied with, but shall have no liability to any holder of Rights Certificate or to any other Person as a result of its failure to make any determinations with respect to an Acquiring Person or any of such Acquiring Person's Affiliates, Associates or transferees hereunder.

(f) Notwithstanding anything in this Agreement to the contrary, neither the Rights Agent nor the Company shall be obligated to undertake any action with respect to a registered holder upon the occurrence of any purported exercise as set forth in this Section 7 unless such registered holder shall have (i) completed and signed the certificate contained in the form of election to purchase set forth on the reverse side of the Rights Certificate surrendered for such exercise and (ii) provided such additional evidence of the identity of the Beneficial Owner (or former Beneficial Owner) or Affiliates or Associates thereof as the Company shall reasonably request.

Section 8. Cancellation and Destruction of Rights Certificate. All Rights Certificate surrendered for the purpose of exercise, transfer, split up, combination or exchange shall, if surrendered to the Company or to any of its agents, be delivered to the Rights Agent for cancellation or in cancelled form, or, if surrendered to the Rights Agent, shall be cancelled by it, and no Rights Certificate shall be issued in lieu thereof except as expressly permitted by any of the provisions of this Rights Agreement. The Company shall deliver to the Rights Agent for cancellation and retirement, and the Rights Agent shall so cancel and retire, any other Rights Certificate purchased or acquired by the Company otherwise than upon the exercise thereof. The Rights Agent shall deliver all cancelled Rights Certificate to the Company, or shall, at the written

request of the Company, destroy such cancelled Rights Certificate, and in such case shall deliver a certificate of destruction thereof to the Company.

Section 9. Reservation and Availability of Preferred Stock.

(a) The Company covenants and agrees that it will use its best efforts to cause to be reserved and kept available out of and to the extent of its authorized and unissued Units of Preferred Stock not reserved for another purpose that will be sufficient to permit the exercise in full of all outstanding Rights. Upon the occurrence of any events resulting in an increase in the aggregate number of shares of Preferred Stock (or other equity securities of the Company) issuable upon exercise of all outstanding Rights above the number then reserved, the Company shall make appropriate increases in the number of shares so reserved.

(b) If the Units of Preferred Stock to be issued and delivered upon the exercise of the Rights are at any time listed on a national securities exchange or included for quotation on any transaction reporting system, the Company shall during the period from the Distribution Date to the Expiration Date use its best efforts to cause all shares reserved for such issuance to be listed on such exchange or included for quotation on any such transaction reporting system upon official notice of issuance upon such exercise.

(c) The Company shall use its best efforts to (i) file, as soon as practicable following the earliest date after the first occurrence of a Section 11(a)(ii) Event in which the consideration to be delivered by the Company upon exercise of the Rights has been determined in accordance with Section 11(a)(iii) hereof, or as soon as is required by law following the Distribution Date, as the case may be, a registration statement under the Securities Act, with respect to the securities purchasable upon exercise of the Rights on an appropriate form, (ii) cause such registration statement to become effective as soon as practicable after such filing and (iii) cause such registration statement to remain effective (with a prospectus at all times meeting the requirements of the Securities Act) until the earlier of (A) the date as of which the Rights are no longer exercisable for such securities and (B) the Expiration Date. The Company will also take such action as may be appropriate under, or to ensure compliance with, the securities or "blue sky" laws of the various states in connection with the exercisability of the Rights. Notwithstanding any provision of this Agreement to the contrary, the Rights shall not be exercisable in any jurisdiction, unless the requisite qualification in such jurisdiction shall have been obtained, or an exemption therefrom shall be available and until a registration statement has been declared effective.

(d) The Company covenants and agrees that it will take all such action as may be necessary to ensure that all Units of Preferred Stock (and, following the occurrence of a Triggering Event, any other securities that may be delivered upon exercise of Rights) shall, at the time of delivery of the certificates for such Units of Preferred Stock (subject to payment of the Purchase Price), be duly and validly authorized and issued and fully paid and non-assessable.

(e) The Company further covenants and agrees that it will pay when due and payable any and all federal and state transfer taxes and charges which may be payable in respect of the issuance or delivery of the Rights Certificate or of any Units of Preferred Stock upon the exercise of Rights. The Company shall not, however, be required to pay any transfer tax which may be payable in respect of any transfer or delivery of Rights Certificate to a person other than, or the issuance or delivery of certificates or depositary receipts for Units of Preferred Stock in a name other than that of, the registered holder of the Rights Certificate evidencing Rights surrendered for exercise or to issue or to deliver any certificates or depositary receipts for Units of Preferred Stock upon the exercise of any Rights until any such tax shall have been paid (any such tax being payable by the holder of such Rights Certificate at the time of surrender) or until it has been established to the Company's reasonable satisfaction that no such tax is due.

Section 10. Preferred Stock Record Date. Each person in whose name any certificate for Units of Preferred Stock (or, following the occurrence of a Triggering Event, other securities) is issued upon the exercise of Rights shall for all purposes be deemed to have become the holder of record of the Units of Preferred Stock (or, following the occurrence of a Triggering Event, other securities) represented thereby on, and such certificate shall be dated, the date upon which the Rights Certificate evidencing such Rights was duly surrendered and payment of the Purchase Price (and any applicable transfer taxes) was made; provided, however, that if the date of such surrender and payment is a date upon which the Preferred Stock (or, following the occurrence of a Triggering Event, other securities) transfer books of the Company are closed, such person shall be deemed to have become the record holder of such shares on, and such certificate shall be dated, the next succeeding Business Day on which the Preferred Stock transfer books of the Company are open; provided further, however, that if delivery of Units of Preferred Stock is delayed pursuant to Section 9(c), such Persons shall be deemed to have become the record holders of such Units of Preferred Stock only when such Units first become deliverable. Prior to the exercise of the Rights evidenced thereby, the holder of a Rights Certificate shall not be entitled to any rights of a shareholder of the Company with respect to securities for which the Rights shall be exercisable, including, without limitation, the right to vote, to receive dividends or other distributions or to exercise any preemptive rights, and shall not be entitled to receive any notice of any proceedings of the Company, except as provided herein. Prior to the exercise of the Rights evidenced thereby, the holder of a Rights Certificate shall not be entitled to any rights of a holder of a Unit of Preferred Stock for which the Rights shall be exercisable, including, without limitation, the right to vote, to receive dividends or other distributions or to exercise any preemptive rights, and shall not be entitled to receive any notice of any proceedings of the Company, except as provided herein.

Section 11. Adjustment of Purchase Price, Number of Shares or Number of Rights. The Purchase Price, the number and kinds of securities covered by each Right and the number of Rights outstanding are subject to adjustment from time to time as provided in this Section 11.

(a) (i) In the event the Company shall at any time after the date of this Agreement (A) declare a dividend on the Preferred Stock payable in shares of Preferred

Stock, (B) subdivide the outstanding shares of Preferred Stock, (C) combine the outstanding Preferred Stock into a smaller number of shares Preferred Stock or (D) issue any shares of its capital stock in a reclassification of the Preferred Stock (including any such reclassification in connection with a consolidation or merger in which the Company is the continuing or surviving corporation), except as otherwise provided in this Section 11(a), the Purchase Price in effect at the time of the record date for such dividend or of the effective date of such subdivision, combination or reclassification, and the number and kind of shares of capital stock issuable on such date, shall be proportionately adjusted so that the holder of any Rights exercised after such time shall be entitled to receive the aggregate number and kind of shares of capital stock which, if such Rights had been exercised immediately prior to such date and at a time when the Preferred Stock transfer books of the Company were open, such holder would have owned upon such exercise and been entitled to receive by virtue of such dividend, subdivision, combination or reclassification; provided, however, that in no event shall the consideration to be paid upon the exercise of one Right be less than the aggregate par value of the shares of capital stock of the Company issuable upon exercise of one Right. If an event occurs which would require an adjustment under both this Section 11(a)(i) and Section 11(a)(ii), the adjustment provided for in this Section 11(a)(i) shall be in addition to, and shall be made prior, to any adjustment required pursuant to Section 11(a)(ii).

(ii) Subject to Section 24 of this Agreement, in the event that (A) any Acquiring Person or any Associate or Affiliate of any Acquiring Person, at any time after the date of this Agreement, directly or indirectly, shall (1) merge into the Company or otherwise combine with the Company and the Company shall be the continuing or surviving corporation of such merger or combination and shares of Company Common Stock shall remain outstanding and unchanged, (2) in one transaction or a series of transactions, transfer any assets to the Company or any of its Subsidiaries in exchange (in whole or in part) for shares of Company Common Stock, for other equity securities of the Company or any such Subsidiary, or for securities exercisable for or convertible into shares of equity securities of the Company or any of its Subsidiaries (whether shares of Company Common Stock or otherwise) or otherwise obtain from the Company or any of its Subsidiaries, with or without consideration, any additional shares of such equity securities or securities exercisable for or convertible into such equity securities other than pursuant to a pro rata distribution to all holders of shares of Company Common Stock, (3) sell, purchase, lease, exchange, mortgage, pledge, transfer or otherwise acquire or dispose of, in one transaction or a series of transactions, to, from or with the Company or any of its Subsidiaries or any employee benefit plan maintained by the Company or any of its Subsidiaries or any trustee or fiduciary with respect to such plan acting in such capacity, assets (including securities) on terms and conditions less favorable to the Company or such Subsidiary or plan than those that could have been obtained in arm's-length negotiations with an unaffiliated third party, other than pursuant to a transaction set forth in Section 13(a) hereof, (4) sell, purchase, lease, exchange, mortgage, pledge, transfer or otherwise acquire or dispose of, in one transaction or a series of transactions, to, from or with the Company or any of its Subsidiaries or any employee benefit plan

maintained by the Company or any of its Subsidiaries or any trustee or fiduciary with respect to such plan acting in such capacity (other than transactions, if any, consistent with those engaged in, as of the date hereof, by the Company and such Acquiring Person or such Associate or Affiliate), assets (including securities or intangible assets) having an aggregate fair market value of more than \$70,000,000 other than pursuant to a transaction set forth in Section 13(a) hereof, (5) receive, or any designee, agent or representative of such Acquiring Person or any Affiliate or Associate of such Acquiring Person shall receive, any compensation from the Company or any of its Subsidiaries other than compensation for full-time employment as a regular employee at rates in accordance with the Company's (or its Subsidiaries') past practices, or (6) receive the benefit, directly or indirectly (except proportionately as a holder of shares of Company Common Stock or as required by law or governmental regulation), of any loans, advances, guarantees, pledges or other financial assistance or any tax credits or other tax advantages provided by the Company or any of its Subsidiaries or any employee benefit plan maintained by the Company or any of its Subsidiaries or any trustee or fiduciary with respect to such plan acting in such capacity; or (B) any Person shall become an Acquiring Person, unless the event causing the Person to become an Acquiring Person is a transaction set forth in Section 13(a); or (C) during such time as there is an Acquiring Person, there shall be any reclassification of securities (including any reverse stock split), or recapitalization of the Company, or any merger or consolidation of the Company with any of its Subsidiaries or any other transaction or series of transactions involving the Company or any of its Subsidiaries, other than a transaction or transactions to which the provisions of Section 13(a) apply (whether or not with or into or otherwise involving an Acquiring Person), which has the effect, directly or indirectly, of increasing by more than 1% the proportionate share of the outstanding shares of any class of equity securities of the Company or any of its Subsidiaries that is directly or indirectly beneficially owned by any Acquiring Person or any Person or any Associate or Affiliate of any Acquiring Person;

then promptly following the occurrence of an event described in Section 11(a)(ii)(A), (B) or (C) (a "Section 11(a)(ii) Event"), proper provision shall be made so that each holder of a Right, except as provided in Section 7(e) hereof, shall thereafter have the right to receive for each Right, upon exercise thereof in accordance with the terms of this Agreement and payment of the then-current Purchase Price, in lieu of the number of Units of Preferred Stock for which a Right was exercisable immediately prior to the first occurrence of a Section 11(a)(ii) Event, such number of Units of Preferred Stock as shall equal the result obtained by multiplying the then-current Purchase Price by the then number of Units of Preferred Stock for which a Right was exercisable (or would have been exercisable if the Distribution Date had occurred) immediately prior to the first occurrence of a Triggering Event, and dividing that product by 50% of the current per share market price (determined pursuant to Section 11(d) hereof) for shares of Common Stock on the date of occurrence of the Triggering Event (such number of Units of Preferred Stock being hereinafter referred to as the "Adjustment Shares").

(iii) In the event that the number of Units of Preferred Stock which are authorized by the Company's Restated Articles of Incorporation but not outstanding or

reserved for issuance for purposes other than upon exercise of the Rights are not sufficient to permit the exercise in full of the Rights, or if any necessary regulatory approval for such issuance has not been obtained by the Company, the Company shall, in lieu of issuing Units of Preferred Stock in accordance with Section 11(a)(ii) hereof, upon approval by a majority of the Continuing Directors: (A) determine the excess of (1) the value of the Units of Preferred Stock issuable upon the exercise of a Right (the "Current Value") over (2) the Purchase Price (such excess being referred to as the "Spread") and (B) with respect to each Right, make adequate provision to substitute for such Units of Preferred Stock, upon exercise of the Rights, (1) cash, (2) a reduction in the Purchase Price, (3) other equity securities of the Company (including, without limitation, Common Stock or shares or units of shares of any series of preferred stock which the Board of Directors of the Company, upon approval by a majority of the Continuing Directors, has deemed to have the same value as the Units of Preferred Stock (such shares or units of preferred stock are herein called "preferred stock equivalents")), except to the extent that the Company has not obtained any necessary regulatory approval for such issuance, (4) debt securities of the Company, except to the extent that the Company has not obtained any necessary regulatory approval for such issuance, (5) other assets or (6) any combination of the foregoing, having an aggregate value equal to the Current Value, where such aggregate value has been determined by the Board of Directors of the Company, upon approval by a majority of the Continuing Directors, based upon the advice of a nationally recognized investment banking firm selected by the Board of Directors of the Company, upon approval by a majority of the Continuing Directors; provided, however, if the Company shall not have made adequate provision to deliver value pursuant to clause (B) above within thirty (30) days following the later of (x) occurrence of a Section 11(a)(ii) Event, and (y) the date on which the Company's right of redemption pursuant to Section 23(a) expires (the later of (x) and (y) being referred to herein as the "Section 11(a)(iii) Trigger Date"), then the Company shall be obligated to deliver, upon the surrender for exercise of a Right and without requiring payment of the Purchase Price, Units of Preferred Stock (to the extent available), except to the extent that the Company has not obtained any necessary regulatory approval for such issuance, and then, if necessary, cash, which Units and/or cash have an aggregate value equal to the Spread.

(b) In the event that the Company shall fix a record date for the issuance of rights, options or warrants to all holders of Units of Preferred Stock entitling them (for a period expiring within 45 calendar days after such record date) to subscribe for or purchase Units of Preferred Stock (or shares having the same rights, privileges and preferences as the Preferred Stock ("equivalent preferred stock")) or securities convertible into Units of Preferred Stock or equivalent preferred stock at a price per Unit of Preferred Stock or equivalent preferred share (or having a conversion price per share, if a security convertible into Units of Preferred Stock or equivalent preferred stock) less than the then current per share market price of a Unit of Preferred Stock (as determined pursuant to Section 11(d)) on such record date, the Purchase Price to be in effect after such record date shall be determined by multiplying the Purchase Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the number

of Units of Preferred Stock outstanding on such record date plus the number of Units of Preferred Stock which the aggregate offering price of the total number of Units of Preferred Stock and/or equivalent preferred stock so to be offered (and/or the aggregate initial conversion price of the convertible securities so to be offered) would purchase at such current market price and the denominator of which shall be the number of Units of Preferred Stock outstanding on such record date plus the number of additional Units of Preferred Stock and/or equivalent preferred stock to be offered for subscription or purchase (or into which the convertible securities so to be offered are initially convertible). In case such subscription price may be paid in a consideration part or all of which shall be in a form other than cash, the value of such consideration shall be as determined in good faith by a majority of the Continuing Directors of the Company, whose determination shall be described in a statement filed with the Rights Agent and shall be binding on the Rights Agent and the holders of the Rights. Units of Preferred Stock owned by or held for the account of the Company shall not be deemed outstanding for the purpose of any such computation. Such adjustment shall be made successively whenever such a record date is fixed; and in the event that such rights, options or warrants are not so issued, the Purchase Price shall be adjusted to be the Purchase Price which would then be in effect if such record date had not been fixed.

(c) In case the Company shall fix a record date for a distribution to all holders of Units of Preferred Stock (including any such distribution made in connection with a consolidation or merger in which the Company is the continuing or surviving corporation) of evidences of indebtedness, cash (other than a regular quarterly cash dividend) assets (other than a dividend payable in Units of Preferred Stock but including any dividend payable in equity securities other than Preferred Stock) or subscription rights or warrants (excluding those referred to in Section 11(d) hereof), the Purchase Price to be in effect after such record date shall be determined by multiplying the Purchase Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the then current per share market price (as determined pursuant to Section 11(d)) of the Preferred Stock on such record date, less the fair market value (as determined in good faith by a majority of the Continuing Directors of the Company, whose determination shall be described in a statement filed with the Rights Agent and shall be binding on the Rights Agent and the holder of rights) of the cash, assets or evidences of indebtedness to be distributed or of such subscription rights or warrants distributable in respect of a share of Preferred Stock and the denominator of which shall be such current per share market price (as determined pursuant to Section 11(d)) of a share of Preferred Stock. Such adjustments shall be made successively whenever such a record date is fixed; and in the event that such distribution is not so made, the Purchase Price shall again be adjusted to be the Purchase Price which would then be in effect if such record date had not been fixed.

(d) (i) For the purpose of any computation hereunder, the “current per share market price” of any security (a “Security” for the purpose of this Section 11(d)(i)) on any date shall be deemed to be the average of the daily closing prices per share of such Security for the thirty (30) consecutive Trading Days (as such term is hereinafter defined) immediately prior to such date; provided, however, that in the event that the “current per share market price” of the Security is determined during a period following the

announcement by the issuer of such Security of (A) a dividend or distribution on such Security payable in shares of such Security or securities convertible into such shares, or (B) any subdivision, combination or reclassification of such Security and prior to the expiration of thirty (30) Trading Days after the ex-dividend date for such dividend or distribution, or the record date for such subdivision, combination or reclassification, then, and in each such case, the “current per share market price” shall be appropriately adjusted to reflect the “current market price” per share equivalent of such Security. The closing price for each day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the Nasdaq National Market System (“NASDAQ”) or, if the Security is not listed or admitted to trading on the NASDAQ, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the Security is listed or admitted to trading or, if the Security is not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by the NASDAQ or such other system then in use, or, if on any such date the Security is not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the Security selected by a majority of the Continuing Directors. If on any such date no market maker is making a market in the Security, the “current per share market price” of such Security on such date as determined in good faith by the Board of Directors of the Company as provided for above shall be used. The term “Trading Day” shall mean a day on which the principal national securities exchange on which the Security is listed or admitted to trading is open for the transaction of business or, if the Security is not listed or admitted to trading on any national securities exchange, a Business Day.

(ii) For the purpose of any computation hereunder, the “current per share market price” of the Preferred Stock shall be determined in accordance with the method set forth in Section 11(d)(i). If the “current per share market price” of the Preferred Stock cannot be determined in the manner provided above or if the Preferred Stock is not publicly held or listed or traded in a manner described in clause (i) of this Section 11(d), the “current per share market price” of the Preferred Stock shall be conclusively deemed to be an amount equal to \$10,000 (as such amount may be appropriately adjusted for such events as stock splits, stock dividends and recapitalizations with respect to shares of Company Common Stock occurring after the date of this Agreement) multiplied by the current market price per share of Company Common Stock. If shares of neither the Company Common Stock nor Preferred Stock is publicly held or so listed or traded, “current per share market price” of the Preferred Stock shall mean the fair value per share as determined in good faith by the Board of Directors of the Company, upon approval by a majority of the Continuing Directors, whose determination shall be described in a statement filed with the Rights Agent and shall be binding on the Rights Agent and the holders of the Rights.

(e) No adjustment in the Purchase Price shall be required unless such adjustment would require an increase or decrease of at least 1% in the Purchase Price; provided, however, that any adjustments which by reason of this Section 11(e) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Section 11 shall be made to the nearest cent or to the nearest one one-millionth of a share of Preferred Stock or one one-hundredth of any other share or security as the case may be. Notwithstanding the first sentence of this Section 11(e), any adjustment required by this Section 11 shall be made no later than the earlier of (i) three years from the date of the transaction which requires such adjustment or (ii) the Expiration Date.

(f) If as a result of an adjustment made pursuant to Section 11(a)(ii) hereof, the holder of any Rights thereafter exercised shall become entitled to receive any shares of capital stock of the Company other than Units of Preferred Stock, thereafter the number of such other shares so receivable upon exercise of any Rights and the Purchase Price thereof shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Preferred Stock contained in Section 11(a), (b), (c), (d), (e), (g), (h), (i), (j), (k), (l) and (m), and the provisions of Sections 7, 9, 10, 13 and 14 with respect to the Preferred Stock shall apply on like terms to any such other shares.

(g) All Rights originally issued by the Company subsequent to any adjustment made to the Purchase Price hereunder shall evidence the right to purchase, at the adjusted Purchase Price, the number of Units of Preferred Stock purchasable from time to time hereunder upon exercise of the Rights, all subject to further adjustment as provided herein.

(h) Unless the Company shall have exercised its election as provided in Section 11(i), upon each adjustment of the Purchase Price as a result of the calculations made in Sections 11(b) and (c), each Right outstanding immediately prior to the making of such adjustment shall thereafter evidence the right to purchase, at the adjusted Purchase Price, that number of Units of Preferred Stock (calculated to the nearest one-millionth of a share of Preferred Stock) obtained by dividing (i) the product obtained by multiplying (x) the number of Units of Preferred Stock covered by a Right immediately prior to this adjustment by (y) the Purchase Price in effect immediately prior to such adjustment of the Purchase Price by, (ii) the Purchase Price in effect immediately after such adjustment of the Purchase Price.

(i) The Company may elect on or after the date of any adjustment of the Purchase Price to adjust the number of Rights, in substitution for any adjustment in the number of Units of Preferred Stock purchasable upon the exercise of a Right. Each of the Rights outstanding after such adjustment of the number of Rights shall be exercisable for the number of Units of Preferred Stock for which a Right was exercisable immediately prior to such adjustment. Each Right held of record prior to such adjustment of the number of Rights shall become that number of Rights (calculated to the nearest one one-millionth) obtained by dividing the Purchase Price in effect immediately prior to adjustment of the Purchase Price by the Purchase Price in effect immediately after adjustment of the Purchase Price. The Company shall make a public announcement of its election to adjust the number of Rights, indicating the record

date for the adjustment, and, if known at the time, the amount of the adjustment to be made. This record date may be the date on which the Purchase Price is adjusted or any day thereafter, but, if the Rights Certificate have been issued, shall be at least ten days later than the date of the public announcement. If Rights Certificate have been issued, upon each adjustment of the number of Rights pursuant to this Section 11(i), the Company shall, as promptly as practicable, cause to be distributed to holders of record of Rights Certificate on such record date Rights Certificate evidencing, subject to Section 14 hereof, the additional Rights to which such holders shall be entitled as a result of such adjustment, or, at the option of the Company, shall cause to be distributed to such holders of record in substitution and replacement for the Rights Certificate held by such holders prior to the date of adjustment, and upon surrender thereof, if required by the Company, new Rights Certificate evidencing all the Rights to which such holders shall be entitled after such adjustment. Rights Certificate to be so distributed shall be issued, executed and countersigned in the manner provided for herein and shall be registered in the names of the holders of record of Rights Certificate on the record date specified in the public announcement.

(j) Irrespective of any adjustment or change in the Purchase Price or the number of Units of Preferred Stock issuable upon the exercise of the Rights, the Rights Certificate theretofore and thereafter issued may continue to express the Purchase Price per Unit and the number of Units of Preferred Stock which were expressed in the initial Rights Certificate issued hereunder.

(k) Before taking any action that would cause an adjustment reducing the Purchase Price below the then par value of the number of Units of Preferred Stock issuable upon exercise of the Rights, the Company shall take any corporate action which may, in the opinion of its counsel, be necessary in order that the Company may validly and legally issue fully paid and nonassessable number of Units of Preferred Stock at such adjusted Purchase Price.

(l) In any case in which this Section 11 shall require that an adjustment in the Purchase Price be made effective as of a record date for a specified event, the Company may elect to defer until the occurrence of such event the issuing to the holder of any Rights exercised after such record date of that number of Units of Preferred Stock and other capital stock or securities of the Company, if any, issuable upon such exercise over and above the Units of Preferred Stock and other capital stock or securities of the Company, if any, issuable upon such exercise on the basis of the Purchase Price in effect prior to such adjustment; provided, however, that the Company shall deliver to such holder a due bill or other appropriate instrument evidencing such holder's right to receive such additional shares (fractional or otherwise) upon the occurrence of the event requiring such adjustment.

(m) Anything in this Section 11 to the contrary notwithstanding, the Company shall be entitled to make such reductions in the Purchase Price, in addition to those adjustments expressly required by this Section 11, as and to the extent that it in its sole discretion shall determine to be advisable in order that any (i) consolidation or subdivision of the Preferred Stock, (ii) issuance wholly for cash of any Unit of Preferred Stock at less than the current market price, (iii) issuance wholly for cash of Preferred Stock or securities which by their terms are convertible

into or exchangeable for Preferred Stock, (iv) dividends on Preferred Stock payable in Preferred Stock or (v) issuance of rights, options or warrants referred to in this Section 11, hereafter made by the Company to holders of Units of its Preferred Stock shall not be taxable to such shareholders.

(n) The Company shall not, at any time after the Distribution Date, (i) consolidate with any other Person (other than a Subsidiary of the Company in a transaction which complies with Section 11(o)), (ii) merge with or into any other Person (other than a Subsidiary of the Company in a transaction which complies with Section 11(o)), or (iii) sell or transfer (or permit any Subsidiary to sell or transfer), in one transaction, or a series of transactions, assets or earning power aggregating more than 50% of the assets or earning power of the Company and its Subsidiaries (taken as a whole) to any other Person or Persons (other than the Company and/or any of its Subsidiaries in one or more transactions each of which complies with Section 11(o)), if (x) at the time of or immediately after such consolidation, merger or sale there are any rights, warrants or other instruments or securities outstanding or agreements in effect which would substantially diminish or otherwise eliminate the benefits intended to be afforded by the Rights or (y) prior to, simultaneously with or immediately after such consolidation, merger or sale, the Person which constitutes, or would constitute the "Principal Party" for purposes of Section 13(a) shall have distributed or otherwise transferred to its shareholders or other persons holding an equity interest in such Person Rights previously owned by such Person or any of its Affiliates and Associates; provided, however, this Section 11(n) shall not affect the ability of any Subsidiary of the Company to consolidate with, merge with or into, or sell or transfer assets or earning power to, any other Subsidiary of the Company.

(o) After the Distribution Date, the Company shall not, except as permitted by Section 23 or Section 26, take (or permit any Subsidiary to take) any action if at the time such action is taken it is reasonably foreseeable that such action will diminish substantially or otherwise eliminate the benefits intended to be afforded by the Rights.

(p) In the event that, at any time after the date of this Agreement and prior to the Distribution Date, the Company shall (i) declare or pay any dividend on outstanding shares of Common Stock payable in shares of Common Stock or (ii) effect a subdivision, combination or consolidation of the Common Stock (by reclassification or otherwise than by payment of dividends in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in any such case the number of Units of Preferred Stock purchasable after such event upon proper exercise of each Right shall be determined by multiplying the number of Units of Preferred Stock so purchasable immediately prior to such event by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately before such event and the denominator of which is the number of shares of Common Stock outstanding immediately after such event. The adjustments provided for in this Section 11(p) shall be made successively whenever such a dividend is declared or paid or such a subdivision, combination or consolidation is effected.

Section 12. Articles of Adjusted Purchase Price or Number of Shares. Whenever an adjustment is made as provided in Sections 11 and 13 hereof, the Company shall promptly (a) prepare a certificate setting forth such adjustment, and a brief statement of the facts accounting for such adjustment, (b) file with the Rights Agent and with each transfer agent for the shares of Common Stock or Units of Preferred Stock a copy of such certificate and (c) mail a brief summary thereof to each holder of a Rights Certificate in accordance with Section 25 hereof. Notwithstanding the foregoing sentence, the failure by the Company to make such certification or give such notice shall not affect the validity of or the force or effect of the requirement for such adjustment. The Rights Agent shall be fully protected in relying on any such certificate and on any adjustment contained therein and shall not be deemed to have knowledge of such adjustment unless and until it shall have received such certificate.

Section 13. Consolidation, Merger or Sale or Transfer of Assets or Earning Power.

(a) Except as provided in Section 13(b) hereof, in the event that, following a Shares Acquisition Date, directly or indirectly, (x) the Company shall consolidate with, or merge with and into, any other Person (other than a Subsidiary of the Company in a transaction which complies with Section 11(o)), and the Company shall not be the continuing or surviving corporation of such consolidation or merger, (y) any Person (other than a Subsidiary of the Company in a transaction which complies with Section 11(o)) shall consolidate with the Company, or merge with and into the Company and the Company shall be the continuing or surviving corporation of such consolidation or merger and, in connection with such consolidation or merger, all or part of the shares of Common Stock shall be changed into or exchanged for stock or other securities of any other Person or cash or any other property, or (z) the Company shall sell or otherwise transfer (or one or more of its Subsidiaries shall sell or otherwise transfer) to any Person or Persons (other than a Subsidiary of the Company in a transaction which complies with Section 11(o)), in one or more transactions, directly or indirectly, assets or earning power aggregating 50% or more of the assets or earning power of the Company and its Subsidiaries (taken as a whole), (any such event being a "Section 13 Event"), then, and in each such case, proper provision shall be made so that: (i) each holder of a Right, except as provided in Section 7(e), shall thereafter have the right to receive, upon the exercise thereof at the then current Purchase Price, such number of validly authorized and issued, fully paid and non-assessable shares of Common Stock of the Principal Party (as such term is hereinafter defined), which shares shall not be subject to any liens, encumbrances, rights of first refusal, transfer restrictions or other adverse claims, as shall be equal to the result obtained by (1) multiplying the then current Purchase Price by the number of Units of Preferred Stock for which a Right is exercisable immediately prior to the first occurrence of a Section 13 Event (or, if a Section 11(a)(ii) Event has occurred prior to the first occurrence of a Section 13 Event, multiplying the number of such Units of Preferred Stock for which a Right would be exercisable hereunder but for the occurrence of such Section 11(a)(ii) Event by the Purchase Price which would be in effect hereunder but for such first occurrence) and (2) dividing that product (which, following the direct occurrence of a Section 13 Event, shall be the "Purchase Price" for all purposes of this Agreement) by 50% of the current per share market price (determined pursuant

to Section 11(d)) of the shares of Common Stock of such Principal Party on the date of consummation of such Section 13 Event; (ii) such Principal Party shall thereafter be liable for, and shall assume, by virtue of such Section 13 Event, all the obligations and duties of the Company pursuant to this Agreement; (iii) the term “Company” shall, for all purposes of this Agreement, thereafter be deemed to refer to such Principal Party, it being specifically intended that the provisions of Section 11 shall apply only to such Principal Party following the first occurrence of a Section 13 Event; (iv) such Principal Party shall take such steps (including, but not limited to, the reservation of a sufficient number of shares of its Common Stock) in connection with the consummation of any such transaction as may be necessary to ensure that the provisions of this Agreement shall thereafter be applicable to its shares of Common Stock thereafter deliverable upon the exercise of the Rights; and (v) the provisions of Section 11(a)(ii) shall be of no further effect following the first occurrence of any Section 13 Event.

(b) “Principal Party” shall mean:

(i) in the case of any transaction described in clause (x) or (y) of the first sentence of Section 13(a), (A) the Person that is the issuer of any securities into which shares of Company Common Stock are converted in such merger or consolidation, or, if there is more than one such issuer, the issuer of shares of Common Stock that has the highest aggregate current market price (determined pursuant to Section 11(d)) and (B) if no securities are so issued, the Person that is the other party to such merger or consolidation, or, if there is more than one such Person, the Person the Common Stock of which has the highest aggregate current market price (determined pursuant to Section 11(d)); and

(ii) in the case of any transaction described in clause (z) of the first sentence of Section 13(a), the Person that is the party receiving the largest portion of the assets or earning power transferred pursuant to such transaction or transactions, or, if each Person that is a party to such transaction or transactions receives the same portion of the assets or earning power transferred pursuant to such transaction or transactions or if the Person receiving the largest portion of the assets or earning power cannot be determined, whichever Person the Common Stock of which has the highest aggregate current market price (determined pursuant to Section 11(d)); provided, however, that in any such case, (1) if the Common Stock of such Person is not at such time and has not been continuously over the preceding twelve-month period registered under Section 12 of the Exchange Act (“Registered Common Stock”), or such Person is not a corporation, and such Person is a direct or indirect Subsidiary of another Person that has Registered Common Stock outstanding, “Principal Party” shall refer to such other Person; (2) if the Common Stock of such Person is not Registered Common Stock or such Person is not a corporation, and such Person is a direct or indirect Subsidiary of another Person but is not a direct or indirect Subsidiary of another Person which has Registered Common Stock outstanding, “Principal Party” shall refer to the ultimate parent entity of such first-mentioned Person; (3) if the Common Stock of such Person is not Registered Common Stock or such Person is not a corporation, and such Person is directly or indirectly

controlled by more than one Person, and one or more of such other Persons has Registered Common Stock outstanding, "Principal Party" shall refer to whichever of such other Persons is the issuer of the Registered Common Stock having the highest aggregate current per share market price (determined pursuant to Section 11(d)); and (4) if the Common Stock of such Person is not Registered Common Stock or such Person is not a corporation, and such Person is directly or indirectly controlled by more than one Person, and none of such other Persons has Registered Common Stock outstanding, "Principal Party" shall refer to whichever ultimate parent entity is the corporation having the greatest shareholders' equity or, if no such ultimate parent entity is a corporation, shall refer to whichever ultimate parent entity is the entity having the greatest net assets.

(c) The Company shall not consummate any such consolidation, merger, sale or transfer unless the Principal Party shall have a sufficient number of authorized shares of Common Stock which have not been issued or reserved for issuance to permit the exercise in full of the Rights in accordance with this Section 13, and unless prior thereto the Company and such Principal Party shall have executed and delivered to the Rights Agent a supplemental agreement providing for the terms set forth in paragraphs (a) and (b) of this Section 13 and further providing that the Principal Party will:

(i) (A) file on an appropriate form, as soon as practicable following the execution of such agreement, a registration statement under the Securities Act with respect to the shares of Common Stock that may be acquired upon exercise of the Rights, (B) cause such registration statement to remain effective (and to include a prospectus complying with the requirements of the Securities Act) until the Expiration Date, and (C) as soon as practicable following the execution of such agreement take such action as may be required to ensure that any acquisition of such shares of Common Stock upon the exercise of the Rights complies with any applicable state securities or "blue sky" laws; and

(ii) deliver to holders of the Rights historical financial statements for the Principal Party and each of its Affiliates which comply in all respects with the requirements for registration on Form 10 under the Exchange Act.

(d) In case the Principal Party which is to be a party to a transaction referred to in this Section 13 has a provision in any of its authorized securities or in its Articles of Incorporation or Bylaws or other instrument governing its corporate affairs, which provision would have the effect of (i) causing such Principal Party to issue, in connection with, or as a consequence of, the consummation of a transaction referred to in this Section 13, shares of Common Stock of such Principal Party at less than the then current market price per share (determined pursuant to Section 11(d)) or securities exercisable for, or convertible into, shares of Common Stock of such Principal Party at less than such then current market price (other than to holders of Rights pursuant to this Section 13) or (ii) providing for any special payment, tax or similar provisions in connection with the issuance of the shares of Common Stock of such Principal Party pursuant to the provisions of this Section 13, then, in such event, the Company shall not consummate any such transaction unless prior thereto the Company and such Principal

Party shall have executed and delivered to the Rights Agent a supplemental agreement providing that the provision in question of such Principal Party shall have been cancelled, waived or amended, or that the authorized securities shall be redeemed, so that the applicable provision will have no effect in connection with, or as a consequence of, the consummation of the proposed transaction.

(e) The provisions of this Section 13 shall similarly apply to successive mergers or consolidations or sales or other transfers. In the event that a Section 13 Event shall occur at any time after the occurrence of a Section 11(a)(ii) Event, the Rights which have not theretofore been exercised shall thereafter become exercisable in the manner described in Section 13(a).

Section 14. Fractional Rights and Fractional Shares.

(a) The Company shall not be required to issue fractions of Rights or to distribute Rights Certificate which evidence fractional Rights. In lieu of such fractional Rights, there shall be paid to the registered holders of the Rights Certificate with regard to which such fractional Rights would otherwise be issuable, an amount in cash equal to the same fraction of the current market value of a whole Right. For the purposes of this Section 14(a), the current market value of a whole Right shall be the closing price of the Rights for the Trading Day immediately prior to the date on which such fractional Rights would have been otherwise issuable. The closing price for any day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the NASDAQ or, if the Rights are not listed or admitted to trading on the NASDAQ, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the Rights are listed or admitted to trading or, if the Rights are not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by NASDAQ or such other system then in use or, if on any such date the Rights are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the Rights selected by the Directors. If on any such date no such market maker is making a market in the Rights, the fair value of the Rights on such date as determined in good faith by the Board of Directors of the Company, upon approval by a majority of the Continuing Directors, shall be used.

(b) The Company shall not be required to issue fractions of Preferred Stock (other than fractions which are integral multiples of one ten-thousandth of a share of Preferred Stock) upon exercise of the Rights or to distribute certificates which evidence fractional Preferred Stock (other than fractions which are integral multiples of one ten-thousandth of a share of Preferred Stock). Fractions of Preferred Stock in integral multiples of one ten-thousandth of a share of Preferred Stock may, at the election of the Company, be evidenced by depositary receipts, pursuant to an appropriate agreement between the Company and a depositary selected

by it; provided, however, that such agreement shall provide that the holders of such depositary receipts shall have all the rights, privileges and preferences to which they are entitled as beneficial owners of the Preferred Stock represented by such depositary receipts. In lieu of fractional shares of Preferred Stock that are not integral multiples of one ten-thousandth of a share of Preferred Stock, the Company shall pay to the registered holders of Rights Certificate at the time such Rights are exercised as herein provided an amount in cash equal to the same fraction of the current market value of one a share of Preferred Stock as determined pursuant to Section 11(d).

(c) The holder of a Right by the acceptance of the Right expressly waives such holder's right to receive any fractional Rights or any fractional shares upon exercise of a Right (except as provided above).

Section 15. Rights of Action. All rights of action in respect of this Agreement, excepting the rights of action given to the Rights Agent under Section 18 hereof, are vested in the respective registered holders of the Rights Certificate (and, prior to the Distribution Date, the registered holders of certificates representing shares of Common Stock); and any registered holder of any Rights Certificate (or, prior to the Distribution Date, a certificate representing shares of Common Stock), without the consent of the Rights Agent or of the holder of any other Rights Certificate (or, prior to the Distribution Date, of a certificate representing shares of Common Stock), may, in such holder's own behalf and for such holder's own benefit, enforce, and may institute and maintain any suit, action or proceeding against the Company to enforce, or otherwise act in respect of, such holder's right to exercise the Rights evidenced by such Rights Certificate in the manner provided in such Rights Certificate and in this Agreement. Without limiting the foregoing or any remedies available to the holders of Rights, it is specifically acknowledged that the holders of Rights would not have an adequate remedy at law for any breach of this Agreement and will be entitled to specific performance of the obligations hereunder, and injunctive relief against actual or threatened violations of the obligations of any Person subject to this Agreement.

