

# CISCO SYSTEMS, INC.

September 18, 2003

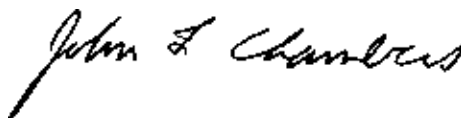
DEAR CISCO SYSTEMS SHAREHOLDER:

You are cordially invited to attend the Annual Meeting of Shareholders of Cisco Systems, Inc., which will be held at the San Jose McEnery Convention Center in Ballroom A, located at 150 West San Carlos Street, San Jose, California on Tuesday, November 11, 2003, at 10:00 a.m. Pacific Time. You will find a map with directions to the meeting on the outside back cover of the Proxy Statement.

Details of the business to be conducted at the meeting are given in the attached Notice of Annual Meeting of Shareholders and the attached Proxy Statement.

Whether or not you plan to attend the meeting, please vote as soon as possible. You may vote by mailing a completed proxy card, by telephone or over the Internet. Voting by any of these methods will ensure your representation at the meeting.

We look forward to seeing you at the meeting.



John T. Chambers  
*President and Chief Executive Officer*

San Jose, California

## **YOUR VOTE IS IMPORTANT**

In order to ensure your representation at the meeting, please complete, sign and date the enclosed proxy as promptly as possible and return it in the enclosed envelope (to which no postage need be affixed if mailed in the United States) or submit your proxy and voting instructions over the Internet or by telephone. Please refer to the section entitled "Voting by Mail, via the Internet or by Telephone" on page 2 of the Proxy Statement for a description of these voting methods.

# CISCO SYSTEMS, INC.

170 West Tasman Drive  
San Jose, California 95134-1706

## NOTICE OF ANNUAL MEETING OF SHAREHOLDERS To Be Held November 11, 2003

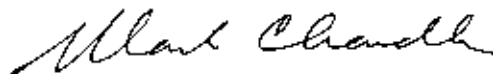
The Annual Meeting of Shareholders of Cisco Systems, Inc. will be held at the San Jose McEnergy Convention Center in Ballroom A, located at 150 West San Carlos Street, San Jose, California on Tuesday, November 11, 2003, at 10:00 a.m. Pacific Time for the following purposes:

1. To elect eleven members of Cisco's Board of Directors;
2. To approve an amendment and restatement of the Employee Stock Purchase Plan, including an increase of 100,000,000 shares authorized for issuance under the plan and a 5-year extension of the term of the plan;
3. To ratify the appointment of PricewaterhouseCoopers LLP as Cisco's independent auditors for the fiscal year ending July 31, 2004;
4. To vote upon two proposals submitted by shareholders, if properly presented at the meeting; and
5. To act upon such other matters as may properly come before the meeting or any adjournments or postponements thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice. The record date for determining those shareholders who will be entitled to notice of, and to vote at, the meeting and at any adjournments thereof is September 12, 2003. The stock transfer books will not be closed between the record date and the date of the meeting. A list of shareholders entitled to vote at the meeting will be available for inspection at Cisco's principal executive offices.

Whether or not you plan to attend the meeting, please vote as soon as possible. You may vote by mailing a completed proxy card, by telephone or over the Internet. For detailed information regarding voting instructions, please refer to the section entitled "Voting by Mail, via the Internet or by Telephone" on page 2 of the Proxy Statement. You may revoke a previously delivered proxy at any time prior to the meeting. If you decide to attend the meeting and wish to change your proxy vote, you may do so automatically by voting in person at the meeting.

BY ORDER OF THE BOARD OF DIRECTORS



Mark Chandler  
*Secretary*

San Jose, California  
September 18, 2003

## TABLE OF CONTENTS

	<u>Page</u>
PURPOSE OF MEETING .....	1
VOTING RIGHTS AND SOLICITATION .....	1
Voting .....	1
Recommendations of the Board of Directors .....	1
Voting by Mail, via the Internet or by Telephone .....	2
Proxy Solicitation Costs .....	2
PROPOSAL NO. 1 — ELECTION OF DIRECTORS .....	3
General .....	3
Business Experience of Nominees .....	3
Board Committees and Meetings .....	5
Director Compensation .....	6
Recommendation of the Board of Directors .....	7
PROPOSAL NO. 2 — APPROVAL OF AMENDMENT AND RESTATEMENT OF THE EMPLOYEE STOCK PURCHASE PLAN .....	7
Administration .....	8
Securities Subject to the Employee Stock Purchase Plan .....	8
Purchase Periods and Purchase Dates .....	8
Eligibility and Participation .....	8
Purchase Price .....	9
Payroll Deductions and Stock Purchases .....	9
Special Limitations .....	9
Termination of Purchase Rights .....	9
Shareholder Rights .....	10
Assignability .....	10
Change in Control .....	10
Share Proration .....	10
Amendment and Termination .....	10
U.S. Federal Income Tax Consequences .....	10
Non-U.S. Income Tax Consequences .....	11
Plan Benefits .....	12
New Plan Benefits .....	12
Shareholder Approval .....	12
Recommendation of the Board of Directors .....	13
PROPOSAL NO. 3 — RATIFICATION OF INDEPENDENT AUDITORS .....	13
General .....	13
Principal Accountant Fees and Services .....	13
Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors .....	14
Recommendation of the Board of Directors .....	14
PROPOSAL NO. 4 — SHAREHOLDER PROPOSAL .....	14
The Proponent’s Statement in Support of Proposal No. 4 .....	14
Cisco’s Statement in Opposition to Proposal No. 4 .....	15

	<u>Page</u>
Recommendation of the Board of Directors .....	16
PROPOSAL NO. 5 — SHAREHOLDER PROPOSAL .....	16
The Proponents’ Statement in Support of Proposal No. 5 .....	17
Cisco’s Statement in Opposition to Proposal No. 5 .....	17
Recommendation of the Board of Directors .....	17
CORPORATE GOVERNANCE .....	18
OWNERSHIP OF SECURITIES .....	18
Section 16(a) Beneficial Ownership Reporting Compliance .....	20
Equity Compensation Plan Information .....	20
EXECUTIVE COMPENSATION AND RELATED INFORMATION .....	21
Compensation and Management Development Committee Report .....	21
Compensation Committee Interlocks and Insider Participation .....	24
Summary of Cash and Certain Other Compensation .....	24
Stock Options .....	25
Option Exercises and Holdings .....	26
Employment Contracts, Termination of Employment, and Change in Control Agreements .....	26
Certain Relationships and Related Transactions .....	26
AUDIT COMMITTEE REPORT .....	27
STOCK PERFORMANCE GRAPH .....	28
SHAREHOLDER PROPOSALS FOR 2004 ANNUAL MEETING OF SHAREHOLDERS .....	29
SHAREHOLDERS SHARING THE SAME ADDRESS .....	29
FORM 10-K .....	30
OTHER MATTERS .....	30
APPENDIX A — CHARTER FOR THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS ....	A-1
DIRECTIONS TO THE SAN JOSE MCENERY CONVENTION CENTER .....	See outside back cover

# CISCO SYSTEMS, INC.

170 West Tasman Drive  
San Jose, California 95134-1706

## PROXY STATEMENT FOR ANNUAL MEETING OF SHAREHOLDERS

These proxy materials are provided in connection with the solicitation of proxies by the Board of Directors of Cisco Systems, Inc., a California corporation, for the Annual Meeting of Shareholders to be held at 10:00 a.m. Pacific Time on November 11, 2003, at the San Jose McEnery Convention Center in Ballroom A, located at 150 West San Carlos Street, San Jose, California, and at any adjournments or postponements of the meeting. These proxy materials were first mailed on or about September 18, 2003 to all shareholders entitled to vote at the meeting.

### PURPOSE OF MEETING

The specific proposals to be considered and acted upon at the meeting are summarized in the accompanying Notice of Annual Meeting of Shareholders. Each proposal is described in more detail in this Proxy Statement.

### VOTING RIGHTS AND SOLICITATION

#### Voting

Only shareholders of record of Cisco common stock on September 12, 2003, the record date, will be entitled to vote at the meeting. Each shareholder of record will be entitled to one vote on each matter for each share of common stock held on the record date. On the record date, there were 6,947,855,826 shares of common stock outstanding. A majority of the outstanding shares of common stock must be present or represented by proxy at the meeting in order to have a quorum. Abstentions and broker non-votes will be treated as shares present for the purpose of determining the presence of a quorum for the transaction of business at the meeting. In the election of directors, the eleven nominees receiving the highest number of affirmative votes will be elected. Proposal Nos. 2 through 5 require the approval of the affirmative vote of a majority of the shares of common stock present or represented by proxy and voting at the meeting, together with the affirmative vote of a majority of the required quorum. Abstentions and broker non-votes can have the effect of preventing approval of a proposal where the number of affirmative votes, though a majority of the votes cast, does not constitute a majority of the required quorum. If the persons present or represented by proxy at the meeting constitute the holders of less than a majority of the outstanding shares of common stock as of the record date, the meeting may be adjourned to a subsequent date for the purpose of obtaining a quorum. Votes will be tabulated by the inspector of election appointed for the meeting, who will separately tabulate affirmative and negative votes, abstentions and broker non-votes.

#### Recommendations of the Board of Directors

Cisco's Board of Directors recommends that you vote **FOR** each of the nominees of the Board of Directors (Proposal No. 1), **FOR** the amendment and restatement of the Employee Stock Purchase Plan (Proposal No. 2), **FOR** the ratification of the appointment of PricewaterhouseCoopers LLP as Cisco's independent auditors for the fiscal year ending July 31, 2004 (Proposal No. 3) and **AGAINST** the two proposals submitted by shareholders (Proposal Nos. 4 and 5).

## **Voting by Mail, via the Internet or by Telephone**

Shareholders whose shares are registered in their own names may vote by mailing a completed proxy card, via the Internet or by telephone. Instructions for voting via the Internet or by telephone are set forth on the enclosed proxy card. To vote by mailing a proxy card, sign and return the enclosed proxy card in the enclosed prepaid and addressed envelope, and your shares will be voted at the meeting in the manner you direct. In the event that you return a signed proxy card on which no directions are specified, your shares will be voted **FOR** each of the nominees of the Board of Directors (Proposal No. 1), **FOR** the amendment and restatement of the Employee Stock Purchase Plan (Proposal No. 2), **FOR** the ratification of the appointment of PricewaterhouseCoopers LLP as Cisco's independent auditors for the fiscal year ending July 31, 2004 (Proposal No. 3), **AGAINST** the two proposals submitted by shareholders (Proposal Nos. 4 and 5) and in the discretion of the proxy holders as to any other matters that may properly come before the meeting. You may revoke or change a previously delivered proxy at any time before the meeting by delivering another proxy with a later date or by sending written notice of revocation of your proxy to Cisco's Secretary at Cisco's principal executive offices before the beginning of the meeting. You may also revoke your proxy by attending the meeting and voting in person, although attendance at the meeting will not in and of itself revoke a valid proxy that was previously delivered.

If your shares are registered in the name of a bank or brokerage firm you will receive instructions from your holder of record that must be followed in order for the record holder to vote the shares per your instructions. Many banks and brokerage firms have a process for their beneficial holders to provide instructions over the phone or via the Internet. If Internet or telephone voting is unavailable from your bank or brokerage firm, please complete and return the enclosed voting instruction card in the addressed, postage paid envelope provided. Shareholders who elected to receive the 2003 Proxy Statement and Annual Report to Shareholders over the Internet will be receiving an e-mail on or about September 29, 2003 with information on how to access shareholder information and instructions for voting.

## **Proxy Solicitation Costs**

Cisco will bear the entire cost of this solicitation of proxies, including the preparation, assembly, printing, and mailing of this Proxy Statement, the proxy, and any additional solicitation material that Cisco may provide to shareholders. Copies of solicitation material will be provided to brokerage firms, fiduciaries and custodians holding shares in their names that are beneficially owned by others so that they may forward the solicitation material to such beneficial owners. In addition, Cisco has retained Georgeson Shareholder Communications, Inc. to act as a proxy solicitor in conjunction with the meeting. Cisco has agreed to pay that firm \$14,000, plus reasonable out of pocket expenses, for proxy solicitation services. The original solicitation of proxies by mail may be supplemented by solicitation by telephone, telegram and other means by directors, officers and employees of Cisco. No additional compensation will be paid to these individuals for any such services.

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

**General**

The names of persons who are nominees for director and their positions and offices with Cisco are set forth in the table below. The proxy holders intend to vote all proxies received by them for the nominees listed below unless otherwise instructed. The authorized number of directors is presently twelve. Each of the current directors has been nominated for and has elected to stand for reelection, except for Director Carleton S. Fiorina, who has decided not to stand for reelection, but who shall remain on the Board of Directors through the Annual Meeting. The Board of Directors may fill the future vacancy upon identification of a qualified candidate.

Proxies may not be voted for more than eleven directors. In the event any nominee is unable or declines to serve as a director at the time of the meeting, the proxies will be voted for any nominee, if any, who may be designated by the Board of Directors to fill the vacancy. As of the date of this Proxy Statement, the Board of Directors is not aware that any nominee is unable or will decline to serve as a director. The eleven nominees receiving the highest number of affirmative votes of the shares entitled to vote at the meeting will be elected to the Board of Directors to serve until the next annual meeting of shareholders and until their successors have been elected and qualified. Shareholders may not cumulate votes in the election of directors.

<u>Nominees</u>	<u>Positions and Offices Held with Cisco</u>
Carol A. Bartz . . . . .	Director
Larry R. Carter . . . . .	Senior Vice President, Office of the President and Director
John T. Chambers . . . . .	President, Chief Executive Officer and Director
Dr. James F. Gibbons . . . . .	Director
Dr. John L. Hennessy . . . . .	Director
Roderick C. McGeary . . . . .	Director
James C. Morgan . . . . .	Director
John P. Morgridge . . . . .	Chairman of the Board
Donald T. Valentine . . . . .	Vice Chairman of the Board
Steven M. West . . . . .	Director
Jerry Yang . . . . .	Director

**Business Experience of Nominees**

Ms. Bartz, 55, has been a member of the Board of Directors since November 1996. Since April 1992, she has served as Chairman of the Board and Chief Executive Officer of Autodesk, Inc. Prior to that, she was employed by Sun Microsystems, Inc. from September 1983 to April 1992. Ms. Bartz also currently serves on the board of directors of BEA Systems, Inc., Network Appliance, Inc. and The New York Stock Exchange, Inc.

Mr. Carter, 60, has been a member of the Board of Directors since July 2000. He joined Cisco in January 1995 as Vice President, 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 Senior Vice President, Office of the President. Prior to joining Cisco, he was employed by Advanced Micro Devices, Inc. as 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.

Mr. Chambers, 54, 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 President and Chief Executive Officer of Cisco as of January 31, 1995. Prior to 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.

Dr. Gibbons, 71, has been a member of the Board of Directors since May 1992. He is currently Professor (Research) of Electrical Engineering at Stanford University. He was the Reid Weaver Dennis Professor of Electrical Engineering from 1983 to 2003, and has been a professor at Stanford since August 1957. He was Dean of the Stanford University School of Engineering from 1984 to 1996.

Dr. Hennessy, 50, has been a member of the Board of Directors since January 2002. He has been President of Stanford University since September 2000. He served as Provost of Stanford from June 1999 to August 2000, Dean of the Stanford University School of Engineering from June 1996 to June 1999, and Chair of the Stanford University Department of Computer Science from September 1994 to March 1996.

Mr. McGeary, 53, has been a member of the Board of Directors since July 2003. Mr. McGeary served as Chief Executive Officer of Brienice, Inc. from July 2000 to July 2002. From April 2000 to June 2000 he served as a Managing Director of KPMG Consulting LLC, a wholly owned subsidiary of BearingPoint, Inc. (formerly KPMG Consulting, Inc.). From August 1999 to April 2000 he served as Co-President and Co-Chief Executive Officer of BearingPoint, Inc. From January 1997 to August 1999 he was employed by KPMG LLP as its Co-Vice Chairman of Consulting. Prior to 1997 he served in several capacities with KPMG LLP, including audit partner for technology clients. Mr. McGeary is a Certified Public Accountant and holds a B.S. degree in Accounting from Lehigh University. Mr. McGeary also serves on the board of directors of BearingPoint, Inc., DigitalThink, Inc. and GRIC Communications, Inc.

Mr. Morgan, 65, has been a member of the Board of Directors since February 1998. He has been Chairman of the Board of Applied Materials, Inc. since 1987. From 1977 to April 2003 he served as Chief Executive Officer of Applied Materials, Inc. He was President of Applied Materials, Inc. from 1976 to 1987. He was previously a senior partner with WestVen Management, a private venture capital partnership affiliated with Bank of America Corporation.

Mr. Morgridge, 70, joined Cisco as President and Chief Executive Officer and was elected to the Board of Directors in October 1988. Mr. Morgridge became Chairman of the Board on January 31, 1995, upon his retirement from the positions of President and Chief Executive Officer of Cisco.

Mr. Valentine, 71, has been a member of the Board of Directors since December 1987 and was elected Chairman of the Board in December 1988. He became Vice Chairman of the Board on January 31, 1995. He has been a general partner of Sequoia Capital since 1974. Mr. Valentine currently serves as Chairman of the Board of Network Appliance, Inc.

Mr. West, 48, has been a member of the Board of Directors since April 1996. Mr. West served as Chief Operating Officer of nCUBE Corporation, a provider of on-demand media systems, from December 2001 to July 2003. Prior to joining nCUBE, he was the President and Chief Executive Officer of Entera, Inc. from September 1999 until it was acquired by Blue Coat Systems, Inc. (formerly CacheFlow Inc.) in January 2001. From June 1996 to September 1999, he was President and Chief Executive Officer of Hitachi Data Systems, a joint venture computer hardware services company owned by Hitachi, Ltd. and Electronic Data Systems Corporation. Prior to that, Mr. West was at Electronic Data Systems Corporation from November 1984 to June 1996.

Mr. Yang, 34, has been a member of the Board of Directors since July 2000. He is a founder of Yahoo! Inc., and since March 1995 has been an executive of Yahoo! Inc. and has served as a member of its board of directors.

## Board Committees and Meetings

During Cisco's fiscal year ended July 26, 2003, the Board of Directors held six meetings. During this period, all of the directors attended or participated in more than 75% of the aggregate of the total number of meetings of the Board of Directors and the total number of meetings held by all committees of the Board of Directors on which each such director served, except that while Mr. Chambers attended 100% of Cisco's Board of Directors meetings during the 2003 fiscal year he did not attend certain Cisco Acquisition Committee meetings because he was attending to other company business, and his total attendance at Board of Directors and committee meetings in the aggregate was less than 75%. Mr. Chambers was briefed, both before and after meetings, on matters covered at the Acquisition Committee meetings he was unable to attend.

Cisco has five standing committees: the Acquisition Committee, the Audit Committee, the Compensation and Management Development Committee, the Investment/Finance Committee and the Nomination and Governance Committee. Each of these committees has a written charter approved by the Board of Directors. A copy of each charter can be found under the "Investor Relations" section of our website at [www.cisco.com](http://www.cisco.com). Additionally, a copy of the charter for the Audit Committee is attached hereto as Appendix A. The members of the committees are identified in the following table.

<u>Director</u>	<u>Acquisition Committee</u>	<u>Audit Committee</u>	<u>Compensation and Management Development Committee</u>	<u>Investment/Finance Committee</u>	<u>Nomination and Governance Committee</u>
Carol A. Bartz	X		Chair		Chair
Larry R. Carter				X	
John T. Chambers	Chair				
Carleton S. Fiorina					X
Dr. James F. Gibbons			X		X
Dr. John L. Hennessy					
Roderick C. McGearry		X			
James C. Morgan			X	Chair	
John P. Morgridge	X			X	
Donald T. Valentine	X			X	
Steven M. West		Chair		X	
Jerry Yang		X			

The Acquisition Committee reviews acquisition strategies and opportunities with management, approves certain acquisitions and investment transactions and also makes recommendations to the Board of Directors. This committee held seven meetings during the last fiscal year.

The Audit Committee is responsible for reviewing the financial information which will be provided to shareholders and others, the systems of internal controls, which management and the Board of Directors have established, the performance and selection of independent auditors, and Cisco's audit and financial reporting processes. This committee held ten meetings during the last fiscal year. The Board of Directors has determined that Mr. McGearry is an "audit committee financial expert" as defined in Item 401(h) of Regulation S-K. Mr. McGearry and each of the other members of this committee is an "independent director" as defined in Rule 4200 of the Marketplace Rules of the National Association of Securities Dealers, Inc.

The Compensation and Management Development Committee's basic responsibility is to review the performance and development of management in achieving corporate goals and objectives and to assure that Cisco's senior executives are compensated effectively in a manner consistent with Cisco's strategy, competitive practice, and the requirements of the appropriate regulatory bodies. Toward that end, this committee oversees all of Cisco's compensation, equity and employee benefit plans and payments, including the 1996 Stock Incentive Plan. This committee held six meetings during the last fiscal year. Each of the members of this committee is an "independent director" as defined in Rule 4200 of the Marketplace Rules of the National Association of Securities Dealers, Inc., and an "outside director" as defined in Section 162(m) of the Internal Revenue Code.

The Investment/Finance Committee reviews and approves Cisco's global investment policy, reviews minority investments, fixed income assets and insurance risk management policies and programs, oversees Cisco's stock repurchase programs, and also reviews Cisco's currency, interest rate and equity risk management policies. This committee is also authorized to approve the issuance of debt securities, certain real estate acquisitions and leases, and charitable contributions made on behalf of Cisco. This committee held four meetings during the last fiscal year.

The Nomination and Governance Committee is responsible for recommending to the full Board of Directors candidates for election to the Board of Directors. This committee held three meetings during the last fiscal year. This committee considers nominees proposed by shareholders. To recommend a prospective nominee for the Nomination and Governance Committee's consideration, shareholders should submit the candidate's name and qualifications to Cisco's Secretary in writing to the following address: Cisco Systems, Inc., Attn: Secretary, 170 West Tasman Drive, San Jose, California 95134, with a copy to Cisco Systems, Inc., Attn: General Counsel at the same address. Each member of this committee is an "independent director" as defined in Rule 4200 of the Marketplace Rules of the National Association of Securities Dealers, Inc.

## **Director Compensation**

During the 2003 fiscal year, non-employee directors were each paid a \$32,000 annual retainer fee for serving on the Board of Directors, except that Mr. McGeary, whose period of board service did not commence until July 15, 2003, was paid \$10,667. During the 2003 fiscal year, non-employee directors were also eligible to participate in the Discretionary Option Grant Program in effect under the 1996 Stock Incentive Plan and to receive periodic option grants under the Automatic Option Grant Program in effect under the 1996 Stock Incentive Plan, and directors who were also employees of Cisco were eligible to receive options under Cisco's 1996 Stock Incentive Plan and to participate in Cisco's Employee Stock Purchase Plan, 401(k) Plan and Professional and Leadership Incentive Plan.

On November 19, 2002, the date of the last Annual Meeting of Shareholders, each of the following non-employee directors reelected to the Board of Directors received an option grant under the Automatic Option Grant Program for 15,000 shares of common stock with an exercise price of \$13.66 per share: Ms. Bartz, Ms. Fiorina, Dr. Gibbons, Dr. Hennessy, Mr. Morgan, Mr. Valentine, Mr. West and Mr. Yang. The shares subject to these options vest in two equal annual installments upon the completion of each year of board service over this period. Mr. McGeary received an initial automatic option grant under the Automatic Option Grant Program for 30,000 shares upon his appointment to the Board of Directors on July 15, 2003, with an exercise price of \$18.51 per share. The shares subject to this option vest in four equal annual installments upon the completion of each year of board service over this period. The exercise price for each option is equal to the closing selling price per share of common stock on the grant date. Each option has a term of nine years measured from the grant date, subject to earlier termination following the optionee's cessation of board service. Each option is immediately exercisable for all of the shares underlying the option; however, any shares so purchased that remain unvested at the time of optionee's cessation of board service will be subject to Cisco's right to repurchase, at the option exercise price paid per share. Shares underlying the options vest immediately in full upon certain changes in control or ownership of Cisco or upon the optionee's death or disability while a member of the Board of Directors.