Section 16. Agreement of Rights Holders. Every holder of a Right, by accepting the same, consents and agrees with the Company and the Rights Agent and with every other holder of a Right that:

(a) prior to the Distribution Date, the Rights will be transferable only in connection with the transfer of shares of the Company's Common Stock;

(b) after the Distribution Date, the Rights Certificate are transferable only on the registry books of the Rights Agent if surrendered at the office of the Rights Agent designated for such purpose, duly endorsed or accompanied by a proper instrument of transfer;

(c) subject to Sections 6(a) and 7(f) hereof, the Company and the Rights Agent may deem and treat the person in whose name the Rights Certificate (or, prior to the Distribution Date, the associated Common Stock certificate) is registered as the absolute owner thereof and

of the Rights evidenced thereby (notwithstanding any notations of ownership or writing on the Rights Certificate or the associated Common Stock certificate made by anyone other than the Company or the Rights Agent) for all purposes whatsoever, and neither the Company nor the Rights Agent shall be affected by any notice to the contrary; and

(d) notwithstanding anything in this Agreement to the contrary, neither the Company nor the Rights Agent shall have any liability to any holder of a Right or other Person as a result of its inability to perform any of its obligations under this Agreement by reason of any preliminary or permanent injunction or other order, decree or ruling issued by a court of competent jurisdiction or by a governmental, regulatory or administrative agency or commission, or any statute, rule, regulation or executive order promulgated or enacted by any governmental authority, prohibiting or otherwise restraining performance of such obligation; provided, however, the Company must use its best efforts to have any such order, decree or ruling lifted or otherwise overturned as soon as possible.

Section 17. Rights Certificate Holder Not Deemed a Shareholder. No holder, as such, of any Rights Certificate shall be entitled to vote, receive dividends or be deemed for any purpose the holder of the Units of Preferred Stock or any other securities of the Company which may at any time be issuable upon the exercise of the Rights represented thereby, nor shall anything contained herein or in any Rights Certificate be construed to confer upon the holder of any Rights Certificate, as such, any of the rights of a shareholder of the Company or any right to vote for the election of directors or upon any matter submitted to shareholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting shareholders (except as provided in Section 25 hereof), or to receive dividends or subscription rights, or otherwise, until the Right or Rights evidenced by such Rights Certificate shall have been exercised in accordance with the provisions hereof.

Section 18. Concerning the Rights Agent. The Company agrees to pay to the Rights Agent reasonable compensation for all services rendered by it hereunder and, from time to time, on demand of the Rights Agent, its reasonable expenses and counsel fees and other disbursements incurred in the administration and execution of this Agreement and the exercise and performance of its duties hereunder. The Company also agrees to indemnify the Rights Agent for, and to hold it harmless against, any loss, liability, or expense, incurred without gross negligence, or willful misconduct on the part of the Rights Agent, for any action taken, suffered or omitted by the Rights Agent in connection with the execution, acceptance and administration of this Agreement and the exercise and performance hereunder of its duties, including the costs and expenses of defending against and appealing any claim of liability in the premises. The indemnity provided herein shall survive the termination of this Agreement and the expiration of the Rights. The costs and expenses incurred in enforcing this right of indemnification shall be paid by the Company.

The Rights Agent may conclusively rely upon and shall be protected and shall incur no liability for, or in respect of any action taken, suffered or omitted by it in connection with, its administration of this Agreement and the exercise and performance of its duties

hereunder in reliance upon any Rights Certificate or certificate for Units of Preferred Stock or shares of Common Stock or for other securities of the Company, instrument of assignment or transfer, power of attorney, endorsement, affidavit, letter, notice, direction, consent, certificate, statement, or other paper or document believed by it to be genuine and to be signed, executed and, where necessary, verified or acknowledged, by the proper person or persons, or otherwise upon the advice of counsel as set forth in Section 20 hereof.

Section 19. Merger or Consolidation or Change of Name of Rights Agent.

(a) Any corporation into which the Rights Agent or any successor Rights Agent may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which the Rights Agent or any successor Rights Agent shall be a party, or any corporation succeeding to the stock transfer or corporate trust business of the Rights Agent or any successor Rights Agent, shall be the successor to the Rights Agent under this Agreement without the execution or filing of any paper or any further act on the part of any of the parties hereto, provided that such corporation would be eligible for appointment as a successor Rights Agent under the provisions of Section 21 hereof. In case at the time such successor Rights Agent shall succeed to the agency created by this Agreement any of the Rights Certificate shall have been countersigned but not delivered, any such successor Rights Agent may adopt the countersignature of the predecessor Rights Agent and deliver such Rights Certificate so countersigned; and in case at that time any of the Rights Certificate shall not have been countersigned, any successor Rights Agent may countersign such Rights Certificate either in the name of the predecessor Rights Agent or in the name of the successor Rights Agent; and in all such cases such Rights Certificate shall have the full force provided in the Rights Certificate and in this Agreement.

(b) In case at any time the name of the Rights Agent shall be changed and at such time any of the Rights Certificate shall have been countersigned but not delivered, the Rights Agent may adopt the countersignature under its prior name and deliver Rights Certificate so countersigned; and in case at that time any of the Rights Certificate shall not have been countersigned, the Rights Agent may countersign such Rights Certificate either in its prior name or in its changed name; and in all such cases such Rights Certificate shall have the full force provided in the Rights Certificate and in this Agreement.

Section 20. Duties of Rights Agent. The Rights Agent undertakes the duties and obligations imposed by this Agreement upon the following terms and conditions and no implied duties or obligations shall be read into this Agreement against the Rights Agent, by all of which the Company and the holders of Rights Certificate, by their acceptance thereof, shall be bound:

(a) Before the Rights Agent acts or refrains from acting, it may consult with legal counsel of its choice (who may be legal counsel for the Company), and the advice or opinion of such counsel shall be full and complete authorization and protection to the Rights Agent as to any action taken, suffered or omitted by it in good faith and in accordance with such advice or opinion.

(b) Whenever in the administration, exercise and performance of its duties under this Agreement the Rights Agent shall deem it necessary or desirable that any fact or matter be proved or established by the Company prior to taking, suffering or omitting any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by any one of the Chairman of the Board, the Chief Executive Officer, the President, any Vice President, the Treasurer or the Secretary of the Company and delivered to the Rights Agent; and such certificate shall be full authorization to the Rights Agent for any action taken, suffered or omitted in good faith by it under the provisions of this Agreement in reliance upon such certificate.

(c) The Rights Agent shall be liable hereunder to the Company and any other Person only for its own gross negligence or willful misconduct.

(d) The Rights Agent shall not be liable for or by reason of any of the statements of fact or recitals contained in this Agreement or in the Rights Certificate (except its countersignature thereof) or be required to verify the same, but all such statements and recitals are and shall be deemed to have been made by the Company only.

(e) The Rights Agent shall not be under any liability or responsibility in respect of the legality, validity or enforceability of this Agreement or the execution and delivery hereof (except the due execution hereof by the Rights Agent) or in respect of the legality, validity or enforceability or the execution of any Rights Certificate (except its countersignature thereof and has actual knowledge of such change or adjustment); nor shall it be liable or responsible for any breach by the Company of any covenant or condition contained in this Agreement or in any Rights Certificate; nor shall it be responsible for any change in the exercisability of the Rights (including the Rights becoming void pursuant to Section 11(a)(ii) hereof) or any adjustment in the terms of the Rights (including the manner, method or amount thereof) provided for in Section 3, 11, 13, 23 or 24, or the ascertaining of the existence of facts that would require any such change or adjustment (except with respect to the exercise of Rights evidenced by Rights Certificate after receipt of the certificate described in Section 12 hereof or has actual knowledge of such change or adjustment); nor shall it by any act hereunder be deemed to make any representation or warranty as to the authorization or reservation of any Units of Preferred Stock to be issued pursuant to this Agreement or any Rights Certificate or as to whether any Preferred Stock will, when issued, be validly authorized and issued, fully paid and nonassessable.

(f) The Company agrees that it will perform, execute, acknowledge and deliver or cause to be performed, executed, acknowledged and delivered all such further and other acts, instruments and assurances as may reasonably be required by the Rights Agent for the carrying out or performing by the Rights Agent of the provisions of this Agreement.

(g) The Rights Agent is hereby authorized and directed to accept instructions with respect to the administration, exercise and performance of its duties hereunder from any one of the Chairman of the Board, the Chief Executive Officer, the President, any Vice President, the Secretary or the Treasurer of the Company, and to apply to such officers for advice or instruc-

tions in connection with its duties, and it shall not be responsible or liable for any action taken, suffered or omitted by it in good faith in accordance with instructions of any such officer or for any delay in acting while waiting for those instructions. Any application by the Rights Agent for written instructions from the Company may, at the option of the Rights Agent, set forth in writing any action proposed to be taken or omitted by the Rights Agent under this Rights Agreement and the date on and/or after which such action shall be taken or such omission shall be effective. The Rights Agent shall not be liable for any action taken by, or omission of, the Rights Agent in accordance with a proposal included in any such application on or after the date specified in such application (which date shall not be less than five (5) Business Days after the date any officer of the Company actually received such application, unless any such officer shall have consented in writing to an earlier date) unless, prior to taking any such action (or the effective date in the case of an omission), the Rights Agent shall have received written instructions in response to such application specifying the action to be taken or omitted.

(h) The Rights Agent and any shareholder, director, officer or employee of the Rights Agent may buy, sell or deal in any of the Rights or other securities of the Company or become pecuniarily interested in any transaction in which the Company may be interested, or contract with or lend money to the Company or otherwise act as fully and freely as though it were not Rights Agent under this Agreement. Nothing herein shall preclude the Rights Agent from acting in any other capacity for the Company or for any other legal entity.

(i) The Rights Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys or agents, and the Rights Agent shall not be answerable or accountable for any act, default, neglect or misconduct of any such attorneys or agents or for any loss to the Company resulting from any such act, default, neglect or misconduct, provided reasonable care was exercised in the selection and continued employment thereof.

(j) No provision of this Agreement shall require the Rights Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of its rights if the Rights Agent in good faith believes that repayment of such funds or adequate indemnification against such risk or liability is not reasonably assured to it.

(k) If, with respect to any Rights Certificate surrendered to the Rights Agent for exercise, transfer, split up, combination or exchange, the certification on the form of assignment or form of election to purchase, as the case may be, that the Rights evidenced by the Rights Certificate are not owned by an Acquiring Person, or an Affiliate or Associate thereof, has either not been completed or in any manner indicates any other response thereto, the Rights Agent shall not take any further action with respect to such requested exercise, transfer, split up, combination or exchange, without first consulting with the Company.

Section 21. Change of Rights Agent. The Rights Agent or any successor Rights Agent may resign and be discharged from its duties under this Agreement upon thirty (30) days'

notice in writing mailed to the Company and to each transfer agent of the Common Stock or Preferred Stock (as to which the Rights Agent has received prior written notice) by registered or certified mail, and the Company shall mail notice thereof to the holders of the Rights Certificate by first-class mail. The Company may remove the Rights Agent or any successor Rights Agent upon thirty (30) days' notice in writing, mailed to the Rights Agent or successor Rights Agent, as the case may be, and to each transfer agent of the Common Stock or Preferred Stock (as to which the Rights Agent has received prior written notice) by registered or certified mail, and to the holders of the Rights Certificate by first-class mail. If the Rights Agent shall resign or be removed or shall otherwise become incapable of acting, the Company shall appoint a successor to the Rights Agent. If the Company shall fail to make such appointment within a period of thirty (30) days after giving notice of such removal or after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Rights Agent or by the holder of a Rights Certificate (who shall, with such notice, submit such holder's Rights Certificate for inspection by the Company), then the registered holder of any Rights Certificate may apply to any court of competent jurisdiction for the appointment of a new Rights Agent. Any successor Rights Agent, whether appointed by the Company or by such a court, shall be a corporation organized and doing business under the laws of the United States or of any state of the United States, in good standing, authorized under such laws to exercise corporate trust or stock transfer powers, and subject to supervision or examination by federal or state authority and which has at the time of its appointment as Rights Agent a combined capital and surplus of at least \$50 million. After appointment, the successor Rights Agent shall be vested with the same powers, rights, duties and responsibilities as if it had been originally named as Rights Agent without further act or deed; but the predecessor Rights Agent shall deliver and transfer to the successor Rights Agent any property at the time held by it hereunder, and execute and deliver any further assurance, conveyance, act or deed necessary for the purpose. Not later than the effective date of any such appointment the Company shall file notice thereof in writing with the predecessor Rights Agent and each transfer agent of the Common Stock or Preferred Stock, and mail a notice thereof in writing to the registered holders of the Rights Certificate. Failure to give any notice provided for in this Section 21, however, or any defect therein, shall not affect the legality or validity of the resignation or removal of the Rights Agent or the appointment of the successor Rights Agent, as the case may be.

Section 22. Issuance of New Rights Certificate. Notwithstanding any of the provisions of this Agreement or of the Rights to the contrary, the Company may, at its option, issue new Rights Certificate evidencing Rights in such form as may be approved by its Board of Directors upon approval by a majority of the Continuing Directors, to reflect any adjustment or change in the Purchase Price and the number or kind or class of shares or other securities or property purchasable under the Rights Certificate made in accordance with the provisions of this Agreement. In addition, in connection with the issuance or sale of shares of Common Stock following the Distribution Date and prior to the Expiration Date, the Company (a) shall, with respect to shares of Common Stock so issued or sold pursuant to the exercise of stock options or under any employee benefit plan or arrangement or upon the exercise, conversion or exchange of securities of the Company currently outstanding or issued at any time in the future by the Company and (b) may, in any other case, if deemed necessary or appropriate by the Board of

Directors of the Company, upon approval by a majority of the Continuing Directors, issue Rights Certificate representing the appropriate number of Rights in connection with such issuance or sale; provided, however, that (i) no such Rights Certificate shall be issued and this sentence shall be null and void ab initio if, and to the extent that, such issuance or this sentence would create a significant risk of or result in material adverse tax consequences to the Company or the Person to whom such Rights Certificate would be issued or would create a significant risk of or result in such options' or employee plans' or arrangements' failing to qualify for otherwise available special tax treatment and (ii) no such Rights Certificate shall be issued if, and to the extent that, appropriate adjustment shall otherwise have been made in lieu of the issuance thereof.

Section 23. Redemption and Termination.

(a) The Company may, at its option, upon approval by a majority of the Continuing Directors, at any time prior to the earlier of (i) the Shares Acquisition Date or (ii) the Final Expiration Date redeem all but not less than all the then outstanding Rights at a redemption price of \$0.001 per Right, appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date hereof (such redemption price being hereinafter referred to as the "Redemption Price"), and the Company may, at its option, pay the Redemption Price either in cash, shares of Common Stock (based on the current per share market price thereof (as determined pursuant to Section 11(d) hereof) at the time of redemption), or any other form of consideration deemed appropriate by the Board of Directors; provided, however, that, notwithstanding anything to the contrary contained in this Section 23(a), the Company may not take any action pursuant to this Section 23(a) unless (x) at the time of the action of the Board of Directors of the Company approving such redemption and the form of payment of the Redemption Price, there are then in office not less than two Continuing Directors and (y) such action is approved by a majority of the Continuing Directors then in office. The redemption of the Rights by the Board of Directors may be made effective at such time on such basis and with such conditions as a majority of the Continuing Directors in its sole discretion may establish.

(b) Immediately upon the action of a majority of the Continuing Directors of the Company ordering the redemption of the Rights pursuant to paragraph (a) of this Section 23, and without any further action and without any notice, the right to exercise the Rights will terminate and the only right thereafter of the holders of Rights shall be to receive the Redemption Price. The Company shall promptly give public notice of any such redemption; provided, however, that the failure to give, or any defect in, any such notice shall not affect the validity of such redemption. Within 10 days after such action of a majority of the Continuing Directors ordering the redemption of the Rights, the Company shall give notice of such redemption to the Rights Agent and shall mail a notice of redemption to all the holders of the then outstanding Rights at their last addresses as they appear upon the registry books of the Rights Agent or, prior to the Distribution Date, on the registry books of the transfer agent for the Common Stock. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of redemption will state the method by which the payment of the Redemption Price will be made. Neither the Company nor any of its Affiliates or Associates may redeem, acquire or purchase for value any Rights at any time in any manner

other than that specifically set forth in this Section 23 or in Section 24 hereof, and other than in connection with the purchase of shares of Common Stock prior to the Distribution Date.

(c) Notwithstanding anything contained in this Agreement to the contrary, the Rights shall not be exercisable pursuant to Section 7 (a) at any time when the Rights are redeemable hereunder.

Section 24. Exchange.

(a) The Company, at its option, upon approval by a majority of the Continuing Directors, at any time after any Person becomes an Acquiring Person, may exchange all or part of the then outstanding and exercisable Rights (which shall not include Rights that have become void pursuant to the provisions of Section 7(e) hereof) for Units of Preferred Stock at an exchange ratio equal to, subject to adjustment to reflect stock splits, stock dividends and similar transactions occurring after the date hereof, that number obtained by dividing the Purchase Price by the then current per share market price per Unit of Preferred Stock on the earlier of (i) the date on which any Person becomes an Acquiring Person and (ii) the date on which a tender or exchange offer by any Person (other than the Company, any Subsidiary of the Company, any employee benefit plan maintained by the Company or any of its Subsidiaries or any trustee or fiduciary with respect to such plan acting in such capacity) is first published or sent or given within the meaning of Rule 14d-4(a) of the Exchange Act Regulations or any successor rule, if upon consummation thereof such Person would be the Beneficial Owner of 15% or more of the shares of Common Stock then outstanding (such exchange ratio being hereinafter referred to as the "Section 24(a) Exchange Ratio"). Notwithstanding the foregoing, the Company may not effect such exchange at any time after any Person (other than the Company, any Subsidiary of the Company, any employee benefit plan maintained by the Company or any of its Subsidiaries, or any trustee or fiduciary with respect to such plan acting in such capacity), together with all Affiliates and Associates of such Person, becomes the Beneficial Owner of 50% or more of the shares of Common Stock then outstanding.

(b) Immediately upon the action of the Board of Directors of the Company ordering the exchange of any Rights pursuant to subsection (a) of this Section 24 and without any further action and without any notice, the right to exercise such Rights shall terminate and the only right thereafter of a holder of such Rights shall be to receive that number of Units of Preferred Stock equal to the number of such Rights held by such holder multiplied by the Section 24(a) Exchange Ratio. The Company shall promptly give public notice of any such exchange; provided, however, that the failure to give, or any defect in, such notice shall not affect the validity of such exchange. The Company promptly shall mail a notice of any such exchange to all of the holders of such Rights at their last addresses as they appear upon the registry books of the Rights Agent. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of exchange will state the method by which the exchange of Units of Preferred Stock for Rights will be effected and, in the event of any partial exchange, the number of Rights which will be exchanged. Any partial

exchange shall be effected pro rata based on the number of Rights (other than Rights which have become void pursuant to the provisions of Section 7(e) hereof) held by each holder of Rights.

(c) In the event that the number of shares of Preferred Stock which are authorized by the Company's Restated Articles of Incorporation but not outstanding or reserved for issuance for purposes other than upon exercise of the Rights are not sufficient to permit any exchange of Rights as contemplated in accordance with this Section 24, the Company shall take all such action as may be necessary to authorize additional shares of Preferred Stock for issuance upon exchange of the Rights or make adequate provision to substitute (1) cash, (2) Company Common Stock or other equity securities of the Company, (3) debt securities of the Company, (4) other assets, or (5) any combination of the foregoing, having an aggregate value equal to the Adjustment Spread, where such aggregate value has been determined by a majority of the Continuing Directors.

(d) The Company shall not be required to issue fractions smaller than or to distribute certificates which evidence fractions smaller than one ten-thousandth of a share of Preferred Stock. In lieu thereof, the Company shall pay to the registered holders of the Rights Certificate with regard to which such fractional Units would otherwise be issuable an amount in cash equal to the same fraction of the current market value (as determined pursuant to Section 11(d)(i) hereof) of one Unit of Preferred Stock.

Section 25. Notice of Certain Events.

(a) In case the Company shall propose (i) to pay any dividend payable in stock of any class to the holders of its Preferred Stock or to make any other distribution to the holders of its Preferred Stock (other than a regular quarterly cash dividend), (ii) to offer to the holders of its Preferred Stock rights or warrants to subscribe for or to purchase any additional Units of Preferred Stock or shares of stock of any class or any other securities, rights or options, (iii) to effect any reclassification of its Preferred Stock (other than a reclassification involving only the subdivision of outstanding Preferred Stock), (iv) to effect any consolidation or merger into or with any other Person (other than a Subsidiary of the Company in a transaction which complies with Section 11(o)), or to effect any sale or other transfer (or to permit one or more of its Subsidiaries to effect any sale or other transfer), in one or more transactions, of 50% or more of the assets or earning power of the Company and its Subsidiaries (taken as a whole) to, any other Person, (v) to effect the liquidation, dissolution or winding up of the Company, or (vi) to declare or pay any dividend on the Common Stock payable in shares of Common Stock or to effect a subdivision, combination or consolidation of the shares of Common Stock (by reclassification or otherwise than by payment of dividends in shares of Common Stock), then, in each such case, the Company shall give to each holder of a Rights Certificate, in accordance with Section 26 hereof, a notice of such proposed action, which shall specify the record date for the purposes of such stock dividend, or distribution of rights or warrants, or the date on which such reclassification, consolidation, merger, sale, transfer, liquidation, dissolution, or winding up is to take place and the date of participation therein by the holders of the shares of Common Stock and/or shares of Preferred Stock, if any such date is to be fixed, and such notice shall be so given in the case

of any action covered by clause (i) or (ii) above at least ten (10) days prior to the record date for determining holders of the shares of Preferred Stock for purposes of such action, and in the case of any such other action, at least ten (10) days prior to the date of the taking of such proposed action or the date of participation therein by the holders of the shares of Common Stock and/or shares of Preferred Stock, whichever shall be the earlier.

(b) In case any of the events set forth in Section 11(a)(ii) hereof shall occur, then the Company shall as soon as practicable thereafter give to each holder of a Rights Certificate, in accordance with Section 26 hereof, a notice of the occurrence of such event, which notice shall describe such event and the consequences of such event to holders of Rights under Section 11(a)(ii) hereof. In the event any Person becomes an Acquiring Person, the Company will promptly notify the Rights Agent thereof.

Section 26. Notices. Notices or demands authorized by this Agreement to be given or made by the Rights Agent or by the holder of any Rights Certificate to or on the Company shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed (until another address is filed in writing with the Rights Agent) as follows:

Cisco Systems, Inc.
170 West Tasman Drive
San Jose, CA 95134-1706

Attention: Vice President Legal and
Governmental Affairs

Subject to the provisions of Section 21 hereof, any notice or demand authorized by this Agreement to be given or made by the Company or by the holder of any Rights Certificate to or on the Rights Agent shall be sent by registered or certified mail and shall be deemed given upon receipt and addressed (until another address is filed in writing with the Company) as follows:

Bank Boston, N.A.
c/o Boston EquiServe Limited Partnership
150 Royall Street
Canton, MA 02021

Attention: Client Administration

Notices or demands authorized by this Agreement to be given or made by the Company or the Rights Agent to the holder of any Rights Certificate shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed to such holder at the address of such holder as shown on the registry books of the Company.

Section 27. Supplements and Amendments. Prior to the Distribution Date, the Company may supplement or amend this Agreement in any respect, without the approval of any holders of Rights, by action of its Board of Directors, upon approval by a majority of the Continuing Directors, and the Rights Agent shall, if the Company so directs, execute such supplement or amendment. From and after the Distribution Date, the Company may from time to time supplement or amend this Agreement without the approval of any holders of Rights, by action of its Board of Directors, upon approval by a majority of the Continuing Directors, in order (i) to cure any ambiguity, (ii) to correct or supplement any provision contained herein which may be defective or inconsistent with any other provisions herein, (iii) to shorten or lengthen any time period hereunder or (iv) to change or supplement the provisions hereunder in any manner which the Company may deem necessary or desirable and which shall not adversely affect the interests of the holders of Rights Certificate (other than an Acquiring Person or an Affiliate or Associate of an Acquiring Person), including, without limitation, to change the Purchase Price, the Redemption Price, any time periods herein specified, and any other term hereof, any such supplement or amendment to be evidenced by a writing signed by the Company and the Rights Agent; provided, however, that from and after such time as any Person becomes an Acquiring Person, this Agreement shall not be amended in any manner which would adversely affect the interests of the holders of Rights. Upon receipt of a certificate from an appropriate officer of the Company that the proposed supplement or amendment is consistent with this Section 27 and, after such time as any Person has become an Acquiring Person, that the proposed supplement or amendment does not adversely affect the interests of the holders of Rights, the Rights Agent shall execute such supplement or amendment.

Section 28. Successors. All the covenants and provisions of this Agreement by or for the benefit of the Company or the Rights Agent shall bind and inure to the benefit of their respective successors and assigns hereunder.

Section 29. Determinations and Actions by the Board of Directors.

(a) For all purposes of this Agreement, any calculation of the number of shares of Common Stock outstanding at any particular time, including for purposes of determining the particular percentage of such outstanding shares of Common Stock of which any Person is the Beneficial Owner, shall be made in accordance with the last sentence of Rule 13d-3(d)(1)(i) of the Exchange Act. The Board of Directors of the Company shall have the exclusive power and authority to administer this Agreement and to exercise all rights and powers specifically granted to the Board of Directors, or the Company, or as may be necessary or advisable in the administration of this Agreement, including, without limitation, the right and power to (i) interpret the provisions of this Agreement and (ii) make all determinations deemed necessary or advisable for the administration of this Agreement (including a determination to redeem or not redeem the Rights or to amend the Agreement). All such actions, calculations, interpretations and determinations (including, for purposes of clause (y) below, all omissions with respect to the foregoing), which are done or made by the Board of Directors in good faith, shall (x) be final, conclusive and binding on the Company, the Rights Agent, the holders of the Rights Certificate

and all other parties and (y) not subject the Board of Directors or the Continuing Directors to any liability to the holders of the Rights.

(b) Notwithstanding anything to the contrary contained in this Agreement, the concurrence of a majority of the Continuing Directors then in office shall be required to give effect to any action, calculation, interpretation or determination made by the Board of Directors of the Company in the administration of this Agreement and the exercise of the rights or powers granted to the Board of Directors of the Company, to the Continuing Directors or to the Company pursuant to this Agreement and no effect shall be given to any such action, calculation, interpretation, determination or exercise of rights or powers unless at least two Continuing Directors are then in office.

Section 30. Benefits of This Agreement. Nothing in this Agreement shall be construed to give to any person or corporation other than the Company, the Rights Agent and the registered holders of the Rights Certificate (and, prior to the Distribution Date, shares of Common Stock) any legal or equitable right, remedy or claim under this Agreement; but this Agreement shall be for the sole and exclusive benefit of the Company, the Rights Agent and the registered holders of the Rights Certificate (and, prior to the Distribution Date, shares of Common Stock).

Section 31. Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated; provided, however, that notwithstanding anything in this Agreement to the contrary, if any such term, provision, covenant or restriction is held by such court or authority to be invalid, void or unenforceable and the Board of Directors of the Company, upon approval by a majority of the Continuing Directors, determines in its good faith judgment that severing the invalid language from this Agreement would adversely affect the purpose or effect of this Agreement, the right of redemption set forth in Section 23 hereof shall be reinstated and shall not expire until the tenth Business Day following the date of such determination by the Board of Directors of the Company.

Section 32. Governing Law. This Agreement and each Rights Certificate issued hereunder shall be deemed to be a contract made under the laws of the State of California and for all purposes shall be governed by and construed in accordance with the laws of such State applicable to contracts to be made and performed entirely within such State.

Section 33. Counterparts. This Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

Section 34. Descriptive Headings. Descriptive headings of the several sections of this Agreement are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and attested, all as of the day and year first above written.

ATTEST:

By /s/ DENNIS D. POWELL

Name: Dennis D. Powell
Title: Corporate Controller

CISCO SYSTEMS, INC.

By /s/ JOHN T. CHAMBERS

Name: John T. Chambers
Title: President and CEO

BANK BOSTON, N.A.,
as Rights Agent

By /s/ GEOFFREY D. ANDERSON

Name: Geoffrey D. Anderson
Title: Administration Manager

FORM
of
CERTIFICATE OF DETERMINATION
of
SERIES A JUNIOR PARTICIPATING PREFERRED STOCK
of
CISCO SYSTEMS, INC.
(Pursuant to Section 467 of the
California General Corporation Law)

Cisco Systems, Inc., a corporation organized and existing under the General Corporation Law of the State of California (hereinafter called the "Corporation"), hereby certifies that the following resolution was adopted by the Board of Directors of the Corporation as required by Section 401 of the General Corporation Law at a meeting duly called and held on June 8, 1998.

RESOLVED, that pursuant to the authority granted to and vested in the Board of Directors of the Corporation (hereinafter called the "Board of Directors" or the "Board") in accordance with the provisions of the Articles of Incorporation, the Board of Directors hereby creates a series of Preferred Stock, no par value (the "Preferred Stock"), of the Corporation and hereby states the designation and number of shares, and fixes the relative rights, preferences, and limitations thereof as follows:

Series A Junior Participating Preferred Stock:

Section 1. Designation and Amount. The shares of such series shall be designated as "Series A Junior Participating Preferred Stock" (the "Series A Preferred Stock") and the number of shares constituting the Series A Preferred Stock shall be one million two hundred thousand (1,200,000). Such number of shares may be increased or decreased by resolution of the Board of Directors; provided, that no decrease shall reduce the number of shares of Series A

Preferred Stock to a number less than the number of shares then outstanding plus the number of shares reserved for issuance upon the exercise of outstanding options, rights or warrants or upon the conversion of any outstanding securities issued by the Corporation convertible into Series A Preferred Stock.

Section 2. Dividends and Distributions.

(A) Subject to the rights of the holders of any shares of any series of Preferred Stock (or any similar stock) ranking prior and superior to the Series A Preferred Stock with respect to dividends, each holder of a share of Series A Preferred Stock, in preference to the holders of shares of Common Stock, par value \$.001 per share (the "Common Stock"), of the Corporation, and of any other junior stock, shall be entitled to receive, when declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the last day of March, June, September and December in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share Series A Preferred Stock, in an amount per share (rounded to the nearest cent) equal to, subject to the provision for adjustment hereinafter set forth, Ten Thousand (10,000) times the aggregate per share amount of all cash dividends, and Ten Thousand (10,000) times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions, other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of a share or fraction of Series A Preferred Stock. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Corporation shall declare a dividend or distribution on the shares of Series A Preferred Stock as provided in paragraph (A) of this Section immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided, however, that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Distribution Date and the next subsequent Quarterly Dividend Payment Date,

a dividend of \$.000001 per share of Series A Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(C) Dividends shall begin to accrue and be cumulative on each outstanding share of Series A Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such share of Series A Preferred Stock, unless the date of issue of such share is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such share shall begin to accrue from the date of issue of such share, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be not more than 60 days prior to the date fixed for the payment thereof.

Section 3. Voting Rights. The holders of shares of Series A Preferred Stock shall have the following voting rights:

(A) Subject to the provision for adjustment hereinafter set forth, each share of Series A Preferred Stock shall entitle the holder thereof to Ten Thousand (10,000) votes on all matters submitted to a vote of the shareholders of the Corporation. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the number of votes per share to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) Except as otherwise provided herein, in any other Certificate of Determination creating a series of Preferred Stock or any similar stock, or by law, the holders of shares of Series A Preferred Stock and the holders of shares of Common Stock and any other capital stock of the Corporation having general voting rights shall vote together as one class on all matters submitted to a vote of shareholders of the Corporation.

(C) Except as set forth herein, or as otherwise provided by law, holders of Series A Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

Section 4. Certain Restrictions.

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series A Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

(i) declare or pay dividends, or make any other distributions, on any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock;

(ii) declare or pay dividends, or make any other distributions, on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except dividends paid ratably on the shares of Series A Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Preferred Stock; or

(iv) redeem or purchase or otherwise acquire for consideration any shares of Series A Preferred Stock, or any shares of stock ranking on a parity with the Series A Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (A) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

Section 5. Reacquired Shares. Any shares of Series A Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock subject to the conditions and restrictions on issuance set forth herein, in the Articles of Incorporation, or in any other Certificate of Determination creating a series of Preferred Stock or any similar stock or as otherwise required by law.

Section 6. Liquidation, Dissolution or Winding Up.

(A) Upon any liquidation, dissolution or winding up of the Corporation, no distribution shall be made (1) to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock unless, prior thereto, the holders of shares of Series A Preferred Stock shall have received Ten Thousand Dollars (\$10,000) per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, provided that the holders of shares of Series A Preferred Stock shall be entitled to receive an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 10,000 times the aggregate amount to be distributed per share to holders of shares of Common Stock, or (2) to the holders of shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except distributions made ratably on the Series A Preferred Stock and all such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the aggregate amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under the proviso in clause (1) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) In the event, however, that there are not sufficient assets available to permit payment in full to the Series A Liquidation Preference and the liquidation preferences of all other series of Preferred Stock, if any, which rank on a parity with the Series A Preferred Stock, then such remaining assets shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences. In the event, however, that there are not

sufficient assets available to permit payment in full of the Common Adjustment, then such remaining assets shall be distributed ratably to the holders of Common Stock.

(C) In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 7. Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case each share of Series A Preferred Stock shall at the same time be similarly exchanged or changed into an amount per share, subject to the provision for adjustment hereinafter set forth, equal to Ten Thousand (10,000) times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series A Preferred Stock shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 8. No Redemption. The shares of Series A Preferred Stock shall not be redeemable.

Section 9. Rank. The Series A Preferred Stock shall rank, with respect to the payment of dividends and the distribution of assets, junior to all series of any other class of the Corporation's Preferred Stock.

Section 10. Amendment. The Restated Articles of Incorporation of the Corporation shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Preferred Stock so as to affect them adversely without the affirmative vote of the holders of at least a majority of the outstanding shares of Series A Preferred Stock, voting together as a single class.

The undersigned certify under penalty of perjury that they have read the foregoing Certificate of Determination and know the contents thereof, and that the statements therein are true.

Executed at San Jose, California, on June 10, 1998.

/s/ JOHN T. CHAMBERS

Name: John T. Chambers
Title: President and Chief Executive Officer

/s/ DAVID ROGAN

Name: David Rogan
Title: Vice President, Treasurer, Assistant Secretary

Form of Rights Certificate

Article No. R-

_____ Rights

NOT EXERCISABLE AFTER JUNE 10, 2008 OR EARLIER IF REDEMPTION OR EXCHANGE OCCURS. THE RIGHTS ARE SUBJECT TO REDEMPTION AT THE OPTION OF THE COMPANY AT \$.001 PER RIGHT AND TO EXCHANGE ON THE TERMS SET FORTH IN THE RIGHTS AGREEMENT. UNDER CERTAIN CIRCUMSTANCES, RIGHTS BENEFICIALLY OWNED BY AN ACQUIRING PERSON OR AN AFFILIATE OR ASSOCIATE OF AN ACQUIRING PERSON (AS SUCH TERMS ARE DEFINED IN THE RIGHTS AGREEMENT) AND ANY SUBSEQUENT HOLDER OF SUCH RIGHTS MAY BECOME NULL AND VOID. [THE RIGHTS REPRESENTED BY THIS RIGHTS CERTIFICATE ARE OR WERE BENEFICIALLY OWNED BY A PERSON WHO WAS OR BECAME AN ACQUIRING PERSON OR AN AFFILIATE OR ASSOCIATE OF AN ACQUIRING PERSON (AS SUCH TERMS ARE DEFINED IN THE RIGHTS AGREEMENT). ACCORDINGLY, THIS RIGHTS CERTIFICATE AND THE RIGHTS REPRESENTED HEREBY MAY BECOME NULL AND VOID IN THE CIRCUMSTANCES SPECIFIED IN SUCH AGREEMENT.]*

Rights Certificate

CISCO SYSTEMS, INC.

This certifies that _____, or registered assigns, is the registered owner of the number of Rights set forth above, each of which entitles the owner thereof, subject to the terms, provisions and conditions of the Rights Agreement, dated as of June 10, 1998 (the "Rights Agreement"), between Cisco Systems, Inc., a California corporation (the "Company"), and Bank Boston, N.A. (the "Rights Agent"), to purchase from the Company at any time after the Distribution Date (as such term is defined in the Rights Agreement) and prior to 5:00 P.M., Massachusetts time, on June 10, 2008, at the office of the Rights Agent designated for such

* _____
The portion of the legend in bracket shall be inserted only if applicable and shall replace the preceding sentence.

purpose, or at the office of its successor as Rights Agent, one ten-thousandth (a "Unit") of a fully paid non-assessable share of Series A Junior Participating Preferred Stock, no par value (the "Series A Preferred Stock") of the Company, at a purchase price of \$650.00 per Unit of Series A Preferred Stock (the "Purchase Price"), upon presentation and surrender of this Rights Certificate with the Form of Election to Purchase duly executed. The number of Rights evidenced by this Rights Certificate (and the number of Units of Series A Preferred Stock which may be purchased upon exercise hereof) set forth above, and the Purchase Price set forth above, are the number and Purchase Price as of June 22, 1998 based on the Series A Preferred Stock as constituted at such date. As provided in the Rights Agreement, the Purchase Price and the number of Units of Series A Preferred Stock which may be purchased upon the exercise of the Rights evidenced by this Rights Certificate are subject to modification and adjustment upon the happening of certain events.

This Rights Certificate is subject to all of the terms, provisions and conditions of the Rights Agreement, which terms, provisions and conditions are hereby incorporated herein by reference and made a part hereof and to which Rights Agreement reference is hereby made for a full description of the rights, limitations of rights, obligations, duties and immunities hereunder of the Rights Agent, the Company and the holders of the Rights Certificate. Copies of the Rights Agreement are on file at the principal executive offices of the Company.

This Rights Certificate, with or without other Rights Certificate, upon surrender at the office of the Rights Agent designated for such purpose, may be exchanged for another Rights Certificate or Rights Certificate of like tenor and date evidencing Rights entitling the holder to purchase a like aggregate number of Series A Preferred Stock as the Rights evidenced by the Rights Certificate or Rights Certificate surrendered shall have entitled such holder to purchase. If this Rights Certificate shall be exercised in part, the holder shall be entitled to receive upon surrender hereof another Rights Certificate or Rights Certificate for the number of whole Rights not exercised.

Subject to the provisions of the Rights Agreement, the Rights evidenced by this Articles may be redeemed by the Company at a redemption price of \$.001 per Right.

No fractional shares of Series A Preferred Stock will be issued upon the exercise of any Rights or Rights evidenced hereby (other than fractions which are integral multiples of one one-millionth of a share of Series A Preferred Stock, which may, at the election of the Company, be evidenced by depositary receipts), but in lieu thereof a cash payment will be made, as provided in the Rights Agreement.

No holder of this Rights Certificate, as such, shall be entitled to vote or receive dividends or be deemed for any purpose the holder of Units of Series A Preferred Stock or of any other securities of the Company which may at any time be issuable on the exercise hereof, nor shall anything contained in the Rights Agreement or herein be construed to confer upon the holder hereof, as such, any of the rights of a shareholder of the Company or any right to vote for the election of directors or upon any matter submitted to shareholders at any meeting thereof, or

to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting shareholders (except as provided in the Rights Agreement), or to receive dividends or subscription rights, or otherwise, until the Rights or Rights evidenced by this Rights Certificate shall have been exercised as provided in the Rights Agreement.

This Rights Certificate shall not be valid or obligatory for any purpose until it shall have been countersigned by the Rights Agent.

WITNESS the signature of the proper officers of the Company and its corporate seal. Dated as of June 10, 1998.

ATTEST:

CISCO SYSTEMS, INC.

Name:
Title:

Countersigned:

BANK BOSTON, N.A.
as Rights Agent

By _____

Authorized Signatory

By _____

Name:
Title:

Form of Reverse Side of Rights Certificate

FORM OF ASSIGNMENT

(To be executed by the registered holder if such holder desires to transfer the Rights Certificate.)