In July 2003, based upon the recommendation of the Compensation and Management Development Committee and based on competitive data, the Board of Directors adopted changes to the cash and equity compensation to be paid to members of the Board of Directors and committees of the Board of Directors effective as of November 11, 2003. These changes were adopted in order to bring the compensation packages of Cisco's board members more in line with compensation paid to directors of comparable companies, recognize the increased workload and responsibilities of board and committee members in recent years, and enable Cisco to attract qualified directors when needed. The new board compensation will be as follows:

- each non-employee director will receive an annual retainer of \$75,000, the chair of the Audit Committee will receive an additional annual retainer of \$25,000 and the chair of the Compensation and Management Development Committee will receive an additional annual retainer of \$10,000;
- each non-employee member of each standing committee will receive an additional fee of \$2,000 per meeting attended; and
- each new non-employee director will receive an initial stock option grant for 50,000 shares, and each continuing non-employee director will receive an annual stock option grant for 20,000 shares.

### **Recommendation of the Board of Directors**

The Board of Directors recommends that the shareholders vote **FOR** the election of each of the nominees listed herein.

## **PROPOSAL NO. 2**

### **APPROVAL OF AMENDMENT AND RESTATEMENT OF THE EMPLOYEE STOCK PURCHASE PLAN**

Cisco's shareholders are being asked to approve an amendment and restatement of Cisco's Employee Stock Purchase Plan, which will effect the following changes: (i) increase the maximum number of shares of common stock authorized for issuance over the term of the Employee Stock Purchase Plan by 100,000,000 shares, (ii) extend the term of the plan from January 3, 2005 to January 3, 2010 and (iii) provide more flexibility with regard to the administration of the Employee Stock Purchase Plan.

The Employee Stock Purchase Plan offers eligible employees the opportunity to acquire a stock ownership interest in Cisco through periodic payroll deductions that will be applied towards the purchase of Cisco common stock at a discount from the then current market price. The primary purpose of the amendment and restatement is to ensure that Cisco will have a sufficient reserve of common stock available under the Employee Stock Purchase Plan to provide eligible employees of Cisco and its participating affiliates with the continuing opportunity to acquire a proprietary interest in Cisco through participation in a payroll deduction-based employee stock purchase plan.

The Employee Stock Purchase Plan was originally adopted by the Board of Directors in December 1989 and approved by Cisco's shareholders in January 1990. In October 1996, the International Employee Stock Purchase Plan, a sub-plan of the Employee Stock Purchase Plan, was established to facilitate the offering of stock ownership interests to employees residing outside the United States. In September 2003, the Board of Directors adopted the amendment and restatement of the Employee Stock Purchase Plan, which is the subject of this Proposal.

The following is a summary of the principal features of the Employee Stock Purchase Plan, as amended and restated. This summary, however, does not purport to be a complete description of all the provisions of the Employee Stock Purchase Plan. Any shareholder who wishes to obtain a copy of the plan may do so by written request to the Secretary at Cisco's headquarters in San Jose, California.

## **Administration**

The Employee Stock Purchase Plan is currently administered by the Compensation and Management Development Committee of the Board of Directors. Such committee, acting as Plan Administrator, has full authority to adopt administrative rules and procedures and to interpret the provisions of the Employee Stock Purchase Plan. All costs and expenses incurred in plan administration are paid by Cisco without charge to participants.

## **Securities Subject to the Employee Stock Purchase Plan**

Including the 100,000,000 share increase for which shareholder approval is sought under this Proposal, 321,400,000 shares of common stock have been reserved for issuance over the term of the Employee Stock Purchase Plan. The shares may be made available from authorized but unissued shares of Cisco's common stock. The reserved shares will also be used to fund stock purchases under the International Employee Stock Purchase Plan, and any shares issued under the International Employee Stock Purchase Plan will reduce, on a share-for-share basis, the number of shares available for subsequent issuance under the Employee Stock Purchase Plan. In the event of any change to Cisco's outstanding common stock, such as a recapitalization, stock split or similar event, appropriate adjustments will be made to the Employee Stock Purchase Plan and to each outstanding purchase right.

## **Purchase Periods and Purchase Dates**

Shares of common stock will be offered under the Employee Stock Purchase Plan through a series of purchase periods, each with a maximum duration of twenty-four (24) months. At present, shares are offered under the Employee Stock Purchase Plan through a series of overlapping purchase periods, each with a duration of twenty-four (24) months. Purchase periods currently commence on the first business day of January and July each year, and each consists of a series of successive six (6) month purchase intervals. These intervals run from the first business day of January until the last business day of June each year and from the first business day of July to the last business day of December each year. Purchases currently occur on the last business day of June and December each year. At present, open purchase periods under the Employee Stock Purchase Plan automatically restart if the closing selling price per share of common stock at the beginning of a new purchase period is lower than that at the beginning of the open purchase period.

## **Eligibility and Participation**

Currently, any individual who is employed on a basis under which he or she is expected to work more than 20 hours per week for more than five (5) months per calendar year in the employ of Cisco or any participating parent or subsidiary corporation (including any corporation, which subsequently becomes such at any time during the term of the Employee Stock Purchase Plan) is eligible to participate in the Employee Stock Purchase Plan. Individuals employed outside the United States are subject to similar eligibility restrictions, unless prohibited by the laws of the jurisdiction in which they are employed.

Eligible employees may join a purchase period at the start of that purchase period. At present, eligible employees may join a twenty-four (24) month purchase period on the first business day of January or July.

As of September 12, 2003, 156,895,159 shares of common stock had been issued under the Employee Stock Purchase Plan, and 164,504,841 shares would be available for future issuance, assuming approval of the 100,000,000 share increase, which forms part of this Proposal. As of September 12, 2003, Cisco estimates that approximately 34,000 employees, including 9 executive officers, were eligible to participate in the Employee Stock Purchase Plan.

## **Purchase Price**

The purchase price of the common stock acquired on each purchase date will be no less than 85% of the lower of (i) the closing selling price per share of common stock on the date the twenty-four (24) month purchase period begins or (ii) the closing selling price per share of common stock at the end of the related six (6) month purchase interval.

The closing selling price of the common stock on any relevant date under the Employee Stock Purchase Plan will be deemed to be equal to the closing selling price per share on such date on the Nasdaq National Market. On September 12, 2003, the closing selling price per share of common stock determined on such basis was \$20.66 per share.

## **Payroll Deductions and Stock Purchases**

Each participant may authorize periodic payroll deductions in any multiple of 1% (up to a maximum of 10%) of his or her eligible earnings each purchase period. The accumulated deductions will automatically be applied on each purchase date to the purchase of whole shares of common stock at the purchase price in effect for that purchase date. Participants are permitted to make other approved contributions prior to a purchase date in certain non-U.S. jurisdictions where payroll deductions are prohibited by law. For purposes of the Employee Stock Purchase Plan, eligible earnings include base salary, bonuses, commissions and overtime pay.

## **Special Limitations**

The Employee Stock Purchase Plan imposes certain limitations upon a participant's right to acquire common stock, including the following:

- Purchase rights may not be granted to any individual who owns stock (including stock purchasable under any outstanding purchase rights) possessing 5% or more of the total combined voting power or value of all classes of stock of Cisco or any of its affiliates.
- A participant may not be granted rights to purchase more than \$25,000 worth of common stock (valued at the time each purchase right is granted) for each calendar year in which such purchase rights are outstanding.
- No participant may purchase more than 22,500 shares of common stock on any one purchase date.
- An executive officer subject to the short-swing profit restrictions of the federal securities laws may not purchase more than 4,320,000 shares of common stock over the term of the Employee Stock Purchase Plan.

## **Termination of Purchase Rights**

The participant may stop contributions to the Employee Stock Purchase Plan at any time, and his or her accumulated payroll deductions will, at the participant's election, either be refunded immediately or applied to the purchase of common stock on the next scheduled purchase date. The participant's purchase right will immediately terminate upon his or her cessation of employment for any reason other than death or permanent disability. Any payroll deductions that the participant may have made for the purchase period in which such cessation of employment occurs will be refunded and will not be applied to the purchase of common stock. Should the participant's employee status cease by reason of death or permanent disability, then such individual (or the representative of his or her estate) may elect to have the participant's accumulated payroll deductions either refunded or applied to the purchase of common stock on the next scheduled purchase date.

## **Shareholder Rights**

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

## **Assignability**

No purchase rights will be assignable or transferable by the participant, except by will or the laws of inheritance following a participant's death.

## **Change in Control**

In the event Cisco is acquired by merger or sale of all or substantially all of Cisco's assets or outstanding voting stock, all outstanding purchase rights will automatically be exercised immediately prior to the effective date of such acquisition. The purchase price will generally be equal to 85% of the lower of (i) the closing selling price per share of common stock on the participant's entry date into the purchase period in which such acquisition occurs or (ii) the closing selling price per share of common stock immediately prior to the effective date of such acquisition. In addition, in accordance with the principles of Section 423 of the Internal Revenue Code, the Plan Administrator may create special purchase periods or special purchase dates for individuals who become employees in connection with the acquisition of another company or cease to be employees in connection with the disposition of any portion of Cisco or its subsidiaries.

## **Share Proration**

Should the total number of shares of common stock to be purchased pursuant to outstanding purchase rights on any particular date exceed the number of shares available for issuance under the Employee Stock Purchase Plan at that time, then the Plan Administrator will make a pro-rata allocation of the available shares on a uniform and nondiscriminatory basis, and the payroll deductions of each participant, to the extent in excess of the aggregate purchase price payable for the common stock allocated to such individual, will be refunded.

## **Amendment and Termination**

The Employee Stock Purchase Plan will terminate upon the earlier of (i) January 3, 2010, assuming approval of the extension of the term of the Employee Stock Purchase Plan, which forms a part of this Proposal, or (ii) the date on which all shares available for issuance thereunder are sold pursuant to exercised purchase rights.

The Board of Directors may at any time alter, suspend or discontinue the Employee Stock Purchase Plan. However, the Board of Directors may not, without shareholder approval, (i) increase the number of shares issuable under the Employee Stock Purchase Plan, (ii) alter the purchase price formula so as to reduce the purchase price or (iii) modify the requirements for eligibility to participate in the Employee Stock Purchase Plan.

## **U.S. Federal Income Tax Consequences**

The following is a summary of the principal United States Federal income taxation consequences to Cisco and participants subject to U.S. taxation with respect to participation in the Employee Stock Purchase Plan. This summary is not intended to be exhaustive and does not discuss the income tax laws of any city, state, or foreign jurisdiction in which a participant may reside.

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

If a participant sells or otherwise disposes of the purchased shares within two (2) years after his or her entry date into the purchase period in which such shares were acquired or within one (1) year after the actual purchase date of those shares, then the participant will recognize ordinary income in the year of sale or disposition equal to the amount by which the closing selling price of the shares on the purchase date exceeded the purchase price paid for those shares, and Cisco will be entitled to an income tax deduction, for the taxable year in which such disposition occurs, equal in amount to such excess. The participant also will recognize a capital gain to the extent the amount realized upon the sale of the shares exceeds the sum of the aggregate purchase price for those shares and the ordinary income recognized in connection with their acquisition.

If a participant sells or disposes of the purchased shares more than two (2) years after his or her entry date into the purchase period in which the shares were acquired and more than one (1) year after the actual purchase date of those shares, the participant will recognize ordinary income in the year of sale or disposition equal to the lower of (i) the amount by which the closing selling price of the shares on the sale or disposition date exceeded the purchase price paid for those shares or (ii) fifteen percent (15%) of the closing selling price of the shares on the participant’s entry date into that purchase period. Any additional gain upon the disposition will be taxed as a long-term capital gain. Cisco will not be entitled to an income tax deduction with respect to such disposition.

If a participant still owns the purchased shares at the time of death, his or her estate will recognize ordinary income in the year of death equal to the lower of (i) the amount by which the closing selling price of the shares on the date of death exceeds the purchase price or (ii) fifteen percent (15%) of the closing selling price of the shares on his or her entry date into the purchase period in which those shares were acquired.

### **Non-U.S. Income Tax Consequences**

The income taxation consequences to participants and Cisco (or its foreign subsidiaries) with respect to participation in the Employee Stock Purchase Plan vary by country. Generally, participants are subject to taxation at the time of purchase. The employing foreign subsidiary may be entitled to a deduction in the tax year in which a participant recognizes taxable income, provided the subsidiary reimburses Cisco for the cost of the benefit conferred under the Employee Stock Purchase Plan.

## Plan Benefits

The table below shows, as to each of Cisco's executive officers named in the Summary Compensation Table of the Executive Compensation and Related Information section of this Proxy Statement and the various indicated groups, the number of shares of common stock purchased under the Employee Stock Purchase Plan during the 2003 fiscal year, together with the weighted average purchase price paid per share.

### Employee Stock Purchase Plan Transactions

<u>Name and Position</u>	<u>Number of Purchased Shares</u>	<u>Weighted Average Purchase Price</u>
John T. Chambers President and Chief Executive Officer, Director .....	0	\$ 0
Mario Mazzola Senior Vice President, Chief Development Officer .....	1,909	\$11.1265
Larry R. Carter Senior Vice President, Office of the President and Director .....	1,909	\$11.1265
Richard J. Justice Senior Vice President, Worldwide Field Operations .....	1,909	\$11.1265
Randy Pond Senior Vice President, Operations, Systems and Processes .....	1,909	\$11.1265
All current executive officers as a group (9 persons) .....	16,042	\$11.1265
All current directors other than executive officers as a group (10 persons) .....	0	\$ 0
All participating employees, including current officers who are not executive officers, as a group (27,740 persons) .....	23,015,141	\$11.1313

## New Plan Benefits

The benefits to be received by Cisco's executive officers, directors and employees as a result of the proposed amendment and restatement of the Employee Stock Purchase Plan are not determinable, since the amounts of future purchases by participants are based on elective participant contributions. No purchase rights have been granted, and no shares of common stock have been issued, with respect to the 100,000,000 share increase for which shareholder approval is sought under this Proposal.

## Shareholder Approval

The affirmative vote of a majority of the outstanding voting shares of Cisco present or represented and voting at the Annual Meeting of Shareholders, together with the affirmative vote of a majority of the required quorum, is required for approval of the 100,000,000 share increase and the extension of the term of the Employee Stock Purchase Plan to January 3, 2010. If you own shares through a broker, you must instruct your broker how to vote in order for your vote to be counted on this proposal. Should such shareholder approval not be obtained, then the 100,000,000 share increase will not be implemented and the term of the Employee Stock Purchase Plan will not be extended by 5 years to January 3, 2010. However, the Employee Stock Purchase Plan will continue to remain in effect until the earlier of (i) the date the remaining share reserve under the Employee Stock Purchase Plan is issued or (ii) January 3, 2005.

## Recommendation of the Board of Directors

The Board of Directors believes that the amendment and restatement of the Employee Stock Purchase Plan is necessary in order to provide employees with the continuing opportunity to acquire an equity interest in Cisco as an incentive for them to remain in Cisco's service. For this reason, the Board of Directors recommends that the shareholders vote **FOR** the amendment and restatement of the Employee Stock Purchase Plan.

### PROPOSAL NO. 3

#### RATIFICATION OF INDEPENDENT AUDITORS

##### General

Cisco is asking the shareholders to ratify the Audit Committee's appointment of PricewaterhouseCoopers LLP as Cisco's independent auditors for the fiscal year ending July 31, 2004. In the event the shareholders fail to ratify the appointment, the Audit Committee will reconsider this appointment. Even if the appointment is ratified, the Audit Committee, in its discretion, may direct the appointment of a different independent auditing firm at any time during the year if the Audit Committee determines that such a change would be in Cisco's and its shareholders' best interests.

PricewaterhouseCoopers LLP has audited Cisco's consolidated financial statements annually since Cisco's 1988 fiscal year. Representatives of PricewaterhouseCoopers LLP are expected to be present at the meeting and will have the opportunity to make a statement if they desire to do so. It is also expected that they will be available to respond to appropriate questions.

##### Principal Accountant Fees and Services

The following is a summary of the fees billed to Cisco by PricewaterhouseCoopers LLP for professional services rendered for the fiscal years ended July 26, 2003 and July 27, 2002:

<u>Fee Category</u>	<u>Fiscal 2003 Fees</u>	<u>Fiscal 2002 Fees</u>
Audit Fees . . . . .	\$ 2,805,000	\$ 2,354,000
Audit-Related Fees . . . . .	730,000	393,000
Tax Fees . . . . .	12,895,000	13,952,000
All Other Fees . . . . .	837,000	626,000
Total Fees . . . . .	<u>\$17,267,000</u>	<u>\$17,325,000</u>

*Audit Fees.* Consists of fees billed for professional services rendered for the audit of Cisco's consolidated financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by PricewaterhouseCoopers LLP in connection with statutory and regulatory filings or engagements.

*Audit-Related Fees.* Consists of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of Cisco's consolidated financial statements and are not reported under "Audit Fees." These services include employee benefit plan audits, accounting consultations in connection with acquisitions, attest services that are not required by statute or regulation, and consultations concerning financial accounting and reporting standards.

*Tax Fees.* Consists of fees billed for professional services for tax compliance, tax advice and tax planning. These services include assistance regarding federal, state and international tax compliance, tax audit defense, customs and duties, mergers and acquisitions, and international tax planning.

*All Other Fees.* Consists of fees for products and services other than the services reported above. In fiscal 2003, these services included expatriate relocation coordination services provided to Cisco employees on international job assignments, translation of filings and other miscellaneous services. In fiscal 2002, these services included management consulting services on economic and forecast modeling, which did not involve information systems design or implementation, and other miscellaneous services. There were no management consulting services provided in fiscal 2003.

### **Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors**

The Audit Committee's policy is to pre-approve all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent auditors and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent auditors in accordance with this pre-approval, and the fees for the services performed to date. The Audit Committee may also pre-approve particular services on a case-by-case basis.

### **Recommendation of the Board of Directors**

The Board of Directors recommends that the shareholders vote **FOR** the ratification of the appointment of PricewaterhouseCoopers LLP to serve as Cisco's independent auditors for the fiscal year ending July 31, 2004.

## **PROPOSAL NO. 4 SHAREHOLDER PROPOSAL**

Ann Lau, P.O. Box 861132, Los Angeles, CA 90086-1132, a beneficial owner of 1,931 shares of Cisco common stock, has notified us that she intends to present the following proposal at the meeting:

The stockowners recommend that the board prepare a report to the stockowners on Cisco hardware and software products that can (a) allow monitoring, interception, keyword searches, and/or recording of the Internet, or (b) act as a "firewall" by which selected Internet traffic can be prevented from reaching its addressee outside the country of origin or by which downloading of information from selected sites outside the country of origin is prevented.

This report would be limited to hardware and software provided to government agencies and state-owned communications/information technology entities in any country. The countries shall be identified, but only a total of each such product in each country shall be reported. The report shall cover each fiscal year of Cisco, starting with fiscal 2004. The first report shall include a cumulative provision of such products from 1995 to the date of the report.

If Cisco has entered into any contracts by which it has pledged to keep secret from its stockowners the existence or content of such contracts for the above hardware or software products to the above customers, then the required reports shall not need to include those products for those countries, but shall need to note that secrecy-against-stockowners contracts exist and list the products which they cover.

### **The Proponent's Statement in Support of Proposal No. 4**

Anything that stifles the Internet can discourage its use. Cisco should be promoting the use of the Internet to the maximum, so that its hardware and software sales can reach the largest market possible.

Government monitoring, control, or censorship of the Internet can chill public enthusiasm toward Internet and computer use. Freedom of speech is threatened by such practices, not only in the country involved but for the rest of the world.

Based on published reports, I believe that one country that has used technology effectively to monitor its people is the Peoples Republic of China. The objectives of the PRC apparently are:

- To prevent people of the PRC from accessing certain political and/or religious sites.
- To monitor the discussion of certain political and/or religious topics by people of the PRC, especially in their e-mails.
- To block or delay the transmission of information or e-mail that the government disapproves of.
- To inhibit the growth of Internet discussion groups.

We stockowners deserve to be informed if Cisco's sales policies are promoting or inhibiting Internet use and its potential for growth.

#### **Cisco's Statement in Opposition to Proposal No. 4**

**The Board of Directors believes this proposal does not serve the best interests of Cisco or its shareholders and recommends a vote AGAINST it.**

Cisco and its Board of Directors are committed to freedom of speech. Furthermore, we are a proponent of the vast potential of the Internet to advance and propel the dissemination of information among people throughout the world. Nonetheless, we believe that the proposal will not further these social principles, will unnecessarily expend Cisco resources and could interfere with our customer relations.

The product capabilities described in this shareholder proposal meet fundamental and legitimate needs to protect the integrity of Internet communications networks. Cisco products, whether used by a private business, a telecommunications service provider or a government agency, have these capabilities, as do the products of our competitors. These capabilities are legitimately used by network operators and by governmental customers for those purposes and are also used by the United States and other countries for law enforcement, national security purposes and to protect their citizens against the threat of terrorism. In the United States and other countries whose governmental systems are based upon the rule of law, the exercise of these powers is subject to constitutional and legal protections and respect for individual rights.

This shareholder proposal would require the proposed report to cover all hardware and software sold to any government agencies and state-owned communications or information technology entities which allows monitoring, interception, keyword searches, and/or recording of the Internet, or which acts as a "firewall." Because the capabilities listed are inherent in a wide range of products that we sell to anyone, and because we sell our products to government agencies and state-owned communications or information technology entities in most of the countries of the world, this proposal is seeking a report that would list most of the countries of the world and would require us to list a substantial portion of our products. The report sought would result in substantial expenditure of company resources, in both funds and staffing, without furthering the freedoms that Ms. Lau addresses in her supporting statement.

Outside of the United States, we sell our products almost exclusively through resellers, with direct sales to some telecommunications service providers (both government owned and otherwise) but rarely if ever directly to governmental agencies or entities. In some cases, we do not have visibility into the names of, and products purchased by, particular end-users. We believe that this shareholder proposal would require us to set up inquiry procedures with our distributors and resellers to determine those countries in which sales are made to government agencies and state-owned communication or information technology entities and which products are so sold. The

Board of Directors is concerned that the mere gathering of this information could have an impact on our relations with reseller customers.

In the supporting statement to this shareholder proposal, Ms. Lau discusses the actions of the Government of the People's Republic of China. In the past few years, we addressed our activities in the People's Republic of China as they relate to freedom of speech and association over the Internet with the U.S. China Security Review Commission. As we informed the Commission, the products that we sell to any customer in the People's Republic of China, government or otherwise, do not contain any detection or monitoring capabilities which are different from the products we sell to anyone anywhere else in the world.

While we understand the cause Ms. Lau espouses, and vigorously support freedom of speech and association and the role of the Internet in providing opportunities to all the peoples of the world, the Board of Directors believes that this proxy statement and the meeting are not proper forums for this debate.

### **Recommendation of the Board of Directors**

For all the reasons set forth above, the Board of Directors recommends a vote **AGAINST** Proposal No. 4.

### **PROPOSAL NO. 5 SHAREHOLDER PROPOSAL**

The Sisters of the Holy Names of Jesus and Mary, Washington Province, 2911 West Fort Wright Drive, Spokane, Washington 99224, who are the beneficial owners of 14,000 shares of Cisco common stock, joined by other filers (whose names, addresses and shareholdings will be provided by Cisco promptly upon receipt by Cisco Investor Relations of any oral or written request), have notified us that they intend to present the following proposal at the meeting:

**WHEREAS**, the average chief executive officer's pay has increased from 42 times in 1982 to 411 times that of the average production worker in 2001 (*Business Week Online* 05/06/02).