FOR VALUE RECEIVED _____ hereby sells, assigns and transfers unto

(Please print name and address of transferee)

this Rights Certificate, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint _____ Attorney, to transfer the within Rights Certificate on the books of the within-named Company, with full power of substitution.

Dated: _____, _____

Signature

Signature Guaranteed:

Signatures must be guaranteed by a participant in a Securities Transfer Association Inc. recognized signature guarantee medallion program.

CERTIFICATE

The undersigned hereby certifies that the Rights evidenced by this Rights Certificate are not beneficially owned by an Acquiring Person or an Affiliate or Associate thereof (as defined in the Rights Agreement).

Signature

NOTICE

The signature in the foregoing Form of Assignment must conform to the name as written upon the face of this Rights Certificate in every particular, without alteration or enlargement or any change whatsoever.

In the event the certification set forth above in the Form of Assignment is not completed, the Company and the Rights Agent will deem the beneficial owner of the Rights evidenced by this Rights Certificate to be an Acquiring Person or an Affiliate or Associate thereof (as defined in the Rights Agreement) and such Assignment will not be honored.

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FORM OF ELECTION TO PURCHASE

(To be executed if holder desires to exercise the Rights Certificate.)

To Cisco Systems, Inc.

The undersigned hereby irrevocably elects to exercise Rights represented by this Rights Certificate to purchase the units of Series A Preferred Stock issuable upon the exercise of such Rights and requests that certificates for such Series A Preferred Stock be issued in the name of:

Please insert social security
or other identifying number _____
(Please print name and address)

If such number of Rights shall not be all the Rights evidenced by this Rights Certificate, a new Rights Certificate for the balance remaining of such Rights shall be registered in the name of and delivered to:

Please insert social security
or other identifying number _____
(Please print name and address)

Dated: _____, _____

Signature

Signature Guaranteed:

Signatures must be guaranteed by a participant in a Securities Transfer Association Inc. recognized signature guarantee medallion program.

CERTIFICATE

The undersigned hereby certifies that the Rights evidenced by this Rights Certificate are not beneficially owned by an Acquiring Person or an Affiliate or Associate thereof (as defined in the Rights Agreement).

Signature

NOTICE

The signature in the foregoing Form of Election to Purchase must conform to the name as written upon the face of this Rights Certificate in every particular, without alteration or enlargement or any change whatsoever.

In the event the certification set forth above in the Form of Election to Purchase, as the case may be, is not completed, the Company and the Rights Agent will deem the beneficial owner of the Rights evidenced by this Rights Certificate to be an Acquiring Person or an Affiliate or Associate thereof (as defined in the Rights Agreement) and such Election to Purchase will not be honored.

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CISCO SYSTEMS, INC.
SUMMARY OF RIGHTS TO PURCHASE
SHARES OF SERIES A PREFERRED STOCK

On June 10, 1998 the Board of Directors of Cisco Systems, Inc. (the "Company") declared a dividend of one preferred share purchase right (a "Right") for each outstanding share of Common Stock (the "Common Stock"), par value \$.001 per share, of the Company. The dividend is payable on June 22, 1998 (the "Record Date") to the shareholders of record on that date. Each Right entitles the registered holder to purchase from the Company one ten-thousandth of a share (a "Unit") of Series A Junior Participating Preferred Stock, no par value (the "Series A Preferred Stock"), of the Company at a price of \$650.00 per Unit (the "Purchase Price"), subject to adjustment. The description and terms of the Rights are set forth in a Rights Agreement dated as of June 10, 1998 (the "Rights Agreement") between the Company and Bank Boston, N.A., as Rights Agent (the "Rights Agent").

Until the earlier to occur of (i) a public announcement that a person or group of affiliated or associated persons (an "Acquiring Person") have acquired beneficial ownership of 15% or more of the outstanding Common Stock or (ii) 10 business days (or such later date as may be determined by action of the Continuing Directors prior to such time as any Person becomes an Acquiring Person) following the commencement of, or announcement of an intention to make, a tender offer or exchange offer the consummation of which would result in the beneficial ownership by a person or group of 15% or more of such outstanding Common Stock (the earlier of such dates being called the "Distribution Date"), the Rights will be evidenced, with respect to any of the Common Stock certificates outstanding as of the Record Date, by such Common Stock certificate with a copy of this Summary of Rights attached thereto.

The Rights Agreement provides that, until the Distribution Date, the Rights will be transferred with and only with the Common Stock. Until the Distribution Date (or earlier redemption or expiration of the Rights), new Common Stock certificates issued after the Record Date, upon transfer or new issuance of Common Stock will contain a notation incorporating the Rights Agreement by reference. Until the Distribution Date (or earlier redemption or expiration of the Rights), the surrender for transfer of any certificates for Common Stock, outstanding as of the Record Date, even without such notation or a copy of this Summary of Rights being attached thereto, will also constitute the transfer of the Rights associated with the Common Stock represented by such certificate. As soon as practicable following the Distribution Date, separate certificates evidencing the Rights ("Rights Certificate") will be mailed to holders of record of the

Common Stock as of the Close of Business on the Distribution Date and such separate Rights Certificate alone will evidence the Rights.

The Rights are not exercisable until the Distribution Date. The Rights will expire at the close of business on June 10, 2008 (the "Final Expiration Date"), unless the Final Expiration Date is extended or unless the Rights are earlier redeemed or exchanged by the Company, in each case as described below.

The Purchase Price payable, and the number of Units of Preferred Stock or other securities or property issuable, upon exercise of the Rights are subject to adjustment from time to time to prevent dilution (i) in the event of a stock dividend on, or a subdivision, combination or reclassification of, the Preferred Stock, (ii) upon the grant to holders of the Units of Preferred Stock of certain rights or warrants to subscribe for or purchase Units of Preferred Stock at a price, or securities convertible into Units of Preferred Stock with a conversion price, less than the then current market price of the Units of Preferred Stock or (iii) upon the distribution to holders of the Units of Preferred Stock of evidences of indebtedness or assets (excluding regular periodic cash dividends paid out of earnings or retained earnings or dividends payable in Units of Preferred Stock) or of subscription rights or warrants (other than those referred to above).

The number of outstanding Rights and the number of Units of Preferred Stock issuable upon exercise of each Right are also subject to adjustment in the event of a stock split of the Common Stock or a stock dividend on the Common Stock payable in Common Stock or subdivisions, consolidations or combinations of the Common Stock occurring, in any such case, prior to the Distribution Date.

Units of Preferred Stock purchasable upon exercise of the Rights will not be redeemable. Each Unit of Preferred Stock will be entitled to a dividend equal to any dividend declared per share of Common Stock. In the event of liquidation, each Unit of Preferred Stock will be entitled to a payment equal to any payment made per share of Common Stock. Each Unit of Preferred Stock will have one vote, voting together with the Common Stock. Finally, in the event of any merger, consolidation or other transaction in which shares of Common Stock are exchanged, each Unit of Preferred Stock will be entitled to receive an amount equal to the amount received per share of Common Stock. These rights are protected by customary anti-dilution provisions.

Because of the nature of the dividend, liquidation and voting rights, the value of each Unit of Preferred Stock purchasable upon exercise of the Rights should approximate the value of one share of Common Stock.

In the event that, after the Rights become exercisable, the Company is acquired in a merger or other business combination transaction with an Acquiring Person or an affiliate thereof, or 50% or more of its consolidated assets or earning power are sold to an Acquiring

Person or an affiliate thereof, proper provision will be made so that each holder of a Right will thereafter have the right to receive, upon exercise thereof at the then current exercise price of the Rights, that number of shares of common stock of the acquiring company which at the time of such transaction will have a market value of two times the exercise price of the Rights.

In the event that any person or group of affiliated or associated persons becomes the beneficial owner of 15% or more of the outstanding shares of Common Stock proper provision shall be made so that each holder of a Right, other than Rights beneficially owned by the Acquiring Person (which will thereafter be void), will thereafter have the right to receive upon exercise that number of shares of Common Stock or Units of Preferred Stock (or cash, other securities or property) having a market value of two times the exercise price of the Rights.

At any time after the acquisition by a person or group of affiliated or associated persons of beneficial ownership of 15% or more of the outstanding shares of Common Stock and prior to the acquisition by such person or group of 50% or more of the outstanding Common Stock, the Continuing Directors of the Company may exchange all or part of the Rights (other than Rights owned by such person or group which have become void) for Units of Preferred Stock at an exchange ratio of (subject to adjustment) which shall equal, subject to adjustment to reflect stock splits, stock dividends and similar transactions occurring after the date hereof, that number obtained by dividing the Purchase Price by the then current per share market price per Unit of Preferred Stock on the earlier of (i) the date on which any Person becomes an Acquiring Person and (ii) the date on which a tender or exchange offer is announced by any Person, if upon consummation thereof such Person would be the Beneficial Owner of 15% or more of the shares of Company Common Stock then outstanding.

With certain exceptions, no adjustment in the Purchase Price will be required until cumulative adjustments require an adjustment of at least 1% in such Purchase Price. No fractional shares of Preferred Stock will be issued (other than fractions which are integral multiples of one ten-thousandth of a share of Preferred Stock, which may, at the election of the Company, be evidenced by depository receipts) and, in lieu thereof, an adjustment in cash will be made based on the market price of the Units of Preferred Stock on the last trading day prior to the date of exercise.

At any time prior to the public announcement that a person or group of affiliated or associated persons has acquired beneficial ownership of 15% or more of the outstanding Common Stock, the Board of Directors of the Company may redeem the Rights in whole, but not in part, at a price of \$.001 per Right (the "Redemption Price"), upon the approval of a majority of the Continuing Directors. The redemption of the rights may be made effective at such time on such basis and with such conditions as the Board of Directors, upon the approval of the Continuing Directors in its sole discretion may establish. Immediately upon any redemption of the Rights, the right to exercise the Rights will terminate and the only right of the holders

of Rights will be to receive the Redemption Price. The Rights are also redeemable under other circumstances as specified in the Rights Agreement.

The terms of the Rights may be amended by the Board of Directors of the Company without the consent of the holders of the Rights upon the approval of a majority of the Continuing Directors except that from and after a Distribution Date no such amendment may adversely affect the interests of the holders of the Rights.

Until a Right is exercised, the holder thereof, as such, will have no rights as a shareholder of the Company, including, without limitation, the right to vote or to receive dividends.

The Rights have certain anti-takeover effects. The Rights will cause substantial dilution to a person or group that attempts to acquire the Company on terms not approved by the Company's Board of Directors, except pursuant to an offer conditioned on a substantial number of rights being acquired. The Rights should not interfere with any merger or other business combination approved by the Board of Directors because the Rights may be redeemed by the Company at the Redemption Price prior to the occurrence of a Distribution Date.

A copy of the Rights Agreement has been filed with the Securities and Exchange Commission as an Exhibit to a Registration Statement on Form 8-A. A copy of the Rights Agreement is available free of charge from the Company. This summary description of the Rights does not purport to be complete and is qualified in its entirety by reference to the Rights Agreement, which is hereby incorporated herein by reference.

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Exhibit 10.2

CISCO SYSTEMS, INC.

1997 SUPPLEMENTAL STOCK INCENTIVE PLAN

(As Amended and Restated Effective January 9, 2001)

ARTICLE ONE

GENERAL

A. This 1997 Supplemental Stock Incentive Plan is intended to promote the interests of Cisco Systems, Inc., a California corporation, by authorizing an additional reserve of shares of the Corporation's common stock for issuance through long-term option grants or direct stock issuances to individuals in the employ of the Corporation (or any Parent or Subsidiary) who are neither officers of the Corporation nor members of the Board and who are not otherwise Section 16 Insiders.

B. The Plan shall become effective immediately upon adoption by the Board on July 31, 1997.

C. The Plan shall supplement the authorized share reserve under the Corporation's 1996 Stock Incentive Plan, and share issuances under this Plan shall not reduce or otherwise affect the number of shares of the Corporation's common stock available for issuance under the 1996 Stock Incentive Plan. In addition, share issuances under the 1996 Stock Incentive Plan shall not reduce or otherwise affect the number of shares of the Corporation's common stock available for issuance under this Plan.

D. All share numbers in this January 9, 2001 restatement reflect all splits of the Common Stock effected through March 22, 2000, including (i) the three (3)-for-two (2) split of Common Stock effected on December 16, 1997, (ii) the three (3)-for-two (2) split of Common Stock effected on September 15, 1998, (iii) the two (2)-for-one (1) split of Common Stock effected on June 21, 1999, and (iv) the two (2)-for-one (1) split of Common Stock effected on March 22, 2000.

E. Capitalized terms shall have the meanings assigned to such terms in the attached Appendix.

I. STRUCTURE OF THE PLAN

A. The Plan shall be divided into two (2) separate equity programs:

(i) the Option Grant Program under which eligible persons may, at the discretion of the Plan Administrator, be granted options to purchase shares of Common Stock, and

(ii) the Stock Issuance Program under which eligible persons may, at the discretion of the Plan Administrator, be issued shares of Common Stock directly, either through the immediate purchase of such shares or as a bonus for services rendered the Corporation (or any Parent or Subsidiary) or the attainment of designated performance goals.

II. ADMINISTRATION OF THE PLAN

A. The Plan Administrator shall have full power and discretion (subject to the express provisions of the Plan) to establish such rules and regulations as it may deem appropriate for the proper administration of the Plan and to make such determinations under, and issue such interpretations of, the provisions of the Plan and any outstanding option grants or unvested stock issuances thereunder as it may deem necessary or advisable. Decisions of the Plan Administrator shall be final and binding on all parties who have an interest in the Plan or any outstanding stock option or stock issuance thereunder.

B. The individuals serving as Plan Administrator shall serve for such period as the Board may determine and shall be subject to removal by the Board at any time.

C. Service as Plan Administrator shall constitute service as a Board member, and each Board member serving as Plan Administrator shall accordingly be entitled to full indemnification and reimbursement as a Board member for such service. No individual serving as Plan Administrator shall be liable for any act or omission made in good faith with respect to the Plan or any option grant or stock issuance made under the Plan.

III. ELIGIBILITY

A. The persons eligible to participate in the Plan shall be limited to those Employees who are neither officers of the Corporation nor members of the Board and who are not otherwise Section 16 Insiders.

B. The Plan Administrator shall have full authority to determine (i) with respect to the Option Grant Program, which eligible Employees are to receive option grants under the Plan, the time or times when the grants are to be made, the number of shares subject to each such grant, the time or times when each granted option is to become exercisable and the maximum term for which the option may remain outstanding and (ii) with respect to stock issuances under the Stock Issuance Program, which eligible persons are to receive stock issuances, the time or times when such issuances are to be made, the number of shares to be

issued to each Participant, the vesting schedule (if any) applicable to the issued shares and the consideration for such shares. All options granted under the Plan shall be Non-Statutory Options.

IV. STOCK SUBJECT TO THE PLAN

A. Shares of Common Stock shall be available for issuance under the Plan and shall be drawn from either the Corporation's authorized but unissued shares of Common Stock or from reacquired shares of Common Stock, including shares repurchased by the Corporation on the open market. The maximum number of shares of Common Stock reserved for issuance over the term of the Plan shall be limited to 9,000,000 shares, subject to adjustment from time to time in accordance with the provisions of Section IV.C.

B. Should one or more outstanding options under this Plan expire or terminate for any reason prior to exercise in full, then the shares subject to the portion of each option not so exercised shall be available for subsequent issuance under the Plan. Unvested shares issued under the Plan and subsequently cancelled or repurchased by the Corporation, at the original issue price paid per share, pursuant to the Corporation's repurchase rights under the Plan shall be added back to the number of shares of Common Stock reserved for issuance under the Plan and shall accordingly be available for reissuance through one or more subsequent option grants or direct stock issuances under the Plan. Should the exercise price of an outstanding option under the Plan be paid with shares of Common Stock, then the number of shares of Common Stock available for issuance under the Plan shall be reduced by the gross number of shares for which the option is exercised, and not by the net number of shares of Common Stock actually issued to the holder of such option.

C. Should any change be made to the Common Stock issuable under the Plan by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration, then appropriate adjustments shall be made to (i) the maximum number and/or class of securities issuable under the Plan, and (ii) the number and/or class of securities and price per share in effect under each option outstanding under the Plan. Such adjustments to the outstanding securities are to be effected in a manner which shall preclude the enlargement or dilution of rights and benefits under such options. The adjustments determined by the Plan Administrator shall be final, binding and conclusive.

ARTICLE TWO
OPTION GRANT PROGRAM

I. OPTION TERMS

Options granted under the Plan shall be authorized by action of the Plan Administrator and shall be evidenced by one or more instruments in the form approved by the Plan Administrator; provided, however, that each such instrument shall comply with the terms and conditions specified below. All such granted options shall be Non-Statutory Options.

A. Exercise Price.

1. The exercise price per share shall be fixed by the Plan Administrator but shall not be less than one hundred percent (100%) of the Fair Market Value per share of Common Stock on the grant date.
2. Full payment of the exercise price shall become immediately due upon exercise of the option and shall be payable in one or more of the forms specified below:
 - (i) cash or check made payable to the Corporation,
 - (ii) shares of Common Stock held for the requisite period necessary to avoid a charge to the Corporation's earnings for financial reporting purposes and valued at Fair Market Value on the Exercise Date, or
 - (iii) through a special sale and remittance procedure pursuant to which the Optionee shall concurrently provide irrevocable instructions to (a) a Corporation-designated brokerage firm to effect the immediate sale of the purchased shares and remit to the Corporation, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased shares plus all applicable Federal, state and local income and employment taxes required to be withheld by the Corporation in connection with such purchase and to (b) the Corporation to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sale transaction.

Except to the extent such sale and remittance procedure is utilized, payment of the exercise price for the purchased shares must be made on the Exercise Date.

B. Term and Exercise of Options/Limited Transferability.

1. Each option shall have such term and be exercisable at such time or times, during such period and for such number of shares, as shall be determined by the Plan Administrator and set forth in the documents evidencing such option.

2. During the lifetime of the Optionee, the option may be assigned in whole or in part to one or more members of the Optionee's immediate family or to a trust established exclusively for one or more such family members or to one or more individuals, to the extent such assignment is in connection with the Optionee's estate plan or pursuant to a domestic relations order. The assigned portion may only be exercised by the person or persons who acquire a proprietary interest in the option pursuant to the assignment. The terms applicable to the assigned portion shall be the same as those in effect for the option immediately prior to such assignment and shall be set forth in such documents issued to the assignee as the Plan Administrator may deem appropriate.

C. Effect of Termination of Service

1. The following provisions shall govern the exercise of any options held by the Optionee at the time of cessation of Service or death:

(i) Any option outstanding at the time of the Optionee's cessation of Service for any reason shall remain exercisable for such period of time thereafter as shall be determined by the Plan Administrator and set forth in the documents evidencing the option, but no such option shall be exercisable after the expiration of the option term.

(ii) Any option exercisable in whole or in part by the Optionee at the time of death may be subsequently exercised by the personal representative of the Optionee's estate or by the person or persons to whom the option is transferred pursuant to the Optionee's will or in accordance with the laws of descent and distribution.

(iii) Should the Optionee's Service be terminated for Misconduct, then all outstanding options held by the Optionee shall terminate immediately and cease to be outstanding.

(iv) During the applicable post-Service exercise period, the option may not be exercised in the aggregate for more than the number of shares for which the option is exercisable on the date of Optionee's cessation of Service. Upon the expiration of the applicable exercise period or (if earlier) upon the expiration of the option term, the option shall terminate and cease to be outstanding for any otherwise exercisable shares for which the option has not been exercised. However, the option shall, immediately upon Optionee's cessation of Service for any reason, terminate and cease to be outstanding with respect to any and all option shares for which the option is not otherwise at the time exercisable.

2. The Plan Administrator shall have the discretion, exercisable either at the time an option is granted or at any time while the option remains outstanding, to:

(i) extend the period of time for which the option is to remain exercisable following Optionee's cessation of Service or death from the limited period otherwise in effect for that option to such greater period of time as the Plan Administrator shall deem appropriate, but in no event beyond the expiration of the option term, and/or

(ii) permit the option to be exercised, during the applicable post-Service exercise period, not only with respect to the number of shares of Common Stock for which such option is exercisable at the time of the Optionee's cessation of Service but also with respect to one or more additional installments for which the option would have become exercisable had the Optionee continued in Service.

D. Shareholder Rights. No Optionee shall have any shareholder rights with respect to any option shares until such person shall have exercised the option and paid the exercise price for the purchased shares.

II. CORPORATE TRANSACTION/CHANGE IN CONTROL

A. Each option outstanding under the Plan at the time of a Corporate Transaction shall automatically accelerate so that each such option shall, immediately prior to the specified effective date for such Corporate Transaction, become fully exercisable with respect to the total number of shares of Common Stock at the time subject to that option and may be exercised for all or any portion of those shares as fully-vested shares. However, an outstanding option under the Plan shall not become exercisable on such an accelerated basis if and to the extent: (i) such option is, in connection with the Corporate Transaction, to be assumed by the successor corporation (or parent thereof) or (ii) such option is to be replaced with a cash incentive program of the successor corporation which preserves the spread existing at the time of the Corporate Transaction on the shares for which the option is not otherwise at that time exercisable and provides for subsequent payout of that spread in accordance with the same exercise/vesting schedule applicable to those shares.

B. The Plan Administrator shall have the discretionary authority to structure one or more options under the Plan so that those options shall immediately accelerate upon an Involuntary Termination of the Optionee's Service within a designated period (not to exceed eighteen (18) months) following the effective date of a Corporate Transaction in which those options are assumed by the successor corporation and accordingly do not accelerate at the time of such Corporate Transaction.

C. Immediately following the consummation of the Corporate Transaction, all outstanding options under the Plan shall terminate and cease to remain outstanding, except to the extent assumed by the successor corporation or its parent company.

D. Each outstanding option which is assumed in connection with the Corporate Transaction shall be appropriately adjusted, immediately after such Corporate Transaction, to apply and pertain to the number and class of securities which would have been issued to the Optionee, in consummation of the Corporate Transaction, had such person exercised the option immediately prior to the Corporate Transaction. Appropriate adjustments shall also be made to the exercise price payable per share, provided the aggregate exercise price payable for such securities shall remain the same. In addition, the class and number of securities available for issuance under the Plan following the consummation of the Corporate Transaction shall be appropriately adjusted.

E. The Plan Administrator shall also have full power and authority to grant options under the Plan which will automatically accelerate upon an Involuntary Termination of Optionee's Service within a designated period (not to exceed eighteen (18) months) following the effective date of any Change in Control.

F. The grant of options under the Plan shall in no way affect the right of the Corporation to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

ARTICLE THREE
STOCK ISSUANCE PROGRAM

I. STOCK ISSUANCE TERMS

Shares of Common Stock may be issued under the Stock Issuance Program through direct and immediate issuances without any intervening option grants. Each such stock issuance shall be evidenced by a Stock Issuance Agreement which complies with the terms specified below. Shares of Common Stock may also be issued under the Stock Issuance Program pursuant to share right awards which entitle the recipients to receive those shares upon the attainment of designated performance goals.

A. Purchase Price

1. The purchase price per share of Common Stock subject to direct issuance shall be fixed by the Plan Administrator, but shall not be less than one hundred percent (100%) of the Fair Market Value per share of Common Stock on the issuance date.
2. Shares of Common Stock may be issued under the Stock Issuance Program for any of the following items of consideration which the Plan Administrator may deem appropriate in each individual instance:
 - (i) cash or check made payable to the Corporation, or
 - (ii) past services rendered to the Corporation (or any Parent or Subsidiary).

B. Vesting/Issuance Provisions

1. Shares of Common Stock issued under the Stock Issuance Program may, in the discretion of the Plan Administrator, be fully and immediately vested upon issuance or may vest in one or more installments over the Participant's period of Service or upon attainment of specified performance objectives. Alternatively, the Plan Administrator may issue share right awards under the Stock Issuance Program which shall entitle the recipient to receive a specified number of shares of Common Stock upon the attainment of one or more performance goals established by the Plan Administrator. Upon the attainment of such performance goals, fully-vested shares of Common Stock shall be issued in satisfaction of those share right awards.
2. Any new, substituted or additional securities or other property (including money paid other than as a regular cash dividend) which the Participant may have the right to receive with respect to his or her unvested shares of Common Stock by reason of any stock dividend, stock split, recapitalization, combination of shares, exchange of shares or other

change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration shall be issued subject to (i) the same vesting requirements applicable to the Participant's unvested shares of Common Stock and (ii) such escrow arrangements as the Plan Administrator shall deem appropriate.

3. The Participant shall have full stockholder rights with respect to any shares of Common Stock issued to the Participant under the Stock Issuance Program, whether or not the Participant's interest in those shares is vested. Accordingly, the Participant shall have the right to vote such shares and to receive any regular cash dividends paid on such shares.

4. Should the Participant cease to remain in Service while holding one or more unvested shares of Common Stock issued under the Stock Issuance Program or should the performance objectives not be attained with respect to one or more such unvested shares of Common Stock, then those shares shall be immediately surrendered to the Corporation for cancellation, and the Participant shall have no further stockholder rights with respect to those shares. To the extent the surrendered shares were previously issued to the Participant for cash consideration, the Corporation shall repay that consideration to the Participant at the time the shares are surrendered.

5. The Plan Administrator may in its discretion waive the surrender and cancellation of one or more unvested shares of Common Stock (or other assets attributable thereto) which would otherwise occur upon the cessation of the Participant's Service or the non-attainment of the performance objectives applicable to those shares. Such waiver shall result in the immediate vesting of the Participant's interest in the shares of Common Stock as to which the waiver applies. Such waiver may be effected at any time, whether before or after the Participant's cessation of Service or the attainment or non-attainment of the applicable performance objectives.

6. Outstanding share right awards under the Stock Issuance Program shall automatically terminate, and no shares of Common Stock shall actually be issued in satisfaction of those awards, if the performance goals established for such awards are not attained. The Plan Administrator, however, shall have the discretionary authority to issue shares of Common Stock under one or more outstanding share right awards as to which the designated performance goals have not been attained.

II. CORPORATE TRANSACTION/CHANGE IN CONTROL

A. All of the Corporation's outstanding repurchase rights under the Stock Issuance Program shall terminate automatically, and all the shares of Common Stock subject to those terminated rights shall immediately vest in full, in the event of any Corporate Transaction, except to the extent those repurchase rights are to be assigned to the successor corporation (or parent thereof) in connection with such Corporate Transaction.

B. The Plan Administrator shall have the discretionary authority, exercisable either at the time the unvested shares are issued or any time while the Corporation's repurchase rights remain outstanding under the Stock Issuance Program, to provide that those rights shall automatically terminate in whole or in part, and the shares of Common Stock subject to those terminated rights shall immediately vest, in the event the Participant's Service should subsequently terminate by reason of an Involuntary Termination within a designated period (not to exceed eighteen (18) months) following the effective date of any Corporate Transaction in which those repurchase rights are assigned to the successor corporation (or parent thereof).

C. The Plan Administrator shall have the discretionary authority, exercisable either at the time the unvested shares are issued or any time while the Corporation's repurchase rights remain outstanding under the Stock Issuance Program, to provide that those rights shall automatically terminate in whole or in part, and the shares of Common Stock subject to those terminated rights shall immediately vest, in the event the Participant's Service should subsequently terminate by reason of an Involuntary Termination within a designated period (not to exceed eighteen (18) months) following the effective date of any Change in Control.

III. SHARE ESCROW/LEGENDS

Unvested shares may, in the Plan Administrator's discretion, be held in escrow by the Corporation until the Participant's interest in such shares vests or may be issued directly to the Participant with restrictive legends on the certificates evidencing those unvested shares.

ARTICLE FOUR
MISCELLANEOUS

I. EFFECTIVE DATE AND TERM OF PLAN

A. This Plan became effective upon approval by the Board at the July 31, 1997 Board meeting and shall not be subject to shareholder approval.

B. The Plan shall terminate upon the earlier of (i) December 31, 2007 or (ii) the date on which all shares available for issuance under the Plan shall have been issued as fully-vested shares pursuant to option exercises or direct stock issuances under the Plan or (iii) the termination of all outstanding options in connection with a Corporate Transaction. If the date of termination is determined under clause (i) above, then all option grants or unvested stock issuances outstanding on such date shall thereafter continue to have force and effect in accordance with the provisions of the instruments evidencing those grants or issuances.

II. AMENDMENT OF THE PLAN

The Board has complete power and authority to amend or modify the Plan in any or all respects whatsoever but may delegate such authority in whole or in part to the Compensation Committee of the Board, as the Board deems appropriate. However, no such amendment or modification shall adversely affect rights and obligations with respect to stock options or unvested stock issuances at the time outstanding under the Plan, unless the affected Optionees or Participants consent to such amendment.

III. USE OF PROCEEDS

Any cash proceeds received by the Corporation from the sale of shares pursuant to option grants or direct stock issuances under the Plan shall be used for general corporate purposes.

IV. REGULATORY APPROVALS

A. The implementation of the Plan, the granting of any option under the Plan, and the issuance of Common Stock either upon the exercise of the stock options granted hereunder or pursuant to the Stock Issuance Program shall be subject to the Corporation's procurement of all approvals and permits required by regulatory authorities having jurisdiction over the Plan, the stock options granted under it and the Common Stock issued pursuant to it.

B. No shares of Common Stock or other assets shall be issued or delivered under this Plan unless and until there shall have been compliance with all applicable requirements of Federal and state securities laws, including the filing and effectiveness of the Form S-8 registration statement for the shares of Common Stock issuable under the Plan, and all applicable listing requirements of any stock exchange (or the Nasdaq National Market, if applicable) on which the Common Stock is then listed for trading.

V. NO EMPLOYMENT/SERVICE RIGHTS

Neither the action of the Corporation in establishing the Plan, nor any action taken by the Plan Administrator hereunder, nor any provision of the Plan shall be construed so as to grant any individual the right to remain in Service for any period of specific duration, and the Corporation (or any Parent or Subsidiary employing such individual) may terminate such individual's Service at any time and for any reason, with or without cause.

APPENDIX

The following definitions shall be in effect under the Plan:

A. **Board** shall mean the Corporation's Board of Directors.

B. **Change in Control** shall mean a change in ownership or control of the Corporation effected through either of the following transactions:

(i) the acquisition, directly or indirectly by any person or related group of persons (other than the Corporation or a person that directly or indirectly controls, is controlled by, or is under common control with, the Corporation), of beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities pursuant to a tender or exchange offer made directly to the Corporation's shareholders, or

(ii) a change in the composition of the Board over a period of thirty-six (36) consecutive months or less such that a majority of the Board members ceases, by reason of one or more contested elections for Board membership, to be comprised of individuals who either (A) have been Board members continuously since the beginning of such period or (B) 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 (A) who were still in office at the time the Board approved such election or nomination.

C. **Code** shall mean the Internal Revenue Code of 1986, as amended.

D. **Common Stock** shall mean the Corporation's common stock.

E. **Corporate Transaction** shall mean either of the following shareholder-approved transactions to which the Corporation is a party:

– a merger or consolidation in which securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities are transferred to a person or persons different from the persons holding those securities immediately prior to such transaction; or

– the sale, transfer or other disposition of all or substantially all of the Corporation's assets in complete liquidation or dissolution of the Corporation.

F. **Corporation** shall mean Cisco Systems, Inc., a California corporation, and its successors.

G. **Employee** shall mean an individual who is in the employ of the Corporation (or any Parent or Subsidiary), subject to the control and direction of the employer entity as to both the work to be performed and the manner and method of performance.

H. **Exercise Date** shall mean the date on which the Corporation shall have received written notice of the option exercise.

I. **Fair Market Value** per share of Common Stock on any relevant date shall be determined in accordance with the following provisions:

– If the Common Stock is at the time traded on the Nasdaq National Market, then the Fair Market Value shall be the closing selling price per share of Common Stock on the date in question, as such price is reported on the Nasdaq National Market or any successor system. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

– If the Common Stock is at the time listed on any Stock Exchange, then the Fair Market Value shall be the closing selling price per share of Common Stock on the date in question on that Stock Exchange determined by the Plan Administrator to be the primary market for the Common Stock, as such price is officially quoted in the composite tape of transactions on such exchange. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

J. **Involuntary Termination** shall mean the termination of the Service of any individual which occurs by reason of:

– such individual's involuntary dismissal or discharge by the Corporation for reasons other than Misconduct, or

– such individual's voluntary resignation following (A) a change in his or her position with the Corporation which materially reduces his or her duties or responsibilities or the level of management to which he or she reports, (B) a reduction in his or her level of compensation (including base salary, fringe benefits and target bonuses under corporate-performance based bonus or incentive programs) by more than fifteen percent (15%) or (C) a relocation of such individual's place of employment by more than fifty (50) miles, provided and only if such change, reduction or relocation is effected by the Corporation without the individual's consent.

K. **Misconduct** shall mean the commission of any act of fraud, embezzlement or dishonesty by the Optionee or Participant, any unauthorized use or disclosure by such person of confidential information or trade secrets of the Corporation (or any Parent or Subsidiary), or any other intentional misconduct by such person adversely affecting the business or affairs of the Corporation (or any Parent or Subsidiary) in a material manner. The foregoing definition shall not be deemed to be inclusive of all the acts or omissions which the Corporation (or any Parent or Subsidiary) may consider as grounds for the dismissal or discharge of any Optionee, Participant or other person in the Service of the Corporation (or any Parent or Subsidiary).

L. **1934 Act** shall mean the Securities Exchange Act of 1934, as amended.

M. **Non-Statutory Option** shall mean an option not intended to satisfy the requirements of Code Section 422.

N. **Option Grant Program** shall mean the option grant program in effect under the Plan.

O. **Optionee** shall mean any person to whom an option is granted under the Plan.

P. **Parent** shall mean any corporation (other than the Corporation) in an unbroken chain of corporations ending with the Corporation, provided each corporation in the unbroken chain (other than the Corporation) owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

Q. **Participant** shall mean any person who is issued shares of Common Stock under the Stock Issuance Program.

R. **Permanent Disability** or **Permanently Disabled** shall mean the inability of an individual to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment expected to result in death or to be of continuous duration of twelve (12) months or more.

S. **Plan** shall mean the Corporation's 1997 Supplemental Stock Incentive Plan, as set forth in this document.

T. **Plan Administrator** shall mean the committee comprised of one or more Board members appointed by the Board to administer the Plan.

U. **Section 16 Insider** shall mean an officer or director of the Corporation subject to the short-swing profit restrictions of Section 16 of the 1934 Act.

V. **Service** shall mean the provision of services on a periodic basis to the Corporation (or any Parent or Subsidiary) in the capacity of an Employee or an independent consultant or advisor, except to the extent otherwise specifically provided in the applicable stock option agreement.

W. **Stock Exchange** shall mean either the American Stock Exchange or the New York Stock Exchange.

X. **Stock Issuance Agreement** shall mean the agreement entered into by the Corporation and the Participant at the time of issuance of shares of Common Stock under the Stock Issuance Program.

Y. **Stock Issuance Program** shall mean the stock issuance program in effect under the Plan.

Z. **Subsidiary** shall mean any corporation (other than the Corporation) in an unbroken chain of corporations beginning with the Corporation, provided each corporation (other than the last corporation) in the unbroken chain owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

CISCO SYSTEMS, INC.
NOTICE OF GRANT OF STOCK OPTION

Notice is hereby given of the following option grant (the "Option") made to purchase shares of Cisco Systems, Inc. (the "Company") common stock (the "Common Stock")

Optionee: _____

Grant Date: _____

Type of Option: Non-Statutory Stock Option

Grant Number: _____

Number of Option Shares: _____ shares

Exercise Price: \$ _____ per

share

Vesting Commencement Date: _____

Expiration Date: _____

Exercise Schedule

The Option shall become exercisable with respect to (i) twenty percent (20%) of the Option Shares upon Optionee's completion of one (1) year of Service measured from the Vesting Commencement Date and (ii) the balance of the Option Shares in a series of forty-eight (48) successive equal monthly installments upon Optionee's completion of each additional month of Service over the forty-eight (48)-month period measured from the first anniversary of the Vesting Commencement Date. In no event shall the Option become exercisable for any additional Option Shares after Optionee's cessation of Service.

Should Optionee request a reduction to his or her work commitment to less than thirty (30) hours per week, then the Plan Administrator shall have the right, exercisable in connection with the approval of that reduction, to extend the period over which the Option shall thereafter vest and become exercisable for the Option Shares during the remainder of the option term. The decision whether or not to approve Optionee's request for such reduced work commitment shall be at the sole discretion of the Plan Administrator. In no event shall any extension of the Exercise Schedule for the Option Shares result in the extension of the Expiration Date of the Option.

Optionee understands and agrees that the Option is offered subject to and in accordance with the terms of the Cisco Systems, Inc. 1997 Supplemental Stock Incentive Plan (the "Plan"). Optionee further agrees to be bound by the terms of the Plan and the terms of the Option as set forth in the Stock Option Agreement attached hereto.

No Employment or Service Contract

Nothing in this Notice or in the attached Stock Option Agreement or in the Plan shall confer upon Optionee any right to continue in Service for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Corporation (or any Parent or Subsidiary employing or retaining Optionee) or of Optionee, which rights are hereby expressly reserved by each, to terminate Optionee's Service at any time for any reason, with or without cause.

Definitions

All capitalized terms in this Notice shall have the meaning assigned to them in this Notice or in the attached Stock Option Agreement.

CISCO SYSTEMS, INC.
1997 SUPPLEMENTAL PLAN STOCK OPTION AGREEMENT

Recitals

A. The Board has adopted the Plan for the purpose of retaining the services of selected Employees, non-employee members of the Board or of the board of directors of any Parent or Subsidiary and consultants and other independent advisors who provide services to the Corporation (or any Parent or Subsidiary).

B. Optionee is to render valuable services to the Corporation (or a Parent or Subsidiary), and this Agreement is executed pursuant to, and is intended to carry out the purposes of, the Plan in connection with the Corporation's grant of an option to Optionee.

C. All capitalized terms in this Agreement shall have the meaning assigned to them in the attached Appendix.

NOW, THEREFORE , it is hereby agreed as follows:

1. **Grant of Option** . The Corporation hereby grants to Optionee, as of the Grant Date, an option to purchase up to the number of Option Shares specified in the Grant Notice. The Option Shares shall be purchasable from time to time during the option term specified in Paragraph 2 at the Exercise Price.

2. **Option Term** . This option shall have a maximum term of ten (10) years and six (6) months measured from the Grant Date and shall accordingly expire at the close of business on the Expiration Date, unless sooner terminated in accordance with Paragraph 5 or 6.

3. **Limited Transferability** . This option may, in connection with the Optionee's estate plan, be assigned in whole or in part during Optionee's lifetime to one or more members of the Optionee's immediate family or to a trust established for the exclusive benefit of one or more such family members. The assigned portion shall be exercisable only by the person or persons who acquire a proprietary interest in the option pursuant to such assignment. The terms applicable to the assigned portion shall be the same as those in effect for this option immediately prior to such assignment and shall be set forth in such documents issued to the assignee as the Corporation may deem appropriate. Should the Optionee die while holding this option, then this option shall be transferred in accordance with Optionee's will or the laws of descent and distribution.

4. **Dates of Exercise** . This option shall become exercisable for the Option Shares in one or more installments as specified in the Grant Notice. As the option becomes exercisable for such installments, those installments shall accumulate and the option shall remain exercisable for the accumulated installments until the Expiration Date or sooner termination of the option term under Paragraph 5 or 6.

5. **Cessation of Service**. The option term specified in Paragraph 2 shall terminate (and this option shall cease to be outstanding) prior to the Expiration Date should any of the following provisions become applicable:

(i) Should Optionee cease to remain in Service for any reason (other than death, Permanent Disability or Misconduct) while this option is outstanding, then Optionee shall have a period of three (3) months (commencing with the date of such cessation of Service) during which to exercise this option, but in no event shall this option be exercisable at any time after the Expiration Date.