Responding to that statistic, New York Fed President, William J. McDonough acknowledged that a market economy requires that some people will be rewarded more than others, but asked: "should there not be both economic and moral limitations on the gap created by the market-driven reward system?" He stated: "I can find nothing in economic theory that justifies this development." He called such a jump in executive compensation "terribly bad social policy and perhaps even bad morals." According to *The Wall Street Journal*, McDonough cited "the biblical admonition to 'love thy neighbor as thyself' as justification for voluntary CEO pay cuts" beginning with the strongest companies. He said: "CEOs and their boards should simply reach the conclusion that executive pay is excessive and adjust it to more reasonable and justifiable levels" (09/12/02).

Affirming McDonough's comments, the *Milwaukee Journal-Sentinel* editorialized that regulating executive compensation "is the business of corporate boards, or should be. Unfortunately, too many corporate directors on company compensation committees simply rubber-stamp decisions made by top managers. That should stop" (09/13/02).

In "CEOs: Why They're So Unloved," *Business Week* editorialized: "CEO pay is so huge that people don't believe executives deserve it. . . In 1980, CEO compensation was 42 times that of the average worker. In 2000, it was 531 times. This is a winner-take-all philosophy that is unacceptable in American society. . . The size of CEO compensation is simply out of hand" (04/22/02).

The Conference Board issued a report acknowledging that executive compensation has become excessive in many instances and bears no relationship to a company's long-term performance and that changes must be made (09/17/02). Commenting on this *The New York Times* called for "Atonement in the Boardroom" (09/21/02), while Warren Buffet said: "The ratcheting up of compensation has been obscene."

United For a Fair Economy has shown an inverse correlation between very high CEO pay and long-term stock performance ([http://www.ufenet.org/press/2001/Bigger\\_They\\_Come.pdf](http://www.ufenet.org/press/2001/Bigger_They_Come.pdf))

**RESOLVED:** shareholders request the Board's Compensation Committee to prepare and make available by January 1, 2004 a report (omitting confidential information and prepared at reasonable cost) to requesting shareholders comparing the total compensation of the company's top executives and its lowest paid workers both in this country and abroad on January 1, 1982, 1992 and 2002. We request the report include: statistics related to any changes in the relative percentage size of the gap between the two groups; the rationale justifying any such percentage change; whether our top executives' compensation packages (including options, benefits, perks, loans and retirement agreements) are "excessive" and should be changed; as well as any recommendations to adjust the pay "to more reasonable and justifiable levels".

### **The Proponents' Statement in Support of Proposal No. 5**

Our Company fits William J. McDonough's "strong company" category. Our pay scales should model justice and equity for all our workers. Supporting this resolution would be one step in this direction.

### **Cisco's Statement in Opposition to Proposal No. 5**

**The Board of Directors believes this proposal does not serve the best interests of Cisco or its shareholders and recommends a vote AGAINST it.**

The Board of Directors believes that Cisco currently has in place a fair and reasonable pay package for all employees. Our compensation structure is egalitarian in that the same components of compensation (base salary, annual cash bonus and stock options) are used at all levels of the organization and no other compensation is used at any level (except certain commission-based compensation for our sales force). Performance, both at the company and individual level, is the primary criterion used to determine the amount of all variable compensation awards. Because performance is the primary driver of the majority of compensation programs at Cisco, the annual amount received and the disparity from one individual to the next with the same level of responsibility is the direct result of the individual's performance for that year. Not surprisingly, the employees with the most responsibility in the organization have the largest percentage of their compensation "at risk" based on achievement of both company and individual performance goals.

We also refrain from offering exclusive perquisites to any employee or group of employees, including senior executives. We do not offer country club memberships, private use of corporate assets (such as aircraft, apartments or luxury boxes), supplemental retirement funds, tax-sheltered accounts or any similar perquisites to any segment of our employee base. Senior executives at Cisco have the same components (base salary, annual cash bonuses and stock options) of total compensation, as do all Cisco employees.

We further note that as a public reporting company, information about the compensation levels of our CEO and other highest paid executives is furnished in our annual proxy materials. We refer you to the "Summary Compensation Table" on page 24 of this proxy statement for the compensation earned by Cisco's Chief Executive Officer and the four other highest paid executive officers.

We believe that our egalitarian performance-based compensation structure is both equitable and appropriate for our workforce while still creating incentive to drive value creation for our shareholders.

### **Recommendation of the Board of Directors**

For all the reasons set forth above, the Board of Directors recommends a vote **AGAINST** Proposal No. 5.

## CORPORATE GOVERNANCE

Cisco maintains a corporate governance page on its website which includes key information about its corporate governance initiatives, including Cisco's Corporate Governance Policies, Cisco's Code of Business Conduct and Corporate Governance, and charters for the committees of the Board of Directors. The corporate governance page can be found at [www.cisco.com](http://www.cisco.com), by clicking on "About Cisco," then "Investor Relations," and finally "Corporate Governance."

Cisco's policies and practices reflect corporate governance initiatives that are compliant with the listing requirements of Nasdaq and the corporate governance requirements of the Sarbanes-Oxley Act of 2002, including:

- The Board of Directors has adopted clear corporate governance policies;
- A majority of the board members are independent of Cisco and its management;
- All members of the key board committees—the Audit Committee, the Compensation and Management Development Committee, and the Nomination and Governance Committee—are independent;
- The independent members of the Board of Directors meet regularly without the presence of management;
- Cisco has a clear code of business conduct and corporate governance that is monitored by its ethics office and is annually affirmed by its employees;
- The charters of the board committees clearly establish their respective roles and responsibilities;
- Cisco has an ethics office with a hotline available to all employees, and Cisco's Audit Committee has procedures in place for the anonymous submission of employee complaints on accounting, internal controls, or auditing matters;
- Cisco has adopted a code of ethics that applies to its principal executive officer and all members of its finance department, including the principal financial officer and principal accounting officer; and
- Cisco's internal audit control function maintains critical oversight over the key areas of its business and financial processes and controls, and reports directly to Cisco's Audit Committee.

## OWNERSHIP OF SECURITIES

The following table sets forth information known to Cisco with respect to beneficial ownership of Cisco common stock as of July 26, 2003 for (i) each director and nominee, (ii) Cisco's Chief Executive Officer and the four other highest paid executive officers named in the Summary Compensation Table below (the "Named Executive Officers") and (iii) all executive officers and directors as a group. To Cisco's knowledge, there are no beneficial owners of five percent or more of the outstanding shares of Cisco common stock as of July 26, 2003.

Beneficial ownership is determined under the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table below have sole voting and investment power with respect to all shares of common stock beneficially owned. The number of shares beneficially owned by each person or group as of July 26, 2003 includes shares of common stock that such person or group had the right to acquire on or within 60 days after July 26, 2003, including, but not limited to, upon the exercise of options. References to options in the footnotes of the table below include only options to purchase shares that were exercisable on or within 60 days after July 26, 2003. For each individual and group included in the table below, percentage ownership is calculated by dividing the number of shares beneficially owned by such person or group by the sum of the 6,997,531,962 shares of common stock outstanding on July 26, 2003 plus the number of shares of common stock that such person or group had the right to acquire on or within 60 days after July 26, 2003.

<u>Name</u>	<u>Number of Shares Beneficially Owned</u>	<u>Percent Owned</u>
Carol A. Bartz(1) . . . . .	328,926	*
Larry R. Carter(2) . . . . .	4,148,803	*
John T. Chambers(3) . . . . .	30,497,199	*
Carleton S. Fiorina(4) . . . . .	64,150	*
Dr. James F. Gibbons(5) . . . . .	165,920	*
Dr. John L. Hennessy(6) . . . . .	57,687	*
Richard J. Justice(7) . . . . .	2,693,295	*
Mario Mazzola(8) . . . . .	5,515,551	*
Roderick C. McGeary(9) . . . . .	63,096	*
James C. Morgan(10) . . . . .	244,300	*
John P. Morgridge(11) . . . . .	81,934,197	1.2
Randy Pond(12) . . . . .	1,855,480	*
Donald T. Valentine(13) . . . . .	2,566,198	*
Steven M. West(14) . . . . .	170,400	*
Jerry Yang(15) . . . . .	100,613	*
All executive officers and directors as a group (19 Persons) (16) . . . . .	136,026,225	1.9

\* Less than one percent.

- (1) Includes 211,198 shares held by the Carol Ann Bartz (Living) Trust, 2,628 shares held by Ms. Bartz's spouse, 100 shares held by her son and options to purchase 115,000 shares.
- (2) Includes 2,900 shares held by the Carter Revocable Trust dated October 18, 1994 and options to purchase 4,116,166 shares.
- (3) Includes options to purchase 28,450,000 shares.
- (4) Includes options to purchase 60,000 shares.
- (5) Includes options to purchase 155,000 shares.
- (6) Includes 9,687 shares held in the Hennessy 1993 Revocable Trust, John L. Hennessy and Andrea J. Hennessy Trustees, 3,000 shares held in trust for the benefit of Dr. Hennessy's children and options to purchase 45,000 shares.
- (7) Includes 20,660 shares held by the 1990 Justice Family Trust and options to purchase 2,668,248 shares.
- (8) Includes options to purchase 5,421,741 shares.
- (9) Includes 3,096 shares held by Mr. McGeary's son and options to purchase 30,000 shares.
- (10) Includes 9,300 shares held by Mr. Morgan's spouse and options to purchase 235,000 shares.
- (11) Includes 67,292,447 shares held by John P. Morgridge and Tashia F. Morgridge as Trustees of the Morgridge Family Trust (UTA DTD 6/30/88), 92,938 shares held by Mr. Morgridge's spouse, Tashia F. Morgridge, 13,115,760 shares held in the TOSA Foundation, a charitable foundation of which Mr. Morgridge is a director, and options to purchase 620,000 shares. Mr. Morgridge disclaims beneficial ownership of the shares held by the TOSA Foundation.
- (12) Includes 36,484 shares held by the Randall & Cynthia Pond Revocable Living Trust and options to purchase 1,801,777 shares.
- (13) Includes 1,659,198 shares held by the Donald T. Valentine Family Trust Under Agreement dated April 29, 1967 and options to purchase 655,000 shares.
- (14) Includes 400 shares held by Mr. West's spouse and options to purchase 170,000 shares.

- (15) Includes 34,993 shares held in the Jerry Yang 1996 Charitable Remainder Trust, 3,194 shares held in the Jerry Yang 1996 Revocable Trust, 2,426 shares held in the Red Husky Foundation, a charitable foundation of which Mr. Yang is the secretary and his spouse is the president, and options to purchase 60,000 shares. Mr. Yang disclaims beneficial ownership of the shares held by the Red Husky Foundation.
- (16) Includes options to purchase 48,704,930 shares.

### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires Cisco's executive officers, directors and persons who own more than 10% of Cisco's common stock to file reports of ownership and changes in ownership with the Securities and Exchange Commission. These persons are required to provide Cisco with copies of all Section 16(a) forms that they file. Based solely on Cisco's review of these forms and written representations from the executive officers and directors, Cisco believes that all Section 16(a) filing requirements were met during fiscal year 2003, except that Mark Chandler and Dennis D. Powell each originally timely filed a Form 3 upon assuming their respective offices, but due to a technical problem with the third-party electronic filing software utilized by Cisco, one holding on each Form 3 was not reported and the remaining holdings reported under the heading "Amount or Number of Shares" in Column 3 of Table II of each Form 3 became misaligned with the other information provided for each listed option grant. Amended Form 3s were promptly filed upon discovery of the errors to report the missing holdings and properly align each holding with the respective option grant.

### Equity Compensation Plan Information

The following table provides information as of July 26, 2003 with respect to the shares of Cisco common stock that may be issued under existing equity compensation plans. The category "Equity compensation plans approved by security holders" in the table below consists of the 1996 Stock Incentive Plan, the Employee Stock Purchase Plan and its sub-plan, the International Employee Stock Purchase Plan. The category "Equity compensation plans not approved by security holders" in the table below consists solely of the 1997 Supplemental Stock Incentive Plan. The table does not include information with respect to shares subject to outstanding options granted under equity compensation arrangements assumed by the company in connection with mergers and acquisitions of the companies that originally granted those options.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
<b>Equity compensation plans approved</b>			
<b>by security holders</b> . . . . .	1,275,025,156	\$25.57	584,178,165 (2)
<b>Equity compensation plans not approved by security holders</b> . . . . .	<u>3,085,773 (3)</u>	\$31.49	<u>5,827,539 (4)</u>
<b>Total</b> . . . . .	<u>1,278,110,929 (5)</u>	\$25.58	<u>590,005,704 (6)</u>

- (1) Excludes purchase rights currently accruing under the Employee Stock Purchase Plan and its sub-plan, the International Employee Stock Purchase Plan.
- (2) Includes shares available for future issuance under the Employee Stock Purchase Plan and its sub-plan, the International Employee Stock Purchase Plan. As of July 26, 2003, as reported in Cisco's 2003 Annual Report on Form 10-K, an aggregate of 64,504,841 shares of common stock were available for future issuance under these purchase plans. Also includes up to 995,000 shares that may be granted to independent, non-employee consultants as direct issuances under the 1996 Stock Incentive Plan.

- (3) The table does not include information for equity compensation arrangements assumed by Cisco in connection with mergers and acquisitions. As of July 26, 2003, a total of 25,061,830 shares of Cisco common stock were issuable upon exercise of outstanding options under those assumed arrangements. The weighted average exercise price of those outstanding options is \$10.15 per share. No additional options may be granted under those assumed arrangements.
- (4) These securities may be issued as options or as direct share issuances.
- (5) As of July 26, 2003, the aggregate number of shares issuable upon exercise of outstanding options as reported in Cisco's 2003 Annual Report on Form 10-K were 1,303,172,759 shares, which included the 25,061,830 shares under the assumed arrangements described in footnote (3) above.
- (6) As of July 26, 2003, 519,673,324 shares were available for future issuance under the 1996 Stock Incentive Plan and 5,827,539 shares were available for future issuance under the 1997 Supplemental Stock Incentive Plan for an aggregate total of 525,500,863 shares available for future issuance under stock incentive plans as reported in Cisco's 2003 Annual Report on Form 10-K. The shares available for future issuance under the purchase plans were 64,504,841 shares as reported in Cisco's 2003 Annual Report on Form 10-K.

#### *The 1997 Supplemental Stock Incentive Plan*

The 1997 Supplemental Stock Incentive Plan (the "Supplemental Plan") was implemented by the Board of Directors on July 31, 1997. The Supplemental Plan is a non-shareholder approved plan. Options may be granted and direct share issuances of common stock may be made under the Supplemental Plan to employees of Cisco (or any parent or subsidiary corporation) who are neither officers nor board members at the time of grant. The Board of Directors has authorized 9,000,000 shares of common stock for issuance under the Supplemental Plan. All option grants will have an exercise price per share, and all share issuances will have a purchase price per share, equal to the closing selling price per share of common stock on the grant or issuance date. Each option or share issuance may be subject to vesting. Any unvested options or share issuances will immediately vest and become exercisable in full upon certain changes in ownership of Cisco if the options are not assumed or replaced by the acquiring entity or the repurchase rights relating to share issuances are not assigned to the acquiring entity, as applicable. All options are non-statutory options under the Federal tax law. As of July 26, 2003, options covering 3,085,773 shares of common stock were outstanding under the Supplemental Plan, 5,827,539 shares remained available for future option grants or share issuances, and options covering 86,688 shares had been exercised.

## **EXECUTIVE COMPENSATION AND RELATED INFORMATION**

### **Compensation and Management Development Committee Report**

*The information contained in this report shall not be deemed to be "soliciting material" or "filed" or incorporated by reference in future filings with the SEC, or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, except to the extent that we specifically incorporate it by reference into a document filed under the Securities Act of 1933 or the Securities Exchange Act of 1934.*

The Compensation and Management Development Committee's (the "Committee") basic responsibility is to review the performance and development of Cisco's management in achieving corporate goals and objectives and to assure that senior executives of Cisco are compensated effectively in a manner consistent with the strategy of Cisco, competitive practice, and the requirements of the appropriate regulatory bodies. Toward that end, the Committee oversees all compensation, equity and employee benefit plans and programs.

#### *Compensation Philosophy and Objectives*

Cisco operates in the extremely competitive and rapidly changing high technology industry. The Committee believes that the compensation programs for the executive officers should be designed to attract, motivate and retain talented executives responsible for the success of Cisco and should be determined within a framework based on the achievement of designated financial targets, individual contribution, customer satisfaction and

financial performance relative to that of Cisco's competitors. Within this overall philosophy, the Committee's objectives are to:

- Offer a total compensation program that takes into consideration the compensation practices of a group of specifically identified peer companies (the "Peer Companies") and other selected companies with which Cisco competes for executive talent.
- Provide annual variable incentive awards that take into account Cisco's overall financial performance in terms of designated corporate objectives and the relative performance of the Peer Companies, as well as individual contributions and a measure of customer satisfaction.
- Align the financial interests of executive officers with those of shareholders by providing significant equity-based, long-term incentives.

#### *Compensation Components and Process*

The three major components of Cisco's executive officer compensation are: (i) base salary, (ii) variable incentive awards and (iii) long-term, equity-based incentive awards.

The Committee determines the compensation levels for the executive officers with the assistance of Cisco's Human Resources Department, which works with an independent consulting firm that furnishes the Committee with executive compensation data drawn from multiple nationally recognized surveys of similarly sized technology companies identified as Peer Companies. A significant number of the Peer Companies are listed in the S & P Information Technology Index, which is included in the Stock Performance Graph for this Proxy Statement. Certain companies not included in this Index were considered Peer Companies because Cisco competes for executive talent with those companies. However, some organizations in the S & P Information Technology Index were excluded from the Peer Company list because they were not considered competitors for executive talent or because compensation information was not available.

The positions of Cisco's Chief Executive Officer and executive officers were compared with those of their counterparts at the Peer Companies, and the market compensation levels for comparable positions were examined to determine base salary, target incentives and total cash compensation. In addition, the practices of the Peer Companies concerning stock option grants were reviewed and compared.

*Base Salary.* The base salary for each executive officer is determined at levels considered appropriate for comparable positions at the Peer Companies. Cisco's policy is to target base salary levels for executive officers between the 25th and 50th percentile of compensation practices at Peer Companies, with the Chief Executive Officer target base salary level at the 10th percentile.

*Variable Incentive Awards.* To reinforce the attainment of Cisco goals, the Committee believes that a substantial portion of the annual compensation of each executive officer should be in the form of variable incentive pay. The annual incentive awards for executive officers are determined on the basis of Cisco's achievement of the financial performance targets established at the beginning of the fiscal year and also include a factor for the executive's contribution, a measure of customer satisfaction, an evaluation of the executive's ability to execute on cross functional teamwork and collaboration, and a market share component tied to Cisco's ability to gain market share relative to a select group of competitors. The incentive plan sets a threshold level of Cisco performance based on both revenue and profit before interest and taxes that must be attained before any incentives are awarded. Once the fiscal year's threshold is reached, specific formulas are in place to calculate the actual incentive payment for each executive officer. A target is set for each executive officer based on targets for comparable positions at the Peer Companies and is stated in terms of a percentage of the executive officer's base salary for the year. In fiscal 2003, Cisco exceeded its corporate performance and customer satisfaction targets as well as the market share target tied to relative market share performance of the selected competitor group. Awards paid reflected those results plus individual accomplishments of both corporate and functional objectives.

*Long-Term, Equity-Based Incentive Awards.* The goal of Cisco's long-term, equity-based incentive awards is to align the interests of executive officers with shareholders and to provide each executive officer with a significant incentive to manage Cisco from the perspective of an owner with an equity stake in the business. The Committee determines the size of the long-term, equity-based incentives according to each executive's position within Cisco and sets a level it considers appropriate to create a meaningful opportunity for reward predicated on increasing shareholder value. In addition, the Committee takes into account an individual's performance history, his or her potential for future responsibility and promotion, and competitive total compensation targets for the individual's position and level of contribution. The relative weight given to each of these factors varies among individuals at the Committee's discretion.

During fiscal year 2003, the Committee made option grants to Cisco's executive officers under Cisco's 1996 Stock Incentive Plan. Each grant allows the executive officer to acquire shares of Cisco's common stock at a fixed price per share (the market price on the grant date) over a specified period of time. Options granted to this group of individuals in October 2002 and April 2003 vest in periodic installments over a five-year period, contingent upon the executive officer's continued employment with Cisco. Accordingly, the option grants will provide a return only if the executive officer remains with Cisco and only if the market price appreciates over the option term.

*CEO Compensation.* On April 1, 2001, Mr. Chambers requested that his base salary be lowered to a rate of \$1.00 annually. On May 11, 2001, the Committee agreed to honor this request until such a time as the Committee deems it appropriate to return Mr. Chambers' base salary to a market competitive level. For fiscal year 2003, as with the prior fiscal year, Mr. Chambers' annual base salary remained at \$1.00. The Committee continues to assess the market data for chief executive officers' salary levels at the Peer Companies to ensure that, when reinstated, Mr. Chambers' compensation is consistent with Cisco's stated compensation objectives relative to base salary.

For fiscal year 2003, as with the prior fiscal year, Mr. Chambers requested that the Committee not award him a variable incentive award and, despite all the corporate and individual goals for the year having been met, the Committee agreed to honor his request.

The option grants made to Mr. Chambers during the 2003 fiscal year were awarded in April 2003 and July 2003. The option grants made to Mr. Chambers were based upon his performance and leadership with Cisco and placed a significant portion of his total compensation at risk, since the option grant delivers a return only if Cisco's common stock appreciates over the option term.

*Compliance with Internal Revenue Code Section 162(m).* Section 162(m) of the Internal Revenue Code disallows a Federal income tax deduction to publicly held companies for certain compensation paid to certain of their executive officers, to the extent that compensation exceeds \$1 million per covered officer in any fiscal year. This limitation applies only to compensation which is not considered performance-based under the Section 162(m) rules. Cisco's 1996 Stock Incentive Plan has been structured so that any compensation deemed paid in connection with the exercise of option grants made under that plan will qualify as performance-based compensation which will not be subject to the \$1 million limitation. While the variable performance awards discussed above are based on company and individual performance, they are not considered "performance-based" under the Section 162(m) definition. However, the amount of non-performance based compensation in excess of \$1 million paid to executive officers for the 2003 fiscal year was not material, and the Committee has decided that it is not appropriate at this time to limit Cisco's alternatives in designing the cash compensation packages payable to Cisco's executive officers.

**Submitted by the Compensation and Management Development Committee**

Carol A. Bartz, *Chairperson*  
Dr. James F. Gibbons  
James C. Morgan

## Compensation Committee Interlocks and Insider Participation

The members of the Compensation and Management Development Committee for the 2003 fiscal year were Carol A. Bartz, Dr. James F. Gibbons and James C. Morgan. No member of this committee was at any time during the 2003 fiscal year or at any other time an officer or employee of Cisco, and no member had any relationship with Cisco requiring disclosure under Item 404 of Regulation S-K. No executive officer of Cisco has served on the board of directors or compensation committee of any other entity that has or has had one or more executive officers who served as a member of the Board of Directors or the Compensation and Management Development Committee during the 2003 fiscal year.

## Summary of Cash and Certain Other Compensation

The following table sets forth the compensation earned by the Named Executive Officers for services rendered in all capacities to Cisco and its subsidiaries for each of the last three or fewer fiscal years during which such individuals served as executive officers. Cisco has not granted restricted stock or stock appreciation rights to any of the persons listed below during the past three fiscal years. No executive officer who would have otherwise been includable in such table on the basis of salary and bonus earned for Cisco's 2003 fiscal year has been excluded by reason of his or her termination of employment or change in executive officer status during that fiscal year.