(ii) If Optionee dies while this option is outstanding, then the personal representative of Optionee's estate or the person or persons to whom the option is transferred pursuant to Optionee's will or in accordance with the laws of descent and distribution shall have the right to exercise this option. Such right shall lapse, and this option shall cease to be outstanding, upon the earlier of (A) the expiration of the twelve (12)- month period measured from the date of Optionee's death or (B) the Expiration Date.

(iii) Should Optionee cease Service by reason of Permanent Disability while this option is outstanding, then Optionee shall have a period of twelve (12) months (commencing with the date of such cessation of Service) during which to exercise this option. In no event shall this option be exercisable at any time after the Expiration Date.

(iv) For purposes of this Agreement, Optionee's period of Service shall not include any period of notice of termination of employment, whether expressed or implied. Optionee's date of cessation of Service shall mean the date upon which Optionee ceases active performance of services for the Corporation following the provision of such notification of termination or resignation from Service and shall be determined solely by this Agreement and without reference to any other agreement, written or oral, including Optionee's contract of employment.

(v) During the limited period of post-Service exercisability, this option may not be exercised in the aggregate for more than the number of vested Option Shares for which the option is exercisable at the time of Optionee's cessation of Service. Upon the expiration of such limited exercise period or (if earlier) upon the Expiration Date, this option shall terminate and cease to be outstanding for any vested Option Shares for which the option has not been exercised. However, this option shall, immediately upon Optionee's cessation of Service for any reason, terminate and cease to be outstanding with respect to any Option Shares in which Optionee is not otherwise at that time vested or for which this option is not otherwise at that time exercisable.

(vi) Should Optionee's Service be terminated for Misconduct or should Optionee otherwise engage in Misconduct while this option is outstanding, then this option shall terminate immediately and cease to remain outstanding.

6. Special Acceleration of Option.

(a) This option, to the extent outstanding at the time of a Corporate Transaction but not otherwise fully exercisable, shall automatically accelerate so that this option shall, immediately prior to the effective date of the Corporate Transaction, become exercisable for all of the Option Shares at the time subject to this option and may be exercised for any or all of those Option Shares as fully-vested shares of Common Stock. No such acceleration of this option, however, shall occur if and to the extent: (i) this option is, in connection with the Corporate Transaction, either to be assumed by the successor corporation (or parent thereof) or to be replaced with a comparable option to purchase shares of the capital stock of the successor corporation (or parent thereof) or (ii) this option is to be replaced with a cash incentive program of the successor corporation which preserves the spread existing on the unvested Option Shares at the time of the Corporate Transaction (the excess of the Fair Market Value of those Option Shares over the aggregate Exercise Price payable for such shares) and provides for subsequent pay-out in accordance with the same option exercise/vesting schedule set forth in the Grant Notice. The determination of option comparability under clause (i) shall be made by the Plan Administrator, and such determination shall be final, binding and conclusive.

(b) Immediately following the Corporate Transaction, this option shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or parent thereof) in connection with the Corporate Transaction.

(c) If this option is assumed in connection with a Corporate Transaction, then this option shall be appropriately adjusted, immediately after such Corporate Transaction, to apply to the number and class of securities which would have been issuable to Optionee in consummation of such Corporate Transaction had the option been exercised immediately prior to such Corporate Transaction, and appropriate adjustments shall also be made to the Exercise Price, provided the aggregate Exercise Price shall remain the same.

(d) This Agreement shall not in any way affect the right of the Corporation to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

7. Adjustment in Option Shares . Should any change be made to the Common Stock by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration, appropriate adjustments shall be made to (i) the total number and/or class of securities subject to this option and (ii) the Exercise Price in order to reflect such change and thereby preclude a dilution or enlargement of benefits hereunder.

8. **Shareholder Rights**. The holder of this option shall not have any shareholder rights with respect to the Option Shares until such person shall have exercised the option, paid the Exercise Price and become a holder of record of the purchased shares.

9. **Manner of Exercising Option.**

(a) In order to exercise this option with respect to all or any part of the Option Shares for which this option is at the time exercisable, Optionee (or any other person or persons exercising the option) must take the following actions:

(i) Pay the aggregate Exercise Price for the purchased shares in one or more of the following forms:

(A) cash or check made payable to the Corporation;

(B) to the extent the option is exercised for vested Option Shares, through a special sale and remittance procedure pursuant to which Optionee (or any other person or persons exercising the option) shall concurrently provide irrevocable written instructions (I) to a Corporation-designated brokerage firm to effect the immediate sale of the purchased shares and remit to the Corporation, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate Exercise Price payable for the purchased shares plus all applicable taxes required to be withheld by the Corporation by reason of such exercise and (II) to the Corporation to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sale transaction; or

(C) shares of Common Stock held by Optionee (or any other person or persons exercising the option) for the requisite period necessary to avoid a charge to the Corporation's earnings for financial reporting purposes and valued at Fair Market Value on the exercise date.

(ii) Furnish to the Corporation appropriate documentation that the person or persons exercising the option (if other than Optionee) have the right to exercise this option.

(iii) Make appropriate arrangements with the Corporation (or Parent or Subsidiary employing or retaining Optionee) for the satisfaction of all tax withholding requirements applicable to the option exercise.

(b) As soon as practical after the Exercise Date, the Corporation shall issue to or on behalf of Optionee (or any other person or persons exercising this option) a certificate for the purchased Option Shares, with the appropriate legends affixed thereto.

(c) In no event may this option be exercised for any fractional shares.

(d) Notwithstanding any other provisions of the Plan, this Agreement or any other agreement to the contrary, if at the time this option is exercised, Optionee is indebted to the Corporation (or any Parent or Subsidiary) for any reason, the following actions shall be taken, as deemed appropriate by the Plan Administrator:

(i) any shares of Common Stock to be issued upon such exercise shall automatically be pledged against Optionee's outstanding indebtedness; and

(ii) if this option is exercised in accordance with subparagraph 9(a)(i)(B) above, the after tax proceeds of the sale of Optionee's stock shall automatically be applied to the outstanding balance of Optionee's indebtedness.

10. Compliance with Laws and Regulations.

(a) The exercise of this option and the issuance of the Option Shares upon such exercise shall be subject to compliance by the Corporation and Optionee with all applicable requirements of law relating thereto and with all applicable regulations of any stock exchange (or the Nasdaq National Market, if applicable) on which the Common Stock may be listed for trading at the time of such exercise and issuance.

(b) The inability of the Corporation to obtain approval from any regulatory body having authority deemed by the Corporation to be necessary to the lawful issuance and sale of any Common Stock pursuant to this option shall relieve the Corporation of any liability with respect to the non-issuance or sale of the Common Stock as to which such approval shall not have been obtained. The Corporation, however, shall use its best efforts to obtain all such approvals.

11. **Successors and Assigns**. Except to the extent otherwise provided in Paragraphs 3 and 6, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the Corporation and its successors and assigns and Optionee, Optionee's assigns and the legal representatives, heirs and legatees of Optionee's estate.

12. **Notices**. Any notice required to be given or delivered to the Corporation under the terms of this Agreement shall be in writing and addressed to the Corporation at its principal corporate offices. Any notice required to be given or delivered to Optionee shall be in writing and addressed to Optionee at the address indicated below Optionee's signature line on the Grant Notice. All notices shall be deemed effective upon personal delivery or upon deposit in the U.S. mail, postage prepaid and properly addressed to the party to be notified.

13. **Construction**. This Agreement and the option evidenced hereby are made and granted pursuant to the Plan and are in all respects limited by and subject to the terms of the Plan. All decisions of the Plan Administrator with respect to any question or issue arising under

the Plan or this Agreement shall be conclusive and binding on all persons having an interest in this option.

14. **Governing Law** . The interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of California without resort to that State's conflict-of-laws rules.

15. **Leave of Absence** . The following provisions shall apply upon the Optionee's commencement of an authorized leave of absence:

(a) The exercise schedule in effect under the Grant Notice shall be frozen as of the first day of the authorized leave, and this option shall not become exercisable for any additional installments of the Option Shares during the period Optionee remains on such leave.

(b) In no event shall this option become exercisable for any additional Option Shares or otherwise remain outstanding if Optionee does not resume Employee status prior to the Expiration Date of the option term.

16. **Further Instruments** . The parties agree to execute such further instruments and to take such further action as may be reasonably necessary to carry out the purposes and intent of this Agreement.

17. **Authorization to Release Necessary Personal Information.**

(a) Optionee hereby authorizes and directs Optionee's employer to collect, use and transfer in electronic or other form, any personal information (the "Data") regarding Optionee's employment, the nature and amount of Optionee's compensation and the fact and conditions of Optionee's participation in the Plan (including, but not limited to, Optionee's name, home address, telephone number, date of birth, social security number (or any other social or national identification number), salary, nationality, job title, number of shares of Common Stock held and the details of all options or any other entitlement to shares of Common Stock awarded, cancelled, exercised, vested, unvested or outstanding) for the purpose of implementing, administering and managing Optionee's participation in the Plan. Optionee understands that the Data may be transferred to the Corporation or any of its Subsidiaries, or to any third parties assisting in the implementation, administration and management of the Plan, including any requisite transfer to a broker or other third party assisting with the exercise of Options under the Plan or with whom shares of Common Stock acquired upon exercise of this option or cash from the sale of such shares may be deposited. Optionee acknowledges that recipients of the Data may be located in different countries, and those countries may have data privacy laws and protections different from those in the country of Optionee's residence. Furthermore, Optionee acknowledges and understands that the transfer of the Data to the Corporation or any of its Subsidiaries, or to any third parties is necessary for Optionee's participation in the Plan.

(b) Optionee may at any time withdraw the consents herein, by contacting Optionee's local human resources representative in writing. Optionee further acknowledges that withdrawal of consent may affect Optionee's ability to exercise or realize benefits from the option, and Optionee's ability to participate in the Plan.

18. No Entitlement or Claims for Compensation.

(a) The grant of options under the Plan is made at the discretion of the Plan Administrator, and the Plan may be suspended or terminated by the Corporation at any time. The grant of an option in one year or at one time does not in any way entitle Optionee to an option grant in the future. The Plan is wholly discretionary in nature and is not to be considered part of Optionee's normal or expected compensation subject to severance, resignation, redundancy or similar compensation. The value of the option is an extraordinary item of compensation which is outside the scope of Optionee's employment contract (if any).

(b) Optionee shall have no rights to compensation or damages as a result of Optionee's Cessation of Service for any reason whatsoever, whether or not in breach of contract, insofar as those rights arise or may arise from Optionee's ceasing to have rights under or be entitled to exercise this option as a result of such cessation or from the loss or diminution in value of such rights. If Optionee did acquire any such rights, Optionee is deemed to have waived them irrevocably by accepting the option.

Appendix

The following definitions shall be in effect under the Agreement:

A. **Agreement** shall mean this Stock Option Agreement.

B. **Board** shall mean the Corporation's Board of Directors.

C. **Code** shall mean the Internal Revenue Code of 1986, as amended.

D. **Common Stock** shall mean the Corporation's common stock.

E. **Corporate Transaction** shall mean either of the following shareholder-approved transactions to which the Corporation is a party:

(i) a merger or consolidation in which securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities are transferred to a person or persons different from the persons holding those securities immediately prior to such transaction, or

(ii) the sale, transfer or other disposition of all or substantially all of the Corporation's assets in complete liquidation or dissolution of the Corporation.

F. **Corporation** shall mean Cisco Systems, Inc., a California corporation.

G. **Employee** shall mean an individual who is in the employ of the Corporation (or any Parent or Subsidiary), subject to the control and direction of the employer entity as to both the work to be performed and the manner and method of performance.

H. **Exercise Date** shall mean the date on which the option shall have been exercised in accordance with Paragraph 9 of the Agreement.

I. **Exercise Price** shall mean the exercise price per share as specified in the Grant Notice.

J. **Expiration Date** shall mean the date on which the option expires as specified in the Grant Notice.

K. **Fair Market Value** per share of Common Stock on any relevant date shall be determined in accordance with the following provisions:

(i) If the Common Stock is at the time traded on the Nasdaq National Market, then the Fair Market Value shall be the closing selling price per share of Common Stock on the date in question, as the price is reported by the National Association of Securities Dealers on the Nasdaq National Market or any

successor system. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

(ii) If the Common Stock is at the time listed on any Stock Exchange, then the Fair Market Value shall be the closing selling price per share of Common Stock on the date in question on the Stock Exchange determined by the Plan Administrator to be the primary market for the Common Stock, as such price is officially quoted in the composite tape of transactions on such exchange. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

L. **Grant Date** shall mean the date of grant of the option as specified in the Grant Notice.

M. **Grant Notice** shall mean the Notice of Grant of Stock Option accompanying the Agreement, pursuant to which Optionee has been informed of the basic terms of the option evidenced hereby.

N. **Misconduct** shall mean the commission of any act of fraud, embezzlement or dishonesty by Optionee, any unauthorized use or disclosure by Optionee of confidential information or trade secrets of the Corporation (or any Parent or Subsidiary), or any other intentional misconduct by Optionee adversely affecting the business or affairs of the Corporation (or any Parent or Subsidiary) in a material manner. The foregoing definition shall not be deemed to be inclusive of all the acts or omissions which the Corporation (or any Parent or Subsidiary) may consider as grounds for the dismissal or discharge of Optionee or any other individual in the Service of the Corporation (or any Parent or Subsidiary).

O. **Option Shares** shall mean the number of shares of Common Stock subject to the option as specified in the Grant Notice.

P. **Optionee** shall mean the person to whom the option is granted as specified in the Grant Notice.

Q. **Parent** shall mean any corporation (other than the Corporation) in an unbroken chain of corporations ending with the Corporation, provided each corporation in the unbroken chain (other than the Corporation) owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

R. **Permanent Disability** shall mean the inability of Optionee to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which is expected to result in death or has lasted or can be expected to last for a continuous period of twelve (12) months or more.

S. **Plan** shall mean the Corporation's 1997 Supplemental Stock Incentive Plan.

T. **Plan Administrator** shall mean either the Board or a committee of the Board acting in its administrative capacity under the Plan.

U. **Service** shall mean the Optionee's performance of services for the Corporation (or any Parent or Subsidiary) in the capacity of an Employee, a non-employee member of the board of directors or a consultant or independent advisor.

V. **Stock Exchange** shall mean the American Stock Exchange or the New York Stock Exchange.

W. **Subsidiary** shall mean any corporation (other than the Corporation) in an unbroken chain of corporations beginning with the Corporation, provided each corporation (other than the last corporation) in the unbroken chain owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

A-3

Exhibit 10.3

CISCO SYSTEMS, INC.
PROFESSIONAL AND LEADERSHIP INCENTIVE PLAN
FY 2003

I. INTRODUCTION

- A. **The Objective of the Professional and Leadership (P&L) Incentive Plan (the "Plan")** is to provide a fully discretionary payment to eligible employees for their contributions to the success and profitability of Cisco Systems, Inc. and all of its subsidiaries (the "Company").
- B. **Participants:** This Plan, as determined by the Company's Board of Directors on a fully discretionary basis, applies solely to regular employees of Cisco Systems, Inc. and all of its subsidiaries in salary grades 1 through 14, 083, 084, 090, 150, 200, and 888. For purposes of this Plan and unless otherwise prohibited by applicable law, the term "regular employees" means an individual who is in the employ of the Company (or any subsidiary) for an unspecified period of time, subject to the control and direction of the employer entity as to both the work to be performed and the manner and method of performance.
- C. **Effective Date:** This Plan is only effective for the Company's fiscal year 2003 beginning July 28, 2002, through July 26, 2003 (the "Fiscal Year"). This Plan is limited in time and will expire automatically on July 26, 2003 ("Expiration Date"). This Plan also supersedes all prior bonus or commission incentive plans, whether with Cisco Systems, Inc. or any subsidiary or affiliate thereof or any written or verbal representations regarding the subject matter of this Plan.
- D. **Changes in Plan:** Cisco Systems, Inc. reserves the right to modify or cancel the Plan in total or in part, at any time. Any such change must be in writing and signed by the President/CEO of Cisco Systems, Inc. (the "President/CEO") and must specifically state that it is amending this Plan. The President/CEO or Plan designers reserve the right to interpret the Plan document as needed. Nothing in this Plan is intended to create an entitlement to any employee for any incentive payment hereunder.
- E. **Entire Agreement:** This Plan, and any changes signed by the President/CEO specifically stating it is an amendment to this Plan and any Compensation Committee resolutions amending the Plan, is the entire understanding between Cisco Systems, Inc. and all of its subsidiaries and the employee regarding the subject matter of this Plan and supersedes all prior bonus or commission incentive plans, or employment contracts whether with any holding company, subsidiary, or affiliate thereof (including Cisco Systems, Inc.) or any written or verbal representations regarding the subject matter of this Plan unless superseded by local law. All payments under this Plan are fully discretionary payments. Participation in this Plan during the Fiscal Year will not convey any entitlement to participate in this or future plans or to the same or similar bonus benefits. Payments under this Plan are an extraordinary item of compensation that is outside the normal or expected compensation for the purpose of calculating any extra benefits, termination, severance, redundancy, end-of-service premiums, bonuses, long-service awards, overtime premiums, pension or retirement benefits or other similar payment.

II. ELIGIBILITY AND INCENTIVE PLAN ELEMENTS

- A I. **Eligibility:** To be eligible to receive an incentive under this Plan, an individual deemed to be a participant must be employed by the Company as a regular employee in an incentive-eligible position on or before the first working day of the last fiscal quarter of the Fiscal Year and must be employed on the last working day of the Fiscal Year. Employees deemed to be participants in the Plan with less than one year of service will be eligible to receive an incentive subject to proration

from the effective date of participation in the Plan up to and including the Expiration Date. Unless otherwise required by law, in no event will an employee be eligible to receive an incentive under this Plan unless that individual is employed on the last working day of the Fiscal Year.

Any exceptions to the above must be in writing and approved in writing by the President/CEO.

The amount of any incentive payment payable to any employee pursuant to this Plan shall be reduced by the actual amount of any outstanding debt to the Company incurred on a sales commission plan.

AND

The employees deemed to be participants may be eligible for the incentive payout if they meet the following requirements at both the time of calculation of such payments and at payout:

- are not concurrently on a sales incentive or commission plan
- have not entered into an employment termination agreement (including, but not limited to, any agreement, other than an employment agreement or offer letter, in respect of an employee’s termination of employment)
- not on a Performance Improvement Plan, letter of concern, work plan, etc.
- are not rated as N in their most recent performance evaluation

Any payout for employees ranked in the bottom 5% of their organization and/or for employees who have been offered (but not accepted) an Employment Termination Agreement is at manager’s discretion and subject to Human Resource agreement.

B. Elements of Calculation:

$$\begin{array}{ccccccccc}
 \text{Base Salary} & \times & \text{Incentive Target} & \times & \text{Individual} & \times & \text{Teamwork and} & \times & \text{Company} & \times \\
 & & \text{Percentage} & & \text{Performance} & & \text{Collaboration} & & \text{Performance} & \\
 & & & & \text{Factor} & & \text{Factor} & & \text{Factor} & \\
 \text{Market Share} & \times & \text{Customer} & \times & \text{Proration Factor} & = & \text{Total Annual} & & & \\
 \text{Factor} & & \text{Satisfaction Factor} & & & & \text{Incentive} & & & \\
 & & & & & & & & &
 \end{array}$$

C. **The Annual Base Salary** in effect at the end of Q2 for midyear and the end of Q4 for year-end represents the basis for the incentive calculations unless the employee’s salary currency changed during the Fiscal Year. If the employee’s salary currency changed during the Fiscal Year, the employee’s current base pay in effect the last day before the currency change will be the basis for the incentive calculation for the period of time that currency was in effect during the Fiscal Year.

D. **Incentive Target Percentage** is a percentage of base salary determined by the grade level and may be changed at the discretion of the President/CEO at any time during the Fiscal Year. If the target is modified impacted employees will be notified.

Grades	Incentive Target %
1 – 4	7%
5 – 7	10%
8 and 9	14%
10 and 11	17%
12	30%
013, 014, 083, 084, and 090	40%
200 and 888	50%
150	60%

- E. **Individual Performance Factor (IPF)** is based upon the manager's evaluation of a participant's performance and contribution for the Fiscal Year. As a factor to the incentive target percentage for the grade, this factor can range from .5 to 1.5 (i.e., .5 X 14% = 7%, 1.0 X 14% = 14%, or, 1.5 X 14% = 21%). The assigned IPF may also be zero, resulting in no incentive.
- F. **Teamwork and Collaboration Factor (TCF)** is based upon the manager's evaluation of a participant's ability to work as a team player and collaborate during the Fiscal Year within the Company, with its suppliers and/or customers. The factor can range from 0.7 to 1.3.
- G. **Company Performance Factor** is based upon achieving an established worldwide Revenue target and a worldwide Profit Before Interest and Tax (PBIT) target per the current Plan by Cisco Systems, Inc. and all of its subsidiaries. The PBIT achievement to target is more heavily weighted relative to the worldwide Revenue target. Eighty percent of each objective must be achieved for any incentive to be paid. Maximum payout under the Plan is 190% of the Incentive Target Percentage, or a factor of 1.9. When the Revenue and PBIT percentages of goal fall between the stated percentages on the matrix, the Performance Factor will be determined using a straight-line interpolation approach. The applicable targets for the Fiscal Year may be amended at any time.
- H. **Market Share Factor** is based upon achievement of market share growth from prior year compared to our list of key competitors. This factor may range from 0.80 to 1.10 based on the following criteria:

Market Share Point Delta	Relative Market Share Factor
<0	.80
0%	.80
1%	.84
2%	.88
3%	.92
4%	.96
5%	1.00
6%	1.02
7%	1.04
8%	1.06
9%	1.08
10+%	1.10

- I. **Customer Satisfaction Factor** is based upon achievement of an overall worldwide customer satisfaction survey score drawn from all Cisco Systems, Inc. and all of its subsidiaries together worldwide. This Factor may range from 0.95 to 1.20 based on the following criteria:

Worldwide Satisfaction Score	Customer Satisfaction Factor
<4.50	0.95
4.50-4.53	1.05
4.54-4.57	1.10
4.58-4.61	1.15
+4.62	1.20

- J. **Transfers and Terminations:** Employees who are participants in the Plan and who transfer to a new position not governed by this Plan will be eligible on a pro-rata basis for the applicable period and paid (or not paid) as defined by the Plan. Employees who transfer into the Plan from another plan will be subject to proration as well, and consequently will be eligible to participate in the Plan based on their participation in this Plan during the Fiscal Year, applying the Proration Factors referred to below. Any payments from the Plan are subject to reduction by advances, unearned commission advances, draws or prorations and appropriate withholdings.

A participant must be employed as of the last working day of the Fiscal Year to be eligible for the year-end incentive. A participant must be employed on the day of distribution to receive a partial midyear payment under paragraph II-M. Unless otherwise required by law, if an employee terminates prior to the applicable date, the employee will not be eligible for such incentive or partial payment.

K. **Proration Factor** accounts for the number of calendar days during the Fiscal Year that the employee was in the incentive-eligible position. For example, the proration factor for an employee who has been in the Plan the entire year will be 1.00. For an employee who has been in the Plan for 6 months, this factor will be 0.50. Unless otherwise provided by law, employees in the following situations will have a Proration Factor of less than 1.00:

- Employees in the Plan who transferred to a new position not covered by the Plan.
- Employees who transferred from one incentive-eligible position to another incentive-eligible position. Employees in this situation will have their eligibility under the Plan prorated based on length of time in each position.
- Employees who have been in the Plan less than 12 months (such as a New Hire).
- Employees who have been on a leave of absence of any length during the fiscal quarter with the exception of Emergency Call-up Military Leave.
- Employees working less than the full-time standard work week will be eligible to receive an incentive subject to proration of any such payment according to the following schedule:

<u>Hours Worked</u>	<u>Incentive Eligibility</u>
Less than full-time as defined by standard work week	Prorated according to the average number of hours worked

Any modification to the above schedule must be approved by the next-level Manager and the Director of Compensation in advance of the year-end close date.

L. **Incentive Formula and Calculation Example:** Assume an employee with a base salary of \$95,000, incentive target of 14%, individual performance factor of 1.00, teamwork and collaboration factor of 1.0, Cisco Systems, Inc. and all of its subsidiaries' Company Performance Factor of 1.00, a market share factor 1.00, a customer satisfaction factor of 1.05, and a proration factor of 1.00.

Sample Calculation

Base Salary		Incentive Target Percentage		Individual Performance Factor		Teamwork and Collaboration Factor		Company Performance Factor	
\$95,000	X	0.14	X	1.0	X	1.0	X	1.0	X
Market Share Factor		Customer Satisfaction Factor		Proration Factor		Total Annual Incentive			
1.0	X	1.05	X	1.0	=	\$13,965.00*			

* any advance paid less

In this example, the total incentive equals 14.7% of base salary.

M. **Midyear Advance of Year-End Incentive Payment:** If the Cisco Systems, Inc. and all of its subsidiaries' Company Performance Factor is at a minimum of 1.00, (measured on the basis of

midyear revenue and PBIT), a discretionary partial payment may be distributed to eligible employees midway through the Fiscal Year. This advance will not be more than 50% of the incentive target times current base salary, reduced by advances, unearned commission advances, draws, prorations, and any outstanding debts owed to the company. This advance will be deducted from the year-end payout. Only Plan participants who have met job expectations, were hired on or before the first working day of the second quarter of the Fiscal Year and are actively employed on the day of distribution will be eligible to receive a midyear advance. In no event, however, will any eligible participant receive such a partial payment unless that individual is employed by Cisco Systems, Inc. or a participating Cisco subsidiary on the distribution date.

If Cisco Systems, Inc. and all of its subsidiaries' Company Performance Factor is not at a minimum of 1.00 (measured on the basis of midyear revenue and PBIT) but is at least .80, then a partial payment may, at the sole discretion of President/CEO, be distributed midway through the Fiscal Year to all or part of the employee population eligible for the Plan, with the actual recipients to be determined by the President/CEO. Any such discretionary payment may be in an amount up to 25% of the incentive target by level, and will be deducted from the year-end payout, if any. However, only employees who have met job expectations and were hired on or before the first day of the second quarter of the Fiscal Year and are actively employed on the day of distribution will be eligible for such a discretionary payment.

- N. **Year-End Discretionary Incentive Payment:** If Cisco Systems, Inc. and all of its subsidiaries' performance fails to achieve the minimum revenue and PBIT targets for the Fiscal Year so that no year-end payout becomes due under the Plan, then the President/CEO may, at his or her sole discretion, authorize a year-end payment in an amount up to 25% of the incentive target to all or a portion of the employee population covered by the Plan, but in no event will an individual be eligible for such a discretionary payment unless he or she is employed on the last day of the Fiscal Year. All payments are subject to reduction by advances, unearned commission advances, draws or prorations and any outstanding debts owed to the company.

III. PROCEDURES AND PRACTICES

A. Procedure:

1. A copy of the Plan will be made available to each participant.
2. All incentive payments will be made after all required or elected withholdings have been deducted.

- B. **Business Conduct:** It is the established policy of Cisco Systems, Inc. and all of its subsidiaries to conduct business with the highest standards of business ethics. Employees may not offer, give, solicit or receive any payment that could appear to be a bribe, kickback or other irregular type of payment from anyone involved in any way with an actual or potential business transaction.

- C. **Employment at Will (US Only) :** The employment of all Plan participants at Cisco Systems, Inc. and all of its subsidiaries is for an indefinite period of time and is terminable at any time by either party, with or without cause or advance notice by either party. This Plan shall not be construed to create a contract of employment for a specified period of time between Cisco Systems, Inc. and all of its subsidiaries and any Plan participant. Any modification of the employment relationship inconsistent with this Section must be in writing and signed by the President/CEO.

Exhibit 10.4

CISCO SYSTEMS, INC.

EMPLOYEE STOCK PURCHASE PLAN

(As Amended and Restated January 9, 2001

and

As Amended March 15, 2001 and December 13, 2001)

I. PURPOSE

The Cisco Systems, Inc. Employee Stock Purchase Plan (the "Plan") is intended to provide eligible employees of the Company and one or more of its Corporate Affiliates with the opportunity to acquire a proprietary interest in the Company through participation in a plan designed to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code (the "Code").

All share numbers in this December 2001 restatement reflect all splits of the Common Stock effected through March 22, 2000, including (i) the three (3)-for-two (2) split of Common Stock effected on December 16, 1997, (ii) the three (3)-for-two (2) split of Common Stock effected on September 15, 1998, (iii) the two (2)-for-one (1) split of Common Stock effected on June 21, 1999, and (iv) the two (2)-for-one (1) split of Common Stock effected on March 22, 2000.

The Plan became effective on the designated Effective Date and was approved by the Company's shareholders in January 1990. The shareholders approved a 15,000,000-share increase to the Plan on November 13, 1997. When adjusted for all forward splits of the Common Stock effected through March 22, 2000, such approved share increase now represents 135,000,000 shares of Common Stock. Forward splits of the Common Stock have also resulted in an increase in the remaining number of shares of Common Stock purchasable under the Plan (as per Section VI(b)). When combined with the 135,000,000-share addition to the Plan (adjusted on a forward stock split basis), the total number of shares of Common Stock which may be issued over the term of the Plan has been increased to 221,400,000 shares.

II. DEFINITIONS

For purposes of administration of the Plan, the following terms shall have the meanings indicated:

Board means the Board of Directors of the Company.

Company means Cisco Systems, Inc., a California corporation, and any corporate successor to all or substantially all of the assets or voting stock of Cisco Systems, Inc. which shall by appropriate action adopt the Plan.

Corporate Affiliate means any company which is either the parent corporation or a subsidiary corporation of the Company (as determined in accordance with Section 424 of the Code), including any parent or subsidiary corporation which becomes such after the Effective Date.

Effective Date means January 1, 1990; provided, however, that any Corporate Affiliate which becomes a Participating Company in the Plan after January 1, 1990 shall designate a subsequent Effective Date with respect to its employee-Participants.

Eligible Earnings means (i) the regular basic earnings paid to a Participant by one or more Participating Companies, (ii) any salary deferral contributions made on behalf of the Participant to the Company's Code Section 401(k) Plan or Code Section 125 Plan plus (iii) overtime payments, bonuses and commissions. There shall be excluded from the calculation of Eligible Earnings: (I) all profit-sharing distributions and other incentive-type payments and (II) all contributions (other than Code Section 401(k) and Code Section 125 contributions) made by the Company or its Corporate Affiliates for the Participant's benefit under any employee benefit or welfare plan now or hereafter established.

Employee means any person who is regularly scheduled to work more than 20 hours per week for more than 5 months per calendar year in the employ of the Company or any other Participating Company for earnings considered wages under Section 3401(a) of the Code.

International Plan means the Company's International Employee Stock Purchase Plan.

Participant means any Employee of a Participating Company who is actively participating in the Plan.

Participating Company means the Company and such Corporate Affiliate or Affiliates as may be designated from time to time by the Board.

Stock means shares of the common stock of the Company.

III. ADMINISTRATION

The Plan shall be administered by the Board or by a committee (the "Committee") comprised of at least two or more Board members appointed from time to time by the Board. The Plan Administrator (whether the Board or the Committee) shall have full authority to administer the Plan, including authority to interpret and construe any provision of the Plan and to adopt such rules and regulations for administering the Plan as it may deem necessary in order to comply with the requirements of Section 423 of the Code. Decisions of the Plan Administrator shall be final and binding on all parties who have an interest in the Plan.

IV. PURCHASE PERIODS

(a) Stock shall be offered for purchase under the Plan through a series of successive purchase periods until such time as (i) the maximum number of shares of Stock available for issuance under the Plan shall have been purchased or (ii) the Plan shall have been sooner terminated in accordance with Article IX.

(b) Under no circumstances shall any purchase rights granted under the Plan be exercised, nor shall any shares of Stock be issued hereunder, until such time as (i) the Plan shall have been approved by the Company's shareholders and (ii) the Company shall have complied with all applicable requirements of the Securities Act of 1933 (as amended), all applicable listing requirements of any securities exchange on which the Stock is listed and all other applicable requirements established by law or regulation.

(c) The Plan shall be implemented in a series of consecutive purchase periods, each to be of such duration (not to exceed twenty-four (24) months per purchase period) as determined by the Plan Administrator prior to the commencement date of the purchase period. Purchase periods may commence at quarterly or semi-annual intervals over the term of the Plan. Accordingly, up to four (4) separate purchase periods may commence in each calendar year the Plan remains in existence. The Plan Administrator will announce the date each purchase period will commence and the duration of that purchase period in advance of the last day of the immediately preceding purchase period.

(d) The Participant shall be granted a separate purchase right for each purchase period in which he/she participates. The purchase right shall be granted on the first day of the purchase period and shall be automatically exercised on the last business day of that purchase period or any earlier day the purchase right is to be exercised hereunder.

(e) An Employee may participate in only one purchase period at a time. Accordingly, an Employee who wishes to join a new purchase period must withdraw from the current purchase period in which he/she is participating no later than fifteen (15) days prior to the last day of the current purchase period in which the Employee participates and must also enroll in the new purchase period no later than fifteen (15) days prior to the start date of that new purchase period.¹ The Plan Administrator, in its discretion, may require an Employee who withdraws from one purchase period to wait one full purchase period before re-enrolling in a new purchase period under the Plan.

V. ELIGIBILITY AND PARTICIPATION

(a) Each individual who is an Employee of a Participating Company on the commencement date of any purchase period under the Plan shall be eligible to participate in the Plan for that purchase period.

¹ The fifteen (15)-day advance enrollment requirement shall be in effect for all purchase periods beginning on or after April 1, 2001.

(b) In order to participate in the Plan for a particular purchase period, the Employee must complete the enrollment forms prescribed by the Plan Administrator (including a purchase agreement and a payroll deduction authorization) and file such forms with the Plan Administrator (or its designate) no later than fifteen (15) days prior to the commencement date of the purchase period.²

(c) The payroll deduction authorized by a Participant for purposes of acquiring Stock under the Plan may be any multiple of 1% of the Eligible Earnings paid to the Participant during the period the purchase right remains outstanding, up to a maximum of 10% per purchase right. The deduction rate so authorized shall continue in effect for the entire period the purchase right remains outstanding, unless the Participant shall, prior to the end of the purchase period for which the purchase right will remain in effect, reduce such rate by filing the appropriate form with the Plan Administrator (or its designate). The reduced rate shall become effective as soon as practicable following the filing of such form. Payroll deductions, however, will automatically cease upon the termination of the Participant's purchase right in accordance with Section VII(d) or (e) below.

VI. STOCK SUBJECT TO PLAN

(a) The Stock purchasable by Participants under the Plan shall, solely in the Board's discretion, be made available from either authorized but unissued Stock or from reacquired Stock, including shares of Stock purchased on the open market. The total number of shares which may be issued under the Plan and the International Plan in the aggregate shall not exceed 221,400,000 shares (subject to adjustment under subparagraph (b) below). Such share reserve has been adjusted for the various forward splits of the Stock which have been effected since the Effective Date and includes the 135,000,000-share increase³ approved by the shareholders at the 1997 Annual Meeting.

(b) In the event any change is made to the Stock purchasable under the Plan by reason of (I) any merger, consolidation or reorganization or (II) any stock dividend, stock split, combination of shares or other change affecting the outstanding Stock as a class without the Company's receipt of consideration, then unless such change occurs in connection with a Section VII(j) transaction, appropriate adjustments shall be made by the Plan Administrator to (i) the class and maximum number of shares issuable over the term of the Plan, (ii) the class and maximum number of shares purchasable per Participant on any one purchase date, (iii) the class and maximum number of shares purchasable by any one executive officer over the term of the Plan and (iv) the class and number of shares and the price per share of the Stock subject to each purchase right at the time outstanding under the Plan.

² The fifteen (15)-day advance enrollment requirement shall be in effect for all purchase periods beginning on or after April 1, 2001.

³ The shareholders originally approved a share increase of 15,000,000 shares, but when recalculated for all forward splits of the Common Stock effected by March 22, 2000 (*i.e.*, the three (3)-for-two (2) split of Common Stock effected on December 16, 1997, the three (3)-for-two (2) split of Common Stock effected on September 15, 1998, the two (2)-for-one (1) split of Common Stock effected on June 21, 1999, and the two (2)-for-one (1) split of Common Stock effected on March 22, 2000), that share increase represents 135,000,000 shares.

VII. PURCHASE RIGHTS

An Employee who participates in the Plan for a particular purchase period shall have the right to purchase Stock upon the terms and conditions set forth below and shall execute a purchase agreement embodying such terms and conditions and such other provisions (not inconsistent with the Plan) as the Plan Administrator may deem advisable.

(a) Purchase Price . The purchase price per share shall be the lesser of (i) 85% of the fair market value per share of Stock on the date on which the purchase right is granted or (ii) 85% of the fair market value per share of Stock on the date the purchase right is exercised. For purposes of determining such fair market value (and for all other valuation purposes under the Plan), the fair market value per share of Stock on any relevant date shall be the closing selling price per share on such date, as officially quoted on the principal exchange on which the Stock is at the time traded or, if not traded on any such exchange, the closing selling price per share of the Stock on such date, as reported on the Nasdaq National Market. If there are no sales of Stock on such day, then the closing selling price for the Stock on the next preceding day for which there does exist such quotation shall be determinative of fair market value.

(b) Number of Purchasable Shares . The number of shares purchasable by a Participant upon the exercise of an outstanding purchase right shall be the number of whole shares obtained by dividing the amount collected from the Participant through payroll deductions during each purchase period the purchase right remains outstanding by the purchase price in effect for that purchase period. Any remaining amount in the Participant's account shall be automatically refunded to the Participant. However, the maximum number of shares purchasable by any Participant on any one purchase date shall not exceed 22,500 shares (subject to adjustment under Section VI(b)), and any amount not applied to the purchase of Stock on behalf of a Participant by reason of such limitation shall be refunded to that Participant. In addition, should the Employee be an executive officer of the Company subject to the short-swing profit restrictions of the Federal securities laws, then the maximum number of shares which such Employee may purchase over the term of the Plan shall not exceed 4,320,000 shares (as adjusted for the various forward splits of the Stock effected since the Effective Date and subject to further adjustment under Section VI(b)). Accordingly, no such officer shall be eligible to receive purchase rights for any purchase period if the number of shares which would otherwise be purchasable by such individual for that purchase period would result in the issuance to such individual of shares of Stock in excess of the maximum number of shares purchasable in the aggregate by such individual over the term of the Plan.

Under no circumstances shall purchase rights be granted under the Plan to any Employee if such Employee would, immediately after the grant, own (within the meaning of Code Section 425(d)), 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 Corporate Affiliates.

(c) Payment . Payment for Stock purchased under the Plan shall be effected by means of the Participant's authorized payroll deductions. Such deductions shall begin on the first pay day coincident with or immediately following the commencement date of the relevant

purchase period and shall terminate with the pay day ending with or immediately prior to the last day of the purchase period. The amounts so collected shall be credited to the book account maintained by the Company on the Participant's behalf under the Plan, but no interest shall be paid on the balance from time to time outstanding in such book account. The amounts collected from a Participant may be commingled with the general assets of the Company and may be used for general corporate purposes.

(d) Withdrawal from Purchase Period.

(i) A Participant may, not later than fifteen (15) days prior to the last day of the purchase period in which the Participant is enrolled, ⁴ withdraw from that purchase period by filing the prescribed notification form with the Plan Administrator (or its designate). No further payroll deductions shall be collected from the Participant with respect to that purchase period, and the Participant shall have the following election with respect to any payroll deductions for the purchase period collected prior to the withdrawal date: (A) have the Company refund the payroll deductions which the Participant made under the Plan during that purchase period or (B) have such payroll deductions held for the purchase of shares at the end of such purchase period. If no such election is made, then such payroll deductions shall automatically be refunded at the end of such purchase period.