**SUMMARY COMPENSATION TABLE**

Name and Principal Position	Year	Compensation		Other Annual Compensation (\$)	Long-Term Compensation Awards Options(#)	All Other Compensation (\$)(2)
		Annual Compensation	Bonus(\$)(1)			
John T. Chambers . . . . . President, Chief Executive Officer and Director	2003	1	0	0	4,000,000	0
	2002	1	0	0	6,000,000 (3)	0
	2001	268,131	0	0	6,000,000	1,500
Mario Mazzola . . . . . Senior Vice President, Chief Development Officer	2003	447,120	764,897	0	500,000	2,905
	2002	447,120	556,289	0	1,325,000	2,000
	2001	445,846	0	0	575,000	1,500
Larry R. Carter . . . . . Senior Vice President, Office of the President and Director	2003	425,700	566,419	0	500,000	4,690
	2002	425,700	529,639	0	800,000	2,000
	2001	424,212	0	0	600,000	1,500
Richard J. Justice . . . . . Senior Vice President, Worldwide Field Operations	2003	386,400	605,937	0	500,000	6,000
	2002	386,400	480,743	0	850,000	2,000
	2001	384,462	0	0	600,000	1,500
Randy Pond . . . . . Senior Vice President, Operations, Systems and Processes (4)	2003	350,000	648,648	0	500,000	4,765
	2002	—	—	—	—	—
	2001	—	—	—	—	—

- (1) Represents cash bonuses earned for the indicated fiscal years.
- (2) Represents the matching contribution, which Cisco made to Cisco's 401(k) Plan.
- (3) In July 2002, Mr. Chambers informed the Compensation and Management Development Committee of his decision to waive all his rights to an option grant for 2,000,000 shares granted on April 5, 2002, and requested that the option grant be cancelled. The committee honored Mr. Chambers' request, and the option grant has been cancelled and is no longer outstanding.
- (4) Mr. Pond was appointed an executive officer on September 10, 2002, which was during the 2003 fiscal year.

## Stock Options

The following table provides information with respect to the stock option grants made during Cisco's 2003 fiscal year under Cisco's 1996 Stock Incentive Plan to each Named Executive Officer. No stock appreciation rights were granted to the Named Executive Officers during the fiscal year. Options have a maximum term of nine years measured from the applicable grant date, subject to earlier termination in the event of the optionee's cessation of service with Cisco. Each of the options will vest and become exercisable for 20% of the option shares upon the completion of one year of service measured from the grant date and will become exercisable for the remaining shares in equal monthly installments over the next 48 months of service thereafter. However, each of the options will immediately become exercisable for all of the option shares in the event Cisco is acquired by merger or asset sale, unless the options are assumed or replaced by the acquiring entity, or in the event there is a hostile change in control or ownership of Cisco. The exercise price of each option may be paid in cash or in shares of common stock valued at the closing selling price on the exercise date or may be paid with the proceeds from a same-day sale of the purchased shares.

There is no assurance provided to any executive officer or any other holder of Cisco's securities that the potential realizable values shown in this table, which are based on assumed 5% and 10% annual rates of compounded stock price appreciation over the nine-year term of the options as required under the rules of the Securities and Exchange Commission, will be realized. Actual gains, if any, on option exercises are dependent on the future performance of Cisco common stock and overall market conditions.

### OPTION GRANTS IN LAST FISCAL YEAR

Name	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
	Number of Securities Underlying Options Granted	% of Total Options Granted to Employees in Fiscal Year	Exercise Price (\$/Share)	Expiration Date	5%(\$)	10%(\$)
John T. Chambers	2,000,000	1.0282	13.040	4/10/2012	14,378,640	35,415,276
	2,000,000	1.0282	18.510	7/15/2012	20,410,171	50,271,224
Mario Mazzola	250,000	0.1285	9.749	10/10/2011	1,343,725	3,309,658
	250,000	0.1285	13.040	4/10/2012	1,797,330	4,426,909
Larry R. Carter	250,000	0.1285	9.749	10/10/2011	1,343,725	3,309,658
	250,000	0.1285	13.040	4/10/2012	1,797,330	4,426,909
Richard J. Justice	250,000	0.1285	9.749	10/10/2011	1,343,725	3,309,658
	250,000	0.1285	13.040	4/10/2012	1,797,330	4,426,909
Randy Pond	250,000	0.1285	9.749	10/10/2011	1,343,725	3,309,658
	250,000	0.1285	13.040	4/10/2012	1,797,330	4,426,909

## Option Exercises and Holdings

The table below sets forth information concerning the exercise of options by each of the Named Executive Officers during Cisco's 2003 fiscal year and the unexercised options held by them as of the end of the fiscal year. The value realized represents the difference between the aggregate closing selling price of the shares on the date of exercise less the aggregate exercise price paid. The value of unexercised in-the-money options is based on the closing price of Cisco common stock on July 25, 2003 of \$19.08 per share, minus the exercise price, multiplied by the number of shares issuable upon exercise of the option. These values have not been, and may never be, realized. No stock appreciation rights were exercised during the fiscal year, and no stock appreciation rights were outstanding at the end of the fiscal year.

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

Name	Number of Shares Acquired on Exercise	Value Realized (\$)	Number of Securities Underlying Unexercised Options at July 26, 2003		Value of Unexercised In-the-Money Options at July 26, 2003(\$)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
John T. Chambers . . . . .	0	0	27,816,667	11,583,333	196,504,218	17,584,332
Mario Mazzola . . . . .	0	0	5,320,404	1,955,168	44,197,596	6,071,361
Larry R. Carter . . . . .	625,000	6,454,625	4,019,833	1,710,167	24,932,340	4,949,891
Richard J. Justice . . . . .	0	0	2,568,584	1,765,166	8,652,896	5,010,557
Randy Pond . . . . .	0	0	1,730,110	1,711,250	5,880,920	4,956,955

## Employment Contracts, Termination of Employment, and Change in Control Agreements

As of the end of Cisco's 2003 fiscal year, none of Cisco's executive officers had employment or severance agreements with Cisco, and their employment could be terminated at any time at the discretion of the Board of Directors.

Each outstanding option under Cisco's 1996 Stock Incentive Plan will vest and become immediately exercisable for all of the option shares at the time subject to that option in the event there should occur a hostile take-over of Cisco, whether through a tender offer for more than thirty-five percent of Cisco's outstanding voting securities, which the Board of Directors does not recommend the shareholders to accept or a change in the majority of the Board of Directors as a result of one or more contested elections for board membership.

## Certain Relationships and Related Transactions

In January 2003, Cisco loaned \$200,000 to Betsy Rafael, Vice President, Corporate Controller and Principal Accounting Officer, in connection with a real estate purchase. The loan, including all accrued interest, was paid in full in July 2003 prior to her appointment as Principal Accounting Officer and as an executive officer. The loan had an interest rate of 3.40% and was secured by a deed of trust on real property.

## **AUDIT COMMITTEE REPORT**

*The information contained in this report shall not be deemed to be “soliciting material” or “filed” or incorporated by reference in future filings with the SEC, or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, except to the extent that we specifically incorporate it by reference into a document filed under the Securities Act of 1933 or the Securities Exchange Act of 1934.*

The Audit Committee has reviewed and discussed with Cisco’s management and PricewaterhouseCoopers LLP the audited consolidated financial statements of Cisco contained in Cisco’s Annual Report on Form 10-K for the 2003 fiscal year. The Audit Committee has also discussed with PricewaterhouseCoopers LLP the matters required to be discussed pursuant to SAS No. 61 (Codification of Statements on Auditing Standards, AU Section 380), which includes, among other items, matters related to the conduct of the audit of Cisco’s consolidated financial statements.

The Audit Committee has received and reviewed the written disclosures and the letter from PricewaterhouseCoopers LLP required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and has discussed with PricewaterhouseCoopers LLP its independence from Cisco.

Based on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in Cisco’s Annual Report on Form 10-K for its 2003 fiscal year for filing with the Securities and Exchange Commission.

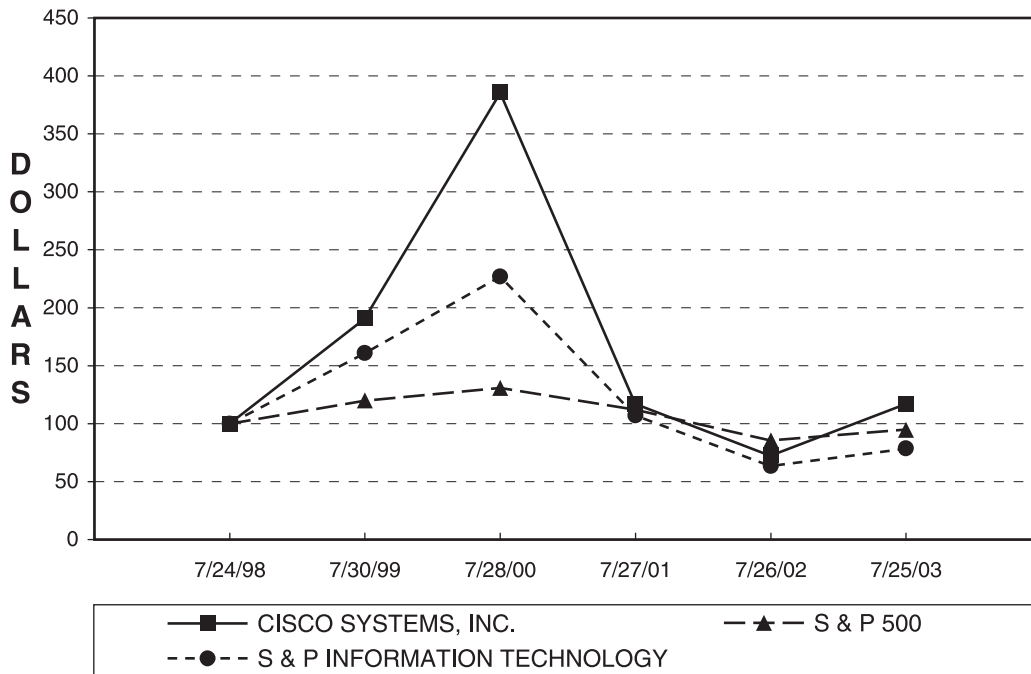
### **Submitted by the Audit Committee**

Steven M. West, *Chairman*  
Roderick C. McGearry  
Jerry Yang

## STOCK PERFORMANCE GRAPH

The graph depicted below shows a comparison of cumulative total shareholder returns for Cisco common stock with the cumulative total return on the Standard & Poor's 500 Index and the Standard & Poor's Information Technology Index. Shareholder returns over the indicated period are based on historical data and should not be considered indicative of future shareholder returns.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN  
AMONG CISCO SYSTEMS, INC., THE S & P 500 INDEX  
AND THE S & P INFORMATION TECHNOLOGY INDEX**



	7/24/98	7/30/99	7/28/00	7/27/01	7/26/02	7/25/03
CISCO SYSTEMS, INC.	100.00	190.66	385.55	116.99	72.55	117.12
S & P 500	100.00	120.20	130.99	112.22	85.71	94.83
S & P INFORMATION TECHNOLOGY	100.00	160.92	226.82	106.99	63.57	78.69

**Notes:**

- (1) The graph covers the period from July 24, 1998, the last trading day before Cisco's 1999 fiscal year, to July 25, 2003, the last trading day of Cisco's 2003 fiscal year.
- (2) The graph assumes that \$100 was invested in Cisco common stock and in each index on July 24, 1998, and that all dividends were reinvested. No cash dividends have been declared on shares of Cisco's common stock.

*The information contained in the Stock Performance Graph section shall not be deemed to be "soliciting material" or "filed" or incorporated by reference in future filings with the SEC, or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, except to the extent that we specifically incorporate it by reference into a document filed under the Securities Act of 1933 or the Securities Exchange Act of 1934.*

## SHAREHOLDER PROPOSALS FOR 2004 ANNUAL MEETING OF SHAREHOLDERS

*Requirements for Shareholder Proposals to be Considered for Inclusion in Cisco's Proxy Materials.* Shareholders of Cisco may submit proposals on matters appropriate for shareholder action at meetings of Cisco's shareholders in accordance with Rule 14a-8 promulgated under the Securities Exchange Act of 1934. For such proposals to be included in Cisco's proxy materials relating to its 2004 Annual Meeting of Shareholders, all applicable requirements of Rule 14a-8 must be satisfied and such proposals must be received by Cisco no later than May 21, 2004. Such proposals should be delivered to Cisco Systems, Inc., Attn: Secretary, 170 West Tasman Drive, San Jose, California 95134-1706 (and we encourage you to send a copy via e-mail to CorporateSecretary@cisco.com), with a copy to Cisco Systems, Inc., Attn: General Counsel at the same address.

*Requirements for Shareholder Proposals to be Brought Before the Annual Meeting.* Cisco's bylaws provide that, except in the case of proposals made in accordance with Rule 14a-8, for shareholder nominations to the Board of Directors or other proposals to be considered at an annual meeting, the shareholder must have given timely notice thereof in writing to the Secretary of Cisco not less than sixty nor more than ninety days prior to the anniversary of the date on which Cisco first mailed its proxy materials for its immediately preceding annual meeting of shareholders (as specified in Cisco's proxy materials for its immediately preceding annual meeting of shareholders). To be timely for the 2004 annual meeting, a shareholder's notice must be delivered to or mailed and received by the Secretary at the principal executive offices of Cisco between June 20, 2004 and July 20, 2004. However, in the event that the annual meeting is called for a date that is not within thirty days of the anniversary of the date on which the immediately preceding annual meeting of shareholders was called, to be timely, notice by the shareholder must be so received not later than the close of business on the tenth day following the date on which public announcement of the date of the annual meeting is first made. In no event will the public announcement of an adjournment of an annual meeting of shareholders commence a new time period for the giving of a shareholder's notice as provided above. A shareholder's notice to the Secretary must set forth as to each matter the shareholder proposes to bring before the annual meeting the information required by Cisco's bylaws.

In addition, the proxy solicited by the Board of Directors for the 2004 Annual Meeting of Shareholders will confer discretionary authority to vote on (i) any proposal presented by a shareholder at that meeting for which Cisco has not been provided with notice on or prior to July 20, 2004 and (ii) on any proposal made in accordance with the bylaw provisions, if the 2004 proxy statement briefly describes the matter and how management's proxy holders intend to vote on it, if the shareholder does not comply with the requirements of Rule 14a-4(c)(2) under the Securities Exchange Act of 1934.

### SHAREHOLDERS SHARING THE SAME ADDRESS

Cisco has adopted a procedure called "householding," which has been approved by the Securities and Exchange Commission. Under this procedure, Cisco is delivering only one copy of the annual report and proxy statement to multiple shareholders who share the same address and have the same last name, unless Cisco has received contrary instructions from an affected shareholder. This procedure reduces Cisco's printing costs, mailing costs and fees. Shareholders who participate in householding will continue to receive separate proxy cards.

Cisco will deliver promptly upon written or oral request a separate copy of the annual report and the proxy statement to any shareholder at a shared address to which a single copy of either of those documents was delivered. To receive a separate copy of the annual report or proxy statement, you may write or call Cisco's Investor Relations Department at Cisco Systems, Inc., 170 West Tasman Drive, San Jose, California 95134-1706, Attention: Investor Relations, telephone (408) 526-6945. You may also access Cisco's annual report and proxy statement on the Investor Relations section of Cisco's website at [www.cisco.com](http://www.cisco.com).

If you are a holder of record and would like to revoke your householding consent and receive a separate copy of the annual report or proxy statement in the future, please contact Automatic Data Processing, Inc. (“ADP”), either by calling toll free at (800) 542-1061 or by writing to ADP, Household Department, 51 Mercedes Way, Edgewood, New York 11717. You will be removed from the householding program within 30 days of receipt of the revocation of your consent.

Any shareholders of record who share the same address and currently receive multiple copies of Cisco’s annual report and proxy statement who wish to receive only one copy of these materials per household in the future, please contact Cisco’s Investor Relations Department at the address or telephone number listed above to participate in the householding program.

A number of brokerage firms have instituted householding. If you hold your shares in “street name,” please contact your bank, broker or other holder of record to request information about householding.

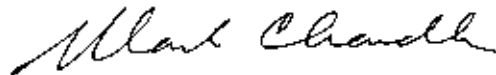
### FORM 10-K

**CISCO WILL MAIL WITHOUT CHARGE, UPON WRITTEN REQUEST, A COPY OF CISCO’S ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED JULY 26, 2003, INCLUDING THE CONSOLIDATED FINANCIAL STATEMENTS, SCHEDULES AND LIST OF EXHIBITS, AND ANY PARTICULAR EXHIBIT SPECIFICALLY REQUESTED. REQUESTS SHOULD BE SENT TO: CISCO SYSTEMS, INC., 170 WEST TASMAN DRIVE, SAN JOSE, CALIFORNIA 95134-1706, ATTN: INVESTOR RELATIONS. THE ANNUAL REPORT ON FORM 10-K IS ALSO AVAILABLE AT WWW.CISCO.COM.**

### OTHER MATTERS

The Board of Directors knows of no other matters to be presented for shareholder action at the meeting. However, if other matters do properly come before the meeting or any adjournments or postponements thereof, the Board of Directors intends that the persons named in the proxies will vote upon such matters in accordance with their best judgment.

BY ORDER OF THE BOARD OF DIRECTORS



Mark Chandler  
*Secretary*

Dated: September 18, 2003

CISCO SYSTEMS, INC.

CHARTER FOR THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

As Revised September 9, 2003

**1. PURPOSE**

The purpose of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing the financial information which will be provided to the shareholders and others, reviewing the systems of internal controls which management and the Board of Directors have established, selecting and reviewing the performance of independent accountants, and overseeing the Company's accounting and financial reporting processes and the audits of the Company's financial statements.

The Audit Committee will fulfill these responsibilities by carrying out the activities enumerated in Section 3 of the Charter. The Committee shall be given full and direct access to the Company's Internal Control Services group, the Board Chairman, Company executives and independent accountants as necessary to carry out these responsibilities. However, the Committee's function is one of oversight only and shall not relieve the Company's management of its responsibilities for preparing financial statements which accurately and fairly present the Company's financial results and condition, or the responsibilities of the independent accountants relating to the audit or review of financial statements.

The independent accountants' ultimate responsibility is to the Board of Directors and the Audit Committee, as representatives of the shareholders. These representatives have the ultimate authority to select, evaluate, and, where appropriate, replace the independent accountants.

**2. COMPOSITION OF THE AUDIT COMMITTEE**

The Audit Committee shall be comprised of not less than three directors, each of whom will be independent as required by Section 10A(m) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), any rules and regulations promulgated thereunder by the Securities and Exchange Commission (the "SEC"), and the rules of the National Association of Securities Dealers, Inc. ("NASD"). Each appointed Committee member shall be subject to annual reconfirmation and may be removed by the Board at any time.

All members of the Committee shall be able to read and understand fundamental financial statements, including a balance sheet, income statement and cash flow statement. At least one member of the Committee shall have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

**3. RESPONSIBILITIES AND DUTIES**

To fulfill its responsibilities and duties, the Audit Committee shall:

1. Review annually the Audit Committee Charter for adequacy and recommend any changes to the Board.
2. Review the significant accounting principles, policies and practices followed by the Company in accounting for and reporting its financial results of operations in accordance with generally accepted accounting principles ("GAAP").

3. Review the financial, investment and risk management policies followed by the Company in operating its business activities.

4. Review the Company's annual audited financial statements, related disclosures, including the MD&A portion of the Company's filings, and discuss with the independent accountants the matters required to be discussed by Auditing Standard No. 61, including (a) the quality as well as acceptability of the accounting principles applied in the financial statements, and (b) new or changed accounting policies; significant estimates, judgments, uncertainties or unusual transactions; and accounting policies relating to significant financial statement items.

5. Review any management letters or internal control reports prepared by the independent accountants or the Company's internal auditors and responses to prior management letters, and review with the independent accountants the Company's internal financial controls, including the budget, staffing and responsibilities of the Company's Internal Control Services department.

6. Review the effectiveness of the independent audit effort, including approval of the scope of, and fees charged in connection with, the annual audit, quarterly reviews and any non-audit services being provided.

7. Be directly responsible for the appointment, determination of the compensation for, retention and oversight of the work of the independent accountant employed to conduct the audit (including resolution of disagreements between the independent accountants and management regarding financial reporting) or other audit, review or attest services. The independent accountants shall report directly to the Audit Committee.

8. Pre-approve all audit services and permissible non-audit services by the independent accountants, as set forth in Section 10A of the Exchange Act and the rules and regulations promulgated thereunder by the SEC. The Committee may establish pre-approval policies and procedures, as permitted by Section 10A of the Exchange Act and the rules and regulations promulgated thereunder by the SEC, for the engagement of independent accountants to render services to the Company, including but not limited to policies that would allow the delegation of pre-approval authority to one or more members of the Committee, provided that any pre-approvals delegated to one or more members of the Committee are reported to the Committee at its next scheduled meeting.

9. Review the hiring policies for any employees or former employees of the independent accountants.

10. Obtain on an annual basis a formal written statement from the independent accountants delineating all relationships between the accountants and the Company consistent with Independence Standards Board Standard No. 1, and review and discuss with the accountants all significant relationships the accountants have with the Company which may affect the accountants' independence. The Audit Committee is responsible for ensuring the independence of the independent accountants.

11. For each of the first three fiscal quarters and at year end, at a Committee meeting review with management the financial results, the proposed earnings press release and formal guidance which the Company may plan to offer, and review with the independent accountants the results of their review of the interim financial information and audit of the annual financial statements.

12. Review management's analysis of any significant accounting issues, changes, estimates, judgments or unusual items relating to the financial statements and the selection, application and effects of critical accounting policies applied by the Company (including an analysis of the effect of alternative GAAP methods) and review with the independent accountants the reports on such subjects delivered pursuant to Section 10A(k) of the Exchange Act and the rules and regulations promulgated thereunder by the SEC.

13. Following completion of the annual audit, review separately with the independent accountants, the Internal Control Services department, and management any significant difficulties encountered during the course of the audit.

14. Engage and determine funding for such independent professional advisers and counsel as the Committee determines are appropriate to carry out its functions hereunder. The Company shall provide

appropriate funding to the Committee, as determined by the Committee, for payment of (1) compensation to the independent accountants for services approved by the Committee, (2) compensation to any outside advisers retained by the Committee, and (3) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

15. Report to the Board on a regular basis on the major events covered by the Audit Committee and make recommendations to the Board and management concerning these matters.

16. Perform any other activities consistent with this charter, the Company's Bylaws and governing law as the Committee or the Board deems necessary or appropriate, including but not limited to the Company's legal and regulatory compliance.

17. Approve all related party transactions, as defined by applicable NASD Rules, to which the Company is a party.

18. Establish procedures for:

(a) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and (b) the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

#### **4. AUDIT COMMITTEE MEETINGS**

The Committee will meet on a regular basis at least 4 times each year, and will hold special meetings as circumstances require. The timing of the meetings to be scheduled for an upcoming fiscal year shall be determined by the Audit Committee prior to the beginning of such fiscal year. A calendar of proposed meetings will be reviewed by the Audit Committee at the same time as the annual Audit Committee Charter review. The calendar shall include appropriate meetings to be held separately with representatives of the independent accountants, management and the Internal Control Services department, including a meeting to conduct the reviews required under Section 3.13 above. In addition, the Committee will meet at any time that the independent accountants believe communication to the Committee is required.

At all Audit Committee meetings a majority of the total number of members shall constitute a quorum. All meetings shall be held subject to and in accordance with Section 307 (including without limitation notice, quorum and votes/actions of the committee) and other applicable sections of the General Corporation Law of California. Minutes shall be kept of each meeting of the Committee.