(ii) The Participant's withdrawal from a particular purchase period shall be irrevocable and shall also require the Participant to re-enroll in the Plan (by making a timely filing of a new purchase agreement and payroll deduction authorization) if the Participant wishes to resume participation in a subsequent purchase period.

(e) Termination of Employment/Leave of Absence. If a Participant ceases to remain an Employee while his/her purchase right remains outstanding, then such purchase right shall immediately terminate and all sums previously collected from the Participant during the purchase period in which such termination occurs shall be promptly refunded to the Participant. However, should the Participant die or become permanently disabled while in Employee status or should the Participant cease active service by reason of a leave of absence, then the Participant (or the person or persons to whom the rights of the deceased Participant under the Plan are transferred by will or by the laws of descent and distribution) shall have the election, exercisable up until the end of the purchase period in which the Participant dies or becomes permanently disabled or in which the leave of absence commences, to (i) withdraw all the funds in the Participant's payroll account at the time of his/her cessation of Employee status or the commencement of such leave or (ii) have such funds held for the purchase of shares at the end of such purchase period. If no such election is made, then such funds shall automatically be held for the purchase of shares at the end of such purchase period. In no event, however, shall any further payroll deductions be added to the Participant's account following his/her cessation of Employee status or the commencement of such leave. Should the Participant return to active service (x) within ninety (90) days following the commencement of his/her leave of absence or

⁴ The fifteen (15)-day advance notice requirement for withdrawal from a purchase period shall be in effect for all purchase periods beginning on or after April 1, 2001.

(y) prior to the expiration of any longer period for which such Participant's right to reemployment with the Corporation is guaranteed by statute or contract, then his/her payroll deductions under the Plan shall automatically resume upon his/her return at the rate in effect at the time the leave began, and if a new purchase period begins during the period of the leave, then the Participant will automatically be enrolled in that purchase period at the rate of payroll deduction in effect for him/her at the time the leave commenced, but payroll deductions for that purchase period shall not actually begin until the Participant returns to active service. However, an individual who returns to active employment following a leave of absence that exceeds in duration the applicable (x) or (y) time period will be treated as a new Employee for purposes of subsequent participation in the Plan and must accordingly re-enroll in the Plan (by making a timely filing of the prescribed enrollment forms) on or before the start date of any subsequent purchase period in which he or she wishes to participate.

For purposes of the Plan: (a) a Participant shall be considered to be an Employee for so long as such Participant remains in the active employ of the Company or any other Participating Company under the Plan, and (b) a Participant shall be deemed to be permanently disabled if he/she is unable, by reason of any medically determinable physical or mental impairment expected to result in death or to be of continuous duration of at least twelve (12) months, to engage in any substantial gainful employment.

(f) Stock Purchase. The Stock subject to the purchase right of each Participant (other than Participants whose purchase rights have previously terminated in accordance with Section VII(d) or (e) above) shall be automatically purchased on the Participant's behalf on the last business day of the purchase period for which such purchase right remains outstanding. The purchase shall be effected by applying the amount credited to each Participant's book account on the last business date of the purchase period to the purchase of whole shares of Stock (subject to the limitations on the maximum number of purchasable shares set forth in Section VII(b)) at the purchase price in effect for such purchase period.

(g) Proration of Purchase Rights. Should the total number of shares of Stock to be purchased pursuant to outstanding purchase rights on any particular date exceed the number of shares then available for issuance under the Plan, the Plan Administrator shall make a pro-rata allocation of the available shares on a uniform and nondiscriminatory basis, and any amounts credited to the accounts of Participants shall, to the extent not applied to the purchase of Stock, be refunded to the Participants.

(h) Shareholder Rights. A Participant shall have no rights as a shareholder with respect to shares covered by the purchase rights granted to the Participant under the Plan until the shares are actually purchased on the Participant's behalf in accordance with Section VII(f). No adjustments shall be made for dividends, distributions or other rights for which the record date is prior to the purchase date.

(i) ESPP Broker Account. The shares purchased on behalf of each Participant shall be deposited directly into a brokerage account which the Company shall establish for the Participant at a Company-designated brokerage firm. The account will be known as the ESPP Broker Account. The following policies and procedures shall be in place for

any shares the Participant wishes to transfer from his or her ESPP Broker Account before those shares have been held for the requisite period necessary to avoid a disqualifying disposition of such shares under the federal tax laws — the shares are held for at least two years after the start of the Purchase Period in which the shares were purchased and for at least one year after the actual purchase date of those shares.

Shares Purchased Before January 1, 2001: The Participant may transfer those shares out of his or her ESPP Broker Account to another brokerage firm under either of the following conditions:

The shares have been held for the required holding period: The Participant may freely transfer such shares electronically between brokers.

The shares have not been held for the required holding period: The Participant may not electronically transfer such shares, but the Participant may request stock certificates to be issued for any shares purchased under the Plan before January 1, 2001. However, each such certificate shall bear a legend requiring the Participant to notify the Company if he or she disposes of the shares before the required holding period is satisfied.

Shares Purchased After December 31, 2000: These shares shall not be transferable (either electronically or in certificate form) from the ESPP Broker Account until the required holding period for those shares is satisfied. Such limitation shall apply to transfers to a different account with the same ESPP broker or to other brokers. Any shares for the required holding period is satisfied may be transferred electronically to other accounts.

The foregoing procedures ***shall not in any way limit when the Participant may sell his or her shares***. It is the intent of such procedures to assure that any sale of shares before the required holding period for those shares is satisfied must be made through the ESPP Broker Account. In addition, the Participant may request a stock certificate to be issued from the ESPP Broker Account before the required holding period is met should the Participant wish to make a gift of those shares or (for shares purchased before January 1, 2002) should the Participant need those pre-January 1, 2002 shares as collateral for a loan. Any stock certificate issued in a pre-January 1, 2002 loan situation shall, at the Company's discretion, bear a legend requiring the Participant to notify the Company of any subsequent disposition of the shares, whether by the lender upon a default in the loan or by the Participant following repayment of the loan, made before the required holding period for the shares is met.

Shares purchased after December 31, 2001 may not be released from the ESPP Broker Account to serve as collateral for a loan unless the required holding period for those shares has been satisfied.

The foregoing policies and procedures shall apply to all shares purchased by the Participant under the Plan, whether or not the Participant continues in Employee status.

(j) Assignability. No purchase rights granted under the Plan shall be assignable or transferable by a Participant other than by will or by the laws of descent and distribution, and during the Participant's lifetime the purchase rights shall be exercisable only by the Participant.

(k) Merger or Liquidation of Company. In the event the Company or its shareholders enter into an agreement to dispose of all or substantially all of the assets or outstanding capital stock of the Company by means of a sale, merger or reorganization in which the Company will not be the surviving corporation (other than a reorganization effected primarily to change the State in which the Company is incorporated) or in the event the Company is liquidated, then all outstanding purchase rights under the Plan shall automatically be exercised immediately prior to the consummation of such sale, merger, reorganization or liquidation by applying all sums previously collected from Participants during the purchase period of such transaction to the purchase of whole shares of Stock, subject, however, to the applicable limitations of Section VII(b).

VIII. ACCRUAL LIMITATIONS

(a) No Participant shall be entitled to accrue rights to acquire Stock pursuant to any purchase right outstanding under this Plan if and to the extent such accrual, when aggregated with (I) Stock rights accrued under other purchase rights outstanding under this Plan and (II) similar rights accrued under other employee stock purchase plans (within the meaning of Section 423 of the Code) of the Company or its Corporate Affiliates, would otherwise permit such Participant to purchase more than \$25,000 worth of stock of the Company or any Corporate Affiliate (determined on the basis of the fair market value of such stock on the date or dates such rights are granted to the Participant) for each calendar year such rights are at any time outstanding.

(b) For purposes of applying the accrual limitations of Section VIII(a), the right to acquire Stock pursuant to each purchase right outstanding under the Plan shall accrue as follows:

(i) The right to acquire Stock under each such purchase right shall accrue as and when the purchase right first becomes exercisable on the last business day of each purchase period the right remains outstanding.

(ii) No right to acquire Stock under any outstanding purchase right shall accrue to the extent the Participant has already accrued in the same calendar year the right to acquire \$25,000 worth of Stock (determined on the basis of the fair market value on the date or dates of grant) pursuant to one or more purchase rights held by the Participant during such calendar year.

(iii) If by reason of the Section VIII(a) limitations, one or more purchase rights of a Participant do not accrue for a particular purchase period, then the payroll deductions which the Participant made during that purchase period with respect to such purchase rights shall be promptly refunded.

(c) In the event there is any conflict between the provisions of this Article VIII and one or more provisions of the Plan or any instrument issued thereunder, the provisions of this Article VIII shall be controlling.

IX. AMENDMENT AND TERMINATION

The Board or the Compensation Committee of the Board may from time to time alter, amend, suspend or discontinue the Plan; provided, however, that no such action shall adversely affect purchase rights at the time outstanding under the Plan; and provided, further, that no such action of the Board or the Compensation Committee may, without the approval of the shareholders of the Company, increase the number of shares issuable under the Plan (other than adjustments pursuant to Sections VI(b) and VII(b)), alter the purchase price formula so as to reduce the purchase price specified in the Plan, or materially modify the requirements for eligibility to participate in the Plan.

X. GENERAL PROVISIONS

(a) On March 15, 2001 the Compensation Committee amended the Plan to effect the following changes: (i) impose the requirement that an Employee file enrollment forms with the Plan Administrator (or its designate) no later than fifteen (15) days prior to the commencement date of a particular purchase period in order to participate in the Plan for that purchase period and (ii) impose the requirement that a Participant file the prescribed notification form with the Plan Administrator (or its designate) not later than fifteen (15) days prior to the last day of the purchase period in which a Participant is enrolled in order to terminate his/her participation in that purchase period. On December 13, 2001, the Compensation Committee amended the Plan to effect the following changes: (i) preclude the transfer of shares from the ESPP Broker Account to serve as collateral for loans obtained from lenders other than the Company-designated brokerage firm(s) during the requisite holding period necessary to avoid a disqualifying disposition and to further preclude the transfer of shares from the ESPP Broker Account until sale of such shares where required for compliance with local law; and (ii) provide for the automatic enrollment of participants on a leave of absence in a new purchase period.

(b) The Plan shall terminate upon the earlier of (i) January 3, 2005 or (ii) the date on which all shares available for issuance under the Plan shall have been sold pursuant to purchase rights exercised under the Plan. The extension of the term of the Plan from January 3, 2000 to January 3, 2005 was approved by the shareholders at the 1997 Annual Meeting.

(c) All costs and expenses incurred in the administration of the Plan shall be paid by the Company.

(d) Neither the action of the Company in establishing the Plan, nor any action taken under the Plan by the Board or the Plan Administrator, nor any provision of the Plan itself shall be construed so as to grant any person the right to remain in the employ of the Company or any of its Corporate Affiliates for any period of specific duration, and such person's employment may be terminated at any time, with or without cause.

(e) The provisions of the Plan shall be governed by the laws of the State of California.

SELECTED FINANCIAL DATA

Five Years Ended July 26, 2003 (In millions, except per-share amounts)

The following selected financial data should be read in conjunction with the Consolidated Financial Statements and related notes.

	July 26, 2003	July 27, 2002	July 28, 2001	July 29, 2000	July 31, 1999
Net sales	\$ 18,878	\$ 18,915	\$ 22,293	\$ 18,928	\$ 12,173
Net income (loss)	\$ 3,578	\$ 1,893	\$ (1,014)	\$ 2,668	\$ 2,023
Net income (loss) per share—basic	\$ 0.50	\$ 0.26	\$ (0.14)	\$ 0.39	\$ 0.30
Net income (loss) per share—diluted ⁽¹⁾	\$ 0.50	\$ 0.25	\$ (0.14)	\$ 0.36	\$ 0.29
Shares used in per-share calculation—basic	7,124	7,301	7,196	6,917	6,646
Shares used in per-share calculation—diluted ⁽¹⁾	7,223	7,447	7,196	7,438	7,062
Cash and cash equivalents and total investments	\$ 20,652	\$ 21,456	\$ 18,517	\$ 20,499	\$ 10,214
Total assets	\$ 37,107	\$ 37,795	\$ 35,238	\$ 32,870	\$ 14,893

Note 1: Diluted net income per share is computed using the weighted-average number of common shares and dilutive potential common shares outstanding during the period. Diluted net loss per share is computed using the weighted-average number of common shares and excludes dilutive potential common shares, as their effect is antidilutive. The weighted-average dilutive potential common shares, which were antidilutive for fiscal 2001, amounted to 348 million shares.

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

FORWARD-LOOKING STATEMENTS

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements regarding future events and our future results that are based on current expectations, estimates, forecasts, and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as "expects," "anticipates," "targets," "goals," "projects," "intends," "plans," "believes," "seeks," "estimates," variations of such words, and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances, are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Readers are referred to risks and uncertainties identified below, as well as on the inside cover of this Annual Report to Shareholders and under "Risk Factors," and elsewhere in our Annual Report on Form 10-K. We undertake no obligation to revise or update any forward-looking statements for any reason.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires us to make judgments, assumptions, and estimates that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Note 2 to the Consolidated Financial Statements describes the significant accounting policies and methods used in the preparation of the Consolidated Financial Statements. We consider the accounting policies described below to be our critical accounting policies. These critical accounting policies are impacted significantly by judgments, assumptions, and estimates used in the preparation of the Consolidated Financial Statements and actual results could differ materially from the amounts reported based on these policies.

Revenue Recognition

We recognize product revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectibility is reasonably assured. In instances where final acceptance of the product, system, or solution is specified by the customer, revenue is deferred until all acceptance criteria have been met. Our total deferred revenue for products was \$1.4 billion and \$1.7 billion as of July 26, 2003 and July 27, 2002, respectively. Service revenue is generally deferred and, in most cases, recognized ratably over the period during which the services are to be performed, which is typically from one to three years. Our total deferred revenue for services was \$2.5 billion and \$2.2 billion as of July 26, 2003 and July 27, 2002, respectively.

Contracts and customer purchase orders are generally used to determine the existence of an arrangement. Shipping documents and customer acceptance, when applicable, are used to verify delivery. We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment. We assess collectibility based primarily on the creditworthiness of the customer as determined by credit checks and analysis, as well as the customer's payment history.

When a sale involves multiple elements, such as sales of products that include services, the entire fee from the arrangement is allocated to each respective element based on its relative fair value and recognized when revenue recognition criteria for each element are met. The amount of product revenue recognized is impacted by our judgments as to whether an arrangement includes multiple elements and if so, whether vendor-specific objective evidence of fair value exists for those elements. Changes to the elements in an arrangement and the ability to establish vendor-specific objective evidence for those elements could affect the timing of the revenue recognition.

We make sales to two-tier distribution channels and recognize revenue based on a sell-through method utilizing information provided by our distributors. These distributors are given business terms that allow them to return a portion of inventory, receive credits for changes in selling prices, and participate in various cooperative marketing programs. We maintain estimated accruals and allowances for such exposures. If actual credits received by distributors for inventory returns, changes in selling prices, and cooperative marketing programs were to deviate significantly from our estimates, which are based on historical experience, our revenue could be adversely affected.

Allowance for Doubtful Accounts and Sales Returns

Our accounts receivable balance, net of allowance for doubtful accounts, was \$1.4 billion as of July 26, 2003, compared with \$1.1 billion as of July 27, 2002. The allowance for doubtful accounts as of July 26, 2003 was \$183 million, compared with \$335 million as of July 27, 2002. The allowance is based on our assessment of the collectibility of customer accounts. We regularly review the allowance by considering factors such as historical experience, credit quality, age of the accounts receivable balances, and current economic conditions that may affect a customer's ability to pay.

Our provision (credit) for doubtful accounts was (\$59) million, \$91 million, and \$268 million for fiscal 2003, 2002, and 2001, respectively. In fiscal 2003, we recorded a credit for doubtful accounts as a result of the improvement in the collectibility of specific customer accounts due to improved credit quality and resolution of disputes. If a major customer's creditworthiness deteriorates, or if actual defaults are higher than our historical experience, or if other circumstances arise, our estimates of the recoverability of amounts due to us could be overstated, and additional allowances could be required, which could have an adverse impact on our revenue.

A reserve for sales returns is established based on historical trends in product return rates. The reserve for sales returns as of July 26, 2003 and July 27, 2002 included \$73 million and \$113 million, respectively, for estimated future returns that were recorded as a reduction of our accounts receivable. If the actual future returns were to deviate from the historical data on which the reserve had been established, our revenue could be adversely affected.

Allowance for Inventory

Our inventory balance was \$873 million as of July 26, 2003, compared with \$880 million as of July 27, 2002. Our inventory allowances as of July 26, 2003 were \$122 million, compared with \$226 million as of July 27, 2002. We provide inventory allowances based on excess and obsolete inventories determined primarily by future demand forecasts. The allowance is measured as the difference between the cost of the inventory and market based upon assumptions about future demand and charged to the provision for inventory, which is a component of our cost of sales. At the point of the loss recognition, a new, lower-cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis.

Our provision for inventory was \$70 million, \$131 million, and \$2.1 billion for fiscal 2003, 2002, and 2001, respectively. If there were to be a sudden and significant decrease in demand for our products, or if there were a higher incidence of inventory obsolescence because of rapidly changing technology and customer requirements, we could be required to increase our inventory allowances and our gross margin could be adversely affected. Inventory management remains an area of focus as we balance the need to maintain strategic inventory levels to ensure competitive lead times versus the risk of inventory obsolescence because of rapidly changing technology and customer requirements.

Warranty Costs

The liability for product warranties, included as other accrued liabilities, was \$246 million as of July 26, 2003, compared with \$242 million as of July 27, 2002. (See Note 8 to the Consolidated Financial Statements.) Our products sold are generally covered by a warranty for periods of 90 days, one year, or five years, and for some products, we provide a limited lifetime warranty. We accrue for warranty costs as part of our cost of sales based on associated material costs and technical support labor costs. Material cost is primarily estimated based upon historical trends in the volume of product returns within the warranty period and the cost to repair or replace the equipment. Technical support labor cost is primarily estimated based upon historical trends in the rate of customer calls and the cost to support the customer calls within the warranty period.

The provision for warranties issued during fiscal 2003 and 2002 was \$342 million and \$443 million, respectively. If we experience an increase in warranty claims compared with our historical experience, or if costs of servicing warranty claims are greater than the expectations on which the accrual has been based, our gross margin could be adversely affected.

Investment Impairments

Our publicly traded equity investments are reflected on the Consolidated Balance Sheets as of July 26, 2003 at a fair value of \$745 million, compared with \$567 million as of July 27, 2002. (See Note 7 to the Consolidated Financial Statements.) We recognize an impairment charge when the decline in the fair value of our publicly traded equity investments below their cost basis is judged to be other-than-temporary. The ultimate value realized on these equity investments is subject to market price volatility until they are sold. We consider various factors in determining whether we should recognize an impairment charge, including, but not limited to, the length of time and extent to which the fair value has been less than our cost basis, the financial condition and near-term prospects of the company, and our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. Our ongoing consideration of these factors could result in additional impairment charges in the future, which could adversely affect our net income. During the first quarter of fiscal 2003 and 2002, we recognized a charge of \$412 million and \$858 million, respectively, attributable to the impairment of certain publicly traded equity securities.

We also have investments in privately held companies, many of which can still be considered to be in the startup or development stages. As of July 26, 2003, our investments in privately held companies were \$516 million, compared with \$477 million as of July 27, 2002, and were included in other assets. (See Note 5 to the Consolidated Financial Statements.) We monitor these investments for impairment and make appropriate reductions in carrying values if we determine an impairment charge is required based primarily on the financial condition and near-term prospects of these companies. These investments are inherently risky, as the markets for the technologies or products these companies are developing are typically in the early stages and may never materialize. Our impairment charges on investments in privately held companies were \$281 million and \$420 million during fiscal 2003 and 2002, respectively.

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

Goodwill Impairments

Our methodology for allocating the purchase price relating to purchase acquisitions is determined through established valuation techniques in the high-technology communications equipment industry and based on valuations performed by an independent third party. Goodwill is measured as the excess of the cost of acquisition over the sum of the amounts assigned to identifiable assets acquired less liabilities assumed. We perform goodwill impairment tests on an annual basis and between annual tests in certain circumstances for each reporting unit. The goodwill recorded on the Consolidated Balance Sheets as of July 26, 2003 was \$4.0 billion, compared with \$3.6 billion as of July 27, 2002. In response to changes in industry and market conditions, we could be required to strategically realign our resources and consider restructuring, disposing of, or otherwise exiting businesses, which could result in an impairment of goodwill. Based on impairment tests performed using independent third-party valuations, there was no impairment in our goodwill in fiscal 2003 and 2002.

Income Taxes

Our effective tax rates differ from the statutory rate due to the impact of nondeductible in-process research and development ("in-process R&D"), acquisition-related costs, research and experimentation tax credits, state taxes, and the tax impact of non-U.S. operations. Our effective tax rate was 28.6%, 30.1%, and (16.0%) for fiscal 2003, 2002, and 2001, respectively. Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates, changes in the valuation of our deferred tax assets or liabilities, or changes in tax laws or interpretations thereof. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

Loss Contingencies

We are subject to the possibility of various loss contingencies arising in the ordinary course of business. We consider the likelihood of loss or impairment of an asset or the incurrence of a liability, as well as our ability to reasonably estimate the amount of loss in determining loss contingencies. An estimated loss contingency is accrued when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. We regularly evaluate current information available to us to determine whether such accruals should be adjusted and whether new accruals are required.

SELECTED FINANCIAL DATA FOR FISCAL 2003, 2002, AND 2001

Net Sales

We manage our business based on four geographic theaters: the Americas; Europe, the Middle East, and Africa ("EMEA"); Asia Pacific; and Japan. Net sales, which include product and service revenue, for each theater are summarized in the following table (in millions, except percentages):

Years Ended	AMOUNT			PERCENTAGE OF NET SALES		
	July 26, 2003	July 27, 2002	July 28, 2001	July 26, 2003	July 27, 2002	July 28, 2001
Net sales:						
Americas	\$ 10,544	\$ 10,654	\$ 12,051	55.8%	56.4%	54.0%
EMEA	5,202	5,126	6,377	27.6%	27.1%	28.6%
Asia Pacific	1,860	1,765	2,331	9.9%	9.3%	10.5%
Japan	1,272	1,370	1,534	6.7%	7.2%	6.9%
Total	\$ 18,878	\$ 18,915	\$ 22,293	100.0%	100.0%	100.0%

We have reclassified our net sales for each geographic theater for fiscal 2002 and 2001 to conform to the current year's presentation, which reflects the breakdown of service revenue for EMEA, Asia Pacific, and Japan theaters, all of which were previously included in the Americas theater.

The following table is a breakdown of net sales between product and service revenue (in millions, except percentages):

Years Ended	AMOUNT			PERCENTAGE OF NET SALES		
	July 26, 2003	July 27, 2002	July 28, 2001	July 26, 2003	July 27, 2002	July 28, 2001
Net sales:						
Product	\$ 15,565	\$ 15,669	\$ 19,559	82.5%	82.8%	87.7%
Service	3,313	3,246	2,734	17.5%	17.2%	12.3%
Total	\$ 18,878	\$ 18,915	\$ 22,293	100.0%	100.0%	100.0%

The following table is a breakdown of net product sales by theater (in millions, except percentages):

Years Ended	AMOUNT			PERCENTAGE OF NET PRODUCT SALES		
	July 26, 2003	July 27, 2002	July 28, 2001	July 26, 2003	July 27, 2002	July 28, 2001
Net product sales:						
Americas	\$ 8,109	\$ 8,277	\$ 10,006	52.1%	52.7%	51.1%
EMEA	4,609	4,537	5,902	29.6%	29.0%	30.2%
Asia Pacific	1,687	1,593	2,193	10.8%	10.2%	11.2%
Japan	1,160	1,262	1,458	7.5%	8.1%	7.5%
Total	\$ 15,565	\$ 15,669	\$ 19,559	100.0%	100.0%	100.0%

The following table presents net sales for groups of similar products (in millions, except percentages):

Years Ended	AMOUNT			PERCENTAGE OF NET PRODUCT SALES		
	July 26, 2003	July 27, 2002	July 28, 2001	July 26, 2003	July 27, 2002	July 28, 2001
Net product sales:						
Routers	\$ 4,859	\$ 5,487	\$ 7,095	31.2%	35.0%	36.3%
Switches	7,721	7,651	9,141	49.6%	48.8%	46.7%
Access	965	1,042	1,869	6.2%	6.7%	9.6%
Other	2,020	1,489	1,454	13.0%	9.5%	7.4%
Total	\$ 15,565	\$ 15,669	\$ 19,559	100.0%	100.0%	100.0%

We have reclassified our net sales for groups of similar products in fiscal 2002 and 2001 to conform to the current year's presentation. The reclassification was primarily related to our net sales of Advanced Technology products, which were previously included in the "Routers" product category and are now included in the "Other" product category in the table above. The reclassification had an impact of less than 1% on each product category in proportion to total product revenue.

Gross Margin

The following table shows the standard margin for each theater and the total gross margin for products and services (in millions, except percentages):

Years Ended	AMOUNT			STANDARD MARGIN		
	July 26, 2003	July 27, 2002	July 28, 2001	July 26, 2003	July 27, 2002	July 28, 2001
Gross margin:						
Americas	\$ 8,363	\$ 8,122	\$ 8,687	79.3%	76.2%	72.1%
EMEA	4,232	4,066	4,710	81.4%	79.3%	73.9%
Asia Pacific	1,523	1,432	1,594	81.9%	81.1%	68.4%
Japan	1,052	1,086	1,182	82.7%	79.3%	77.1%
Standard margin	15,170	14,706	16,173	80.4%	77.7%	72.5%
Production overhead	(547)	(651)	(615)			
Manufacturing variances and other related costs	(1,390)	(2,042)	(4,486)			
Total	\$ 13,233	\$ 12,013	\$ 11,072			

Gross margin for products and services in fiscal 2003, 2002, and 2001 was as follows (in millions, except percentages):

Years Ended	AMOUNT			GROSS MARGIN		
	July 26, 2003	July 27, 2002	July 28, 2001	July 26, 2003	July 27, 2002	July 28, 2001
Gross margin:						
Product	\$ 10,971	\$ 9,755	\$ 9,361	70.5%	62.3%	47.9%
Service	2,262	2,258	1,711	68.3%	69.6%	62.6%
Total	\$ 13,233	\$ 12,013	\$ 11,072	70.1%	63.5%	49.7%

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

Research and Development, Sales and Marketing, and General and Administrative Expenses

Research and development ("R&D"), sales and marketing, and general and administrative ("G&A") expenses are summarized in the following table (in millions, except percentages):

Years Ended	AMOUNT			PERCENTAGE OF NET SALES		
	July 26, 2003	July 27, 2002	July 28, 2001	July 26, 2003	July 27, 2002	July 28, 2001
Research and development	\$ 3,135	\$ 3,448	\$ 3,922	16.6%	18.2%	17.6%
Sales and marketing	\$ 4,116	\$ 4,264	\$ 5,296	21.8%	22.5%	23.8%
General and administrative	\$ 702	\$ 618	\$ 778	3.7%	3.3%	3.5%

DISCUSSION OF FISCAL 2003 AND 2002

Net Sales

Net sales in fiscal 2003 were \$18.9 billion, compared with \$18.9 billion in fiscal 2002, a decrease of \$37 million or 0.2%. Net product sales for fiscal 2003 decreased by \$104 million, compared with fiscal 2002 partially offset by an increase of \$67 million in service revenue. The decrease in net product sales was due to the impact of a combination of a challenging global economic environment, geopolitical issues, and continued constraints on information technology-related capital spending, particularly with respect to our service provider customers. The increase in service revenue was primarily due to increased technical support service contract initiations and renewals associated with product sales.

Net Product Sales by Theater

Net product sales in the Americas theater consist of net product sales in the United States and Americas International, which includes Canada, Mexico, and Latin America. Net product sales in the Americas theater in fiscal 2003 decreased by \$168 million or 2.0% from \$8.3 billion in fiscal 2002 to \$8.1 billion. Net product sales in the United States were \$7.4 billion in fiscal 2003, compared with \$7.4 billion in fiscal 2002, a decrease of \$69 million or 0.9%. Net product sales in Americas International in fiscal 2003 were \$759 million, compared with \$858 million in fiscal 2002, a decrease of \$99 million or 11.5%. The decrease in net product sales reflects the slowdown in the United States and other economies, over-capacity, and constraints on information technology-related capital spending, which have continued to affect both enterprise and service provider customers, especially service provider customers. This decrease was partially offset by growth in our net product sales to the United States federal government, which increased by approximately 20% in fiscal 2003 compared with fiscal 2002.

Net product sales in the EMEA theater in fiscal 2003 increased by \$72 million or 1.6% from \$4.5 billion in fiscal 2002 to \$4.6 billion, as incumbent service providers began deploying products and some enterprise markets experienced modest growth. In Asia Pacific, net product sales in fiscal 2003 increased by \$94 million or 5.9% from \$1.6 billion in fiscal 2002 to \$1.7 billion due to infrastructure builds, broadband acceleration, and investments by Asian telecom carriers. Net product sales in the Japan theater in fiscal 2003 decreased by \$102 million or 8.1% from \$1.3 billion in fiscal 2002 to \$1.2 billion due to ongoing economic challenges in the theater.

Net Product Sales by Groups of Similar Products

Net product sales related to routers in fiscal 2003 decreased by \$628 million or 11.4% from \$5.5 billion in fiscal 2002 to \$4.9 billion due to decreases in sales of midrange and low-end routers. Net product sales related to switches in fiscal 2003 increased by \$70 million or 0.9% from \$7.7 billion in fiscal 2002 to \$7.7 billion due to increases in sales of fixed LAN and WAN switches partially offset by a decrease in sales of modular LAN switches. Net product sales related to access products in fiscal 2003 decreased by \$77 million or 7.4% from \$1.0 billion in fiscal 2002 to \$965 million due to decreases in sales of digital subscriber line (DSL) and dial access products partially offset by an increase in sales of wireless LAN products. Net product sales related to other products in fiscal 2003 increased by \$531 million or 35.7% from \$1.5 billion in fiscal 2002 to \$2.0 billion due to increases in sales of security and IP telephony products.

Net product sales may be adversely affected in the future by changes in the geopolitical environment and global economic conditions; sales cycles and implementation cycles of our products; changes in the mix of our customers between service provider and enterprise; changes in the mix of direct sales and indirect sales; variations in sales channels; and final acceptance criteria of the product, system, or solution as specified by the customer. Service provider customers typically have longer implementation cycles, require a broader range of services including design services, and often have acceptance provisions, which can lead to a delay in revenue recognition. To improve customer satisfaction, we continue to attempt to reduce our manufacturing lead times, which may result in corresponding reductions in order backlog. A decline in backlog levels could result in more variability and less predictability in our quarter-to-quarter net sales and operating results. Net product sales may also be adversely affected by fluctuations in demand for our products, especially with respect to Internet businesses and telecommunications service providers, price and product competition in the communications and networking industries, introduction and market acceptance of new technologies and products, adoption of new networking standards, and financial difficulties experienced by our customers.

Two-tier distributors are given business terms that allow them to return a portion of inventory, receive credits for changes in selling prices, and participate in various cooperative marketing programs. In addition, increasing two-tier distribution channels generally results in greater difficulty in forecasting the mix of our products and, to a certain degree, the timing of orders from our customers. We recognize revenue to two-tier distributors based on a sell-through method utilizing information provided by our distributors, and we maintain accruals and allowances for all cooperative marketing and other programs.

Net Service Revenue

Net service revenue in fiscal 2003 increased by \$67 million or 2.1% from \$3.2 billion in fiscal 2002 to \$3.3 billion due to increased technical support service contract initiations and renewals associated with product sales that have resulted in a higher installed base of equipment being serviced and revenue from advanced services, which relates to consulting support services of our technologies for specific networking needs. Net service revenue is generally deferred and, in most cases, recognized ratably over the service period, which is typically one to three years. Net service revenue will typically experience some variability over time due to various factors such as the timing of technical support service contract initiations and renewals. In addition, our revenue from advanced services may increase to a higher proportion of total service revenue due to our continued focus on providing comprehensive support of our customers' networking devices, applications, and infrastructures.

Gross Margin

Gross margin in fiscal 2003 increased from 63.5% in fiscal 2002 to 70.1% due to an increase in product gross margin partially offset by a decrease in service gross margin as discussed below.

Product Gross Margin

Product gross margin increased from 62.3% in fiscal 2002 to 70.5% in fiscal 2003, an increase of 8.2%. This increase was due to an increase in standard margin combined with decreases in production overhead and manufacturing and other related costs.

Standard margin increased by 3.5% in fiscal 2003, compared with fiscal 2002, due to lower component costs and value engineering, partially offset by the impact of product pricing reductions and changes in the mix of products sold. Value engineering is the process by which the production costs are reduced through component redesign, board configuration, test processes, and transformation processes.

Production overhead and manufacturing and other related costs decreased in fiscal 2003, compared with fiscal 2002, which resulted in an increase in product gross margin of 4.7%. Production overhead in fiscal 2003 decreased by \$104 million from \$651 million in fiscal 2002 to \$547 million related to lower labor, depreciation on equipment, and facilities charges associated with manufacturing activities. In addition, manufacturing and other related costs in fiscal 2003 decreased by \$652 million from \$2.0 billion in fiscal 2002 to \$1.4 billion due to lower warranty, provision for inventory, and other nonstandard costs. The provision for inventory in fiscal 2002 included an excess inventory benefit of \$422 million related to inventory previously written off and utilized in production or sold.

Product gross margin may be adversely affected in the future by changes in the mix of products sold or channels of distribution, sales discounts, increases in material or labor costs, excess inventory and obsolescence charges, changes in shipment volume, loss of cost savings due to changes in component pricing, impact of value engineering, inventory holding charges, price competition and introduction of new products or entering new markets, and different pricing and cost structures of new markets. If warranty costs associated with our products are greater than we have experienced, product gross margin may also be adversely affected. Product gross margin may also be affected by geographic mix, as well as the mix of configurations within each product group.

Service Gross Margin

Service gross margin decreased from 69.6% in fiscal 2002 to 68.3% in fiscal 2003, a decrease of 1.3%. Service gross margin will typically experience some variability over time due to various factors such as the change in mix between technical support services and advanced services, as well as the timing of technical support service contract initiations and renewals.

Research and Development, Sales and Marketing, and General and Administrative Expenses

R&D expenses in fiscal 2003 decreased by \$313 million or 9.1% from \$3.4 billion in fiscal 2002 to \$3.1 billion primarily due to a decrease in expenditures on prototypes of approximately \$120 million due, in part, to our ongoing cost control measures. In addition, the decrease in R&D expenses was also due to lower depreciation on lab equipment and other reduced discretionary spending. We have continued to invest in R&D efforts in a wide variety of areas such as data, voice, and video over IP; advanced access and aggregation technologies such as cable, wireless, mobility, and other broadband technologies; advanced enterprise switching; optical technology; storage area networking; content networking; security; network management; and advanced core and edge routing technologies. We have also continued to purchase or license technology in order to bring a broad range of products to market in a timely fashion. If we believe that we are unable to enter a particular market in a timely manner with internally developed products, we may license technology from other businesses or acquire businesses as an alternative to internal R&D. All of our R&D costs have been expensed as incurred.

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

Sales and marketing expenses in fiscal 2003 decreased by \$148 million or 3.5% from \$4.3 billion in fiscal 2002 to \$4.1 billion due to a decrease in sales expenses of \$176 million partially offset by an increase in marketing expenses of \$28 million. Sales expenses decreased in fiscal 2003, compared with fiscal 2002, due to the decrease in expenses related to our sales programs and other reduced discretionary spending. In addition, we experienced a decrease in the size of our sales force during fiscal 2003. Our marketing expenses increased in fiscal 2003, compared with fiscal 2002, as we have continued to invest in both our new growth market opportunities and our branding strategy. During fiscal 2003, we invested approximately \$98 million in a new marketing campaign.

G&A expenses in fiscal 2003 increased by \$84 million or 13.6% from \$618 million in fiscal 2002 to \$702 million. The increase in G&A expenses for fiscal 2003, compared with fiscal 2002, was primarily related to real estate allocations.

We hedge foreign currency forecasted transactions related to operating expenses with currency options. The effects of foreign currency fluctuations, net of hedging, increased total R&D, sales and marketing, and G&A expenses by approximately 1% in fiscal 2003 compared with fiscal 2002.

In the third quarter of fiscal 2001, we announced a restructuring program to prioritize our initiatives around a focus on profit contribution, high-growth areas of our business, reduction of expenses, and improved efficiency. This restructuring program included a worldwide workforce reduction, consolidation of excess facilities, and restructuring of certain business functions. (For additional information regarding the restructuring program, see Note 4 to the Consolidated Financial Statements.) During fiscal 2003, we increased the restructuring liabilities related to the consolidation of excess facilities and other charges by \$45 million, which was recorded during the first and fourth quarter of fiscal 2003, due to changes in real estate market conditions. The increase in restructuring liabilities was recorded as expenses related to R&D (\$18 million), sales and marketing (\$18 million), G&A (\$4 million), and cost of sales (\$5 million) in the Consolidated Statements of Operations. During fiscal 2002, we increased the restructuring liabilities related to the consolidation of excess facilities and other charges by \$93 million, which was recorded in the third quarter of fiscal 2002, due to changes in real estate market conditions. The increase in restructuring liabilities was recorded as expenses related to R&D (\$39 million), sales and marketing (\$42 million), G&A (\$8 million), and cost of sales (\$4 million) in the Consolidated Statements of Operations. There can be no assurance that future changes in real estate market conditions will not result in additional real estate liabilities.

Amortization of Purchased Intangible Assets

Amortization of purchased intangible assets included in operating expenses was \$394 million in fiscal 2003, compared with \$699 million in fiscal 2002. The decrease in the amortization of purchased intangible assets in fiscal 2003, compared with fiscal 2002, was primarily due to the accelerated amortization for certain technology and patent intangibles in the prior year period, and a decrease in the write-down of certain technology and patent intangibles. The write-down of certain technology and patent intangibles in fiscal 2003 was \$49 million, compared with \$159 million in fiscal 2002. The write-downs of certain technology and patent intangibles were related to a decrease in the expected future cash flows for these purchased intangible assets. (For additional information regarding purchased intangible assets, see Note 3 to the Consolidated Financial Statements.)

In-Process Research and Development

Our methodology for allocating the purchase price relating to purchase acquisitions to in-process R&D is determined through established valuation techniques in the high-technology communications equipment industry and based on valuations performed by an independent third party. In-process R&D expense in fiscal 2003 was \$4 million, compared with \$65 million in fiscal 2002. (See Note 3 to the Consolidated Financial Statements for additional information regarding the acquisitions completed in fiscal 2003 and 2002 and the in-process R&D recorded for each acquisition.) The amount expensed to in-process R&D was expensed upon acquisition because technological feasibility had not been established and no future alternative uses existed.

The fair value of the existing purchased technology and patents, as well as the technology under development, is determined using the income approach, which discounts expected future cash flows to present value. The discount rates used in the present value calculations are typically derived from a weighted-average cost of capital analysis and venture capital surveys, adjusted upward to reflect additional risks inherent in the development life cycle. We consider the pricing model for products related to these acquisitions to be standard within the high-technology communications equipment industry. However, we do not expect to achieve a material amount of expense reductions as a result of integrating the acquired in-process technology. Therefore, the valuation assumptions do not include significant anticipated cost savings.

For purchase acquisitions completed to date, the development of these technologies remains a significant risk due to the remaining efforts to achieve technical viability, rapidly changing customer markets, uncertain standards for new products, and significant competitive threats from several companies. The nature of the efforts to develop these technologies into commercially viable products consists primarily of planning, designing, experimenting, and testing activities necessary to determine that the technologies can meet market expectations, including functionality and technical requirements. Failure to bring these products to market in a timely manner could result in a loss of market share or a lost opportunity to capitalize on emerging markets, and could have a material adverse impact on our business and operating results.

The following table summarizes the key assumptions underlying the valuation for our purchase acquisitions completed in fiscal 2003 and 2002, for which in-process R&D was recorded (in millions, except percentages):

Acquisition	In-Process R&D Expense	Estimated Cost to Complete Technology at Time of Acquisition	Risk-Adjusted Discount Rate for In-Process R&D
FISCAL 2003			
Okena, Inc.	\$ 3	\$ 1	22.0%
SignalWorks, Inc.	\$ 1	\$ 1	24.0%
FISCAL 2002			
Allegro Systems, Inc.	\$ 28	\$ 5	52.5%
AuroraNetics, Inc.	\$ 9	\$ 2	35.0%
Hammerhead Networks, Inc.	\$ 27	\$ 2	23.0%
Navarro Networks, Inc.	\$ 1	\$ 1	23.0%

The key assumptions primarily consist of an expected completion date for the in-process projects; estimated costs to complete the projects; revenue and expense projections, assuming the products have entered the market; and discount rates based on the risks associated with the development life cycle of the in-process technology acquired. Failure to achieve the expected levels of revenue and net income from these products will negatively impact the return on investment expected at the time that the acquisitions were completed and may result in impairment charges. Actual results from the purchase acquisitions to date did not have a material adverse impact on our business and operating results, except for certain purchase acquisitions where the purchased intangible assets were impaired and written down as reflected in the Consolidated Statements of Operations.

Interest Income

Interest income was \$660 million in fiscal 2003, compared with \$895 million in fiscal 2002. The decrease of \$235 million or 26.3% in interest income in fiscal 2003, compared with fiscal 2002, was primarily due to lower average interest rates on our portfolio of fixed income securities.

Other Loss, Net

The components of other loss, net, are as follows (in millions):

Years Ended	July 26, 2003	July 27, 2002
Net losses on investments in securities	\$ 239	\$ 707
Impairment charges on investments in privately held companies	281	420
	520	1,127
Other	9	(23)
Total	\$ 529	\$ 1,104

The net losses relating to investments in securities in fiscal 2003 and 2002 included a charge of \$412 million and \$858 million, respectively, related to the impairment of certain publicly traded equity securities during the first quarter periods. The impairment charges were due to the decline in the fair value of certain publicly traded equity investments below their cost basis that was judged to be other-than-temporary.

Provision for Income Taxes

The effective tax rate was 28.6% for fiscal 2003 and 30.1% for fiscal 2002. The effective tax rate differs from the statutory rate primarily due to the impact of nondeductible in-process R&D, acquisition-related costs, research and experimentation tax credits, state taxes, and the tax impact of non-U.S. operations.

Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates, changes in the valuation of our deferred tax assets or liabilities, or changes in tax laws or interpretations thereof. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

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

DISCUSSION OF FISCAL 2002 AND 2001

Net Sales

Net sales in fiscal 2002 decreased by \$3.4 billion or 15.2% from \$22.3 billion in fiscal 2001 to \$18.9 billion, primarily related to a decrease in net product sales. The decrease in net product sales was due to unfavorable global economic conditions and reduced levels of information technology-related capital spending compared with fiscal 2001. The economic slowdown has had a significant impact on the telecommunications industry, in particular service provider customers.

Net Product Sales by Theater

Net product sales in the Americas theater decreased by \$1.7 billion or 17.3% from \$10.0 billion in fiscal 2001 to \$8.3 billion in fiscal 2002. The decrease was primarily related to the decline in net product sales in the service provider market, in particular the incumbent local exchange carrier (ILEC) and interexchange carrier (IXC) sectors. The slowdown in the U.S. economy, over-capacity, changes in the service provider market, and constraints on information technology-related capital spending had a significant adverse effect on many of our service provider customers. The enterprise market experienced a lower decrease in net product sales compared with the service provider market primarily because of the need for large corporations, specifically in the manufacturing, health-care, education, and retail sectors, as well as the U.S. government, to maintain their networks.

Net product sales in EMEA in fiscal 2002 decreased by \$1.4 billion or 23.1% from \$5.9 billion in fiscal 2001 to \$4.5 billion. Similar to the Americas theater, the decrease in net product sales was related to the slowdown in the European telecommunications sector and the enterprise market due to companies closely managing their capital spending.

Net product sales in Asia Pacific in fiscal 2002 decreased by \$600 million or 27.4% from \$2.2 billion in fiscal 2001 to \$1.6 billion. The decrease was primarily related to the decline in net product sales in the enterprise and service provider markets, in particular the service provider market in China, which experienced increased consolidation and restructuring.

Net product sales in Japan in fiscal 2002 decreased by \$196 million or 13.4% from \$1.5 billion in fiscal 2001 to \$1.3 billion. The decrease was primarily related to contraction in the electronics sector partially offset by net product sales to the government sector.

Net Product Sales by Groups of Similar Products

Net product sales related to routers decreased by \$1.6 billion or 22.7% from \$7.1 billion in fiscal 2001 to \$5.5 billion, primarily due to decreases in sales of our high-end and edge routers. Net product sales related to switches experienced a decrease of \$1.5 billion or 16.3% from \$9.1 billion in fiscal 2001 to \$7.7 billion, primarily due to decreases in sales of our modular LAN and WAN multiservice switches. Net product sales related to access products decreased by \$827 million or 44.2% from \$1.9 billion in fiscal 2001 to \$1.0 billion, primarily due to decreases in sales of our access concentrators and DSL access multiplexer (DSLAM) products.

Net Service Revenue

Net service revenue in fiscal 2002 increased by \$512 million or 18.7% from \$2.7 billion in fiscal 2001 to \$3.2 billion. The increase in net service revenue was primarily related to technical support services, which provide maintenance and problem resolution services for our products. In addition, revenue from consultative support of our technologies for specific customer networking needs increased. During fiscal 2002, technical support service contract renewals associated with product sales increased, compared with the prior fiscal year.

Gross Margin

Gross margin in fiscal 2002 was 63.5%, compared with 49.7% in fiscal 2001.

Product Gross Margin

The increase in product gross margin from 47.9% in fiscal 2001 to 62.3% in fiscal 2002 was primarily related to the effect of a charge for additional excess inventory of \$2.2 billion recorded in the third quarter of fiscal 2001 and benefits recognized thereafter as described below. Excluding the additional excess inventory charge and the subsequent benefits, there was a slight increase in product gross margin that was primarily due to lower component costs that were partially offset by lower shipment volumes.

Because of a sudden and significant decrease in demand for our products in the third quarter of fiscal 2001, inventory levels exceeded our estimated requirements based on demand forecasts, and an additional excess inventory charge of \$2.2 billion, which included an additional liability for purchase commitments, was recorded in accordance with our accounting policy. In fiscal 2002, the provision for inventory and the additional liability for purchase commitments were reduced by a \$525 million benefit related to inventory used to manufacture products sold in excess of our expectations and the settlement of purchase commitments for less than the estimated amount previously included as part of the additional excess inventory charge.

The following is a summary of the change in the additional excess inventory reserve (in millions):

	Excess Inventory Reserve	Excess Inventory Benefit
Initial charge in the third quarter of fiscal 2001	\$ 2,249	
Usage:		
Inventory scrapped	(105)	\$ —
Sale of inventory	(89)	9
Inventory utilized	(49)	49
Settlement of purchase commitments	(329)	129
	(572)	\$ 187
Reserve balance as of July 28, 2001	1,677	
Usage:		
Inventory scrapped	(975)	\$ —
Sale of inventory	(64)	14
Inventory utilized	(408)	408
Settlement of purchase commitments	(173)	103
	(1,620)	\$ 525
Reserve balance as of July 27, 2002	\$ 57	

Service Gross Margin

The increase in service gross margin from 62.6% in fiscal 2001 to 69.6% in fiscal 2002 was primarily due to higher service revenue and cost efficiencies in the delivery of our services.

Research and Development, Sales and Marketing, and General and Administrative Expenses

Total R&D, sales and marketing, and G&A expenses decreased in absolute dollars from fiscal 2001, primarily due to the impact of the restructuring program and cost control measures to contain hiring and to reduce discretionary spending. Total R&D, sales and marketing, and G&A expenses in the fourth quarter of fiscal 2002 decreased by approximately \$600 million, compared with the quarter prior to the restructuring charge.

R&D expenses in fiscal 2002 were \$3.4 billion, compared with \$3.9 billion in fiscal 2001, a decrease of \$474 million or 12.1%. A significant portion of the decrease in R&D expenses was due to lower expenditures on prototypes, lower depreciation on lab equipment, and reduced discretionary spending.

Sales and marketing expenses in fiscal 2002 were \$4.3 billion, compared with \$5.3 billion in fiscal 2001, a decrease of \$1.0 billion or 19.5%. The decrease in sales and marketing expenses was primarily due to a decrease in the size of our sales force and marketing organization, reduced marketing and advertising investments, and reduced general promotional and marketing program expenses.

G&A expenses in fiscal 2002 were \$618 million, compared with \$778 million in fiscal 2001, a decrease of \$160 million or 20.6%. The decrease in G&A expenses was primarily related to the reductions in investments in infrastructure, personnel in support and administrative functions, and discretionary spending.

Restructuring Costs and Other Special Charges

During fiscal 2001, we recorded restructuring costs and other special charges of \$1.2 billion. (For additional information, see Note 4 to the Consolidated Financial Statements.)

Amortization of Goodwill

We elected to early adopt Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), effective the beginning of fiscal 2002. SFAS 142 requires goodwill to be tested for impairment on an annual basis and between annual tests in certain circumstances, and written down when impaired, rather than amortized as previous accounting standards required. In accordance with SFAS 142, we ceased amortizing goodwill. Based on the impairment tests performed, there was no impairment of goodwill in fiscal 2002.

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

Amortization of Purchased Intangible Assets

Amortization of purchased intangible assets included in operating expenses was \$699 million in fiscal 2002, compared with \$365 million in fiscal 2001. The increase in the amortization of purchased intangible assets was primarily related to additional amortization from acquisitions, accelerated amortization for certain technology and patent intangibles due to a reduction in their estimated useful lives, and a write-down of certain technology and patent intangibles. This write-down totaled \$159 million and was due to the continued downturn in the optical market primarily related to the reduced demand for long-haul products, resulting in a significant adverse impact on the expected future cash flows of these purchased intangible assets.

In-Process Research and Development

In-process R&D expense in fiscal 2002 was \$65 million, compared with \$855 million in fiscal 2001. (See Note 3 to the Consolidated Financial Statements for additional information regarding the acquisitions completed in fiscal 2002 and 2001 and the in-process R&D recorded for each acquisition.) The following table summarizes the key assumptions underlying the valuations for our significant purchase acquisitions completed in fiscal 2002 and 2001 (in millions, except percentages):

Acquisition	In-Process R&D Expense	Estimated Cost to Complete Technology at Time of Acquisition	Risk-Adjusted Discount Rate for In- Process R&D
FISCAL 2002			
Allegro Systems, Inc.	\$ 28	\$ 5	52.5%
AuroraNetics, Inc.	\$ 9	\$ 2	35.0%
Hammerhead Networks, Inc.	\$ 27	\$ 2	23.0%
Navarro Networks, Inc.	\$ 1	\$ 1	23.0%
FISCAL 2001			
Active Voice Corporation	\$ 37	\$ 5	40.0%
IPCell Technologies, Inc.	\$ 75	\$ 10	30.0%
IPmobile, Inc.	\$ 181	\$ 15	42.5%
NuSpeed, Inc.	\$ 164	\$ 6	40.0%
PixStream Incorporated	\$ 67	\$ 2	35.0%
Radiata, Inc.	\$ 29	\$ 3	30.0%

Interest Income

Interest income was \$895 million in fiscal 2002, compared with \$967 million in fiscal 2001. The decrease in interest income was primarily due to lower average interest rates.

Other Income (Loss), Net

Other income (loss), net was (\$1.1) billion in fiscal 2002, compared with \$163 million in fiscal 2001. The net loss in fiscal 2002 included a charge of \$858 million recorded in the first quarter related to the impairment of certain publicly traded equity securities in our investment portfolio. This impairment charge was due to the decline in the fair value of our publicly traded equity investments below the cost basis that was judged to be other-than-temporary.

Provision for Income Taxes

The effective tax rate was 30.1% for fiscal 2002 and (16.0%) for fiscal 2001. The effective tax rate differs from the statutory rate primarily due to the impact of nondeductible in-process R&D, acquisition-related costs, research and experimentation tax credits, state taxes, and the tax impact of non-U.S. operations.

RECENT ACCOUNTING PRONOUNCEMENT

Financial Accounting Standards Board Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), was issued in January 2003. FIN 46 requires that if an entity is the primary beneficiary of a variable interest entity, the assets, liabilities, and results of operations of the variable interest entity should be included in the Consolidated Financial Statements of the entity. The provisions of FIN 46 are effective immediately for all arrangements entered into after January 31, 2003. For those arrangements entered into prior to January 31, 2003, the provisions of FIN 46 are required to be adopted at the beginning of the first interim or annual period beginning after June 15, 2003. (For additional information regarding variable interest entities and the impact of the adoption of FIN 46, see Note 8 to the Consolidated Financial Statements.)

LIQUIDITY AND CAPITAL RESOURCES

The following sections discuss the effects of changes in our balance sheets, cash flows, and commitments on our liquidity and capital resources.

Balance Sheet and Cash Flows

Cash and Cash Equivalents and Total Investments Cash and cash equivalents and total investments were \$20.7 billion as of July 26, 2003, a decrease of \$804 million or 3.7% from \$21.5 billion at July 27, 2002. The decrease was primarily a result of cash used for the repurchase of common stock of \$6.0 billion and capital expenditures of \$717 million partially offset by cash provided by operating activities of \$5.2 billion and cash provided by the issuance of common stock of \$578 million related to employee stock option exercises and employee stock purchases.

We expect that cash provided by operating activities may fluctuate in future periods as a result of a number of factors, including fluctuations in our operating results, shipment linearity, accounts receivable collections, inventory management, and the timing of tax and other payments. (For additional discussion, see the section entitled "Risk Factors" in our Annual Report on Form 10-K.)

Accounts Receivable, Net Accounts receivable, net was \$1.4 billion and \$1.1 billion as of July 26, 2003 and July 27, 2002, respectively. Days sales outstanding ("DSO") in receivables as of July 26, 2003 and July 27, 2002 were 26 days and 21 days, respectively. Our accounts receivable and DSO are primarily impacted by shipment linearity and collections performance. Shipment linearity is a measure of the level of shipments throughout a particular quarter. A steady level of shipments and good collections performance will result in reduced DSO compared with a higher level of shipments toward the end of the quarter, which will result in a shorter amount of time to collect the related accounts receivable and will result in increased DSO.

Inventories Inventories were \$873 million as of July 26, 2003, a decrease of \$7.0 million or 0.8% from \$880 million at July 27, 2002. Inventories consist of raw materials, work in process, finished goods, and demonstration systems. As of July 26, 2003, approximately 37.5% of our finished goods inventory was located at distributor sites, and represents the deferred cost of sales relating to unrecognized revenue on sales to those distributors. Our finished goods inventory is accounted for at the lower of cost or market.

Inventory turns were 6.8 in the fourth quarter of fiscal 2003, compared with 7.1 in the fourth quarter of fiscal 2002. Inventory levels and the associated inventory turns reflect our ongoing inventory management efforts. Inventory management remains an area of focus as we balance the need to maintain strategic inventory levels to ensure competitive lead times against the risk of inventory obsolescence because of rapidly changing technology and customer requirements.

Commitments

Leases We lease office space in several U.S. locations, as well as locations elsewhere in the Americas International, EMEA, Asia Pacific, and Japan. Rent expense totaled \$196 million, \$265 million, and \$381 million in fiscal 2003, 2002, and 2001, respectively. Future annual minimum lease payments under all non-cancelable operating leases with an initial term in excess of one year as of July 26, 2003 were as follows (in millions):

Fiscal Year	Amount
2004	\$ 246
2005	205
2006	152
2007	119
2008	107
Thereafter	617
Total	\$1,446

We had entered into several agreements to lease sites in San Jose, California, where our headquarters is located, and certain other facilities, both completed and under construction, in the areas of San Jose, California; Boxborough, Massachusetts; Salem, New Hampshire; Richardson, Texas; and Research Triangle Park, North Carolina. Under these agreements, we could, at our option, purchase the land or both land and buildings. We could purchase the buildings at approximately the amount expended by the lessors to construct the buildings. As part of the lease agreements, we had restricted certain of our investment securities as collateral for specified obligations of the lessors. In fiscal 2002, we elected to purchase all of the land and buildings as well as sites under construction under the above lease agreements. The total purchase price was approximately \$1.9 billion and was primarily funded by the liquidation of restricted investments and lease deposits. As a result, we no longer have any sites under such lease agreements.

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

Purchase Commitments with Contract Manufacturers and Suppliers We use several contract manufacturers and suppliers to provide manufacturing services for our products. During the normal course of business, in order to reduce manufacturing lead times and ensure adequate component supply, we enter into agreements with certain contract manufacturers and suppliers that allow them to procure inventory based upon criteria as defined by us. As of July 26, 2003, we have purchase commitments for inventory of approximately \$718 million, compared with \$825 million as of July 27, 2002. These purchase commitments are expected to be fulfilled within one year.

We record a liability for purchase commitments related to on-order inventory that is in excess of our future demand forecasts. As of July 26, 2003, the liability for purchase commitments was \$99 million, compared with \$238 million as of July 27, 2002, and was included in other accrued liabilities.

Other Commitments In fiscal 2001, we entered into an agreement to invest approximately \$1.0 billion in venture funds managed by SOFTBANK Corp. and its affiliates ("SOFTBANK"), which are required to be funded on demand. In fiscal 2003, this agreement was amended to a commitment of up to \$800 million, of which up to \$550 million is to be invested in venture funds under terms similar to the original agreement and \$250 million invested as senior debt with entities as directed by SOFTBANK. Our commitment to fund the senior debt is contingent upon the achievement of certain agreed-upon milestones. As of July 26, 2003, we have invested \$247 million in the venture funds and \$49 million in the senior debt, and both were recorded as investments in privately held companies in our Consolidated Balance Sheets. We had invested \$100 million of the original venture funds commitment as of July 27, 2002.

We provide structured financing to certain qualified customers to be used for the purchase of equipment and other needs through our wholly owned subsidiary, Cisco Systems Capital Corporation. These loan commitments may be funded over a two- to three-year period, provided that these customers achieve specific business milestones and satisfy certain financial covenants. Our outstanding loan commitments were approximately \$97 million, of which approximately \$38 million was eligible for draw-down as of July 26, 2003, compared with outstanding loan commitments of approximately \$948 million, of which approximately \$209 million was eligible for draw-down as of July 27, 2002. The decrease in loan commitments as of July 26, 2003, compared with July 27, 2002, was related to terminations and reductions of these commitments due to customers not meeting specific business milestones and not satisfying certain financial covenants. As of July 26, 2003, structured loans were \$42 million, compared with \$61 million as of July 27, 2002.

We have entered into several agreements to purchase or develop real estate, subject to the satisfaction of certain conditions. As of July 26, 2003, the total amount of commitments, if certain conditions are met, was approximately \$38 million, compared with approximately \$491 million as of July 27, 2002. The decrease in real estate commitments as of July 26, 2003, compared with July 27, 2002, was due to a combination of completed real estate construction and renegotiated commitments. The payments due under these commitments are based on the completion of construction of the real estate or the achievement of other milestones.

As of July 26, 2003, we have a commitment of approximately \$130 million to purchase the remaining portion of the minority interest of Cisco Systems, K.K. (Japan), compared with approximately \$190 million as of July 27, 2002, and the payments under these commitments are based on a put option held by the minority shareholders.

We also have certain other funding commitments related to our privately held investments that are based on the achievement of certain agreed-upon milestones. The funding commitments were approximately \$95 million as of July 26, 2003, compared with approximately \$152 million as of July 27, 2002.

Off-Balance Sheet Arrangements Based on recently adopted regulations of the Securities and Exchange Commission, our investments in unconsolidated variable interest entities as of July 26, 2003, which we have disclosed in our previous filings, are considered off-balance sheet arrangements. However, in regard to our investment in Andiamo Systems, Inc. ("Andiamo") as discussed below, we are required to consolidate Andiamo beginning the first day of the first quarter of fiscal 2004, and as a result, our investment in Andiamo will no longer be considered an off-balance sheet arrangement in fiscal 2004.

In April 2001, we entered into a commitment to provide convertible debt funding of approximately \$84 million to Andiamo, a storage switch developer. This debt will be convertible into approximately 44% of the equity in Andiamo, subject to certain terms and conditions. In connection with this investment, we obtained a call option that provided us the right to purchase Andiamo. The purchase price under the call option is based on a valuation of Andiamo using a negotiated formula as discussed below. We also entered into a commitment to provide non-convertible debt funding to Andiamo of approximately \$100 million through the close of the acquisition, subject to periodic funding.

On August 19, 2002, we entered into a definitive agreement to acquire privately held Andiamo, which represents the exercise of our rights under the call option. The acquisition of Andiamo is expected to close in the third quarter of fiscal 2004, but no later than July 31, 2004. Under the terms of the agreement, our common stock and options will be exchanged for all outstanding shares and options of Andiamo not owned by us at the closing of the acquisition. The amount of the purchase price for the remaining equity interests in Andiamo not then held by us is not determinable at this time, but will be based primarily upon a formula-based valuation of Andiamo to be determined by applying a multiple to the actual, annualized revenue generated from sales by us of products attributable to Andiamo during a three-month period shortly preceding the closing. Under our agreements with Andiamo, we are the exclusive manufacturer and distributor of all Andiamo products. The multiple will be equal to our average market capitalization during a specified period divided by our annualized revenue for a three-month period prior to closing, subject to adjustment as follows: (i) if the multiple so calculated is less than 10, then the multiple to be used for purposes of determining the transaction price shall be the midpoint between 10 and the multiple so calculated; (ii) if the multiple so calculated is greater than 15, then the multiple to be used for purposes of determining the transaction price shall be the midpoint between 15 and the multiple so calculated. There is no minimum purchase price, and the maximum purchase price is limited to approximately \$2.5 billion in shares of our common stock valued at the time of closing. The acquisition has received the required approvals of the Board of Directors from both companies and is subject to various closing conditions and approvals, including stockholder approval by Andiamo. As of July 26, 2003, we have invested \$84 million in the convertible debt and \$76 million in the non-convertible debt. Substantially all of our investment in Andiamo has been expensed as research and development costs, as if such expenses constituted our development costs.

We have evaluated our debt investment in Andiamo and have determined that Andiamo is a variable interest entity under FIN 46. We have concluded that we are the primary beneficiary as defined by FIN 46, and as a result, we are required to consolidate Andiamo beginning the first day of the first quarter of fiscal 2004.

FIN 46 will require us to account for Andiamo as if we had consolidated it since our initial investment in April 2001. If we consolidated Andiamo from the date of our initial investment, we would be required to account for the call option as a repurchase right. Under Financial Accounting Standards Board Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation," and related interpretations, variable accounting is required for substantially all Andiamo employee stock and options because the ending purchase price is primarily derived from a revenue-based formula. Therefore, beginning in the first quarter of fiscal 2004, we will revalue the stock and options of Andiamo each quarter based on an independent valuation of Andiamo until the completion of the acquisition, which is expected in the third quarter of fiscal 2004, but no later than July 31, 2004.

Effective July 27, 2003, the first day of fiscal 2004, we will record a non-cash cumulative charge of approximately \$400 million (representing the amount of variable compensation from April 2001 through July 2003). This will be reported as a separate line item in the Consolidated Statements of Operations as a cumulative effect of a change in accounting principle, net of tax. The charge is based on the value of the Andiamo employee stock and options and their expected vesting upon FIN 46 adoption pursuant to the independent evaluation, and does not necessarily reflect the value of Andiamo as a whole nor indicate the expected valuation of Andiamo upon acquisition. Subsequent to the adoption of FIN 46, changes to the value of Andiamo and continued vesting of the employee stock and options will result in adjustments to the non-cash stock compensation charge and will be reflected as operating expenses. These adjustments will be recorded commencing in the first quarter of fiscal 2004 and will continue until such time as the acquisition of Andiamo is completed, which is expected to close in the third quarter of fiscal 2004, but no later than July 31, 2004. The value of Andiamo computed under the negotiated formula is largely based on revenues derived from specific storage switch products.

The estimated range of the future non-cash variable stock compensation adjustments and the final purchase price of Andiamo are subject to uncertainty. The valuation of Andiamo is subject to change based on the ability of Andiamo to meet its revenue projections, the market for its products, its ability to develop relevant technology, as well as other factors, and will be based on a valuation performed by an independent third party using a consistent methodology.

Excluding the non-cash stock compensation cumulative charge and any future non-cash variable stock compensation adjustments, the impact of consolidating Andiamo will not materially affect our operating results or financial condition.

In the ordinary course of business, we have investments in other privately held companies and provide structured financing to certain customers through our wholly owned subsidiary, Cisco Systems Capital Corporation, which may be considered variable interest entities. We have evaluated our investments in these other privately held companies and structured financings and have determined that there will be no material impact on our operating results or financial condition upon the adoption of FIN 46.

Under FIN 46, certain events can require a reassessment of our investments in privately held companies or structured financings to determine if they are variable interest entities and which of the stakeholders will be the primary beneficiary. As a result of such events, we may be required to make additional disclosures or consolidate these entities. We may not have the ability to influence these events.

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

Stock Repurchase Program

In September 2001, the Board of Directors authorized a stock repurchase program to acquire outstanding common stock. Under the program, up to \$3.0 billion of our common stock could be repurchased over two years. In August 2002, the Board of Directors increased our stock repurchase program by \$5.0 billion available for repurchase through September 12, 2003. In March 2003, the Board of Directors increased our stock repurchase program by an additional \$5.0 billion with no termination date.

During fiscal 2003, we repurchased and retired 424 million shares of our common stock for an aggregate purchase price of \$6.0 billion. As of July 26, 2003, we have repurchased and retired 548 million shares of our common stock for an aggregate purchase price of \$7.8 billion since inception of the program, and the remaining authorized amount for stock repurchases under this program was \$5.2 billion.

Liquidity and Capital Resource Requirements

Based on past performance and current expectations, we believe that our cash and cash equivalents, short-term investments, and cash generated from operations will satisfy our working capital needs, capital expenditures, investment requirements, stock repurchases, commitments (see Note 8 to the Consolidated Financial Statements), future customer financings, and other liquidity requirements associated with our existing operations through at least the next 12 months. We believe that the most strategic uses of our cash resources include repurchase of shares, strategic investments to gain access to new technologies, acquisitions, financing activities, and working capital. There are no transactions, arrangements, and other relationships with unconsolidated entities or other persons that are reasonably likely to materially affect liquidity or the availability of our requirements for capital resources.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

CASH AND CASH EQUIVALENTS AND TOTAL INVESTMENTS

We consider investments purchased with an original or remaining maturity of less than three months at the date of purchase to be cash equivalents. We maintain an investment portfolio of various holdings, types, and maturities. (See Note 7 to the Consolidated Financial Statements.) These securities are generally classified as available for sale and consequently are recorded on the Consolidated Balance Sheets at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income (loss), net of tax. The following table summarizes our cash and cash equivalents and total investments (in millions):

	July 26, 2003	July 27, 2002
Cash and cash equivalents	\$ 3,925	\$ 9,484
Fixed income securities	15,982	11,405
Publicly traded equity securities	745	567
Total	\$ 20,652	\$ 21,456

Cash and cash equivalents and total investments decreased by \$804 million during fiscal 2003 due to a decrease in cash and cash equivalents of \$5.6 billion partially offset by an increase in fixed income securities of \$4.6 billion. The changes in cash and cash equivalents and fixed income securities were related to our portfolio management strategies and did not have a material adverse impact on our existing levels of interest rate risk.

At any time, a sharp rise in interest rates could have a material adverse impact on the fair value of our investment portfolio. Conversely, declines in interest rates could have a material impact on interest earnings for our investment portfolio. We do not currently hedge these interest rate exposures. The following table presents the hypothetical changes in fair value in investment securities held at July 26, 2003 that are sensitive to changes in interest rates (in millions):

Issuer	VALUATION OF SECURITIES GIVEN AN INTEREST RATE DECREASE OF X BASIS POINTS			FAIR VALUE AS OF JULY 26, 2003	VALUATION OF SECURITIES GIVEN AN INTEREST RATE INCREASE OF X BASIS POINTS		
	(150 BPS)	(100 BPS)	(50 BPS)		50 BPS	100 BPS	150 BPS
U.S. government notes and bonds	\$ 5,505	\$ 5,450	\$ 5,395	\$ 5,340	\$ 5,285	\$ 5,230	\$ 5,175
Corporate and municipal notes and bonds	10,832	10,768	10,704	10,642	10,578	10,514	10,450
Total	\$16,337	\$16,218	\$16,099	\$ 15,982	\$15,863	\$15,744	\$15,625

These instruments are not leveraged and are held for purposes other than trading. The modeling technique used measures the change in fair value arising from selected potential changes in interest rates. Market changes reflect immediate hypothetical parallel shifts in the yield curve of plus or minus 50 basis points ("BPS"), 100 BPS, and 150 BPS.

The values of our equity investments in several publicly traded companies are subject to market price volatility. The following analysis presents the hypothetical changes in fair value of public equity investments that are sensitive to changes in the stock market (in millions):

	VALUATION OF SECURITIES GIVEN X% DECREASE IN EACH STOCK'S PRICE			FAIR VALUE AS OF JULY 26, 2003	VALUATION OF SECURITIES GIVEN X% INCREASE IN EACH STOCK'S PRICE		
	(75%)	(50%)	(25%)		25%	50%	75%
Corporate equities	\$186	\$373	\$559	\$ 745	\$931	\$1,118	\$1,304

Our equity portfolio consists of securities with characteristics that most closely match the S&P Index or companies traded on the Nasdaq National Market. These equity securities are held for purposes other than trading. The modeling technique used measures the change in fair values arising from selected hypothetical changes in each stock's price. Stock price fluctuations of plus or minus 25%, 50%, and 75% were selected based on the probability of their occurrence. During the first quarter of fiscal 2003 and 2002, we recognized a charge of \$412 million and \$858 million, respectively, attributable to the impairment of certain publicly traded equity securities. The impairment charges were related to the decline in the fair value of certain publicly traded equity investments below their cost basis that was judged to be other-than-temporary.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INVESTMENTS IN PRIVATELY HELD COMPANIES

We have invested in privately held companies, many of which can still be considered in the startup or development stages. These investments are inherently risky as the markets for the technologies or products they have under development are typically in the early stages and may never materialize. We could lose our entire initial investment in these companies. As of July 26, 2003, these investments were \$516 million, compared with \$477 million at July 27, 2002.

Our evaluation of equity investments in private and public companies is based on the fundamentals of the business, including among other factors, the nature of their technologies and potential for financial return to us.

DERIVATIVE INSTRUMENTS

We enter into foreign exchange forward contracts to minimize the short-term impact of foreign currency fluctuations on foreign currency receivables, investments, and payables, primarily denominated in Australian, Canadian, Japanese, and several European currencies, including the euro and British pound. We also periodically hedge foreign currency forecasted transactions related to certain operating expenses with currency options. The impact of foreign currency fluctuations on foreign currency sales has not been material because our sales are primarily denominated in U.S. dollars.

Foreign exchange forward and option contracts as of July 26, 2003 are summarized as follows (in millions):

	Notional Amount	Fair Value
Forward contracts:		
Purchased	\$ 877	\$ —
Sold	\$ 527	\$ (6)
Option contracts:		
Purchased	\$ 759	\$ 22
Sold	\$ —	\$ —

Our foreign exchange forward contracts related to current assets and liabilities generally range from one to three months in original maturity. Additionally, we have entered into foreign exchange forward contracts related to long-term financings with maturities of up to two years. The foreign exchange forward contracts related to investments generally have maturities of less than one year. Currency option contracts generally have maturities of less than one year. We do not enter into foreign exchange forward and option contracts for trading purposes.

We do not expect gains or losses on these derivative instruments to have a material impact on our financial results. (See Note 8 to the Consolidated Financial Statements.)

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per-share amounts)

Years Ended	July 26, 2003	July 27, 2002	July 28, 2001
NET SALES:			
Product	\$ 15,565	\$ 15,669	\$ 19,559
Service	3,313	3,246	2,734
Total net sales	18,878	18,915	22,293
COST OF SALES:			
Product	4,594	5,914	10,198
Service	1,051	988	1,023
Total cost of sales	5,645	6,902	11,221
GROSS MARGIN	13,233	12,013	11,072
OPERATING EXPENSES:			
Research and development	3,135	3,448	3,922
Sales and marketing	4,116	4,264	5,296
General and administrative	702	618	778
Restructuring costs and other special charges	—	—	1,170
Amortization of goodwill	—	—	690
Amortization of purchased intangible assets	394	699	365
In-process research and development	4	65	855
Total operating expenses	8,351	9,094	13,076
OPERATING INCOME (LOSS)	4,882	2,919	(2,004)
Interest income	660	895	967
Other income (loss), net	(529)	(1,104)	163
Interest and other income (loss), net	131	(209)	1,130
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	5,013	2,710	(874)
Provision for income taxes	1,435	817	140
NET INCOME (LOSS)	\$ 3,578	\$ 1,893	\$ (1,014)
Net income (loss) per share—basic	\$ 0.50	\$ 0.26	\$ (0.14)
Net income (loss) per share—diluted	\$ 0.50	\$ 0.25	\$ (0.14)
Shares used in per-share calculation—basic	7,124	7,301	7,196
Shares used in per-share calculation—diluted	7,223	7,447	7,196

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

(In millions, except par value)

	July 26, 2003	July 27, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,925	\$ 9,484
Short-term investments	4,560	3,172
Accounts receivable, net of allowance for doubtful accounts of \$183 at July 26, 2003 and \$335 at July 27, 2002	1,351	1,105
Inventories	873	880
Deferred tax assets	1,975	2,030
Lease receivables, net	163	239
Prepaid expenses and other current assets	568	523
Total current assets	13,415	17,433
Investments	12,167	8,800
Property and equipment, net	3,721	4,102
Goodwill	4,043	3,565
Purchased intangible assets, net	556	797
Lease receivables, net	60	39
Other assets	3,145	3,059
TOTAL ASSETS	\$ 37,107	\$ 37,795
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 594	\$ 470
Income taxes payable	739	579
Accrued compensation	1,470	1,365
Deferred revenue	3,034	3,143
Other accrued liabilities	2,162	2,496
Restructuring liabilities	295	322
Total current liabilities	8,294	8,375
Deferred revenue	774	749
Total liabilities	9,068	9,124
Commitments and contingencies (Note 8)		
Minority interest	10	15
Shareholders' equity:		
Preferred stock, no par value: 5 shares authorized; none issued and outstanding	—	—
Common stock and additional paid-in capital, \$0.001 par value: 20,000 shares authorized; 6,998 and 7,303 shares issued and outstanding at July 26, 2003 and July 27, 2002, respectively	21,116	20,950
Retained earnings	6,559	7,733
Accumulated other comprehensive income (loss)	354	(27)
Total shareholders' equity	28,029	28,656
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 37,107	\$ 37,795

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

Years Ended	July 26, 2003	July 27, 2002	July 28, 2001
Cash flows from operating activities:			
Net income (loss)	\$ 3,578	\$ 1,893	\$ (1,014)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,591	1,957	2,236
Provision for doubtful accounts	(59)	91	268
Provision for inventory	70	131	2,057
Deferred income taxes	(14)	(573)	(924)
Tax benefits from employee stock option plans	132	61	1,397
In-process research and development	4	53	739
Net (gains) losses and impairment charges on investments	520	1,127	43
Restructuring costs and other special charges	—	—	501
Change in operating assets and liabilities:			
Accounts receivable	(125)	270	569
Inventories	(17)	673	(1,644)
Prepaid expenses and other current assets	(61)	(28)	(25)
Accounts payable	35	(174)	(105)
Income taxes payable	(125)	389	(434)
Accrued compensation	104	307	(256)
Deferred revenue	(84)	678	1,629
Other accrued liabilities	(282)	(204)	969
Restructuring liabilities	(27)	(64)	386
Net cash provided by operating activities	5,240	6,587	6,392
Cash flows from investing activities:			
Purchases of short-term investments	(9,396)	(5,473)	(4,594)
Proceeds from sales and maturities of short-term investments	10,319	5,868	4,370
Purchases of investments	(18,063)	(15,760)	(18,306)
Proceeds from sales and maturities of investments	12,497	15,317	15,579
Purchases of restricted investments	—	(291)	(941)
Proceeds from sales and maturities of restricted investments	—	1,471	1,082
Acquisition of property and equipment	(717)	(2,641)	(2,271)
Acquisition of businesses, net of cash and cash equivalents	33	16	(13)
Change in lease receivables, net	79	380	457
Purchases of investments in privately held companies	(223)	(58)	(1,161)
Lease deposits	—	320	(320)
Purchase of minority interest of Cisco Systems, K.K. (Japan)	(59)	(115)	(365)
Other	94	159	(520)
Net cash used in investing activities	(5,436)	(807)	(7,003)
Cash flows from financing activities:			
Issuance of common stock	578	655	1,262
Repurchase of common stock	(5,984)	(1,854)	—
Other	43	30	(12)
Net cash (used in) provided by financing activities	(5,363)	(1,169)	1,250
Net (decrease) increase in cash and cash equivalents	(5,559)	4,611	639
Cash and cash equivalents, beginning of fiscal year	9,484	4,873	4,234
Cash and cash equivalents, end of fiscal year	\$ 3,925	\$ 9,484	\$ 4,873

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In millions)

	Shares of Common Stock	Common Stock and Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
BALANCE AT JULY 29, 2000	7,138	\$ 14,609	\$ 8,358	\$ 3,530	\$ 26,497
Net loss	—	—	(1,014)	—	(1,014)
Change in unrealized gains and losses on investments, net of tax	—	—	—	(3,812)	(3,812)
Other	—	—	—	7	7
Comprehensive loss					(4,819)
Issuance of common stock	140	1,262	—	—	1,262
Tax benefits from employee stock option plans	—	1,755	—	—	1,755
Purchase acquisitions	46	2,163	—	—	2,163
Amortization of deferred stock-based compensation	—	262	—	—	262
BALANCE AT JULY 28, 2001	7,324	\$ 20,051	\$ 7,344	\$ (275)	\$ 27,120
Net income	—	—	1,893	—	1,893
Change in unrealized gains and losses on investments, net of tax	—	—	—	224	224
Other	—	—	—	24	24
Comprehensive income					2,141
Issuance of common stock	76	655	—	—	655
Repurchase of common stock	(124)	(350)	(1,504)	—	(1,854)
Tax benefits from employee stock option plans	—	61	—	—	61
Purchase acquisitions	27	346	—	—	346
Amortization of deferred stock-based compensation	—	187	—	—	187
BALANCE AT JULY 27, 2002	7,303	\$ 20,950	\$ 7,733	\$ (27)	\$ 28,656
Net income	—	—	3,578	—	3,578
Change in unrealized gains and losses on investments, net of tax	—	—	—	352	352
Other	—	—	—	29	29
Comprehensive income					3,959
Issuance of common stock	68	578	—	—	578
Repurchase of common stock	(424)	(1,232)	(4,752)	—	(5,984)
Tax benefits from employee stock option plans	—	132	—	—	132
Purchase acquisitions	51	557	—	—	557
Amortization of deferred stock-based compensation	—	131	—	—	131
BALANCE AT JULY 26, 2003	6,998	\$ 21,116	\$ 6,559	\$ 354	\$ 28,029

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

Cisco Systems, Inc. (the "Company" or "Cisco") manufactures and sells networking and communications products and provides services associated with that equipment and its use. The Company's products are installed at corporations, public institutions, and telecommunication companies, and commercial businesses, and also found in personal residences. Cisco provides a broad line of products for transporting data, voice, and video within buildings, across campuses, and around the world.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fiscal Year The Company's fiscal year is the 52 or 53 weeks ending on the last Saturday in July. Fiscal 2003, 2002, and 2001 were 52-week fiscal years.

Principles of Consolidation The Consolidated Financial Statements include the accounts of Cisco Systems, Inc. and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Cash and Cash Equivalents The Company considers all highly liquid investments purchased with an original or remaining maturity of less than three months at the date of purchase to be cash equivalents. Cash and cash equivalents are maintained with several financial institutions.

Investments The Company's investments comprise U.S. government notes and bonds; corporate notes and bonds; municipal notes and bonds; and publicly traded corporate equity securities. Investments with original or remaining maturities of more than three months and less than one year are considered to be short-term. These investments are custodied with a major financial institution. The specific identification method is used to determine the cost basis of notes and bonds disposed of. The weighted-average method is used to determine the cost basis of publicly traded corporate equity securities disposed of. At July 26, 2003 and July 27, 2002, the Company's investments were classified as available for sale. These investments are recorded on the Consolidated Balance Sheets at fair value. Unrealized gains and losses on these investments are included as a separate component of accumulated other comprehensive income (loss), net of any related tax effect. The Company recognizes an impairment charge when the decline in the fair value of its investments below the cost basis is judged to be other-than-temporary.

The Company also has minority investments in privately held companies. These investments are included in other assets on the Consolidated Balance Sheets and are carried at cost. The Company monitors these investments for impairment and makes appropriate reductions in carrying values.

Inventories Inventories are stated at the lower of cost or market. Cost is computed using standard cost, which approximates actual cost, on a first-in, first-out basis. The Company provides inventory allowances based on excess and obsolete inventories determined primarily by future demand forecasts.

Restricted Investments Restricted investments consisted of U.S. government notes and bonds with maturities of more than one year. These investments were carried at fair value and were restricted as collateral for specified obligations under certain lease agreements. In fiscal 2002, the Company elected to purchase all of the land and buildings as well as sites under construction under the lease agreements. As a result, all restricted investments were liquidated and the Company no longer has any sites under such lease agreements.

Fair Value of Financial Instruments Fair value of certain of the Company's financial instruments, including cash and cash equivalents, accrued compensation, and other accrued liabilities, approximate cost because of their short maturities. The fair value of investments is determined using quoted market prices for those securities or similar financial instruments.

Concentrations Cash and cash equivalents are maintained with several financial institutions. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and therefore bear minimal risk.

The Company performs ongoing credit evaluations of its customers and, with the exception of certain financing transactions, does not require collateral from its customers. The Company's customers are primarily in the service provider and enterprise markets.

The Company receives certain of its components from sole suppliers. Additionally, the Company relies on a limited number of contract manufacturers and suppliers to provide manufacturing services for its products. The inability of any contract manufacturer or supplier to fulfill supply requirements of the Company could materially impact future operating results.

Revenue Recognition The Company recognizes product revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectibility is reasonably assured. In instances where the customer specifies final acceptance of the product, system, or solution, revenue is deferred until all acceptance criteria have been met. Service revenue is generally deferred and, in most cases, recognized ratably over the period during which the services are to be performed, which is typically from one to three years. Cash payments received in advance of product or service revenue are recorded as deferred revenue.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

When a sale involves multiple elements, such as sales of products that include services, the entire fee from the arrangement is allocated to each respective element based on its relative fair value and recognized when revenue recognition criteria for each element are met. Fair value for each element is established based on the sales price charged when the same element is sold separately.

The Company makes sales to two-tier distribution channels and recognizes revenue to two-tier distributors based on a sell-through method utilizing information provided by its distributors. These distributors are given business terms to return a portion of inventory, receive credits for changes in selling prices, and participate in various cooperative marketing programs. The Company maintains estimated accruals and allowances for such exposures. The Company accrues for warranty costs, sales returns, and other allowances based on its historical experience.

Lease Receivables The Company provides a variety of lease financing services to its customers to build, maintain, and upgrade their networks. Lease receivables primarily represent the principal balance remaining in sales-type and direct-financing leases under these programs, net of reserves. These leases typically have two- to three-year terms and are usually collateralized by a security interest in the underlying assets.

Advertising Costs The Company expenses all advertising costs as incurred.

Software Development Costs Software development costs required to be capitalized pursuant to Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed," have not been material to date. Software development costs for internal use required to be capitalized pursuant to Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," have also not been material to date.

Depreciation and Amortization Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives of 25 years are used for buildings. Estimated useful lives of 30 to 36 months are used for computer equipment and related software and five years for furniture and fixtures. Estimated useful lives of up to five years are used for production, engineering, and other equipment. Depreciation of operating lease assets is computed based on the respective lease terms, which range up to three years. Depreciation and amortization of leasehold improvements are computed using the shorter of the remaining lease terms or five years.

Goodwill and Purchased Intangible Assets In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 142 requires goodwill to be tested for impairment on an annual basis and between annual tests in certain circumstances, and written down when impaired, rather than being amortized as previous accounting standards required. Furthermore, SFAS 142 requires purchased intangible assets other than goodwill to be amortized over their useful lives unless these lives are determined to be indefinite.

SFAS 142 was effective for fiscal years beginning after December 15, 2001; however, the Company elected to early adopt the accounting standard effective the beginning of fiscal 2002. In accordance with SFAS 142, the Company ceased amortizing goodwill totaling \$3.2 billion as of the beginning of fiscal 2002, including \$55 million of acquired workforce intangible previously classified as purchased intangible assets, net of related deferred tax liabilities. Based on the impairment tests performed using independent third-party valuations, there was no impairment of goodwill in fiscal 2003 and 2002. There can be no assurance that future goodwill impairment tests will not result in a charge to earnings.

Purchased intangible assets are carried at cost less accumulated amortization. Amortization is computed over the estimated useful lives of the respective assets, generally two to five years.

The following table presents the impact of SFAS 142 on net income (loss) and net income (loss) per share had the accounting standard been in effect for fiscal 2001 (in millions, except per-share amounts):

Years Ended	July 26, 2003	July 27, 2002	July 28, 2001
Net income (loss)—as reported	\$ 3,578	\$ 1,893	\$ (1,014)
Adjustments:			
Amortization of goodwill	—	—	690
Amortization of acquired workforce intangible previously classified as purchased intangible assets	—	—	13
Income tax effect	—	—	(102)
Net adjustments	—	—	601
Net income (loss)—adjusted	\$ 3,578	\$ 1,893	\$ (413)
Basic net income (loss) per share—as reported	\$ 0.50	\$ 0.26	\$ (0.14)
Basic net income (loss) per share—adjusted	\$ 0.50	\$ 0.26	\$ (0.06)
Diluted net income (loss) per share—as reported	\$ 0.50	\$ 0.25	\$ (0.14)
Diluted net income (loss) per share—adjusted	\$ 0.50	\$ 0.25	\$ (0.06)

Income Taxes Income tax expense is based on pre-tax financial accounting income. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts.

Computation of Net Income (Loss) per Share Basic net income (loss) per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of common shares and dilutive potential common shares outstanding during the period. Diluted net loss per share is computed using the weighted-average number of common shares and excludes dilutive potential common shares outstanding, as their effect is antidilutive. Dilutive potential common shares primarily consist of employee stock options and restricted common stock.

Foreign Currency Translation Assets and liabilities of non-U.S. subsidiaries that operate in a local currency environment are translated to U.S. dollars at exchange rates in effect at the balance sheet date, with the resulting translation adjustments directly recorded to a separate component of accumulated other comprehensive income (loss). Income and expense accounts are translated at average exchange rates during the year. Where the U.S. dollar is the functional currency, translation adjustments are recorded in other income (loss), net.

Derivatives The Company recognizes derivative instruments as either assets or liabilities on the Consolidated Balance Sheets and measures those instruments at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation.

For a derivative instrument designated as a fair value hedge, the gain or loss is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributed to the risk being hedged. For a derivative instrument designated as a cash flow hedge, the effective portion of the derivative's gain or loss is initially reported as a component of accumulated other comprehensive income (loss) and subsequently reclassified into earnings when the hedged exposure affects earnings. The ineffective portion of the gain or loss is reported in earnings immediately.

The Company uses derivative instruments to manage exposures to foreign currency and securities price risk. The Company's objective in holding derivatives is to minimize the volatility of earnings and cash flows associated with changes in foreign currency and security prices.

Certain forecasted transactions and foreign currency assets and liabilities expose the Company to foreign currency risk. The Company purchases currency options and designates these currency options as cash flow hedges of foreign currency forecasted transactions related to certain operating expenses. The Company enters into foreign exchange forward contracts to minimize the short-term impact of currency fluctuations on certain foreign currency receivables, investments, and payables. The foreign exchange forward contracts are not designated as accounting hedges, and all changes in fair value are recognized in earnings in the period of change.

The fair value of derivative instruments as of July 26, 2003 and changes in fair value during fiscal 2003 were not material. During fiscal 2003, there were no significant gains or losses recognized in earnings for hedge ineffectiveness. The Company did not discontinue any hedges because it was probable that the original forecasted transactions would not occur.

Minority Interest Minority interest represents the preferred stockholders' proportionate share of the equity of Cisco Systems, K.K. (Japan). At July 26, 2003, the Company owned all issued and outstanding common stock amounting to 94.8% of the voting rights. Each share of preferred stock is convertible into one share of common stock of Cisco Systems, K.K. (Japan) at any time at the option of the holder.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Use of Estimates The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Estimates are used for revenue recognition, allowance for doubtful accounts and sales returns, inventory allowances, warranty costs, investment impairments, impairments of goodwill and purchased intangible assets, restructuring costs and other special charges, income taxes, and loss contingencies, among others. Actual results could differ materially from these estimates.

Impairment of Long-Lived Assets Long-lived assets and certain identifiable intangible assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets and certain identifiable intangible assets that management expects to hold and use is based on the fair value of the asset. Long-lived assets and certain identifiable intangible assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

Employee Stock Option Plans Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure, an Amendment of FASB Statement No. 123," amends the disclosure requirements of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), to require more prominent disclosures in both annual and interim financial statements regarding the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

The Company accounts for stock-based awards to employees and directors using the intrinsic value method of accounting in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Under the intrinsic value method, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized in the Company's Consolidated Statements of Operations.

The Company is required under SFAS 123 to disclose pro forma information regarding option grants made to its employees based on specified valuation techniques that produce estimated compensation charges. The pro forma information is as follows (in millions, except per-share amounts):

Years Ended	July 26, 2003	July 27, 2002	July 28, 2001
Net income (loss)—as reported	\$ 3,578	\$ 1,893	\$ (1,014)
Compensation expense, net of tax	(1,259)	(1,520)	(1,691)
Net income (loss)—pro forma	\$ 2,319	\$ 373	\$ (2,705)
Basic net income (loss) per share—as reported	\$ 0.50	\$ 0.26	\$ (0.14)
Diluted net income (loss) per share—as reported	\$ 0.50	\$ 0.25	\$ (0.14)
Basic net income (loss) per share—pro forma	\$ 0.33	\$ 0.05	\$ (0.38)
Diluted net income (loss) per share—pro forma	\$ 0.32	\$ 0.05	\$ (0.38)

The value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model, which was developed for use in estimating the value of traded options that have no vesting restrictions and are fully transferable. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the estimate, in management's opinion, the existing valuation models do not provide a reliable measure of the fair value of the Company's employee stock options. (For additional information regarding this pro forma information, see Note 10 to the Consolidated Financial Statements.)

Recent Accounting Pronouncement Financial Accounting Standards Board Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), was issued in January 2003. FIN 46 requires that if an entity is the primary beneficiary of a variable interest entity, the assets, liabilities, and results of operations of the variable interest entity should be included in the Consolidated Financial Statements of the entity. The provisions of FIN 46 are effective immediately for all arrangements entered into after January 31, 2003. For those arrangements entered into prior to January 31, 2003, the provisions of FIN 46 are required to be adopted at the beginning of the first interim or annual period beginning after June 15, 2003. (For additional information regarding variable interest entities and the impact of the adoption of FIN 46, see Note 8 to the Consolidated Financial Statements.)

Reclassifications Certain reclassifications have been made to prior year balances in order to conform to the current year presentation.

3. BUSINESS COMBINATIONS

A summary of the purchase acquisitions completed during fiscal 2003 is as follows (in millions):

Acquisition	Shares Issued	Purchase Consideration	Assumed Liabilities	In-Process R&D Expense	Goodwill	Purchased Intangible Assets
AYR Networks, Inc.	9	\$ 96	\$ 1	\$—	\$ 59	\$ —
Okena, Inc.	9	152	8	3	96	45
Psionic Software, Inc.	1	11	2	—	8	5
SignalWorks, Inc.	1	16	2	1	9	4
The Linksys Group, Inc.	29	480	111	—	221	114
Total	49	\$755	\$124	\$ 4	\$393	\$168

The Company completed five acquisitions during fiscal 2003. During the first quarter of fiscal 2003, the Company completed the acquisition of AYR Networks, Inc. to augment the continued evolution of Cisco IOS Software, the network systems software for the Company's routing and switching platforms. During the second quarter of fiscal 2003, the Company completed the acquisition of Psionic Software, Inc. to complement its continued development of network security software in the vulnerability assessment and management security services areas. During the third quarter of fiscal 2003, the Company completed the acquisition of Okena, Inc. to further enhance its security portfolio of network-integrated solutions and appliances for virtual private networks (VPNs), firewalling, intrusion protection, and security management. During the fourth quarter of fiscal 2003, the Company completed the acquisition of SignalWorks, Inc. and acquired the business of The Linksys Group, Inc. SignalWorks is a developer of software that delivers audio capabilities for the Company's IP phones and IP telephony systems. The acquisition of the business of Linksys enables the Company to provide wired and wireless products for consumers and small-office/home-office (SOHO) users.

The purchase consideration for each of the Company's acquisitions was also allocated to tangible assets and deferred stock-based compensation. Deferred stock-based compensation represents the intrinsic value of the unvested portion of the restricted shares exchanged or options assumed and is amortized as compensation cost over the remaining future vesting period of the restricted shares exchanged or stock options assumed of each acquired company. The balance for deferred stock-based compensation is reflected as a debit to additional paid-in capital in the Consolidated Statements of Shareholders' Equity. The following table provides a summary of the activity for deferred stock-based compensation (in millions):

	July 26, 2003	July 27, 2002	July 28, 2001
Balance at beginning of fiscal year	\$ 182	\$ 293	\$ 109
Purchase acquisitions	227	91	446
Amortization	(131)	(187)	(262)
Canceled unvested options	(16)	(15)	—
Balance at end of fiscal year	\$ 262	\$ 182	\$ 293

The Company's methodology for allocating the purchase price to in-process research and development ("in-process R&D") is determined through established valuation techniques in the high-technology communications equipment industry and based on valuations performed by an independent third party. In-process R&D is expensed upon acquisition because technological feasibility has not been established and no future alternative uses exist. Total in-process R&D expense in fiscal 2003, 2002, and 2001 was \$4 million, \$65 million, and \$855 million, respectively. The in-process R&D expense that was attributable to stock consideration for the same periods was \$4 million, \$53 million, and \$739 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of the purchase transactions completed in fiscal 2002 and 2001 is outlined as follows (in millions):

Acquisition	Shares Issued	Purchase Consideration	Assumed Liabilities	In-Process R&D Expense	Goodwill	Purchased Intangible Assets
FISCAL 2002						
Allegro Systems, Inc.	8	\$ 161	\$ 3	\$ 28	\$ 19	\$ 105
AuroraNetics, Inc.	3	43	8	9	16	14
Hammerhead Networks, Inc.	10	171	4	27	105	—
Navarro Networks, Inc.	6	83	2	1	73	—
Total	27	\$ 458	\$ 17	\$ 65	\$ 213	\$ 119
FISCAL 2001						
Active Voice Corporation	8	\$ 248	\$ 18	\$ 37	\$ 151	\$ 99
IPCell Technologies, Inc.	3	208	5	75	73	29
IPmobile, Inc.	5	422	—	181	144	13
NuSpeed, Inc.	6	463	—	164	212	2
PixStream Incorporated	7	393	2	67	170	145
Radiata, Inc.	5	207	4	29	71	99
Other	12	879	24	302	150	237
Total	46	\$ 2,820	\$ 53	\$ 855	\$ 971	\$ 624

The following table presents details of the purchased intangible assets acquired during fiscal 2003 and 2002 (in millions, except number of years):

	TECHNOLOGY		PATENTS		OTHER		Total
	Estimated Useful Life (In Years)	Amount	Estimated Useful Life (In Years)	Amount	Estimated Useful Life (In Years)	Amount	
FISCAL 2003							
Okena, Inc.	4.5	\$ 38	—	\$ —	2.5	\$ 7	\$ 45
Psionic Software, Inc.	3.0	5	—	—	—	—	5
SignalWorks, Inc.	4.5	4	—	—	—	—	4
The Linksys Group, Inc.	—	—	—	—	4.5	114 ⁽¹⁾	114
Total		\$ 47		\$ —		\$ 121	\$168
FISCAL 2002							
Allegro Systems, Inc.	4.1	\$ 98	—	\$ —	2.0	\$ 7	\$105
AuroraNetics, Inc.	—	—	5.0	3	2.0	11	14
Total		\$ 98		\$ 3		\$ 18	\$119

Note 1: The purchased intangible asset relates to trademarks and customer relationships.

The Consolidated Financial Statements include the operating results of each business from the date of acquisition. Pro forma results of operations have not been presented because the effects of these acquisitions were not material on either an individual or aggregate basis to the Company's results.

The Company acquired AuroraNetics, Inc. in the first quarter of fiscal 2002. During fiscal 2003, the Company issued approximately 2.7 million shares of common stock with a value of \$39 million to the former stockholders of AuroraNetics, Inc., as a result of the achievement of certain agreed-upon milestones. Such amounts were allocated to goodwill and deferred stock-based compensation totaling \$31 million and \$8 million, respectively. The Company may also be required to issue approximately up to an additional 2.7 million shares of common stock to such former stockholders under the terms of the definitive acquisition agreement, if certain other agreed-upon milestones are achieved.

The following tables present details of the Company's total purchased intangible assets (in millions):

July 26, 2003	Gross	Accumulated Amortization	Net
Technology	\$ 639	\$ (349)	\$ 290
Technology licenses	523	(447)	76
Patents	83	(51)	32
Other	241	(83)	158
Total	\$1,486	\$ (930)	\$ 556

July 27, 2002	Gross	Accumulated Amortization	Net
Technology	\$ 893	\$ (429)	\$ 464
Technology licenses	523	(323)	200
Patents	128	(54)	74
Other	135	(76)	59
Total	\$1,679	\$ (882)	\$ 797

The following table presents details of the amortization expense of purchased intangible assets (excluding the impairment of purchased intangible assets included in restructuring and other special charges for fiscal 2001) as reported in the Consolidated Statements of Operations (in millions):

Years Ended	July 26, 2003	July 27, 2002	July 28, 2001
Reported as:			
Cost of sales	\$ 15	\$ 22	\$ 22
Operating expenses	394	699	365
Total	\$ 409	\$ 721	\$ 387

The estimated future amortization expense of purchased intangible assets as of July 26, 2003 is as follows (in millions):

Fiscal Year	Amount
2004	\$ 247
2005	181
2006	78
2007	35
2008	15
Total	\$ 556

The following tables present the changes in goodwill allocated to the Company's reportable segments during fiscal 2003 and 2002 (in millions):

	Balance at July 27, 2002	Acquired	Adjustments	Balance at July 26, 2003
Americas	\$ 2,335	\$ 307	\$ —	\$ 2,642
EMEA	593	75	—	668
Asia Pacific	140	27	—	167
Japan	497	69	—	566
Total	\$ 3,565	\$ 478	\$ —	\$ 4,043

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Balance at July 28, 2001	Acquired	Adjustments	Balance at July 27, 2002
Americas	\$ 2,177	\$ 120	\$ 38	\$ 2,335
EMEA	531	50	12	593
Asia Pacific	110	26	4	140
Japan	371	125	1	497
Total	\$ 3,189	\$ 321	\$ 55	\$ 3,565

In fiscal 2003, the Company purchased a portion of the minority interest of Cisco Systems, K.K. (Japan). As a result, the Company increased its ownership from 92.4% to 94.8% of the voting rights of Cisco Systems, K.K. (Japan) and recorded goodwill of \$54 million.

4. RESTRUCTURING COSTS AND OTHER SPECIAL CHARGES

On April 16, 2001, the Company announced a restructuring program, which included a worldwide workforce reduction, consolidation of excess facilities, and restructuring of certain business functions. The following table summarizes the activity related to the liability for restructuring costs and other special charges as of July 26, 2003 (in millions):

	Workforce Reduction	Consolidation of Excess Facilities and Other Charges	Impairment of Goodwill and Purchased Intangible Assets	Total
Initial charge in the third quarter of fiscal 2001	\$ 397	\$ 484	\$ 289	\$1,170
Non-cash charges	(71)	(141)	(289)	(501)
Cash payments	(265)	(18)	—	(283)
Balance at July 28, 2001	61	325	—	386
Adjustments ⁽¹⁾	(35)	128	—	93
Cash payments	(26)	(131)	—	(157)
Balance at July 27, 2002	—	322	—	322
Adjustments ⁽²⁾	—	45	—	45
Cash payments	—	(72)	—	(72)
Balance at July 26, 2003 ⁽³⁾	\$ —	\$ 295	\$ —	\$ 295

Note 1: Due to changes in previous estimates, in fiscal 2002, the Company reclassified \$35 million of restructuring liabilities related to the workforce reduction charges to consolidation of excess facilities and other charges. The initial estimated workforce reduction was approximately 6,000 regular employees. Approximately 5,400 regular employees have been terminated and the liability has been paid. In addition, during fiscal 2002, the Company increased the restructuring liabilities related to the consolidation of excess facilities and other charges by \$93 million, which was recorded during the third quarter of fiscal 2002, due to changes in real estate market conditions. The increase in restructuring liabilities was recorded as expenses related to research and development (\$39 million), sales and marketing (\$42 million), general and administrative (\$8 million), and cost of sales (\$4 million) in the Consolidated Statements of Operations.

Note 2: During fiscal 2003, the Company increased the restructuring liabilities related to the consolidation of excess facilities and other charges by \$45 million, which was recorded during the first quarter and fourth quarter of fiscal 2003, due to changes in real estate market conditions. The increase in restructuring liabilities was recorded as expenses related to research and development (\$18 million), sales and marketing (\$18 million), general and administrative (\$4 million), and cost of sales (\$5 million) in the Consolidated Statements of Operations.

Note 3: Includes approximately \$140 million of lease obligations that were terminated during the fourth quarter of fiscal 2003 and will be paid during the first quarter of fiscal 2004. The remaining amounts related to the net lease expense due to the consolidation of excess facilities will be paid over the respective lease terms through fiscal 2010.

5. BALANCE SHEET AND CASH FLOW DETAILS

The following tables provide details of selected balance sheet items (in millions):

	July 26, 2003	July 27, 2002
Inventories:		
Raw materials	\$ 38	\$ 38
Work in process	291	297
Finished goods	515	490
Demonstration systems	29	55
Total	\$ 873	\$ 880
Property and equipment, net:		
Land, buildings, and leasehold improvements	\$ 3,411	\$ 3,352
Computer equipment and related software	1,147	1,021
Production, engineering, and other equipment	2,410	2,061
Operating lease assets	439	505
Furniture and fixtures	350	366
	7,757	7,305
Less, accumulated depreciation and amortization	(4,036)	(3,203)
Total	\$ 3,721	\$ 4,102
Other assets:		
Deferred tax assets	\$ 1,476	\$ 1,663
Investments in privately held companies	516	477
Income tax receivable	727	392
Structured loans, net	42	61
Other	384	466
Total	\$ 3,145	\$ 3,059
Deferred revenue:		
Service	\$ 2,451	\$ 2,207
Product	1,357	1,685
Total	3,808	3,892
Less, current portion	(3,034)	(3,143)
Non-current deferred revenue	\$ 774	\$ 749

The following table presents supplemental cash flow information of significant non-cash investing and financing activities (in millions):

Years Ended	July 26, 2003	July 27, 2002	July 28, 2001
Utilization of inventory financing to purchase inventory	\$ —	\$ —	\$ 765

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. LEASE RECEIVABLES, NET

Lease receivables represent sales-type and direct-financing leases resulting from the sale of the Company's and complementary third-party products and services. These lease arrangements typically have terms from two to three years and are usually collateralized by a security interest in the underlying assets. The net lease receivables are summarized as follows (in millions):

	July 26, 2003	July 27, 2002
Gross lease receivables	\$ 747	\$ 1,214
Unearned income and other reserves	(524)	(936)
Total	223	278
Less, current portion	(163)	(239)
Non-current lease receivables, net	\$ 60	\$ 39

Contractual maturities of the gross lease receivables at July 26, 2003 were \$316 million in fiscal 2004, \$317 million in fiscal 2005, \$96 million in fiscal 2006, \$12 million in fiscal 2007, and \$6 million in fiscal 2008. Actual cash collections may differ from the contractual maturities due to early customer buyouts or refinancings.

7. INVESTMENTS

The following tables summarize the Company's investments (in millions):

July 26, 2003	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government notes and bonds	\$ 5,302	\$ 68	\$ (30)	\$ 5,340
Corporate notes and bonds	9,978	152	(10)	10,120
Municipal notes and bonds	522	—	—	522
Corporate equity securities	467	278	—	745
Total	\$16,269	\$ 498	\$ (40)	\$16,727

Reported as:

Short-term investments	\$ 4,560
Investments	12,167

Total	\$16,727
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July 27, 2002	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government notes and bonds	\$ 4,346	\$ 122	\$ (1)	\$ 4,467
Corporate notes and bonds	6,819	127	(8)	6,938
Corporate equity securities	851	71	(355)	567
Total	\$12,016	\$ 320	\$ (364)	\$11,972

Reported as:

Short-term investments	\$ 3,172
Investments	8,800

Total	\$11,972
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The following table summarizes the maturities of the Company's notes and bond investments at July 26, 2003 (in millions):

	Amortized Cost	Fair Value
Less than one year	\$ 4,547	\$ 4,560
Due in 1-2 years	2,921	2,963

Due in 2-5 years	4,664	4,749
Due after 5 years	3,670	3,710
<hr/>		
Total	\$15,802	\$15,982
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8. COMMITMENTS AND CONTINGENCIES

Leases

The Company leases office space in several U.S. locations, as well as locations elsewhere in the Americas International, EMEA, Asia Pacific, and Japan. Rent expense totaled \$196 million, \$265 million, and \$381 million in fiscal 2003, 2002, and 2001, respectively. Future annual minimum lease payments under all non-cancelable operating leases with an initial term in excess of one year as of July 26, 2003 were as follows (in millions):

Fiscal Year	Amount
2004	\$ 246
2005	205
2006	152
2007	119
2008	107
Thereafter	617
Total	\$1,446

The Company had entered into several agreements to lease sites in San Jose, California, where its headquarters is located, and certain other facilities, both completed and under construction, in the areas of San Jose, California; Boxborough, Massachusetts; Salem, New Hampshire; Richardson, Texas; and Research Triangle Park, North Carolina. Under these agreements, the Company could, at its option, purchase the land or both land and buildings. The Company could purchase the buildings at approximately the amount expended by the lessors to construct the buildings. As part of the lease agreements, the Company had restricted certain of its investment securities as collateral for specified obligations of the lessors. In fiscal 2002, the Company elected to purchase all of the land and buildings as well as sites under construction under the above lease agreements. The total purchase price was approximately \$1.9 billion and was primarily funded by the liquidation of restricted investments and lease deposits. As a result, the Company no longer has any sites under such lease agreements.

Purchase Commitments with Contract Manufacturers and Suppliers

The Company uses several contract manufacturers and suppliers to provide manufacturing services for its products. During the normal course of business, in order to reduce manufacturing lead times and ensure adequate component supply, the Company enters into agreements with certain contract manufacturers and suppliers that allow them to procure inventory based upon criteria as defined by the Company. As of July 26, 2003, the Company has purchase commitments for inventory of approximately \$718 million, compared with \$825 million as of July 27, 2002.

The Company records a liability for purchase commitments related to on-order inventory that is in excess of its future demand forecasts. As of July 26, 2003, the liability for purchase commitments was \$99 million, compared with \$238 million as of July 27, 2002, and was included in other accrued liabilities.

Other Commitments

In fiscal 2001, the Company entered into an agreement to invest approximately \$1.0 billion in venture funds managed by SOFTBANK Corp. and its affiliates ("SOFTBANK"), which are required to be funded on demand. In fiscal 2003, this agreement was amended to a commitment of up to \$800 million, of which up to \$550 million is to be invested in venture funds under terms similar to the original agreement and \$250 million invested as senior debt with entities as directed by SOFTBANK. The Company's commitment to fund the senior debt is contingent upon the achievement of certain agreed-upon milestones. As of July 26, 2003, the Company has invested \$247 million in the venture funds and \$49 million in the senior debt, and both were recorded as investments in privately held companies. The Company had invested \$100 million of the original venture funds commitment as of July 27, 2002.

The Company provides structured financing to certain qualified customers to be used for the purchase of equipment and other needs through its wholly owned subsidiary, Cisco Systems Capital Corporation. These loan commitments may be funded over a two- to three-year period, provided that these customers achieve specific business milestones and satisfy certain financial covenants. As of July 26, 2003, the outstanding loan commitments were approximately \$97 million, of which approximately \$38 million was eligible for draw-down. As of July 27, 2002, the outstanding loan commitments were approximately \$948 million, of which approximately \$209 million was eligible for draw-down.

The Company has entered into several agreements to purchase or develop real estate, subject to the satisfaction of certain conditions. As of July 26, 2003, the total amount of commitments, if certain conditions are met, was approximately \$38 million, compared with approximately \$491 million as of July 27, 2002.

As of July 26, 2003, the Company has a commitment of approximately \$130 million to purchase the remaining portion of the minority interest of Cisco Systems, K.K. (Japan), compared with approximately \$190 million as of July 27, 2002.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company also has certain other funding commitments related to its privately held investments that are based on the achievement of certain agreed-upon milestones. The funding commitments were approximately \$95 million as of July 26, 2003, compared with approximately \$152 million as of July 27, 2002.

Variable Interest Entities

In April 2001, the Company entered into a commitment to provide convertible debt funding of approximately \$84 million to Andiamo Systems, Inc. ("Andiamo"), a storage switch developer. This debt will be convertible into approximately 44% of the equity in Andiamo, subject to certain terms and conditions. In connection with this investment, the Company obtained a call option that provided the Company the right to purchase Andiamo. The purchase price under the call option is based on a valuation of Andiamo using a negotiated formula as discussed below. The Company also entered into a commitment to provide non-convertible debt funding to Andiamo of approximately \$100 million through the close of the acquisition, subject to period funding.

On August 19, 2002, the Company entered into a definitive agreement to acquire privately held Andiamo, which represents the exercise of its rights under the call option. The acquisition of Andiamo is expected to close in the third quarter of fiscal 2004, but no later than July 31, 2004. Under the terms of the agreement, common stock and options of the Company will be exchanged for all outstanding shares and options of Andiamo not owned by the Company at the closing of the acquisition. The amount of the purchase price for the remaining equity interests in Andiamo not then held by the Company is not determinable at this time, but will be based primarily upon a formula-based valuation of Andiamo to be determined by applying a multiple to the actual, annualized revenue generated from sales by the Company of products attributable to Andiamo during a three-month period shortly preceding the closing. Under its agreements with Andiamo, the Company is the exclusive manufacturer and distributor of all Andiamo products. The multiple will be equal to the Company's average market capitalization during a specified period divided by the Company's annualized revenue for a three-month period prior to closing, subject to adjustment as follows: (i) if the multiple so calculated is less than 10, then the multiple to be used for purposes of determining the transaction price shall be the midpoint between 10 and the multiple so calculated; (ii) if the multiple so calculated is greater than 15, then the multiple to be used for purposes of determining the transaction price shall be the midpoint between 15 and the multiple so calculated. There is no minimum purchase price, and the maximum purchase price is limited to approximately \$2.5 billion in shares of the Company's common stock valued at the time of closing. The acquisition has received the required approvals of the Board of Directors from both companies and is subject to various closing conditions and approvals, including stockholder approval by Andiamo. As of July 26, 2003, the Company has invested \$84 million in the convertible debt and \$76 million in the non-convertible debt. Substantially all of the investment in Andiamo has been expensed as research and development costs, as if such expenses constituted the development costs of the Company.

The Company has evaluated its debt investment in Andiamo and has determined that Andiamo is a variable interest entity under FIN 46. The Company has concluded that it is the primary beneficiary as defined by FIN 46 and, as a result, the Company is required to consolidate Andiamo beginning the first day of the first quarter of fiscal 2004.

FIN 46 will require the Company to account for Andiamo as if it had consolidated it since the Company's initial investment in April 2001. If the Company consolidated Andiamo from the date of its initial investment, the Company would be required to account for the call option as a repurchase right. Under Financial Accounting Standards Board Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation," and related interpretations, variable accounting is required for substantially all Andiamo employee stock and options because the ending purchase price is primarily derived from a revenue-based formula. Therefore, beginning in the first quarter of fiscal 2004, the Company will revalue the stock and options of Andiamo each quarter based on an independent valuation of Andiamo until the completion of the acquisition, which is expected in the third quarter of fiscal 2004, but no later than July 31, 2004.

Effective July 27, 2003, the first day of fiscal 2004, the Company will record a non-cash cumulative charge of approximately \$400 million (representing the amount of variable compensation from April 2001 through July 2003). This will be reported as a separate line item in the Consolidated Statements of Operations as a cumulative effect of a change in accounting principle, net of tax. The charge is based on the value of the Andiamo employee stock and options and their expected vesting upon FIN 46 adoption pursuant to the independent evaluation, and does not necessarily reflect the value of Andiamo as a whole nor indicate the expected valuation of Andiamo upon acquisition. Subsequent to the adoption of FIN 46, changes to the value of Andiamo and the continued vesting of the employee stock and options will result in adjustments to the non-cash stock compensation charge and will be reflected as operating expenses. These adjustments will be recorded commencing in the first quarter of fiscal 2004 and will continue until such time as the acquisition of Andiamo is completed, which is expected to close in the third quarter of fiscal 2004, but no later than July 31, 2004. The value of Andiamo computed under the negotiated formula is largely based on revenues derived from specific storage switch products.

Excluding the non-cash stock compensation cumulative charge and any future non-cash variable stock compensation adjustments, the impact of consolidating Andiamo will not materially affect the Company's operating results or financial condition.

In the ordinary course of business, the Company has investments in other privately held companies and provides structured financing to certain customers through its wholly owned subsidiary, Cisco Systems Capital Corporation, which may be considered variable interest entities. The Company has evaluated its investments in these other privately held companies and structured financings and has determined that there will be no material impact on its operating results or financial condition upon the adoption of FIN 46.

Guarantees and Product Warranties

Financial Accounting Standards Board Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"), requires that upon issuance of a guarantee, the guarantor must disclose and recognize a liability for the fair value of the obligation it assumes under that guarantee. The initial recognition and measurement requirement of FIN 45 was effective for guarantees issued or modified after December 31, 2002. As of July 26, 2003, the Company's guarantees that were issued or modified after December 31, 2002 were not material.

The disclosure requirements of FIN 45 are effective for interim and annual periods ending after December 15, 2002, and are applicable to the Company's product warranty liability and certain guarantees issued before December 31, 2002. The Company's guarantees issued before December 31, 2002, which would have been disclosed in accordance with the disclosure requirements of FIN 45, were not material. As of July 26, 2003 and July 27, 2002, the Company's product warranty liability recorded in other accrued liabilities was \$246 million and \$242 million, respectively.

The following table summarizes the activity related to the product warranty liability during fiscal 2003 and 2002 (in millions):

	July 26, 2003	July 27, 2002
Balance at beginning of fiscal year	\$ 242	\$ 190
Provision for warranties issued	342	443
Payments	(338)	(391)
Balance at end of fiscal year	\$ 246	\$ 242

The Company accrues for warranty costs as part of its cost of sales based on associated material product costs and technical support labor costs. The products sold are generally covered by a warranty for periods of 90 days, one year, or five years, and for some products, the Company provides a limited lifetime warranty.

In the normal course of business to facilitate sales of its products, the Company indemnifies other parties, including customers, lessors, and parties to other transactions with the Company, with respect to certain matters. The Company has agreed to hold the other party harmless against losses arising from a breach of representations or covenants, or out of intellectual property infringement or other claims made against certain parties. These agreements may limit the time within which an indemnification claim can be made and the amount of the claim. In addition, the Company has entered into indemnification agreements with its officers and directors, and the Company's bylaws contain similar indemnification obligations to the Company's agents.

It is not possible to determine the maximum potential amount under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Historically, payments made by the Company under these agreements have not had a material impact on the Company's operating results or financial position.

Derivative Instruments

The Company conducts business on a global basis in several currencies. As such, it is exposed to adverse movements in foreign currency exchange rates. The Company enters into foreign exchange forward contracts to minimize the short-term impact of foreign currency fluctuations on certain foreign currency receivables, investments, and payables. The gains and losses on the foreign exchange forward contracts offset the transaction gains and losses on certain foreign currency receivables, investments, and payables recognized in earnings.

The Company does not enter into foreign exchange forward contracts for trading purposes. Gains and losses on the contracts are included in other income (loss), net, in the Consolidated Statements of Operations and offset foreign exchange gains or losses from the revaluation of intercompany balances or other current assets, investments, and liabilities denominated in currencies other than the functional currency of the reporting entity. The Company's foreign exchange forward contracts related to current assets and liabilities generally range from one to three months in original maturity. Additionally, the Company has entered into foreign exchange forward contracts related to long-term customer financings with maturities of up to two years. The foreign exchange contracts related to investments generally have maturities of less than one year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company periodically hedges foreign currency forecasted transactions related to certain operating expenses with currency options. These transactions are designated as cash flow hedges. The effective portion of the derivative's gain or loss is initially reported as a component of accumulated other comprehensive income (loss) and subsequently reclassified into earnings when the hedged exposure affects earnings. The ineffective portion of the gain or loss is reported in earnings immediately. These currency option contracts generally have maturities of less than one year. The Company does not purchase currency options for trading purposes. Foreign exchange forward and option contracts as of July 26, 2003 are summarized as follows (in millions):

	Notional Amount	Fair Value
Forward contracts:		
Purchased	\$ 877	\$ —
Sold	\$ 527	\$ (6)
Option contracts:		
Purchased	\$ 759	\$ 22
Sold	\$ —	\$ —

The Company's foreign exchange forward and option contracts expose the Company to credit risk to the extent that the counterparties may be unable to meet the terms of the agreement. The Company minimizes such risk by limiting its counterparties to major financial institutions. In addition, the potential risk of loss with any one counterparty resulting from this type of credit risk is monitored. Management does not expect any material losses as a result of default by counterparties.

Legal Proceedings

Beginning on April 20, 2001, a number of purported shareholder class action lawsuits were filed in the United States District Court for the Northern District of California against Cisco and certain of its officers and directors. The lawsuits have been consolidated, and the consolidated action is purportedly brought on behalf of those who purchased the Company's publicly traded securities between August 10, 1999 and February 6, 2001. Plaintiffs allege that defendants have made false and misleading statements, purport to assert claims for violations of the federal securities laws, and seek unspecified compensatory damages and other relief. Cisco believes the claims are without merit and intends to defend the actions vigorously.

In addition, beginning on April 23, 2001, a number of purported shareholder derivative lawsuits were filed in the Superior Court of California, County of Santa Clara, and in the Superior Court of California, County of San Mateo. There is a procedure in place for the coordination of such actions. Two purported derivative suits have also been filed in the United States District Court for the Northern District of California, and those federal court actions have been consolidated. The consolidated federal court derivative action was dismissed by the court, and plaintiffs have appealed from that decision. The complaints in the various derivative actions include claims for breach of fiduciary duty, waste of corporate assets, mismanagement, unjust enrichment, and violations of the California Corporations Code; seek compensatory and other damages, disgorgement, and other relief; and are based on essentially the same allegations as the class actions.

In addition, the Company is subject to legal proceedings, claims, and litigation arising in the ordinary course of business. While the outcome of these matters is currently not determinable, the Company does not expect that the ultimate costs to resolve these matters will have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

9. SHAREHOLDERS' EQUITY

Stock Repurchase Program

In September 2001, the Board of Directors authorized a stock repurchase program to acquire outstanding common stock. Under the program, up to \$3.0 billion of Cisco common stock could be repurchased over two years. In August 2002, the Board of Directors increased Cisco's stock repurchase program by \$5.0 billion available for repurchase through September 12, 2003. In March 2003, the Board of Directors increased Cisco's stock repurchase program by an additional \$5.0 billion with no termination date.

During fiscal 2003, the Company repurchased and retired 424 million shares of Cisco common stock for an aggregate purchase price of \$6.0 billion. As of July 26, 2003, the Company has repurchased and retired 548 million shares of Cisco common stock for an aggregate purchase price of \$7.8 billion since inception of the program, and the remaining authorized amount for stock repurchases under this program was \$5.2 billion.

Shareholders' Rights Plan

In June 1998, the Board of Directors approved a Shareholders' Rights Plan ("Rights Plan"). The Rights Plan is intended to protect shareholders' rights in the event of an unsolicited takeover attempt. It is not intended to prevent a takeover of the Company on terms that are favorable and fair to all shareholders and will not interfere with a merger approved by the Board of Directors. Each right entitles shareholders to buy a unit equal to a portion of a new share of Series A Preferred Stock of the Company. The rights will be exercisable only if a person or a group acquires or announces a tender or exchange offer to acquire 15% or more of the Company's common stock.

In the event the rights become exercisable, the Rights Plan allows for Cisco shareholders to acquire, at an exercise price of \$108 per right owned, stock of the surviving corporation having a market value of \$217, whether or not Cisco is the surviving corporation. The rights, which expire in June 2008, are redeemable for \$0.00017 per right at the approval of the Board of Directors.

Preferred Stock

Under the terms of the Company's Articles of Incorporation, the Board of Directors may determine the rights, preferences, and terms of the Company's authorized but unissued shares of preferred stock.

Comprehensive Income (Loss)

The components of comprehensive income (loss), net of tax, are as follows (in millions):

Years Ended	July 26, 2003	July 27, 2002	July 28, 2001
Net income (loss)	\$ 3,578	\$ 1,893	\$ (1,014)
Other comprehensive income (loss):			
Change in unrealized gains and losses on investments	502	215	(5,765)
Tax effect	(150)	9	1,953
Change in unrealized gains and losses on investments, net of tax	352	224	(3,812)
Other	29	24	7
Total	\$ 3,959	\$ 2,141	\$ (4,819)

The change in unrealized gains and losses on investments of \$502 million and \$215 million during fiscal 2003 and 2002, respectively, included the effects of the recognition of charges in the Consolidated Statements of Operations of \$412 million and \$858 million during the respective first quarter periods attributable to the impairment of certain publicly traded equity securities. The impairment charges were related to the decline in the fair value of the Company's publicly traded equity investments below their cost basis that was judged to be other-than-temporary.

10. EMPLOYEE BENEFIT PLANS

Employee Stock Purchase Plans

The Company has an Employee Stock Purchase Plan and an International Employee Stock Purchase Plan (the "Purchase Plans"), under which 221.4 million shares of the Company's common stock have been reserved for issuance. Eligible employees may purchase a limited number of shares of the Company's common stock at a discount of up to 15% of the market value at certain plan-defined dates. The Purchase Plans terminate on January 3, 2005. In fiscal 2003, 2002, and 2001, the shares issued under the Purchase Plans were 23 million, 22 million, and 13 million shares, respectively. At July 26, 2003, 65 million shares were available for issuance under the Purchase Plans.

Employee Stock Option Plans

Stock Option Program Description The Company has two plans under which it grants options: the 1996 Stock Incentive Plan (the "1996 Plan") and the 1997 Supplemental Stock Incentive Plan (the "Supplemental Plan").

Stock option grants are designed to reward employees for their long-term contributions to the Company and provide incentives for them to remain with the Company. The number and frequency of stock option grants are based on competitive practices, operating results of the Company, and government regulations. Since the inception of the 1996 Plan, the Company has granted options to all of its employees, and the majority has been granted to employees below the vice president level. No options have been granted to directors or executive officers under the Supplemental Plan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The maximum number of shares issuable over the term of the 1996 Plan is limited to 2.5 billion shares. Such share reserve consists of the 620 million shares originally transferred from the predecessor plan plus the number of shares added to the reserve pursuant to the automatic share increases effected annually beginning in December 1996 and expired in December 2001. The share reserve had automatically increased on the first trading day of each December by an amount equal to 4.75% of the outstanding shares on the last trading day of the immediately preceding November. Options granted under the 1996 Plan have an exercise price equal to the fair market value of the underlying stock on the grant date and expire no later than nine years from the grant date.

Although the Board of Directors has the authority to set other terms, the options will generally become exercisable for 20% or 25% of the option shares one year from the date of grant and then ratably over the following 48 or 36 months, respectively. Certain other grants have utilized a 60-month ratable vesting schedule.

In 1997, the Company adopted the Supplemental Plan, under which options can be granted or shares can be directly issued to eligible employees. Officers and members of the Company's Board of Directors are not eligible to participate in the Supplemental Plan. Nine million shares have been reserved for issuance under the Supplemental Plan, of which 3 million shares are subject to outstanding options, and 0.5 million shares have been issued in fiscal 2003. All option grants have an exercise price equal to the fair market value of the underlying stock on the grant date.

Distribution and Dilutive Effect of Options The following table illustrates the grant dilution and exercise dilution (in millions, except percentages):

Years Ended	July 26, 2003	July 27, 2002
Shares of common stock outstanding	6,998	7,303
Granted and assumed	199	282
Canceled	(57)	(82)
Net options granted	142	200
Grant dilution ⁽¹⁾	2.0%	2.7%
Exercised	45	54
Exercise dilution ⁽²⁾	0.6%	0.7%

Note 1: The percentage for grant dilution is computed based on options granted and assumed less options canceled as a percentage of shares of common stock outstanding.

Note 2: The percentage for exercise dilution is computed based on options exercised as a percentage of shares of common stock outstanding.

Basic and diluted shares outstanding for the year ended July 26, 2003 were 7.1 billion shares and 7.2 billion shares, respectively. Diluted shares outstanding include the dilutive impact of in-the-money options, which is calculated based on the average share price for each fiscal period using the treasury stock method. Under the treasury stock method, the tax-effected proceeds that would be hypothetically received from the exercise of all in-the-money options are assumed to be used to repurchase shares. In fiscal 2003, the dilutive impact of in-the-money employee stock options was approximately 99 million shares or 1.4% of the basic shares outstanding based on Cisco's average share price of \$14.11.

The following table summarizes the options granted to the Named Executive Officers during the periods indicated. The Named Executive Officers represent the Company's Chief Executive Officer and the four other most highly paid executive officers whose salary and bonus for the fiscal year ended July 26, 2003 and July 27, 2002 were in excess of \$100,000.

Years Ended	July 26, 2003	July 27, 2002
Options granted to the Named Executive Officers	6 million	10 million
Options granted to the Named Executive Officers as a % of net options granted	4.2%	5.0%
Options granted to the Named Executive Officers as a % of outstanding shares	0.09%	0.14%
Cumulative options held by Named Executive Officers as % of total options outstanding	4.6%	4.6%

General Option Information A summary of option activity follows (in millions, except per-share amounts). The Company has, in connection with the acquisitions of various companies, assumed the stock option plans of each acquired company. During fiscal 2003, a total of approximately 4 million shares of the Company's common stock has been reserved for issuance under the assumed plans and the related options are included in the following table.

	OPTIONS OUTSTANDING		
	Options Available for Grant	Number Outstanding	Weighted-Average Exercise Price per Share
BALANCE AT JULY 29, 2000	393	971	\$ 24.19
Granted and assumed	(320)	320	39.93
Exercised	—	(133)	7.43
Canceled	98	(98)	41.82
Additional shares reserved	351	—	—
BALANCE AT JULY 28, 2001	522	1,060	29.41
Granted and assumed	(282)	282	17.72
Exercised	—	(54)	6.99
Canceled	82	(82)	36.94
Additional shares reserved	342	—	—
BALANCE AT JULY 27, 2002	664	1,206	27.17
Granted and assumed	(199)	199	12.01
Exercised	—	(45)	7.14
Canceled	57	(57)	33.03
Additional shares reserved	4	—	—
BALANCE AT JULY 26, 2003	526	1,303	\$ 25.29

The following table summarizes significant ranges of outstanding and exercisable options as of July 26, 2003 (in millions, except number of years and per-share amounts):

Range of Exercise Prices	OPTIONS OUTSTANDING				OPTIONS EXERCISABLE		
	Number Outstanding	Weighted-Average Remaining Contractual Life (In Years)	Weighted-Average Exercise Price per Share	Aggregate Intrinsic Value	Number Exercisable	Weighted-Average Exercise Price per Share	Aggregate Intrinsic Value
\$ 0.01 – 6.69	146	2.52	\$ 4.62	\$ 2,111	141	\$ 4.81	\$ 2,012
6.70 – 11.78	139	5.94	9.50	1,332	63	9.39	610
11.79 – 13.04	149	6.35	12.61	964	71	12.34	479
13.05 – 16.15	202	7.22	15.61	701	66	15.79	217
16.16 – 20.53	184	7.11	19.18	89	67	19.04	36
20.54 – 35.91	142	4.93	27.75	—	128	27.76	—
35.92 – 50.38	135	6.25	49.12	—	75	48.86	—
50.39 – 54.53	140	5.49	54.37	—	95	54.37	—
54.54 – 72.56	66	5.90	63.92	—	42	64.15	—
Total	1,303	5.84	\$ 25.29	\$ 5,197	748	\$ 26.12	\$ 3,354

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value based on Cisco's closing stock price of \$19.08 as of July 25, 2003, that would have been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options exercisable as of July 26, 2003 was 382 million options. As of July 27, 2002, 634 million outstanding options were exercisable and the weighted average exercise price was \$23.51.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the option exercises for the year ended July 26, 2003 and option values as of that date for the Named Executive Officers (in millions):

	Number of Shares		NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT JULY 26, 2003		INTRINSIC VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT JULY 26, 2003	
	Acquired on Exercise	Value Realized	Exercisable	Unexercisable	Exercisable	Unexercisable
Named Executive Officers	1	\$6	41	19	\$280	\$39

Pro forma Information The Company is required under SFAS 123 to disclose pro forma information regarding option grants made to its employees based on specified valuation techniques that produce estimated compensation charges. The pro forma information is as follows (in millions, except per-share amounts):

Years Ended	July 26, 2003	July 27, 2002	July 28, 2001
Net income (loss)—as reported	\$ 3,578	\$ 1,893	\$ (1,014)
Compensation expense, net of tax	(1,259)	(1,520)	(1,691)
Net income (loss)—pro forma	\$ 2,319	\$ 373	\$ (2,705)
Basic net income (loss) per share—as reported	\$ 0.50	\$ 0.26	\$ (0.14)
Diluted net income (loss) per share—as reported	\$ 0.50	\$ 0.25	\$ (0.14)
Basic net income (loss) per share—pro forma	\$ 0.33	\$ 0.05	\$ (0.38)
Diluted net income (loss) per share—pro forma	\$ 0.32	\$ 0.05	\$ (0.38)

The value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	EMPLOYEE STOCK OPTION PLANS			EMPLOYEE STOCK PURCHASE PLANS		
	July 26, 2003	July 27, 2002	July 28, 2001	July 26, 2003	July 27, 2002	July 28, 2001
Expected dividend	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	3.2%	4.7%	5.4%	1.1%	3.1%	5.3%
Expected volatility	45.7%	47.5%	34.8%	45.7%	58.1%	35.0%
Expected life (in years)	5.8	5.5	3.6	0.5	0.5	0.5

The Black-Scholes option pricing model was developed for use in estimating the value of traded options that have no vesting restrictions and are fully transferable. In addition, option pricing models require the input of highly subjective assumptions, including the expected stock price volatility and expected life. The Company uses projected data for expected volatility and expected life of its stock options based upon historical and other economic data trended into future years. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the estimate, in management's opinion, the existing valuation models do not provide a reliable measure of the fair value of the Company's employee stock options. Under the Black-Scholes option pricing model, the weighted-average estimated values of employee stock options granted during fiscal 2003, 2002, and 2001 were \$5.67, \$8.60, and \$13.31, respectively. The value of shares of common stock relating to the Purchase Plans included in compensation expense was not material.

Employee 401(k) Plans

The Company sponsors the Cisco Systems, Inc. 401(k) Plan (the "Plan") to provide retirement benefits for its employees. As allowed under Section 401(k) of the Internal Revenue Code, the Plan provides tax-deferred salary deductions for eligible employees. The Company also has other 401(k) plans that it sponsors. These plans arose from acquisitions of other companies and are not material to the Company on either an individual or aggregate basis.

Employees can contribute from 1% to 25% of their annual compensation to the Plan. Employee contributions are limited to a maximum annual amount as set periodically by the Internal Revenue Service. Through December 31, 2002, the Company matched employee contributions dollar for dollar up to a maximum of \$1,500 per person per year. Effective January 1, 2003, the new matching structure is 50% of the first 6% of eligible earnings that are contributed by employees. Therefore, the maximum matching contribution that the Company may allocate to each participant's account will not exceed \$6,000 for the 2003 calendar year due to the \$200,000 annual limit on eligible earnings imposed by the Internal Revenue Service. All matching contributions vest immediately. The Company's matching contributions to the Plan totaled \$40 million, \$35 million, and \$45 million in fiscal 2003, 2002, and 2001, respectively. Effective January 1, 2003, employees who meet the age requirements and reach the Plan contribution limits can make a catch-up contribution not to exceed \$2,000 for the 2003 calendar year, a limit set by the Internal Revenue Service. The catch-up contributions are not eligible for matching contributions.

In addition, the Plan provides for discretionary profit sharing contributions as determined by the Board of Directors. Such contributions to the Plan are allocated among eligible participants in the proportion of their salaries to the total salaries of all participants. There were no discretionary profit sharing contributions made in fiscal 2003, 2002, or 2001. In fiscal 2002, the Plan provided for a one-time discretionary matching contribution of \$11 million, based on \$500 per eligible employee.

11. INCOME TAXES

The provision for income taxes consisted of the following (in millions):

Years Ended	July 26, 2003	July 27, 2002	July 28, 2001
Federal:			
Current	\$ 1,041	\$ 929	\$ 581
Deferred	6	(480)	(697)
	1,047	449	(116)
State:			
Current	138	117	157
Deferred	2	(68)	(199)
	140	49	(42)
Foreign:			
Current	270	344	326
Deferred	(22)	(25)	(28)
	248	319	298
Total	\$ 1,435	\$ 817	\$ 140

The Company paid income taxes of \$1.4 billion, \$909 million, and \$48 million in fiscal 2003, 2002, and 2001, respectively. Income (loss) before provision for income taxes consisted of the following (in millions):

Years Ended	July 26, 2003	July 27, 2002	July 28, 2001
United States	\$ 3,325	\$ 1,550	\$ (1,727)
International	1,688	1,160	853
Total	\$ 5,013	\$ 2,710	\$ (874)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The items accounting for the difference between income taxes computed at the federal statutory rate and the provision for income taxes consisted of the following:

Years Ended	July 26, 2003	July 27, 2002	July 28, 2001
Federal statutory rate	35.0%	35.0%	(35.0)%
Effect of:			
State taxes, net of federal tax benefit	1.8	1.8	(2.4)
Export sales benefit	(0.2)	(1.5)	(1.8)
Foreign income at other than U.S. rates	(8.9)	(4.9)	(1.7)
Nondeductible in-process R&D	—	0.9	30.3
Nondeductible goodwill	—	—	20.9
Nondeductible deferred stock-based compensation	0.8	1.9	8.0
Tax-exempt interest	—	—	(1.0)
Tax credits	—	(3.4)	(2.5)
Other, net	0.1	0.3	1.2
Total	28.6%	30.1%	16.0%

U.S. income taxes and foreign withholding taxes were not provided for on a cumulative total of \$2.5 billion of undistributed earnings for certain non-U.S. subsidiaries. The Company intends to reinvest these earnings indefinitely in operations outside the United States. The components of the deferred tax assets (liabilities) are as follows (in millions):

	July 26, 2003	July 27, 2002
ASSETS		
Allowance for doubtful accounts and returns	\$ 228	\$ 247
Sales-type and direct-financing leases	297	306
Loan reserves	123	249
Inventory allowances and capitalization	247	340
Investment provisions	654	476
In-process R&D, goodwill, and purchased intangible assets	608	578
Deferred revenue	899	968
Credits and net operating loss carryforwards	261	391
Other	509	330
Total deferred tax assets	3,826	3,885
LIABILITIES		
Purchased intangible assets	(233)	(192)
Unrealized gains on investments	(142)	—
Total deferred tax liabilities	(375)	(192)
Total	\$ 3,451	\$ 3,693

Reclassifications have been made to the fiscal 2002 balances for certain components of deferred tax assets in order to conform to the current year presentation.

The following table presents the breakdown between current and non-current net deferred tax assets (in millions):

	July 26, 2003	July 27, 2002
Current	\$ 1,975	\$ 2,030
Non-current	1,476	1,663
Total	\$ 3,451	\$ 3,693

The non-current portion of the deferred tax assets is included in other assets.

At July 29, 2000, the Company provided a valuation allowance on certain of its deferred tax assets because of uncertainty regarding their realizability due to expectation of future employee stock option exercises. As of July 28, 2001, the Company had removed the valuation allowance because it believed it was more likely than not that all deferred tax assets would be realized in the foreseeable future and was reflected as a credit to shareholders' equity.

As of July 26, 2003, the Company's federal and state net operating loss carryforwards for income tax purposes were \$68 million and \$22 million, respectively. If not utilized, the federal net operating loss carryforwards will begin to expire in fiscal 2010 and the state net operating loss carryforwards will begin to expire in fiscal 2005. As of July 26, 2003, the Company's federal and state tax credit carryforwards for income tax purposes were \$86 million and \$232 million, respectively. If not utilized, the federal tax credit carryforwards will begin to expire in fiscal 2007 and state tax credit carryforwards will begin to expire in fiscal 2005.

The Company's income taxes payable for federal, state, and foreign purposes have been reduced, and the deferred tax assets increased, by the tax benefits associated with dispositions of employee stock options. The Company receives an income tax benefit calculated as the difference between the fair market value of the stock issued at the time of exercise and the option price, tax effected. These benefits were credited directly to shareholders' equity and amounted to \$132 million, \$61 million, and \$1.8 billion for fiscal 2003, 2002, and 2001, respectively. Benefits reducing taxes payable amounted to \$132 million, \$61 million, and \$1.4 billion for fiscal 2003, 2002, and 2001, respectively. Benefits increasing gross deferred tax assets amounted to \$358 million in fiscal 2001.

The Company's federal income tax returns for fiscal years ended July 25, 1998 through July 28, 2001 are under examination and the Internal Revenue Service has proposed certain adjustments. Management believes that adequate amounts have been reserved for any adjustments that may ultimately result from these examinations.

12. SEGMENT INFORMATION AND MAJOR CUSTOMERS

The Company's operations involve the design, development, manufacturing, marketing and technical support of networking and communications products and services. Cisco products include routers, switches, access, and other networking equipment. These products, primarily integrated by Cisco IOS Software, link geographically dispersed LANs and WANs.

The Company conducts business globally and is managed geographically. The Company's management relies on an internal management system that provides sales and standard cost information by geographic theater. Sales are attributed to a theater based on the ordering location of the customer. The Company's management makes financial decisions and allocates resources based on the information it receives from this internal management system. The Company does not allocate research and development, sales and marketing, or general and administrative expenses to its geographic theaters in this internal management system, as management does not use the information to measure the performance of the operating segments. Management does not believe that allocating these expenses is significant in evaluating a geographic theater's performance. Based on established criteria, the Company has four reportable segments: the Americas, EMEA, Asia Pacific, and Japan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summarized financial information by theater for fiscal 2003, 2002 and 2001, as taken from the internal management system previously discussed, is as follows (in millions):

Years Ended	July 26, 2003	July 27, 2002	July 28, 2001
Net sales:			
Americas	\$ 10,544	\$ 10,654	\$ 12,051
EMEA	5,202	5,126	6,377
Asia Pacific	1,860	1,765	2,331
Japan	1,272	1,370	1,534
Total	\$ 18,878	\$ 18,915	\$ 22,293
Gross margin:			
Americas	\$ 8,363	\$ 8,122	\$ 8,687
EMEA	4,232	4,066	4,710
Asia Pacific	1,523	1,432	1,594
Japan	1,052	1,086	1,182
Standard margin	15,170	14,706	16,173
Production overhead	(547)	(651)	(615)
Manufacturing variances and other related costs	(1,390)	(2,042)	(4,486)
Total	\$ 13,233	\$ 12,013	\$ 11,072

The Company has reclassified net sales for each geographic theater for fiscal 2002 and 2001 to conform to the current year's presentation, which reflects the breakdown of service revenue for EMEA, Asia Pacific, and Japan theaters, all of which were previously included in the Americas theater.

The Americas theater included non-U.S. net sales of \$888 million, \$988 million, and \$1.1 billion for fiscal 2003, 2002, and 2001, respectively. The following table presents net sales for groups of similar products and services (in millions):

Years Ended	July 26, 2003	July 27, 2002	July 28, 2001
Net sales:			
Routers	\$ 4,859	\$ 5,487	\$ 7,095
Switches	7,721	7,651	9,141
Access	965	1,042	1,869
Other	2,020	1,489	1,454
Product	15,565	15,669	19,559
Service	3,313	3,246	2,734
Total	\$ 18,878	\$ 18,915	\$ 22,293

The Company has reclassified net sales for groups of similar products in fiscal 2002 and 2001 to conform to the current year's presentation. The reclassification was primarily related to net sales of Advanced Technology products, which were previously included in the "Routers" product category and are now included in the "Other" product category in the table above. The reclassification had an impact of less than 1% on each product category in proportion to total product revenue.

The majority of the Company's assets as of July 26, 2003 and July 27, 2002 were attributable to its U.S. operations. In fiscal 2003, 2002, and 2001, no single customer accounted for 10% or more of the Company's net sales.

Property and equipment information is based on the physical location of the assets. The following table presents property and equipment information for geographic areas (in millions):

	July 26, 2003	July 27, 2002	July 28, 2001
Property and equipment, net:			
United States	\$ 3,264	\$ 3,555	\$ 1,966
International	457	547	625
Total	\$ 3,721	\$ 4,102	\$ 2,591

13. NET INCOME (LOSS) PER SHARE

The following table presents the calculation of basic and diluted net income (loss) per share (in millions, except per-share amounts):

Years Ended	July 26, 2003	July 27, 2002	July 28, 2001
Net income (loss)	\$ 3,578	\$ 1,893	\$ (1,014)
Weighted-average shares—basic	7,124	7,301	7,196
Effect of dilutive potential common shares	99	146	—
Weighted-average shares—diluted	7,223	7,447	7,196
Net income (loss) per share—basic	\$ 0.50	\$ 0.26	\$ (0.14)
Net income (loss) per share—diluted	\$ 0.50	\$ 0.25	\$ (0.14)

Dilutive potential common shares consist of employee stock options and restricted common stock. The weighted-average dilutive potential common shares, which were antidilutive for fiscal 2001, amounted to 348 million shares. Employee stock options to purchase approximately 838 million, 712 million, and 426 million shares in fiscal 2003, 2002, and 2001, respectively, were outstanding, but were not included in the computation of diluted earnings per share because the exercise price of the stock options was greater than the average share price of the common shares and, therefore, the effect would have been antidilutive.

REPORT OF INDEPENDENT AUDITORS

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF CISCO SYSTEMS, INC.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Cisco Systems, Inc. and its subsidiaries at July 26, 2003 and July 27, 2002, and the results of their operations and their cash flows for each of the three years in the period ended July 26, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Jose, California
August 5, 2003

SUPPLEMENTARY FINANCIAL DATA (UNAUDITED)

(In millions, except per-share amounts)

Quarters ended	July 26, 2003	April 26, 2003	Jan. 25, 2003	Oct. 26, 2002	July 27, 2002	April 27, 2002	Jan. 26, 2002	Oct. 27, 2001
Net sales	\$ 4,702	\$ 4,618	\$ 4,713	\$ 4,845	\$ 4,829	\$ 4,822	\$ 4,816	\$ 4,448
Gross margin	\$ 3,289	\$ 3,269	\$ 3,317	\$ 3,358	\$ 3,283	\$ 3,068	\$ 2,970	\$ 2,692
Net income (loss)	\$ 982	\$ 987	\$ 991	\$ 618	\$ 772	\$ 729	\$ 660	\$ (268)
Net income (loss) per share—basic	\$ 0.14	\$ 0.14	\$ 0.14	\$ 0.09	\$ 0.11	\$ 0.10	\$ 0.09	\$ (0.04)
Net income (loss) per share—diluted	\$ 0.14	\$ 0.14	\$ 0.14	\$ 0.08	\$ 0.10	\$ 0.10	\$ 0.09	\$ (0.04)
Cash and cash equivalents and total investments	\$20,652	\$20,316	\$21,197	\$21,188	\$21,456	\$21,061	\$21,008	\$19,080

STOCK MARKET INFORMATION

Cisco common stock is traded on the Nasdaq National Market under the symbol CSCO. The following table lists the high and low sales prices for each period indicated:

Fiscal	2003		2002	
	High	Low	High	Low
First quarter	\$15.29	\$ 8.12	\$20.75	\$11.04
Second quarter	\$15.63	\$10.14	\$21.92	\$16.06
Third quarter	\$14.78	\$12.33	\$20.00	\$13.91
Fourth quarter	\$19.55	\$14.40	\$17.49	\$11.45

The Company has never paid cash dividends on its common stock and has no present plans to do so. There were 85,041 registered shareholders as of July 25, 2003.

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Exhibit 21.1

Subsidiaries of the Registrant

CISCO SYSTEMS (ARGENTINA) S.A.
CISCO SYSTEMS AUSTRALIA PTY LIMITED
CISCO SYSTEMS CAPITAL (AUSTRALIA) PTY LIMITED
CISCO SYSTEMS WIRELESS NETWORKING (AUSTRALIA) PTY LIMITED
CISCO SYSTEMS BELGIUM S.P.R.L.
CISCO SYSTEMS (BERMUDA) INTERNATIONAL IP MANAGEMENT LTD.
CISCO SYSTEMS (BERMUDA) HOLDINGS LTD.
CISCO SYSTEMS INSURANCE SERVICES LTD.
CISCO SYSTEMS INTERNATIONAL HOLDINGS LTD.
CISCO SYSTEMS (BERMUDA) IP HOLDINGS LTD.
CISCO SYSTEMS (BERMUDA) LTD.
CISCO DO BRASIL LTDA.
CISCO SYSTEMS BULGARIA EOOD
3010081 NOVA SCOTIA COMPANY
CISCO SYSTEMS CO.
CISCO SYSTEMS CAPITAL CANADA CO./LES SYSTEMES CISCO CAPITAL CANADA CIE
3801110 CANADA INC.
3045848 NOVA SCOTIA COMPANY
3048504 NOVA SCOTIA COMPANY
CISCO SYSTEMS CANADA CO./LES SYSTEMES CISCO CANADA CIE
CISCO SYSTEMS CHILE S.A.
CISCO SYSTEMS (CHINA) NETWORKING TECHNOLOGY CO., LTD.
CISCO SYSTEMS (COLOMBIA) LIMITADA

CISCO SYSTEMS COSTA RICA, SOCIEDAD ANONIMA

CISCO SYSTEMS CROATIA LTD. FOR TRADE

CISCO SYSTEMS CYPRUS LTD.

CISCO SYSTEMS (CZECH REPUBLIC) S.R.O.

CISCO SYSTEMS DANMARK A/S

CISCO CABLE PRODUCTS AND SOLUTIONS A/S (Secondary Name: "COCOM A/S (Cisco Cable Products and Solutions A/S)")

CISCO SYSTEMS DOMINICANA, S.A.

CISCO SYSTEMS EGYPT LTD.

CISCO SYSTEMS FINLAND OY

CISCO SYSTEMS FRANCE SARL

CISCO SYSTEMS GMBH

CISCO OPTICAL TRANSPORT GERMANY GmbH

CISCO SYSTEMS MANAGEMENT GmbH

CISCO SYSTEMS HOLDING GmbH & CO. KG

CISCO SYSTEMS INTERNETWORKING HELLAS S.A.

CISCO SYSTEMS (HK) LIMITED

CISCO SYSTEMS HUNGARY LTD. / CISCO SYSTEMS HUNGARY SERVICING AND TRADING LIMITED LIABILITY COMPANY

CISCO SYSTEMS (INDIA) PRIVATE LIMITED
PT CISCO SYSTEMS INDONESIA
CISCO SYSTEMS FINANCE INTERNATIONAL
BAYNARD LIMITED
CHARNDON LIMITED
CHELLINGTON LIMITED
CHICHLEY LIMITED
RUSHTHORPE LIMITED
SAXHOW LIMITED
CISCO SYSTEMS INTERNETWORKING (IRELAND) LIMITED
CISCO SYSTEMS ISRAEL LTD.
CISCO SYSTEMS O.I.A. (1998) LTD.
CISCO SYSTEMS (ITALY) S.R.L.
CISCO PHOTONICS ITALY S.R.L.
CISCO SYSTEMS K.K.
CISCO SYSTEMS CAPITAL K.K.
CISCO SYSTEMS (KOREA) LIMITED
CISCO SYSTEMS CAPITAL (KOREA) LIMITED
CISCO SYSTEMS LUXEMBOURG INTERNATIONAL s.à r.l.
CISCO SYSTEMS LUXEMBOURG s.à r.l.
CISCO SYSTEMS (MALAYSIA) SDN, BHD
CISCO SYSTEMS DE MEXICO, S.A. DE C.V.
CISCO SYSTEMS INTERNATIONAL B.V. (Additional Trade Names: “Cisco Systems Nederland” and “Cisco Systems”)
CISCO SYSTEMS MANAGEMENT B.V. (Additional Trade Name: “Cisco Systems”)
CISCO SYSTEMS NETHERLANDS HOLDINGS B.V.
CISCO PHOTONICS HOLDING B.V.
CISCO SYSTEMS NEW ZEALAND LIMITED
CISCO SYSTEMS NORWAY AS
CISCO SYSTEMS PAKISTAN (PRIVATE) LIMITED
CISCO SYSTEMS PANAMA S. DE R.L.
CISCO SYSTEMS PERU S.A.
CISCO SYSTEMS POLAND SP. Z O.O.
CISCO SYSTEMS PORTUGAL—SISTEMAS INFORMÁTICOS, SOCIEDADE UNIPESSOAL, LIMITADA
CISCO SYSTEMS ROMANIA S.R.L.
CISCO SYSTEMS (SCOTLAND) LIMITED
CISCO SYSTEMS (USA) PTE. LTD.
CISCO SYSTEMS SLOVAKIA spol. s r.o
CISCO SYSTEMS (SOUTH AFRICA) (PROPRIETARY) LIMITED
CISCO SYSTEMS (SPAIN) S.L.
CISCO SYSTEMS AB
CISCO SYSTEMS (SWEDEN) AB
CISCO SYSTEMS (SWITZERLAND) GmbH
CISCO SYSTEMS TAIWAN LTD.
CISCO SYSTEMS (THAILAND) LIMITED
CISCO SYSTEMS INTERNETWORKING ILETISIM HIZMETLERI LIMITED SIRKETI

CISCO SYSTEMS LIMITED
CALISTA LIMITED
CISCO SYSTEMS INVESTMENTS LTD.
CISCO SYSTEMS LIMITED
CISCO SYSTEMS (INDIA) LTD.
CISCO SYSTEMS (PUERTO RICO) CORP.
CISCO SYSTEMS FINANCE, INC.
CISCO TECHNOLOGY, INC.
CISCO SYSTEMS CAPITAL CORPORATION
CISCO ACQUISITION I, INC.
CISCO SYSTEMS HOLDING, INC.
CISCO ACQUISITION II, INC.
CISCO ACQUISITION III, INC.
CISCO SYSTEMS, INC.
CISCO SYSTEMS CAPITAL FUNDING, LLC
RADIATA, INC.
CISCO SYSTEMS VENEZUELA, C.A.
CISCO SYSTEMS VIETNAM LIMITED (Cong Ty Trach Nhiem Huu Han Cisco Systems Vietnam)

Exhibit 23.1

Consent of Independent Auditors

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos.: 333-17839, 333-20157, 333-24559, 333-33093, 333-33663, 333-36197, 333-47191, 333-47191, 333-49141, 333-51089, 333-51487, 333-51089, 333-58533, 333-65867, 333-65867, 333-67789, 333-79941, 333-82945, 333-84663, 333-88917, 333-89893, 333-91241, 333-91239, 333-91285, 333-91897, 333-89893, 333-92439, 333-92441, 333-92435, 333-92439, 333-94225, 333-94365, 333-94753, 333-94753, 333-94225, 333-89893, 333-92435, 333-91897, 333-91239, 333-91241, 333-88917, 333-91285, 333-92441, 333-92439, 333-94365, 333-34400, 333-36034, 333-36156, 333-34400, 333-36156, 333-38738, 333-39086, 333-39818, 333-39086, 333-39858, 333-39086, 333-43628, 333-45788, 333-45794, 333-45898, 333-46124, 333-47920, 333-47922, 333-51118, 333-46124, 333-51118, 333-51118, 333-51118, 333-56004, 333-56960, 333-57328, 333-56960, and 333-57328) dated December 13, 1996, January 22, 1997, April 4, 1997, August 7, 1997, August 14, 1997, September 23, 1997, March 2, 1998, March 9, 1998, April 1, 1998, April 27, 1998, April 30, 1998, May 1, 1998, July 6, 1998, October 19, 1998, November 9, 1998, November 24, 1998, June 4, 1999, July 15, 1999, August 6, 1999, October 13, 1999, October 29, 1999, November 18, 1999, November 18, 1999, November 19, 1999, December 1, 1999, December 9, 1999, December 9, 1999, December 9, 1999, December 9, 1999, January 4, 2000, January 7, 2000, January 10, 2000, January 14, 2000, February 4, 2000, February 4, 2000, February 4, 2000, February 4, 2000, February 4, 2000, February 4, 2000, February 4, 2000, February 4, 2000, February 4, 2000, February 4, 2000, February 4, 2000, February 4, 2000, February 10, 2000, April 10, 2000, May 1, 2000, May 3, 2000, May 9, 2000, May 9, 2000, June 7, 2000, June 12, 2000, June 21, 2000, June 21, 2000, June 22, 2000, June 22, 2000, August 11, 2000, September 14, 2000, September 14, 2000, September 15, 2000, September 19, 2000, October 13, 2000, October 13, 2000, December 1, 2000, December 6, 2000, December 12, 2000, January 3, 2001, January 4, 2001, February 21, 2001, March 13, 2001, March 20, 2001, March 22, 2001, and April 4, 2001, respectively, of Cisco Systems, Inc. and incorporation by reference in the Registration Statements on Form S-8 (Nos.: 33-63331, 33-64283, 333-64283 [Post Eff.], 333-01069, 333-02101, 333-05447 [Post Eff.], 333-09903, 333-14383, 333-14661, 333-14679, 333-16577, 333-17287, 333-24741, 333-33613, 333-33619, 333-35805, 333-01069 [Post Eff.], 333-34849 [Post Eff.], 33-40509 [Post Eff.], 33-44221 [Post Eff.], 33-71860 [Post Eff.], 33-87096 [Post Eff.], 333-42249, 333-47159, 333-48949, 333-48949 [Post Eff.], 333-51093, 333-51315, 333-42249 [Post Eff.], 333-64651, 333-65871, 333-68335, 333-69117, 333-74237, 333-79717, 333-79721, 333-81971, 333-83045, 333-83277, 333-88695, 333-88699, 333-88831, 333-90883, 333-90885, 333-83227 [Post Eff.], 333-91813, 333-91911, 333-93283, 333-93281, 333-96203, 333-96367, 333-35246, 333-36124, 333-36126, 333-36414, 333-39108, 333-39902, 333-43120, 333-43632, 333-45478, 333-47828, 333-51114, 333-51280, 333-54248, 333-55742, 333-56224, 333-56756, 333-56916, 333-58556, 333-76184, 333-42249 [Post Eff.], 333-91258, 333-96797, 333-42249 [Post Eff.], 333-101340, 333-102623, 333-105300, 333-105713, and 333-106284) dated October 11, 1995, November 15, 1995, February 20, 1996, February 20, 1996, April 1, 1996, July 29, 1996, August 9, 1996, October 18, 1996, October 23, 1996, October 23, 1996, November 21, 1996, December 5, 1996, April 8, 1997, August 14, 1997, August 14, 1997, September 17, 1997, December 10, 1997, December 10, 1997, December 10, 1997, December 10, 1997, December 10, 1997, December 10, 1997, December 15, 1997, March 2, 1998, March 31, 1998, April 13, 1998, April 27, 1998, April 29, 1998, September 28, 1998, September 29, 1998, October 19, 1998, December 3, 1998, December 17, 1998, March 11, 1999, June 1, 1999, June 1, 1999, June 30, 1999, July 16, 1999, July 20, 1999, October 8, 1999, October 8, 1999, October 12, 1999, November 12, 1999, November 12, 1999, November 12, 1999, November 30, 1999, December 1, 1999, December 21, 1999, December 21, 1999, February 4, 2000, February 8, 2000, April 20, 2000, May 2, 2000, May 2, 2000, May 5, 2000, June 12, 2000, June 22, 2000, August 4, 2000, August 11, 2000, September 8, 2000, October 12, 2000, December 1, 2000, December 5, 2000, January 24, 2001, February 16, 2001, February 26, 2001, March 8, 2001, March 12, 2001, April 9, 2001, January 2, 2002, June 25, 2002, June 26, 2002, July 19, 2002, August 20, 2002, November 20, 2002, January 21, 2003, May 15, 2003, May 30, 2003, and June 19, 2003, respectively, of Cisco Systems, Inc. of our report dated August 5, 2003, relating to the consolidated financial statements, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated August 5, 2003 relating to the financial statement schedule, which appears in this Form 10-K.

San Jose, California
September 9, 2003

Exhibit 31.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO
EXCHANGE ACT RULE 13a-14(a)/15d-14(a)
AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, John T. Chambers, President and Chief Executive Officer of Cisco Systems, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Cisco Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

-
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 9, 2003

/s/ JOHN T. C HAMBERS

John T. Chambers
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO
EXCHANGE ACT RULE 13a-14(a)/15d-14(a)
AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Dennis D. Powell, Senior Vice President and Chief Financial Officer of Cisco Systems, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Cisco Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors

and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 9, 2003

/s/ DENNIS D. POWELL

Dennis D. Powell
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

I, John T. Chambers, President and Chief Executive Officer of Cisco Systems, Inc. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- the Annual Report on Form 10-K of the Company for the fiscal year ended July 26, 2003, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 9, 2003

/s/ JOHN T. CHAMBERS

John T. Chambers
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

I, Dennis D. Powell, Senior Vice President and Chief Financial Officer of Cisco Systems, Inc. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- the Annual Report on Form 10-K of the Company for the fiscal year ended July 26, 2003, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 9, 2003

/s/ DENNIS D. POWELL

Dennis D. Powell
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

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